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January 19th, 2015

MEMORANDUM

To: Mark Gorman – CBS Administrator
From: Garry White, Director
Subject: Silver Bay Seafoods – Real Estate Purchase Proposal

Introduction

Silver Bay Seafoods (SBS), a local seafood processing company, has proposed to purchase property at the Gary Paxton Industrial Park (GPIP) for the expansion of its seafood processing business and the development of a marine service center. Please see SBS' attached proposal.

The GPIP Board met with SBS in May and September 2014 and recommended Assembly approval of a portion of the SBS proposal at their December 2014 meeting, passing the following motion:

MOTION: M/S Miller/Fondell moved to recommend that the Assembly sell to Silver Bay Seafoods Block 4, Lot 11, Lot 9c, Lot 12a, and Lot 13 for the 2014 appraised value and to approve a lease to purchase agreement for Block 4, Lot 23 based on the following terms:

- Property is leased in current condition for \$1 per year with lessee responsible for all building expenses, including repairs.
- CBS agrees to sell the parcel to Silver Bay Seafoods at the 2014 appraised value as soon as the U.S. EDA grant covenants have been met.
- Upon execution of the lease, it becomes a purchase agreement.

**Minutes from the December 17, 2014 meeting are attached in the packet.*

Please note, the GPIP Board has not made a decision on the remaining portion of the SBS proposal. Since the December 17, 2014 meeting, the board has held a joint work session with the Assembly on January 8th and met again on January 15th. The board has taken no other official action on the SBS proposal other than to direct the GPIP Director to investigate the costs associated with the CBS constructing marine haul out piers and a drive down ramp with floating dock in the area of Lot 4.

Background

The GPIP Board of Directors has a strategic plan for the development of the industrial park (see attached). The plan was adopted by the Assembly in 2009. The GPIP Board has actively worked the plan since its inception, including most recently starting the process of investigation

the feasibility of a marine services industry at the GPIIP. The mission of the GPIIP is the following:

It is the mission of the Gary Paxton Industrial Park board and management, by direction of the Sitka Assembly, to strategically develop the park in a fiscally responsible manner that maximizes its economic benefit to the community through creation of meaningful jobs in conformance with established community plans and policies.

The industrial park has been nearly fully leased for the past two years during the Blue Lake Dam Expansion project. As the expansion project started to wrap up, the GPIIP Board of Directors received multiple proposals to lease and/or purchase a majority of remaining property at the industrial park.

Property Sale History

The CBS acquired the GPIIP in 1999; in 2000 the CBS Assembly approved an ordinance that established rules and procedures governing leases and property management at the GPIIP. The purpose section of the enabling ordinance states; *“Unlike other property owned by the municipality, the former Alaska Pulp Corporation mill site was acquired not for governmental purposes from the state or federal government, but for economic development and disposal. In general, the property will not be used for public improvements. It will be leased or sold to individuals and corporations to develop business opportunities and provide jobs. For that reason, it is important to enact a procedure for property management and disposal at the site which more closely corresponds to private sector disposals.”*

The GPIIP Board of Directors has made multiple lease and sales recommendations to the CBS Assembly based off the enabling ordinance and the Guiding Principles of its Strategic Plan.

Guiding principles

1. Always preserve public access and marshalling areas to the waterfront as it is the most commercially viable waterfront left in Sitka.
2. Make lease, buy/sell or other land use decisions based on the mission of the Park – to create family wage jobs for Sitkans in a financially responsible manner.
3. Consistent with principles 1 & 2, identify and minimize negative cash flows to the City from the operation of the Park.

Previous Property Sales

- Lot 5 (Bottling Plant)
 - Property sold in 2006 to True Alaska Bottling Company (TAB) per property purchase request for use as a water bottling facility.
 - 3 acre parcel containing a 73,000 building for a sales price of \$722,720
 - Sales price set by outside appraisal firm.
 - \$4.00/SF for property
 - \$2.74/SF for building

- The CBS placed “reversion clauses” in the purchase agreement which required TAB to complete elements of their purchase proposal by set benchmark dates or the property would revert back to the CBS.
 - TAB failed to meet reversion clauses.
 - The CBS eventually amended their claim on the property Deed of Trust to release its reversionary interest in the property through negotiation with TAB’s legal representation.
- Lots 10 (Pulp Dock/Warehouse) & Lot 21 (Old APC Warehouse)
 - Property sold to SBS per property purchase request for use as a fish processing facility and bunkhouse.
 - Pulp Dock/ Warehouse - 187,252 SF parcel consisting of a ~75,000 SF warehouse, 600’ long dock, and 60,000 SF of tidelands. Old APC Warehouse – 18,315 SF containing a dilapidated building that was demolished.
 - Sale price of \$1,000,000 with purchase price to be refunded with certified repair costs of \$3,000,000 expended to fix failing dock infrastructure.
 - Pulp dock deemed unsafe by outside engineering firm. Engineering estimates to repair ranged from \$3 million for short-term fix to \$20 million for permanent repair. CBS did not have ability to fund repair, therefore the CBS chose to divest itself from the problem property.
- Lot 22 (Stores & Maintenance Building)
 - Property sold to SBS via RFP process for use as a fisherman support center and value added/secondary processing.
 - The City received two responses to RFP.
 - 49,846 SF parcel containing a 38,347 SF building for a sales price of \$245,000.
 - Sales price set by SBS offer in response to RFP.
 - Next highest bidder’s offer was \$15,000.
 - Property was determined by CBS Building Official to not be in a leasable condition at time of sale due to lack of fire suppression equipment, leaking roof, and flooding in the building.
- Lot 16a (Carpenter Shop and Tire Shop)
 - Property sold to SBS via RFP process for use as a fisherman/fleet storage and construction of bunkhouse.
 - SBS was the only responder to the RFP
 - 66,491 SF parcel including the ~ 5,000 Carpenter Shop (the area of the tire shop was not determined as the shop was not in useable condition). Sales price of \$235,000.
 - Sales price set by SBS offer in response to RFP.
 - Property was not in leasable condition at the time of sale due to the lack of fire suppression equipment, no working utilities, and leaking roof.
- Lots 3, 6 & 7 (raw land)

- Pending property sale to I Water LLC based on a property purchase request from I Water LLC for the construction and use of parcels as a water bottling facility.
- 107,810 SF of total raw land for a pending sales price of \$567,000.
- I Water entered into a 30 month lease of the property with the CBS with option to purchase property when certain elements of their purchase proposal are completed.

Proposed Lease/Purchase Agreement Terms

The following proposed terms have been discussed with SBS and have been recommended by the GPIIP Board for approval by the Assembly. (Please note the GPIIP Board has not provided recommendation on the remaining property requested by SBS in their proposal.)

**In addition to the terms below, all standard lease and purchase agreement terms will apply.*

Each parcel will be discussed in relation to the purchase proposal by SBS. Please attached SBS proposal for further details on use of the property.

Lot 11 – SBS proposed area A

Lot 11 is a 25,606 SF waterfront parcel containing a 2,760 SF building located near the existing SBS fish processing plant.

- SBS purposes to purchase the property and existing building for use of a seafood by-product/oil plant.

Recommended Terms:

- Parcel is sold in current condition for 2014 appraised value.
 - Equipment inside of building (former CBS waste water treatment plant related) is sold or removed for a negotiated value agreed on between CBS WWTP Department and SBS representative.

2014 Appraised Value (Full GPIIP appraisal available at www.sawmillcove.com)

● Lot 11 Land (25,606 SF)	\$195,00
● <u>Lot 11 Bldg (2,760 SF)</u>	<u>\$124,000</u>
Total	\$319,000

Lot 23 (Administration Building) – SBS proposed area B

Lot 23 is a 37,244 SF parcel containing a 32,000 SF building located adjacent to SMC Rd.

- SBS proposes purchase the property and existing building for use as corporate offices of SBS and administration offices for the marine service center.

Property Concerns

- Lease revenues have traditionally not covered operational costs of the building resulting in negative cash flow.
- The building was remodeled in 2001 using EDA funds. Sale of building is limited by EDA covenants which exist for another ~7 years.

Recommended Terms:

- Parcel is leased in current condition for \$1/YR with lessee responsible for all building expenses, including repairs.
 - CBS agrees to sell parcel to SBS at 2014 appraised value when US EDA grant covenants have been met.

2014 Appraised Value (Full GPIIP appraisal available at www.sawmillcove.com)

• Lot 23 Land (37,244 SF)	\$233,000
• <u>Lot 23 Bldg (32,000 SF)</u>	<u>\$0</u>
Total	\$233,000

Lots 9c, 12a, & 13 – SBS proposed area C

Lots total 173,054 SF or 3.97 acres of raw land located in the center of the GPIIP, adjacent to the proposed multi-purpose dock location in the center of the park. (*Note: Parcel 9b has been removed from SBS's original proposal*)

- SBS proposes to use the property for seafood value-added reprocessing and cold storage area.

Recommended Terms:

- Property is sold in current condition for 2014 appraised value.

2014 Appraised Value (Full GPIIP appraisal available at www.sawmillcove.com)

• Lot 9c (34,636 SF)	\$182,000
• Lot 12a (117,608 SF)	\$529,000
• <u>Lot 13 (20,810 SF)</u>	<u>\$114,000</u>
Total value of C	\$825,000

Total property value of discussed properties.

The CBS had an appraisal completed on the GPIIP property in the fall of 2014 which resulted in the following property values.

• Lot 11 Land (25,606 SF)	\$195,00
• Lot 11 Bldg (2,760 SF)	\$124,000
• Lot 23 Land (37,244 SF)	\$233,000
• Lot 23 Bldg (32,000 SF)	\$0
• Lot 9c (34,636 SF)	\$182,000
• Lot 12a (117,608 SF)	\$529,000
• <u>Lot 13 (20,810 SF)</u>	<u>\$114,000</u>
Total Property Value	\$1,377,000

Additional Considerations

- The CBS recently received \$7.5 million for the construction of a multi-purpose dock from the State of Alaska. Public access and use must be ensured.
- The CBS is currently working with an engineering firm to construct a multi-purpose dock, which will increase the marketability of the GPIIP.
- The GPIIP commissioned a study on the potential for a marine services industry at the GPIIP with Northern Economics. The Preliminary Screening-Level Feasibility Assessment and Planning Study for a Marine Center Report can be found on the www.sawmillcove.com site.
- Current zoning at GPIIP needs to be addressed. GPIIP zoning code was established to allow flexibility in use, with Assembly approval of leases or sales resulting in a permitted zoning use. With the sale of property, new zoning will need to be established for the GPIIP which will codify any future uses of the property after initial sale or lease.
- Access to CBS utilities and utility easements must be preserved as a majority of utilities were established with federal grant funds.
- A majority of the raw land at the GPIIP has had minimal use since the CBS took ownership of the property.
- As stated above the Administration Building has had minimal tenancy and has resulted in negative cash flow to the industrial park enterprise fund.
- The GPIIP is one of the last available developable properties in the immediate Sitka area without topographical constraints and with utilities available on site.

Action

- Approval of GPIIP Board recommendations