

Discussion / Direction / Decision to keep or sell
the Marine Services Center and next steps.



City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

MEMORANDUM

To: Mayor Gary Paxton and Assembly Members
From: Hugh Bevan, Interim Municipal Administrator *HB 1-31-20*
Date: January 26, 2020
Subject: Marine Services Center

Background

On January 14, 2020 the Assembly held a Work Session to discuss issues surrounding the Marine Services Center. The meeting resulted from an Assembly Action Plan that was adopted in July 2019.

Public testimony at the Work Session generally ran in favor of the City retaining ownership of the cold storage and the sea wall. Independent fishing businesses rely upon the sea wall and the crane to transfer fish products from their boats to the Sitka road system or into the cold storage.

There are also public users of the cold storage who are concerned about losing access if the facility is sold to a private entity.

Facility Information

The Marine Services cold storage was constructed in 1991. Funding included a Federal EDA grant in the amount of \$1M and a State grant in the amount of \$1.5M. Neither funding agency has a lien against the property, both mandatory lien periods have expired.

The gross area of the building is 21,000 square feet. About 16,500 square feet are leased to two fish processors. The remaining area consists of mechanical and refrigeration equipment rooms, a small office and a restroom.

Approximate 10% of the cold storage area is reserved for public use. The public area presently has about 22 active accounts that are managed by Seafood Producers Cooperative, one of the MSC two prime tenants.

The property is named Tract A Port Development, a portion of ATS 15. The land area is about 72,774 square feet. Of this area about 33,200 square feet is a level, gravel lot located on the NW side of the cold storage. The property is zoned Waterfront District.

The seaward side of the property is supported by a steel sheet pile retaining wall that was built in 1976. It is approximately 356 feet long. The wall has significant deferred maintenance needs. Costs to reconstruct the wall range from \$7M to \$8M.

In December 2016 the Assessor valued the property at \$3,975,000 which was broken down as follows:

- \$3,225,000 for the building and
- \$750,000 for the land (includes a 30% devaluation for the condition of the seawall)

Revenue from the SPC lease is about \$110,880 per year. Their lease expires June 20, 2023.

The North Pacific Seafoods lease is month to month at a rate of \$10,627 per month.

Each tenant pays its share of the utilities.

The seawall generates about \$30,000 per year in moorage revenue that includes freighters, various work boats and small cruise vessels.

The seawall has a small electric/hydraulic hoist that generates about \$4,000 in revenue per year.

The average annual operating cost of the facility is \$106,000. This amount varies significantly from year to year depending upon the amount of maintenance work that is required. The facility is maintenance intensive.

Public Works has identified about \$400,000 in needed repairs over the next four fiscal years with \$141,000 of that total coming in the FY21 budget.

The Marine Services Center is owned and operated by the City of Sitka under an Enterprise Fund financial model. At the present time the Fund has about \$1.9 million in Working Capital.

Options

1. Keep or sell the facility?
2. If the decision is to sell:
Is the gravel parking lot included in the sale?
Is the sea wall included in the sale?

A fresh survey of the property is advised to confirm property corners.
A fresh appraisal is advised to establish a sale price baseline

3. Should an amount of City owned tidelands be included in the sale or should the tidelands be leased instead? (Tidelands in front of the seawall)
4. If the decision is to sell the facility, an RFP will be brought to the Assembly agenda in the future for formal action.

A proposed budget for survey and appraisal work will also be presented to the Assembly for approval at that time.

Options Discussion

A. Keep the facility

When the cold storage is fully rented the facility generates a profit over the course of the year. To date that profit has been sufficient to cover regular maintenance and upgrades and to slowly build the \$1.9 million fund balance.

However, the primary issue with the MSC is the capital cost of replacing the sea wall. Construction of another sea wall (placed seaward of the existing wall) is estimated to cost about \$7 million.

There is a less expensive alternative that involves building a shot rock fill in front of the existing wall to provide a buttress. I estimate that project would cost about \$1 million. However, the rock buttress will block vessels from tying directly to the seawall, effectively eliminating it as a passenger/cargo transfer facility.

The revenues from leasing the cold storage are not adequate to capitalize a revenue bond large enough to replace the sea wall. We looked at reducing the size of the bond by using \$1 million from the MSC working capital, but it will take additional subsidies from the Harbor Fund and the General Fund to obtain enough CBS contribution to bring the bond amount down to a level that can be paid from MSC operating revenues. We would also have to raise rates substantially to users of the sea wall to generate more cash for debt repayment.

One possible funding plan for a \$7 million project is:

\$1 million grant from the MSC Fund
\$3/4 million grant from the Harbor Fund
\$1 million grant from the General Fund

This leaves \$4.25 million that could be funded from the General Fund as an internal loan and repaid over 30 years. This results in payments of \$177,000 per year from the Marine Services Center revenues. This payment is possible if the cold storage remains fully leased at current rates.

B. Sell the Facility

As stated above our previous Assessor valued the entire property, including the gravel parking lot, at \$3,975,000. It is unknown if a sale would generate this much revenue considering the condition of the sea wall and the specialized use of the property.

One of the issues surrounding a sale of the property is the concerns expressed at the work session by fishermen who use the sea wall to transfer fish to the Sitka road system. There are also public users of the cold storage, but most of those users are not fisherman.

Selling the entire property has the advantage of allowing the private sector to evolve the property for its best business value. Selling also places a valuable property onto the City property tax role.

Recommendation

Prepare an RFP that offers the facility for sale and evaluate any responses. In the RFP evaluation criteria award more points for proposals that continue to provide public access to the seawall and the cold storage.

The Assembly can always decline all of the proposals and the RFP should clearly reserve that right, so proposers know it is a possibility.