
MEMORANDUM TO COUNCIL

To: Dillingham City Council
From: Daniel Miller, Port Director
Through: Jack Savo Jr., City Manager
Date: January 19, 2026
Re: Ordinance for Lease of Dock Warehouse to AML

SUMMARY:

The Port of Dillingham has been operating as a landlord port for the last five years after four decades of conducting all operations internally. The Port is now faced with the task of making some decisions related to the future of Port operations. Staff have concluded that it would be in the best interest of the City of Dillingham to lease the Dock warehouse and office space to Alaska Marine Lines (AML).

PREVIOUS COUNCIL ACTION:

NA

BACKGROUND:

Alaska Marine Lines (AML) has been conducting most operations at the Dock for the last five years and the system works well for both them and The City. The City earns revenue while only maintaining the Port Director and one seasonal employee on the payroll. Currently, AML is operating out of the small office building on the east side of the Dock. They have expressed interest in leasing the current City Dock office as it better suits the needs of their operation.

Prior to AML conducting operations at the Dock, the City was the sole entity conducting operations. All freight services within the Dock facilities were operated and managed by the City of Dillingham. This required several pieces of expensive heavy equipment, as well as office space and payroll for three or four full-time, seasonal employees that often work overtime.

DISCUSSION:

Operating as a landlord port, there is no added benefit to the City in having the extra office space that is currently in use. A smaller office space, like the building that AML is currently working out of, would be ideal for our current operation. With that, it would be logical to move the Dock office to the smaller building and, for the time being, lease the warehouse building to AML.

The City recently had an appraisal conducted by Alaska Appraisal and Consulting Group to determine the value of the Dock warehouse located at 307 W Main St. The space is comprised of a 600 sq ft insulated office space, 100 sq ft arctic entry way, and approximately 5,300 sq ft. of uninsulated commercial warehouse space for a total of 6,000 sq ft. The recommended monthly lease amount is \$5,400 - \$7,200 based on a \$0.90 - \$1.20/sq ft. It is important to note that the City will want to offer a discounted price during the winter months to store its own seasonal equipment in the warehouse space.

STAFF RECCOMENDATION:

Make the current dock office available for lease to AML and move the City Dock office to the smaller building on the east side of the Dock. Using the information in the appraisal, staff recommends that the City enter into a lease agreement with AML at \$1.10/square foot. The lease agreement should be for an initial duration of five years with an option of five individual one-year extensions. Breakdown of the lease value is below:

May 01- Oct 31

6000 square feet

\$6,600 month

\$39,600 for time period

Nov 01-Apr 30

3000 square feet

\$3,300 month

\$19,800 time period

Total Annual lease value \$59,400

City will have use of up to 3000 square feet of cold storage space Nov 01-Apr30

ALTERNATIVES:

There are two alternatives to this recommendation, neither of which are currently recommended:

1. Continuing operations as they have been in recent years with Alaska Marine Lines (AML) conducting current level of dock operations while working out of the small office on the east side of the Dock and the City continues to operate, as is, out of the existing Dock office.
2. Transition back to the former practice where the City conducts all operations at the Port. This would require making essential repairs and/or purchases of equipment, upgrading office space and facilities, and hiring/training the necessary personnel to perform all required duties. This alternative comes with a significant financial commitment, which is detailed below.

FINANCIAL IMPLICATIONS:

If we take the route of switching offices and leasing the warehouse, we can expect to see an increase in revenue of approximately \$59,400/year from the lease along with a decrease in utility expenditure of approximately \$2,000. However, the initial move to the smaller office will require some man hours from Public Works as well as IT and some miscellaneous office expenditures to get it set up as needed. After the initial move and setup, the City could expect a net increase of approximately \$61,400/ year to the dock fund balance.

If we continue operations as they have been, we will not see any significant change in revenue or expenditure apart from the expected increase in revenue from the recent tariff updates.

If the City were to resume all Dock operations it would have an immediate up-front cost of \$586,500. We would see a net increase in revenue of \$112,500 per year, with this revenue it would take 5 years to get a return on investment.

Breakdown of up-front cost includes \$450,000 or more to repair/purchase all necessary equipment, \$10,000 to make upgrades to the current office space, and \$126,500 to hire and train 3 new employees.

LEGAL:

No legal support needed at this time.

MANAGER'S COMMENTS:

Ordinance 2026-01 will provide additional revenue for the City and give us some time to consider the direction that we want to take with the Port. If the City Council decides later that the City would want to resume full management and operations at the dock; a plan to do so can be developed during the initial 5-year period of the lease.

PROPOSED MOTION:

Move to adopt Ordinance 2026-01

ATTACHMENTS:

Appraisal report