CBJ DOCKS & HARBORS BOARD
FINANCE MEETING MINUTES
For Tuesday, November 27th, 2012

I. Call to Order.

Eric Kueffner called the Finance Committee Meeting to order at 5:00 p.m. in room 224 of the Assembly building.

II. Roll Call.

The following members were present: Tom Donek, Scott Spickler, Michael Williams and Eric Kueffner.

Kevin Jardell and John Bush were absent

Also in attendance were the following: Carl Uchytil – Port Director, Bob Bartholomew - Finance Director, Angelica Lopez-Campos – Docks and Harbors Accountant, and Derrick Duncan-Vice President of Goldbelt.

III. Approval of Agenda.

Mr. Uchytil recommended to move the Goldbelt Tram update to #1 under Items for Information/Discussion.

The agenda was approved as amended with no objection.

IV. Public Participation on Non-Agenda Items.

There was none.

V. Approval of August 28th, 2012, and September 25th Finance Committee Meeting Minutes, and September 18th, 2012 Sub-Committee Work Minutes.

Mr. Uchytil said he had some clerical corrections on the September 25th minutes and would work with Ms. Scovill to correct.

All minutes were approved.

VI. Items for Action.

1. Gitkov Lease Rent

Mr. Uchytil said this was brought before this Committee at the last meeting. There were some concerns by the Lessee that the content in the appraisal provided by Horan & Company was not accurate. The Lessee wrote a letter expressing his concerns and Mr. Uchytil said he forwarded his letter to Mr. Horan. Horan & Company modified the appraisal with the recommended changes but did not change the recommended rent rate of $.15/sq foot. In 2008 the Docks and Harbors Board recommended $.15/sq foot, but the Board elected to change the lease rent to $.11/sq foot after being petitioned by the Lessee. As we move forward with the renewal of this lease, Mr. Uchytil said his recommendation is to approve the $.15/sq foot and bring to the full Board for direction.

Committee Question
None

Public comment

John Gitkov, Lessee
Mr. Gitkov said the main reasoning to go to the $.11/sq foot was to see how the new Auke Bay loading facility would be in direct competition with the Gitkov business and how it would affect the value of their lease. Mr. Gitkov said this has all been brought up before, but the loading facility has hugely affected their business with fuel sales, fish offloading and passenger loading. Mr. Gitkov said he does understand that costs go up.

Mr. Kueffner said he appreciates what Mr. Gitkov is saying about the affect of the loading facility, but that is what the appraiser takes into account in his market appraisal of the property. It may or not be as much as the tenant thinks but this Committee is obliged to talk about the fair market value of the property itself.

MOTION By MR. SPICKLER: TO ACCEPT THE RECOMMENDED APPRAISAL LEASE RENT OF $0.15/SQ FOOT AND FORWARD TO THE FULL BOARD FOR ACTION.

VII. Items for Information/Discussion.

1. Goldbelt/Mt Roberts Tram Update

Mr. Uchytil said Docks & Harbors and Goldbelt are at an impass on the appropriate lease rent for the Mr. Roberts Tram. Horan & Company appraised the property for $300,000 annual rent. Per the lease terms, Goldbelt elected to get their own appraisal. Reliant appraisal of Anchorage did this appraisal and had extraordinary assumptions into that appraisal, which made the parcel of land the Tram is located on an uneconomical parcel. Per that appraisal Goldbelt was proposing $30,000 for lease rent would be appropriate. This was unfavorable to the Board and Mr. Jardell and Mr. Uchytil have been working with Goldbelt to move to some common ground and not use the concept of uneconomical parcel. Kim Wold and Barry Thompson of Alaska Appraisal Associated in Seattle performed another appraisal for Goldbelt. Mr. Uchytil said he met with Goldbelt today and was given a two page letter from Mr. Wold on the work he did. Based on the comparable in the letter, they established an unimproved lease rent of $42.00/sq foot. They went to North Pacific Erectors and asked what site work would be required to render this parcel of land buildable. North Pacific Erectors estimated $158,000 in site work. The difference of the $42.00/sq foot and the $158,000 for site work is $262,000. This was then rounded down to $260,000 to be the market value of the unimproved parcel. The lease says the lease rent will be 10% of the appraised value. The lease also talks about royalties. The royalties were negotiated away in 2006. The position Goldbelt has is the Reliant appraisal is still on the table, but as a matter of negotiating in goodwill, they took the suggestion of Mr. Jardell and Mr. Uchytil and found an appraiser to do the same comparison concept with this parcel as Docks and Harbors appraisal. The result of their appraisal established the annual lease rent at $26,000, which is less than the required minimum in the lease of $30,000. Goldbelt remains committed to keep this on the table and discussions of royalty rent.

Mr. Kueffner asked what the royalty rent used to be?

Mr. Uchytil said $60,000.

Mr. Kueffner said it is not his view that the royalty rent was negotiated away but in 2006 it was agreed that it would not be charged. He said he is not conceding that the royalty payments are not part of this lease. Mr. Kueffner said he would like a copy of the new appraisal from Alaska Appraisal Associates.

Mr. Uchytil said he will scan and send out to the Board members, but he is also going to send to Horan and Company and have them review it.

Mr. Kueffner said at least this appraisal is on the right track and is comparable to the Horan and Company appraisal. The sub-committee that was set up for the Goldbelt Tram lease rent should reconvene and discuss the new information provided.

<u>Public Comment</u>
Derrick Duncan, Vice President of Goldbelt
Mr. Duncan said he met with Mr. Jardell and Mr. Uchytil sometime in October at Goldbelt's headquarters and had an open and frank discussion. Goldbelt took the next step and got another appraisal, but not backing down from Goldbelts legal position and our evaluation technology, but to provide a new comparison comparable to the Horan and Company appraisal approach. There were a handful of comparables pulled by Kim Wold and Barry Thompson. Mr. Duncan said he is not a professional appraiser and wont get into the specifics, but will try to help the Committee understand the conclusion. There were five comparables, one in Ketchikan and four in Juneau. The sales dates range from 2005 to 2010. The comparable chosen received downward positive adjustments for various characteristics that influenced the value such as; economic trends, conditions of sale location, utilities and etc. After the adjustment, the average price per square foot for the comparables came out to $42.07/sq foot. The developed site value is $420,000 which is the 10,000 square foot parcel times $42.00/sq foot. The development cost for the site were subtracted from Mr. Wold and Mr. Thompsons appraisal and the adjustment reflects the post improvements that would have been required to support a retail development. The total development cost was $158,000. If you take the total site value of $420,000 less the total development cost of $158,000 that is where you would get the undeveloped lot value of $262,000 rounded down to $260,000. Goldbelt has done what Mr. Jardell and Mr. Uchytil have requested. Mr. Duncan said Goldbelt has performed another appraisal using sales comparison methodology, but still has not backed down from their legal opinion in their appraisal methodology of the Reliant appraisal. Goldbelt is now

looking at Mr. Jardell, Mr. Uchytil, the Sub-Committee and the Finance Committee for the next step.

2. Budget Update presentation by CBJ Finance Director Bob Bartholomew. Angelica Lopez-Campos Docks and Harbors Accountant was also present to answer questions.

   Mr. Bartholomew said he started as the Finance Director in June of 2012. He said he has a couple of objectives. He is trying to get out to and know all the Finance Committees of all the various Boards. Management reporting is a critical piece to understanding what is going on in the various operations. Historically the focus for a lot of the information flow has been into CBJ Finance annual financial statement for the City and annual budget books, and that is how the system is structured. Mr. Bartholomew said he is trying to work with the department directors to figure out the management recording needs each department has and what the Finance Department can do to evolve that information. This will be a joint effort with the controllers office with accuracy and timeliness of the information and try to put this in a format that is usable to the user groups. This will then be a resource that helps them take that information and put into a format that would make most sense to each particular group. The information presented tonight is the information that can be provided. Mr. Bartholomew said the Finance Department is close to having a budget report that Mr. Uchytil could have on his desk top that would be updated every night with comparisons from last year at this time to this year. They are working on getting information out in a timely manner, and hope to be evolved by the end of FY13.

   Mr. Kueffner said the budget report given tonight is how he is used to looking at a budget report. The problem in the past has been that this information was not available other than the end of the fiscal year June 30th.

   Mr. Bartholomew said he thinks it has been available, but there has been a system conversion and the other program was not user friendly. Other departments used excel by manually putting the information off the reports furnished by Finance and made it easier to read. Finance does not have a lot of time for customization, however, the report he is working on right now will have four levels. Level one will be Dock and Harbors combined, level two will be Docks and Harbors broken out at a summary level, and then there will be two more levels of detail that will be every account in the general ledger that has activity.

   Mr. Spickler asked if starting in January of 2013 there would be a report similar to these reports at every Finance meeting?

   Mr. Bartholomew said he is working with a contractor and does not have a firm date for completion. His goal is for the operating budget to be seen at every Finance meeting with comparisons from last year to this year.

   Mr. Williams asked if Mr. Bartholomew is working with a contractor to have Lawson reports broken down farther.

Mr. Bartholomew said he is working with a contractor on strictly management reporting. It is using a management reporting tool called Crystal. It could have been done all in house, but they are busy. The Finance Department had some money to be able to go ahead and move forward with this project, to have a daily updated budget on the Directors desk top.

Mr. Bartholomew went line by line over the hand out that was provided at the meeting on the end of FY12 that ended June 30th, 2012. For FY12 Harbors operating income meets the requirements of the bond covenant. It is important to meet the bond covenant because it could affect the overall debt rating of CBJ.

Mr. Bartholomew also went line by line over the Dock hand out that was provided at the meeting on the end of FY12, and the Port Development special revenue funds budget.

Mr. Bartholomew said the FY 13 is a similar schedule but it is so early in the year that it doesn't tell a lot. He said with the changes being made each year going forward will be easier.

Mr. Spickler said he would like percentages added to the reports.

Mr. Bartholomew said he would look into it.

Mr. Uchytil said he would like comparisons (ex: November 2011 to November 2012).

The Committee members were all in agreement that they were happy with the reports provided at the meeting, with them being easy to read and understand.

Mr. Bartholomew said that FY12 was a good financial year for Docks and Harbors.

3. Douglas Harbor Update

Mr. Uchytil said in 2007 Docks and Harbors started the design for renovating Douglas Harbor. This came to a stop due to permitting. Mr. Uchytil said last year he was working hard not to expend anymore of Docks and Harbors monies and is trying to get the Corp of Engineers to expend their money to move this project forward. The project is at the 95% design and the Corp of Engineers is moving toward an environmental assessment that should be finished in a couple of weeks. Part of the environmental assessment is the 40,000 cubic yards of dredging that is required and dispose in Gastineau Channel with a 6" clean cap. Mr. Uchytil said he met with Joe and Tim Smith that have a dredging project at Northland Services of 10,000 cubic yards of clean material. They are willing to be very cooperative and help as best they can. To bring this project forward with the methyl mercury in the Douglas Harbor spoils, the Smith brother are willing to provide this material for the contractor to cap the spoils. Conceptually making this capping material work will be an issue. Mr. Uchytil said there are two sources of clean material that meets the environmental assessment for capping. One is from the Smith Brothers project by Northland Services and the other is the material from the Airport.

The Douglas Harbor project is to Dredge the Douglas Harbor and add stalls. At this time we are at the 95% design with having $800,000 spent in studies. The new cost estimate is $8.8 million. This money that Docks and Harbors has allocated is $5.6 million. There is a $3 million short fall the we need to figure out what to do and how to move forward. Options would be; not do anything, petition the Corp of Engineers to do the work, or do what we can with the exiting money and build it out as money becomes available. Mr. Uchytil also discussed income options.

Mr. Kueffner said that so much time and money has been spent on this project already that he suggests to move ahead with the dredging and build as the money is available.

Mr. Williams asked what is the cost to dredge and cap the material?

Mr. Uchytil said about $2 million for the dredging, and $600,000 for capping.

Mr. Williams said he recommends to move forward with the dredging and capping and build as the money is available.

Mr. Donek suggested to move forward with the dredging as soon as the permits are issued and work with the money to go as far as possible.

4. Aurora Harbor Update
   Mr. Uchytil said this project will be completed in Phases. Phase I will be about four million. Two million comes from the Tier I matching grant and two million comes from the Harbor fund. Mr. Uchytil said there is also the Marine passenger fee monies of $500,000, which would be applicable because the tug assist moors in the Aurora Harbor.
   Mr. Uchytil said he has been approached by DIPAC to grant Docks and Harbors approximately $400,000 in support of the commercial fishing industry.
   Mr. Uchytil said Delta Western approached him about possibly bringing a fuel float back to Aurora Harbor.

VII. Staff & Member Reports.

IX. Committee Administrative Matters.

1. Next Finance Committee Meeting December 18th, 2012

X. Adjournment.

MOTION by Mr. DONEK: TO ADJOURN THE DOCKS AND HARBORS FINANCE COMMITTEE MEETING AND ASK UNANIMOUS CONSENT.

The Finance Committee Meeting Adjourned at 6:37 p.m.