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Tuesday, March 18, 2025

MEMORANDUM

To: John Leach – CBS Administrator

From: Garry White, GPIIP Director

Subject: GPIIP Haul Out Operations – Highmark Marine Fabricators LLC Proposal

Introduction

The GPIIP Board has been discussing the operations of a haul out and shipyard facility at the GPIIP over the past few years. The GPIIP Board chose to investigate a private sector operation for the haul out and shipyard. The GPIIP Board met on July 18, 2024, and approved the attached Request for Qualifications (RFQ) for a Marine Vessel Haul Out and Shipyard Operations at the Gary Paxton Industrial Park.

The RFQ requested qualifications from experienced firms or individuals to operate a marine vessel haul out and shipyard at the GPIIP.

The RFQ requested individuals or firms that have qualifications in the following operations to submit their credentials.

- Vessel Lift Operations
- Vessel Wash-down Systems
- Vessel Movements
- Permits and Licenses

The goal was to find qualified operators and work with them to develop a detailed scope of work to be incorporated into a Request for Proposals (RFP) or Invitation to Bid (ITB) for operations of the haul out and shipyard.

The RFQ was released on July 25, 2024, with a submittal deadline of September 17, 2024. A non-mandatory pre-proposal conference was held on August 7, 2024. The CBS received two responses to the RFQ. City and Borough of Sitka (CBS) and GPIIP staff met on September 20, 2024, to evaluate the responses and determine if Minimum Qualifications of Services were provided in each proposal. One proposal was determined to have provided the Minimum Qualifications of Services. Letters were sent to both entities, inviting one firm to continue with the process of providing input in the development of a detailed scope of work to be incorporated into a Request for Proposals.

The GPIIP Board met on November 7th, 2024, and directed the CBS to move forward with the negotiations of a draft scope of services to be brought back the GPIIP Board for review and recommendations.

The GPIIP Board met on December 17th, 2024, and approved the scope of services for the Marine Vessel Haul Out and Shipyard Operations at the Gary Paxton Industrial Park.

The GPIIP Board met on January 16th, 2025, and recommended approval of the draft Operating Agreement for the Marine Vessel Haul Out and Shipyard Operations at the Gary Paxton Industrial Park, and the Invitation to Bid, including all exhibits to be released to the qualified bidder. The CBS Assembly reviewed the documents and GPIIP Board recommendations at its January 28th, 2025, meeting and approved the release of the ITB and related exhibits.

A bid proposal from Highmark Marine Fabrication LLC (Highmark) was received on February 13th and was presented to the GPIIP Board review and recommendations to the CBS Assembly.

The GPIIP Board met on February 20th to discuss the Highmark proposal and requested a work session to further discuss the proposal.

The GPIIP Board held a work session on March 13th to discuss the Highmark proposal. A regular GPIIP meeting was held immediately after the work session.

The GPIIP Board discussed the Highmark proposal and a CBS operated facility in depth. The Board moved towards moving forward with the Highmark proposal and focused on Section D of the proposal (outlined below). The discussion revolved around starting a separate competitive bid process for the warehouse space to investigate if the building could generate larger revenues and allow other potential tenants to utilize the building. The GPIIP Board ultimately recommended that the following motion:

Motion: M/S Campbell/Goeden to accept Highmark's bid, without including the warehouse space.

Action: Motion Passed (3/2) on a roll call vote.

Highmark was contacted after the GPIIP Board recommendation and has stated that they cannot reduce its proposal as presented as it was structured as conservative as possible, with the lowest cost to consumer feasible while maintaining financially sustainable operations. Highmark stated that housing a retail marine and fabrication supplies and materials shop in the warehouse is essential for having supplies available on site for frequent maintenance items common in marine repair

Highmark's proposal is outlined below as well as an independent financial analysis of a CBS operated haul out shipyard facility.

Background

The GPIIP Board and CBS have been working on vessel haul out development concepts since the GPIIP properties were acquired. The CBS has repeatedly included marine haul out infrastructure requests in both its Federal and State Legislative Priorities. The CBS applied for a USDOT Grant in 2020, 2021, 2022 and plan to apply for future grant opportunities. The CBS was awarded a Denali Commission Grant in 2023.

The CBS has released multiple Request for Proposals (RFP) for private sector development of a haul out at the GPIIP since 2009. None of the private sector development proposals moved forward due to multiple reasons, including the cost of construction.

On October 4th, 2022, the citizens of Sitka voted to appropriate ~\$8.18 million dollars from the Sitka Permanent Fund for the development of a haul out and shipyard at the Gary Paxton Industrial Park (GPIP).

Highmark Marine Fabrication LLC Proposal

Attached is Highmark's proposal regarding different fees associated with operating the haul out and shipyard. If approved, the fee schedule will be packaged together in a final Operating Agreement for the Marine Vessel Haul Out and Shipyard Operations at the Gary Paxton Industrial Park, including the proposed Scope of Services (attached).

- Section A of the proposal outlines the proposed fees charged by the operator to Lift, Block, and Launch vessels.
- Section B of the proposal outlines the proposed fees charged by the operator for Dry Dock Space, Hang Time, and On-site Storage.
- Section C of the proposal outlines the proposed fees charged by the operator for Utilities, Equipment Rental, and Waste Disposal.
 - This section addresses pre-approved vendors and fees. CBS and GPIP staff have created a proposed GPIP Marine Vessel Haul Out and Shipyard Facility Use Agreement based off a similar document used by the Wrangell Marine Service Center. The Facility Use Agreement will go through a separate public process for review and approval.
- Section D of the proposal discusses the proposed use of Building 4690 in the GPIP and proposed lease fee for the warehouse space.
- Section E of the proposal discusses owner compensation for the operator's use of the haul out property and costs to the CBS associated with the "Owners Responsibilities" as outlined in Section 9 of the draft Operating Agreement between the CBS and Highmark.
 - Per section 9 of the draft Operating Agreement, the CBS will be financially responsible for the following:
 - All parts, material and consumable for maintenance and operation of the facility.
 - Replacement and maintenance of haul out and shipyard equipment.
 - Major repair work to the facility.
 - Shipyard property grading and major snow removal.
 - Phase I environmental assessment.
 - Annual environmental reporting.
 - 150-ton Marine Travel Lift certifications.
 - Estimated annual costs the CBS for "owners responsibilities" is \$110,000 annually
 - \$30,000 annually for insurance on CBS Haul Out assets
 - ~\$48,000 budgeted for Annual Facility Equipment Repair and Maintenance
 - ~\$8,000 budgeted for Annual Building Maintenance.
 - ~12,000 budgeted for Annual Environmental Reporting
 - ~\$150,000 budgeted for Phase I Environmental Assessment
 - Cost over 5 years = \$30,000 Annual

(Note: ~\$110,000 annual cost for “Owner’s Responsibility would require an increase of roughly \$7.59/ft per lift considering 345 vessels lifted annually at an average length of 42 feet.)

City and Borough of Sitka Operated Haul Out and Shipyard Facility

The CBS hired an outside consulting firm, Alaska Tactical Solutions, to complete a financial analysis of a city operated haul out and shipyard. The financial analysis was completed by analyzing data from CBS records, comparable shipyard operations, and public available financial reports from similar facilities in Alaska. Additionally, the consultant interviewed subject matter experts that had operated the former Halibut Point Marine Services operation in Sitka to gain a better understanding of financial assumptions and historic operations.

Please find the attached GPIP Marine Shipyard Financial Analysis Executive Summary.

The executive summary contains a “Base Scenario” that looks at the haul out and shipyard operations as a stand-alone enterprise fund. The financial analysis uses comparable rates charged in Wrangell; \$17.50/ft, plus the \$1.16/ft environmental fee charge by Wrangell for lifting a vessel. It also considers the \$0.50/ft/day charge for dry dock space. The financial model predicts a \$2,488,823 dollar loss over three years. (The detailed analysis is included in the report).

The executive summary also contains a “Breakeven Scenario” that additionally looks at the haul out and shipyard operations as a stand-alone enterprise fund. Dry dock charges remain the same (\$0.50/ft/day), but the lift fees are adjusted to have the enterprise fund breakeven. One scenario includes accounting for depreciation or replacement value of the haul out and shipyard assets. The other scenario does not include accounting for depreciation or replacement value. The depreciation financial model suggests a fee of \$65.17/ft to achieve breakeven profit and loss of \$0. The no coverage of accounting for depreciation suggests a fee of \$44.16/ft. The CBS would have to find other ways of financing for haul out and shipyard assets replacements. (The detailed analysis is included in the report).

Highmark Fee Proposal Compared to CBS Breakeven Fee Analysis

(Note: Fee comparison does not include fee coverage for cost associated with CBS Owner’s Responsibilities.)

Estimate Costs of hauling a 42-foot vessel with a 2-day yard stay

1. CBS Operated Yard Financial Analysis Considering Accounting for Depreciation

- Lift fee - $\$65.17/\text{ft} \times 42' = \$2,737.14$
- Environmental Fee - $\$1.16/\text{ft} \times 42' = \48.72
- Yard Fee – $(\$0.50/\text{ft} \times 42') \times 2 = \42.00

Total Fee = \$2,827.86

2. CBS Operated Yard Financial Analysis Considering No Depreciation Accounted

- Lift Fee - $\$44.16/\text{ft} \times 42' = \$1,854.72$
- Environmental Fee - $\$1.16/\text{ft} \times 42' = \48.72

- Yard Fee – $(\$0.50/\text{ft} \times 42') \times 2 = \42

Total Fee = \$1,945.44

3. Highmark Marine Fabricators Proposed Fees

- Lift Fee - $\$26.50/\text{ft} \times 42' = \$1,113$
- Environmental Fee - $\$1.70/\text{ft} \times 42' = \71.40
- Estimate Fee for Travel Strap Set Up - \$130 in T, M, E
- 1-hour Washdown - \$100/hour
- Yard Fee - $\$1.80/\text{ft} \times 42' = \75.60

Total Fee = \$1,490.00

Governance Model Pros and Cons (Private Operated versus Municipal Operated)

1. Fee Structure of Operations
 - Both models require CBS Assembly approval of fee structure
2. Public oversight to allow for fair and equitable use of the facilities of all users
 - Both models require an “Open Yard” concept. All vessel owners will be allowed to work on their vessels and hire any approved vendors to conduct vessel work.
3. Environmental Risks
 - Both models require the CBS to monitor environmental risks. The Facility User Agreement must be signed by all users of the facility and agree to abide by Best Management Practices.
4. Efficiency of Operations
 - There is a potential for a private operation to operate more efficiently due to private operator being incentivized by profit to conduct more business.
5. Start of Operations
 - Both models will require the acquisition of materials and the hiring of employees to operate the facility.
 - Private operations have the ability to move faster than municipal hiring requirements and procurement processes.
 - A CBS operated facility could take significant time to reorganize multiple municipal departments, establish job descriptions and collective bargaining agreements.

Additional Information

- The GPIB Board discussed whether to include the Highmark proposed lease revenues from the 5,000 SF warehouse space in building 4690 toward the CBS expense for “owner’s responsibilities” and insurance requirements. The proposed \$60,000 annual warehouse lease revenue could offset the \$110,000 in estimated costs to the CBS. If the \$60,000 is included the estimated cost to the CBS could be reduced to \$50,000 annually.

(Note: ~\$50,000 annual cost for “Owner’s Responsibility would require an increase of roughly \$3.45/ft per lift considering 345 vessels lifted annually at an average length of 42 feet.)

- The GPIIP Board additionally discussed whether to charge an additional lift fee on top of the Highmark proposal to allow for depreciation expense to be collected for replacement of the 150-ton Travel Lift Machine. Straight line depreciation of the estimated 30-year life of the machine is estimated at \$50,000 annually.

((Note: ~\$50,000 annual cost for “Owner’s Responsibility would require an increase of roughly \$3.45/ft per lift considering 345 vessels lifted annually at an average length of 42 feet.))

The following motion was presented and ultimately failed:

Motion: **M/S Wagner/Johnson** to propose a \$3.00 city fee to cover the depreciation of the travel lift.

Action: **Motion Failed (1/4)** on a roll vote.

Action

- CBS Assembly discussion and approval of GPIIP Board recommendation and Highmark’s response in regards to the Highmark Proposal for Haul Out and Shipyard Operations.