

POSSIBLE MOTION

I MOVE TO approve Amendment No. 6 to the lease agreement between the City and Borough of Sitka and Kootznahoo Fortress of the Bear.



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Friday, April 21, 2017

MEMORANDUM

To: Mark Gorman, CBS Administrator
From: Garry White, Director
Subject: Fortress of the Bear (FOB) Lease extension

Introduction

The Gary Paxton Industrial Park (GPIP) Board of Directors is recommending that the lease between the CBS and the Fortress of the Bear be extending for another 99 years. The GPIP Board met on March 23rd 2017 and recommended approval of the following motion:

MOTION: M/S Bevan/Jones moved to lease 149,880 sq/ft of Block 3, Lot2 of the GPIP to Fortress of the Bear for \$50/mo. (\$600 annually) for 99 years with an option to buy at a future date.

ACTION Motion PASSED 3/0 on a roll call vote
Yeas: Scott Wagner, Hugh Bevan, Dan Jones

All other terms of the lease agreement are to remain the same, except the following:

- Lease area is to increase 31, 560 SF from 118,320 to 149,880
- Term is to be extended another 99 years.

The Fortress of the Bear originally requested to purchase the property on Block 3, Lot 2 of the GPIP that it had been leasing since 2003, plus additional adjacent property.

The CBS Electric Department determined that a portion of the FOB leased property was located within the property boundary of the CBS's FERC permit for the Blue Lake Dam and recommended against selling the property at this time.

Background

The Fortress of the Bear has been leasing a portion of Block 3, Lot 2 at the GPIP since July 31, 2003. The original term of the lease was 10 years with an option for two, 5-year extensions. The lease has been amended 6 times since the inception of the lease.

Original Lease

The original lease began on July 31, 2003. Lease terms allowed for an 18-month rent ramp up schedule at lease execution. During startup the rent was fixed at \$100 per month. At the end of the 18-month period the lease rate was to rise uniformly to \$3,002.16 per month over a six month period.

Amendment #0

On August 23, 2005 the Assembly granted Fortress an extension of the rent startup period. Specifically, the Assembly set the rent at \$100 per month through April 2006.

Amendment #1

On June 13, 2006, the Assembly approved a motion to extend the \$100 per month rent grace period until May 1, 2007

Amendment #2

On May 22, 2007, the Assembly approved a motion to lower the lease rent to \$50 per month until May 1, 2009.

Amendment #3

On May 12, 2009, the Assembly approved a motion to extend the \$50 per month rent until December 2010.

Amendment #4

On January 25, 2011, the Assembly approved a motion to extend the \$50 per month rent until December 2015 and added 11,100 SF to the lease area, including an old APC building.

Amendment #5

On April 11 & 26, 2011, the Assembly approved a motion to add a new section to the lease agreement; Section 1.5 – Failure to Timely Pay on Promissory Note, which set up an \$80,000 revolving loan to Fortress of the Bear from the CBS Southeast Economic Development Fund for a 10 year term.

Property Value

The subject site on Block 3, Lot 2 contains large clarifier tanks used during the APC mill operation. These tanks are unique to the site. Additional two old APC mill builds are on the property.

The CBS Assessor has estimated the value of the raw land on the property at \$3.50/SF.

FOB is requesting increase its lease area for a total area of 149,880 SF. Estimate value of the raw land would be \$524,580 at \$3.50/SF

The raw land value estimate does not take into account any environmental issues with the previous site use.

Structures on the property were given a value of \$0 due to the unique nature of the facilities, current condition, and being past their useful life.

Rationale for less than market sale

- CBS cost to deconstruct clarifying tanks and other old APC buildings.
- Reduced CBS Liability
 - As the owner of the property, the CBS is exposed to certain liability risks, which the CBS has mitigated with insurance policies. Potential risks include the potential for an event similar to the Cincinnati Gorilla incident and potential natural hazards, such as the recent landslide in the general area.
- Reduced Environmental Liability
 - Potential environmental risks were not researched by the Director. But due to timeframe in construction of buildings and clarifying tanks, the potential for lead paint, asbestos, etc. exists.
- Economic Benefit to the Community and GPIIP
 - Sales tax has been created by the establishment of the FOB. The unique bear orphanage has been a draw for tourist since its inception. FOB staff suggest that 20% of cruise ship passengers visit the site.
 - The business additionally provides a positive economic benefits to independent transportation businesses, tourist business, and other associated business that benefit from the tourist draw of the site.
 - FOB reduces the amount of solid waste that needs to be shipped of island, saving the CBS money.
 - FOB staff reports that outside investors have shown interest in investing money into the business and site.
- Job Creation
 - FOB currently employees 4 people year round and 10 seasonal workers.
- Sweat equity provided onsite by FOB
 - Please see that attached sheet provided by FOB, which shows an investment of \$685,000.
- Lease history and follow through on original proposal by FOB.
 - Please the attached 12/14/2015 letter provided to the GPIIP Board to see the history of FOB since 2003. FOB had multiple requirements to be allowed to care for bears, which have been completed. FOB has continued to increase its operations on a yearly basis.
- Ability to increase tax revenues to CBS
 - FOB has stated that it wishes to continue to further upgrade the property to allow for increased traffic volume. FOB plans to increase the size of the viewing

platform, increase restroom capacity, increase the size of the visitor gift shop, and increase the black bear habitat. The proposed upgrades to the property would allow for more sales tax revenues.

Additional Information

- Attached original lease
- Proposed lease amendment #6

Action

Assembly approval of attached lease amendment between the CBS and Fortress of the Bear.