



# Port of Juneau

155 S. Seward Street • Juneau, AK 99801  
(907) 586-0292 Phone • (907) 586-0295 Fax

**From:** Carl J. Uchytel  
Port Director

**To:** Docks & Harbor Board

**Date:** September 16th, 2022

**Re:** UAS PROPERTY – BOARD OPTIONS

---

1. At the August 25<sup>th</sup> regular Board meeting, enclosure (1) was presented, discussed and the Board provided direction to continue consultation with UA Land Management. This memo provides options for Board consideration.
2. Factual summary:
  - a. Since 1988, CBJ has leased 2.78 acres from UA; this area includes: uplands, tidal & submerged lands.
  - b. In consideration of \$500K in “advance rent” contained in the original lease, CBJ shall pay UA 30% of net revenue collected from sub-leasing and 40% of net revenues of other users (i.e. crane use). The revenue generated under this formula results in a payment from CBJ to UA of approximately \$12K/year.
  - c. The lease expired May 4<sup>th</sup>, 2021 but has been extended with two, one-year lease extensions during negotiations. The agreement will expire May 4<sup>th</sup>, 2023.
  - d. The lease provides for one 33-year option to extend the terms of the lease “not to exceed the fair market rental rate”.
  - e. A December 31<sup>st</sup>, 2020 appraisal completed for UA indicated the property value to be \$2.88M and the annual market rent to be \$230,400.
  - f. The negotiating position of UA is not to sell but to offer a lease option to CBJ at fair market value. The UA considers their fiduciary interests are best served by maintaining the property in an ownership role.
3. Potential Environmental Consideration and Liability:
  - a. Paragraph 22.6 of the March 30<sup>th</sup>, 1988 lease, states:  
*Restoration and Surrender of Premises. Within sixty (60) days after expiration of earlier termination of this Agreement, and at the Lessor's sole option, Lessee, at its sole cost and expense, shall either demolish the improvements which Lessor has not required Lessee to remove, removing all debris and leaving the Premises in a rough-graded condition, or leave the improvements in place and surrender to Lessor the Premises and improvement in broom-clean condition, which Premises and improvements shall then become the sole property of Lessor. All property that Lessee is not required to surrender but that the Lessee abandons shall, upon sixty (60) days after expiration or earlier termination of this Agreement, at Lessor's election, become the property of the Lessor, free and clear of all claims against it by Lessee or any third party and Lessee shall hold Lessor harmless from any claims regarding such property.*

- b. In the Port Director's review of the lease, there is no lease requirement for the lessee (Docks & Harbors) to conduct environmental sampling, testing, remediation or clean-up upon termination of the contract.

4. Snapshot of Harbor Enterprise fiscal health:

- a. From the current Assembly adopted Budget Book, projections from March 2022:

## HARBORS

### COMPARATIVES

		FY22	
	FY21 Actuals	Amended Budget	Projected Actuals
<b>EXPENDITURES</b>			
Personnel Services	\$ 1,572,300	1,875,000	1,777,100
Commodities and Services	1,432,100	1,681,500	1,682,100
Debt Service	656,700	737,600	737,600
<b>Total Expenditures</b>	<b>3,661,100</b>	<b>4,294,100</b>	<b>4,196,800</b>
<b>FUNDING SOURCES</b>			
Charges for Services	2,791,900	3,000,000	2,825,000
Licenses, Permits, and Fees	-	130,000	350,000
Rentals and Leases	855,400	800,000	860,000
State Shared Revenue	391,400	300,000	407,000
Federal Revenue	-	24,700	-
Fines and Forfeitures	7,400	10,000	10,000
Investment and Interest Income	30,300	52,500	27,600
Support from:			
Capital Projects	300	-	-
<b>Total Funding Sources</b>	<b>4,076,700</b>	<b>4,317,200</b>	<b>4,479,600</b>
<b>FUND BALANCE</b>			
<b>Debt Reserve</b>			
Beginning Reserve Balance	791,900	791,900	791,900
Increase (Decrease) in Reserve	-	-	-
<b>End of Period Reserve</b>	<b>\$ 791,900</b>	<b>791,900</b>	<b>791,900</b>
<b>Available Fund Balance</b>			
Beginning of Period	226,900	642,500	642,500
Increase (Decrease) in Fund Balance	415,600	23,100	282,800
<b>End of Period Available</b>	<b>\$ 642,500</b>	<b>665,600</b>	<b>925,300</b>

- b. Although the FY22 audited "Actuals" will not be finalized until November, we are fairly confident that the increase in Fund Balance will be greater than \$282.8K which is depicted above. Please note that, in October, I intend to bring a request to move \$400K from Harbor Fund Balance to the Aurora Harbor Phase III project.

5. Options addressing the expiration of the lease:

- a. No Action Uplands (Lease Parcel C). This option would result in Docks & Harbors allowing the lease to expire on May 4<sup>th</sup>, 2023 and relinquishing all interests in the sub-leases to Harri Commercial Service, which produced \$29.3K/year in gross revenue over the last two fiscal years. After Docks & Harbors expenses, 30% of the net revenue is returned to UA (~\$7700). In this scenario, UA would be encouraged to negotiate directly with legacy sub-lessee or other maritime dependent operator.
- b. No Action Tidal and Submerged Property (Lease Parcel A & Parcel B). This option would divest CBJ lease interests on May 4<sup>th</sup>, 2023 in the waterfront adjoining Aurora Harbor and Harris Harbor, which includes the Juneau Fisheries Terminal, Juneau Maritime Hydraulics and Nordic Tug Charters. The crane dock is in this area and heavily used by commercial fisherman to change out fishing gear as well

as other fisheries related needs. Docks & Harbors maintains the three cranes which has generated approximately \$9K annually in gross revenue over the past two fiscal years, 40% of the net revenue is returned to UA. In FY21, over \$30K was expended by Docks & Harbors to rebuild one crane. We are anticipating a similar expenditure in FY23 to rebuild another crane. [A new crane would exceed \$100K.] Docks & Harbors has applied for numerous federal grants to expand the amenities including rebuilding/dredging alongside the crane dock and install a commercial drive-down float.

- c. Execute Renewal Option – Fair Market Value. This would commit Docks & Harbors up to \$230,400/year in lease rent to maintain the existing 2.78 acre leased site. The exact language in the existing lease to execute the onetime option is: “not to exceed the fair market value”. In a conversation with UA Land Management, it was suggested that UA would consider an opportunity to reduce the lease rent fair market value, if CBJ can demonstrate an “educational benefit” to UA. However, it is unlikely, even with creatively finding an “educational benefit”, that UA Land Management will significantly alter their negotiating position in their role as a fiduciary. Should the Board elect to pursue this option there will be additional negotiating details to consider such as: (1) will the rent be set for the duration of the lease, or will it be adjusted periodically or with CPI; (2) will there be required revenue sharing; and, (3) who will be responsible for the recapitalization of the equipment/infrastructure (travel lift, timber pier, cranes, floats, etc). Absent concessions from UA in the details of the negotiations, this option has the most fiscal risk to Docks & Harbors. In general, the equipment associated with the lease property is at the end of its useful life and will require significant financial infusion. It is worth noting, in the Docks & Harbors memo to the Assembly regarding the 1% Sale Tax requests, it was stated that \$5M would be used for: “... rebuilding this [Aurora] small boat harbor float system and to improve the uplands with replacement of harbor office building, lighting, parking lot paving and partial boatyard recapitalization.”
- d. Advance Rent. In enclosure (2), the Assembly provided Docks & Harbors with the financial commitment of \$2M for the partial purchase of the 2.77 acre UAS property. Similar to the advance rent paid to UA in 1988, should the Assembly agree to make these funds available, the annual lease payment would be significantly reduced. A plausible scenario could be that by committing \$2M in advance rent, and given the appraised value of \$2.88M, UA may be willing to accept prorated lease payment reduction on the order of 69% (\$2M/\$2.88M) of the appraised fair market value lease rent (\$71K). UA Land Management and the CBJ Manager’s Office has been contacted to explore the viability of this option.

#

Encl:

- (1) Port Director memo to Docks & Harbors Board dated August 23<sup>rd</sup>, 2022
- (2) CBJ Ordinance Serial No. 2021-08(b)(am)(P)
- (3) Existing lease dated March 30<sup>th</sup>, 1988