

Monday, January 19, 2008

MEMORANDUM

To: Sawmill Cove Board of Directors
From: Garry White, Director
Subject: Sawmill Cove Management Report

1. The CBS Assembly approved the Purchase and Sale Agreement of the pulp dock property on 06/24/2008. The property was transferred to Silver Bay Seafoods on 12/31/2008.
2. December 2006, TAB purchased 3.0 acres of land and the bottling building for about \$722,000. The sale includes restrictions (reverters) on the deed that allows the City to repossess the property if TAB does not perform certain improvements by certain dates.

The first reverter clause deadline of June 7, 2008 has passed for TAB to greatly expand their bottling line, make improvements to the bottling building and complete other, lesser items. They have failed to meet this benchmark. On 07/10/08, the SMC Board motioned that the city send TAB a 45 day written notice to cure the default related to the reversionary interest. The letter was sent certified mail on 07/14/08.

The 45 day period to cure the default of the reverter clauses expired on August 29, 2008. TAB has yet to address any of the clauses and has informed the SCIP board that they sold the building to Cove Partners LLC in Dec. 2006. Cove Partners LLC would like the reversionary language dropped.

The SCIP Board discussed the situation in executive session with CBS attorney and outside council at the September 25th board meeting and voted to have the CBS attorney and hired outside council to meet with Cove Partner's attorney to determine what Cove Partners would like the city to do regarding reversionary language.

Dick Kearns attended the 09/25/08 meeting and advised the board that he was closing the TAB water bottling plant effective 09/26/08 at 5 PM. This announcement comes very close to the drop dead date set by the CBS building inspector regarding the lack of proper sprinkler system equipment in the building. Mr. O'Connell had set 10/01/08 as the deadline for having equipment installed in the building. The building will not be allowed for use after this date until fire protection equipment can be brought up to code standards.

On 10/30/2008 the SCIP Board met with two principle members of Cove Partners LLC. Cove presented their plan for the use of the former TAB building located on LOT 5 of the SCIP. Cove's plan is to go forward with a water bottling plant to be run by the current owner of the Smart (fx) beverage company in ON, CA. Cove Partners want CBS to remove reversionary language on the building to allow the company to gain bank financing to have working capital to run the business. The SCIP requested that Cove Partners submit a detailed business plan and character references on their proposed venture before the SCIP board will make any recommendations to the Assembly. Cove Partners attorneys have provided a confidentiality agreement for CBS officials to sign before they will release their business plan. CBS attorney does not agree with terms of the agreement and is currently negotiating the terms of the agreement.

An additional concerns was found with the former TAB building (Lot 5) when Cove Partners sold the property to a new company called Starwest Holdings LLC, a registered company in OR. The SCIP Director nor the CBS was aware of the property transfer and has not seen any documents of the transfer other than recorders information. Upon the transfer, Cove Partners found that a number of property liens had not be paid off as directed by the buy/sell agreement between CBS and TAB back in 2006. As such approximately \$700k in outstanding liens still exists on the property. The CBS Assembly at their 11/25/08 meeting approved transferring their rights to Cove Partners LLC in taking action against the title company that was responsible for closing the buy/sell transaction between CBS and TAB. The agreement and closing orders both stated that all liens were to be paid off before closing. Cove Partners attorneys hope to have the title agency fix their error by paying off all outstanding liens on the property thus give Cove Partners and Starwest clear title minus the reversionary language in favor of CBS. The CBS attorney assures that CBS's revisionary interest in not affected by assignment of rights to Cove Partners.

Cove Partner's attorneys have filed against the Title Company regarding the outstanding liens on the property. As of today's date, Cove and the CBS have not come to terms yet on the language of the confidentiality agreement.

3. Construction of a dock at SCIP. Recent work on this project is to determine a revenue stream to offset the debt service of this project.

On 10/30/08 the board voted to request funds for the dock from the state during the CBS legislative priorities for FY2010. The plan is to get funding for Phase I of the project to provide a bulkhead to allow freight to be received and exported over the dock. This would benefit the CBS in their efforts to expand the Blue Lake Dam. Rock, cement, rebar, and other materials will need to be delivered to the SCIP for the project.

4. On January 17, 2008 the Sawmill Cove Board reviewed the marine services survey that was mailed to over 600 Sitka vessel owners. The Board also discussed two concept designs for a marine haul out facility.

Present at the meeting were the owners of the private haul out facility – Halibut Point Marine. They enlightened the Board on the issues surrounding ownership

and operations of a haul out and boat repair yard. Since that meeting the owners of Halibut Point Marine have expressed interest in responding to a City RFP for haul out services. Their interest is based upon an opportunity to buy land at Sawmill Cove for this purpose. They are not interested in leasing.

End users have been contacted requesting input on wants and needs and issues with location at SCIP. Other facilities in SE Alaska are being researched to see what they did right/wrong. Funds sources are being researched. On 10/30/08, the SCIP board voted to request funds from the State during the CBS legislative priorities for FY 2010. This would be the board's secondary priority. An RFP is being developed to request proposal for operating a marine haul out at the SCIP. The SCIP Board reviewed a DRAFT RFP at their 12/17/08 meeting.

5. The SCIP Board has approved their Strategic Plan and will be presenting it to the Assembly and community soon. A major part of the plan is to develop a comprehensive land use and marketing plan for the different properties at the park, keeping SCIP mission statement in mind of providing family wage jobs and retaining ownership of water front properties. Current work being completed is to identifying the highest and best uses of the properties now that the new re-plat of SCIP subdivision has been approved. Values for each property are being identified as to determine fair market sales or lease prices. Operation costs of buildings and park are being identified as well. A marketing plan is being developed to optimize the sale or lease of the properties.

The plat is specifically laid out to facilitate the development of a marine services industry at the north end of the site.

6. All current leases at the park have been gathered and reviewed to ensure tenants are operating within their approved lease areas and are being charged the approved contract rate. The city and SCIP Director has compared lease information to make sure both parties are in agreement with current lease arrangements at the park.
7. The bulk water pipeline project is complete. SEDA continues to get a steady stream of inquiries regarding bulk water. The inquiries of late have been from more sophisticated parties than past years.

TAB's 8 MGD bulk water agreement has pasted the expiration date of Dec. 7, 2008 to export 20 million gallons of water. At the 11/24/2008 meeting the SCIP Board approved sending TAB a 45 day cure letter. The 45 day cure letter was sent 12/09/08. TAB has requested that the CBS renew their contract for a 1 year term. At the 12/17/08 meeting the SCIP Board approved the extension with the following requirements; TAB pay \$100k in non-returnable funds, Modify section 5.2 to include definition of start date and progression reports, and TAB bring outstanding payments to the CBS current. The CBS Assembly at their 01/13/09 meeting considered the request, approving the following motion; **MOTION by Westover to postpone this item until the 27th of January with the stipulation that the \$68,153.87 currently due is paid to the City and the \$100,000, non-refundable, is presented up front and the contract is available for reading to the Sawmill Cove Board and the Assembly.**

8. On August 27, 2008 the CBS Assembly approved a long term lease to STA for a 10,000 SF lot. STA plans to move their Tribal Tannery to this location after the construction of roughly a 3,000 SF building. The facility will provide an additional 2-4 FTE at the location. The overall operation is estimated to employ 44 full time people between tribal tours to tour the operation, tannery workers, and at home fur crafters. STA's grant application has been approved by US EDA. The SCIP Director and STA are in the process of meeting to determine the details of the project.
9. At the August 26, 2008 meeting the SCIP board approved a short term lease for 1,600 SF of space in the Stores building for Tongass Biofuels to test their bio fuel briquette machine. Tongass Biofuels is a newly formed entity that will be manufacturing bio fuel bricks from waste cardboard, wood scrapes and other wood products.

Tongass Biofuels will be terminating their lease Jan. 31, 2009. A number of factors contributed to the lease cancelation. (1) The current sprinkler waiver expired. Tongass Biofuels only requested a 2 month waiver as the building was scheduled to be sprinkled a month after their lease started. Project costs associated with sprinkling building went above budgeted amount and the SCIP Board decided to not request additional funds to complete project until overall building analysis could be completed. (2) Recent weather conditions have caused additional rain leaders within the building to fail. This caused flooding in the Biofuel lease area which destroyed product. (3) The overall all condition of the building in regards to moisture does not fit with their application.

10. \$30,000 was approved in FY09' CBS budget for the repair of the sprinkler system in the Stores Building. Estimated new costs of repairs are \$45,000. State fire code allows occupancy of the building up to 12,000 SF without a sprinkler system. CBS fire code is stricter, but allows occupancy up to the 12,000 SF with a sprinkler waive. Current building occupancy is 8,098 SF. The SCIP Board held off on requesting the additional \$15,000 from the Assembly to complete the repairs. Instead, they asked CBS Public Works department to do an overall building condition and rough repair estimate on the Stores Building. The report shows many building deficiencies, including leaking roof, leaking roof drains, exterior wall openings, and other concerns. The SCIP Board has requested that the FY10' CBS capital budget included funds to address these concerns. The building needs to be keep dry to preserve the overall life of the building.
11. Recent weather has caused the lower level of the Admin. Building to flood. SCIP Site Manager and CBS Public Works discovered the water and quickly acted to minimize the damage to the building. The water did not reach the tenant lease areas of the Admin. Building.
12. SEDA has met with members of the city electric department to coordinate efforts on blue lake expansion project and how SCIP can be helpfully and how expansion project can benefit SCIP. The electric department is requesting space to use for rock storage, dam infrastructure set up, and contract employee housing. There is a possibility that a building will be built and surfaces graded. More discussion to come.