CBJ DOCKS & HARBORS BOARD
FINANCE MEETING MINUTES
For Tuesday, May 29th, 2012

I. Call to Order.

Tom Donek called the Finance Committee Meeting to order at 5:05 p.m. in room 224 of the Assembly building.

II. Roll Call.

The following members were present: John Bush, Kevin Jardell, Wayne Wilson and Tom Donek

The following members were absent: Eric Kueffner and Michael Williams.

Also in attendance was: Carl Uchytil-Port Director.

III. Approval of Agenda.

Mr. Uchytil asked to add to items for information/discussion
(2) Potential lease with Capital Office Park J.V.

MOTION By MR. JARDELL: TO APPROVE THE AGENDA AS AMENDED AND ASK UNANIMOUS CONSENT.

The motion passed without objection.

IV. Public Participation on Non-Agenda Items.

None

V. Approval of April 24th, 2012 Finance Committee Meeting Minutes.

Hearing no objection, the minutes of the April 24th, 2012 Finance Committee Meeting were approved as presented.

VI. Items for Action.

1. Petro Marine Fuel Dock Lease

Mr. Uchytil said on the phone is Mr. Jim Beckham who is the Vice President of operations for Harbor Enterprises dba Petro Marine. At the March 27th Finance Meeting, the members discussed the Auke Bay fuel dock lease. In the packet is the proposed lease drafted by the CBJ attorney. The red lines are recommended changes by Harbor Enterprises. The lease currently states that Docks and Harbors receive $.05 on every gallon pumped across the dock. The previous Port Director John Stone suggested a built in increase adjusted every five years. Harbor Enterprises is suggesting that the investment for the fuel float of $1.5 million is sufficient to keep the present lease rate at $.05 a gallon

for the entire lease term. Mr. Uchytil said at the March 27th meeting Mr. Kueffner suggested to have a review every five years or CPI adjustment and list the hours of operation in the lease. There was also discussion about the automatic adjustment being passed on to the customer, and without the automatic escalator the lease will need to be renegotiated every five years. FY11 Harbors received just over $29,000, and FY 12 Harbors received just over $31,000 with a month still remaining.
Mr. Uchytil said he talked to Mr. Beckham about the CPI adjustment and it is Harbor Enterprises position that the CIP adjustment should not be included in the lease. Mr. Uchytil invited Mr. Beckham to state Petro Marines views.
Mr. Beckham said he wanted to know why CBJ wants to mandate the hours of operation. They will continue to be open when there are customers. Summer hours now are from 6:00 am to 10:00 pm. Petro Marine tried to staff this dock in the winter and it was not successful. He understands CBJ wants the facility open for the patrons to use, and Petro Marine wants that as well. If there are hours of operation in the lease agreement, and they are held rigidly to the hours, that does not make good business sense. Mr. Beckham said he wants the option of staffing the fuel dock seasonally and hopefully going into a year round to cost effectively staff.

Mr. Bush asked what the summer months are?

Mr. Beckham said May 1 – September 30.

Mr. Bush asked if there was an on call person?

Mr. Beckham said there is a sign posted there for an on call person. They will come down and fuel or take appointments.

Mr. Jardell said on appointment basis would be in compliance with the lease. He said he understands it would not be cost effective to be open when there are no customers.

Mr. Beckham said Petro Marine would like to have the option. If there is an increase in activity, Petro Marine will staff to get the most sales. If no one is out boating, it does not make sense to staff, and the patrons have an option to call in.

Mr. Wilson said he has been using the fuel dock at DeHart's for several years and has been very happy with the call in procedure in the winter time for fuel and it works well.

Mr. Donek asked if there was a quantity limit on a call in for fuel?

Mr. Beckham said he was not sure.

Mr. Jardell said he is looking for something for the long term that services will be provided at a reasonable basis and not be totally profitable. Over the course of a year, Petro Marine would make money, but maybe on a call out they would just break even. A Harbor with services is important.

Mr. Beckham said Petro Marine does not offer services on a break even basis. They pride themselves on their service and they go the extra mile to provide service to the boating and land community.

Mr. Jardell said providing the service is valuable to Docks and Harbors.

Mr. Beckham said at a significant cost, and no other companies here in Juneau are looking at building this fuel dock. The benefit CBJ gets is a full service Harbor at Statter.

Mr. Donek said he has a problem with having required hours of operation in the lease. It would be difficult to pick what hours of operation they should be open.

Mr. Wilson said being open from 6:00 am to 10:00 pm at night is very generous hours. He agrees with Mr. Donek and does not see the need for putting hours of operation in the lease.

Mr. Beckham said if the customers start needing different times of operation, the hours of operation would be adjusted to meet the needs of the customers. Petro Marine wants to provide the best service. Mr. Beckham said he does not want something in the lease that could maybe not be met, and having the hours of operation in the lease is unnecessary.

Mr. Bush asked if there would still be an on call after the fuel dock is closed if the fuel dock is open seven days a week.

Mr. Beckham said Petro Marine is always on call for any fuel delivery.

Mr. Uchytil asked Mr. Beckham to explain the $.05 per gallon.

Mr. Beckham said originally the $.05 that was started with Dick Deems included other items in the agreement. The other items included maintenance and other improvements that Mr. Deems wanted to be reimbursed for. When CBJ bought the property, the amounts carried over. This is almost three times what Petro Marine pays various municipalities from Ketchikan to Kodiak for wharfage fee. He said he knows CBJ has gotten used to receiving the $.05 per gallon. This is equal to the state tax on a gallon of fuel. Mr. Beckham said the discussion to just pass this on to the customer is a lot more complex. Any optic that increases fuel or thought of increase is not good for business for Petro Marine. Mr. Beckham said customers don't like buying gas for $5.00 per gallon just as much as Petro Marine does not like selling it at that amount. Just because the price is $5.00 per gallon does not mean that 90 percent is profit. He talked about the different fees and taxes on a gallon of gas. He asked if the services Petro Marine is going to receive worth $.05 per gallon, and he is opposed to automatic escalators. Essentially all CBJ is giving to Petro Marine is an easement or alleyway to run their pipes. If in five years it costs more to have their pipes in the alleyway, he would be willing to discuss the share of the additional costs. He said going forward he would like the fee to stay the same at $.05 per gallon and not be on an automatic escalator. Petro Marine is committing to the long term of 25 years and paying in excess of $1 million for the fuel float for their

benefit and Docks and Harbors benefit. Mr. Beckham said he would like to see a static cost as the lease moves forward.

Mr. Jardell said he has concerns with no increase over a long time. The dollar value today will not have the same buying power in 50 years, and having this static for 70 years is concerning.

Mr. Beckham asked what efforts Docks and Harbors is doing other than cashing their check. Petro Marine will be maintaining everything.

Mr. Wilson said Petro Marine would be getting service provided on Docks and Harbors dime. Garbage service, water and provided a safe and secure area. He said he does not agree with a fee escalator but he would like to see the $.05 continue and revisit the agreement in five years to assess whether or not there should be an adjustment.

Mr. Jardell said he see this more like a tideland lease. Providing an area Petro Marine is going to operate in. He does not think to raise the cost right now. He is concerned with signing a static 70 year lease, because 70 years is a long time.

Mr. Donek said Petro Marine will be getting a place to put their fuel dock. In reference to the $.05, a boater is less likely to travel 20 to 30 miles than to pay $.05 per gallon.

Mr. Beckham said the whole question is why should Petro Marine pay more for essentially a sunk cost? He doesn't see having an automatic escalator just because he is there. What more will he be getting with the increase?

Mr. Jardell said now it may be a profit for Docks and Harbors, but in 35 years that value of the dollar could be nothing. Petro Marine could be a drain on our revenue. To maintain the value of the $.05, at some periodic time, this should be allowed to go up. At some point Docks and Harbors has to look at our costs?

Mr. Beckham said costs for what? If Petro Marine has to pay more, what more will Petro Marine be getting?

Mr. Jardell said a rebalancing to equalize the inflation at some point. He said he would even look at $.05 for the value of the tideland lease.

Mr. Bush said the adjustment of the rental on page 7 says that the Lessee agrees to review and possible adjustment of the annual rental payment by the Port Director not less often than every 5th year of the lease term beginning after completion of the initial term.

Mr. Beckham said he added *possible* adjustment and *after the completion of the initial term.* That would mean it could be reviewed after 35 years.

Mr. Busch asked if he deleted *with the rental due on March 1, 2014, as provided above?* Mr. Beckham said it was too specific. It should have maybe read that rent would be due the first Monday in March.

Mr. Donek said he reads the original paragraph it would review the agreement every five years, but with the add in, it will not be reviewed for 35 years. He said that will not work.

Mr. Bush said it doesn't mean it will change, but it should be reviewed.

Mr. Jardell said if the possible adjustment was limited, and Docks and Harbors had to justify the $.05 value. Would that give some sense of comfort?

Mr. Donek said everything goes up and nothing is static.

Mr. Jardell said he understands the investment for the fuel dock and Petro Marine need to figure out how to get that back.

Mr. Beckham said everything will be owned by Petro Marine and Docks and Harbors will not have to maintain anything.

Mr. Bush said he recommended to leave the possible adjustment in the paragraph and a review every 5 to 7 years.

Mr. Jardell is looking to preserve the value at the $.05 for the life of the lease and not diminish the value.

Mr. Wilson said the Committee is going in the right direction. Add, lessee agrees to a review or adjustment every 5 to 7 years from date of initial term.

Mr. Donek asked if it would help to put a limit on an amount of an adjustment?

Mr. Beckham said he agrees that CBJ should have some revenues raised to meet the needs of the facility, and seven years sounds better for review than every five years. He said he is optimistic that reasonable people can come to reasonable conclusions. Fees and rates limitations are already set in law. He is not too concerned that in seven years CBJ will raise the rate to $.20 per gallon. He said he is happy with a seven year review.

Mr. Donek wanted to know when this needed to be completed?

Mr. Uchytil said Petro Marine has a lease in effect until the end of next year. He said in review of comments tonight, the Committee members and Mr. Beckham is okay with not having an automatic CPI adjustment, but having a review every seven years.

Mr. Donek commented that this $.05 should be looked at everywhere in the Harbors that fuel is sold across the dock.

Mr. Bush said seven year review is good with him. He is okay with the wording of possible increase.

Mr. Wilson asked if Petro Marine pays a wharfage fee to Trucano?

Mr. Beckham said it is $1.70 per gallon.

Mr. Uchytil asked if Mr. Beckham was good with the suggestions.

Mr. Donek directed Mr. Uchytil to work on the wording in the lease and bring back to the Committee.

Mr. Bush recommended to take the rental credit part of the lease out.

Mr. Donek asked if Petro Marine was using Docks and Harbors tanks?

Mr. Uchytil said he thinks Petro Marine owns the tanks.

There was more discussion.

No Motion – Mr. Uchytil was asked to verify who's tanks Petro Marine was using, work on the new wording of the lease, and bring back to the Committee.

VII. Items for Information/Discussion.

1. FY12 Spend Down

Mr. Uchytil provided a revenue and expense report for Docks and Harbors. Harbors is at about $333,000 left in the Harbors monies based on expenditures. He said with the revenues, there is no way of knowing for sure what Harbors will receive from the fish tax until October. Going with what was budgeted, Harbors should have approximately $200,000 left. Mr. Uchytil said he would like to spend this money on the following:
Wash down pad at the ABLF
Chip Seal
Electric Meters
New Pump out at Harris and Douglas
Pressure release valve for Douglas
Uniforms
This is the priority list and he said he would like to see things getting done in the Harbors.

There was discussion on the listed items.

2. Potential Lease with Capital Office Park J.V.

Mr. Uchytil said this lease has not moved forward because the Board did not want to sign a ten year lease, and the Lessee wants more than a two year renewable lease. This area is approximately 16 parking spaces that they are using, and have been using.

Mr. Bush recommended a five year lease.

Mr. Jardell said it is important to keep the flexibility for that property.

Mr. Donek asked Mr. Uchytil to find out what this property is worth by comparable lands. He wanted to know the size of the property.

Mr. Uchytil said the property size is .11 acres.

There was more discussion on the lease.

The committee recommended for Mr. Uchytil to work with the lessee to sign maybe a five year lease, and try to get some revenue out of it.

VII. Staff & Member Reports.

Mr. Wilson said that he would like Docks and Harbors looking into leasing some parking property at Auke Bay in between AEL & P and the bus barn. He would like this while the Harbor is being refitted.

Mr. Donek said he does not want to do that. The problem would be getting the permits for Statter Harbor. Our parking is going away and there is nothing that can be done at this point. PND's study determined the only feasible parking was to be on fill. There was more discussion on this topic.

IX. Committee Administrative Matters.

1. Next Finance Committee Meeting June 26th.

X. Adjournment.

MOTION By MR. BUSH: TO ADJOURN THE DOCKS AND HARBORS FINANCE COMMITTEE MEETING AND ASK UNANIMOUS CONSENT.

The Finance Committee Meeting adjourned at 6:42 p.m.