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**CITY OF PORT LAVACA**

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**COUNCIL MEETING:** NOVEMBER 13, 2024

**AGENDA ITEM:** 5

**DATE:** 11.07.2024

**TO:** HONORABLE MAYOR AND CITY COUNCIL MEMBERS

**FROM:** JODY WEAVER, INTERIM CITY MANAGER

**SUBJECT:** NEW LEASE AGREEMENT FOR TRACT 3 TO ENCORE, LLC.

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Encore Dredging Partners, LLC entered into a lease agreement for Tract 3 (4.3 acres) at the Harbor of Refuge on December 1, 2022 which is scheduled to expire on November 30, 2024. The monthly rent amounts paid thru September 30, 2023 were \$3,000; thru September 30, 2024 were \$3,036.90 and beginning October 1, 2024 \$3,076.68. These annual increases were based upon the change in the Municipal Cost Index.

In October, the Port Commission authorized me to negotiate a new 3-year lease and, as has been our practice to do so, take into consideration the valuation that was provided by Valbridge Property Advisors in their Appraisal Report dated April 2023. Based upon this Appraisal report, the Value Conclusion of this tract (including the metal building) was established at \$580,000. The typical rate of return used in calculating annual rent revenue is 10%. Therefor the indicated annual rental rate per sf reported by Valbridge is \$0.31/sf which results in a monthly rental rate of \$4,833.33 (*1.57 x their current rent*).

Understanding that the Council has stated in the past that they prefer to make significant increases in rates in a series of step-ups instead of all at once, I initially proposed the following scenario:

Yr 1: \$3,700 (19% increase from current); Yr 2: \$4,350 (16% increase from Y1); Yr 3: \$5,000 (14% increase from Yr 2)

*Note: I assumed a 2% MCI increase each year that would bring the \$4,833.33 in today's dollars to approx.. \$5,000 in the 3<sup>rd</sup> year.*

Encore countered with \$3,500.00 per month for a three-year lease with an annual MCI increase.

The Port Commission held a Special meeting on November 6 to discuss this new lease. Encore was in attendance and suggested negotiating a one-year lease instead of two, since their Tract 11 lease has just one more year on it. Adding only one year to the Tract 3 lease would then put both leases on the same cycle beginning next year.

**The Port Commission voted to recommend a one-year lease at \$4,833.33/month**, in line with the data provided in the 2023 Valbridge Appraisal Report. There was also discussion suggesting that they would be OK with the 3-year lease amounts that I had originally proposed, although this was not officially acted on and was not unanimous.

**Encore Dredging held an internal meeting today and I was told that they will have representatives at Wednesday night's meeting and will propose a one-year lease at \$3,500.00/month.**

If an agreement on the lease cannot be reached, staff will begin work to advertise the tract for rent with a minimum bid of \$4,833.33/month. Bids could be due such that they could be acted on at the January Port Commission meeting and the February City Council meeting.

Attachments:

- Encore Proposal for Tract 3 dated 10/22/2024
- Encore Proposal for Tract 3 dated 11/08/2024



10/22/2024

Jody Weaver, P.E.  
Interim City Manager  
City of Port Lavaca  
202 N. Virginia Street  
Port Lavaca, Texas 77979

RE: Proposal for Tract 3 Lease renewal

Ms. Weaver,

Inland Dredging Company has reviewed your email dated October 16, 2024, regarding the Tract 3, Harbor of Refuge New Rent agreement as the following:

- A 3-year lease.  
Year 1: \$3,700/month  
Year 2: \$4350/month  
Year 3: \$5,000/month

Inland would like to respectfully propose a counteroffer of:

- A 3-year lease.  
Years 1-3: \$3,500/month  
Standard MCI increase annually as outlined in the current lease agreement.

Inland agrees that the typical rate of return used in calculating annual rent revenue is 10% but feels the value of the property is appraised substantially higher than commercial property in the area. The attached page outlines appraisal values from the county that show acreage values ranging from \$8,853 to \$62,473 per acre. Two of the outlined tracts include waterfrontage. Property appraisal that includes no waterfrontage (1 and 4), similar to Tract 3, have acreage values that range from \$8,853 to \$19,602 per acre. If a reasonable assumption was made that the appraisals of each property were undervalued, tripling the highest acreage value of \$19,602 to \$58,806/acre would still fall short of the current appraised value stated in the report from Valbridge Property Advisors of \$119,790/acre.

After looking over comparable property in the area and making reasonable assumptions, Inland calculates reasonable value for the property is estimated, with the building included, around \$350,000.

Inland values the partnership with the City of Port Lavaca and looks forward to another successful lease agreement that benefits both parties. Please review and consider our counter offer as listed above. Feel free to contact me with any questions.

Sincerely,

A handwritten signature in black ink that reads "Hillary Franke".

Hillary Franke  
Director of Operations



# ENCORE

DREDGING PARTNERS

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<p>Site 1:          Address: 1720 S VIRGINIA, TX 77979          Acreage: 8.82          Land Appraisal: \$172,890          Acreage Value: \$19,602</p>	<p>Site 2: <i>*Includes Waterfrontage</i>          Address: 1800 S VIRGINIA, TX 77979          Acreage: 11.117          Land Appraisal: \$337,980          Acreage Value: \$30,402</p>
<p>Site 3: <i>*Includes Waterfrontage</i>          Address: 2110 S VIRGINIA, TX 77979          Acreage: 4.141          Land Appraisal: \$258,700          Acreage Value: \$62,473</p>	<p>Site 4:          Address: -          Acreage: 5.24          Land Appraisal: \$46,390          Acreage Value: \$8,853</p>



11/8/2024

Jody Weaver, P.E.  
Interim City Manager  
City of Port Lavaca  
202 N. Virginia Street  
Port Lavaca, Texas 77979

RE: Proposal for Tract 3 Lease renewal

Ms. Weaver,

Encore Dredging Partners has internally reviewed the proposed lease agreement regarding the Tract 3, Harbor of Refuge.

Currently, Encore's lease at Tract 3 has a monthly rent of \$3,076.68.

The proposal from Port Commission is the following:

- A 1-year lease.
- Monthly Payment: \$4,833.33
- 57% increase

Inland would like to respectfully propose a counteroffer of:

- A 1-year extension to the current lease.
- Monthly Payment: \$3,500.00
- 14% increase

Reasoning: Encore proposes a 1-year extension to the current lease to align with another Encore-City of Port Lavaca lease with Tract 11 at the Harbor Refuge which ends in November of 2025. Aligning these are for the mutual benefit of the City and Encore. Encore *strongly* disagrees that the proposed 57% increase in monthly rent is necessary or representative of the current market of commercial property as approximately 15-20% of commercial property in Calhoun County sits vacant.

Encore encourages the City to consider the improvements that Encore has made to the property over the last 2 years when deliberating whether to increase our monthly lease amount. Outside of monthly maintenance, Encore has upheld their commitment to the property and invested approximately \$55,000 in permanent improvements at Tract 3 including:

- Improved Drainage & Access - \$35,000
  - All weather road installed to bulkhead
  - Installed concrete at building facility
  - Modified drainage, direct water away from building during storm events.
- Utilities - \$15,000
  - Plumbing and sewer for building
  - Installing bathroom facilities
  - Installing a 2" water access the property for bulkhead accessibility
- Security - \$5,000
  - Installed interior and exterior lighting



**ENCORE**  
DREDGING PARTNERS

In conclusion, Encore is requesting a 1-year extension of the current lease while agreeing to a 14% increase in rent to \$3,500 per month.

Encore values the partnership with the City of Port Lavaca and looks forward to another successful lease agreement that benefits both parties. Please review and consider our counter offer as listed above. Feel free to contact me with any questions.

Sincerely,

Hillary Franke  
Director of Operations