



City of Homer

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Memorandum 17-134

TO: Mayor Zak and Homer City Council
FROM: Katie Koester, City Manager
DATE: October 25, 2017
SUBJECT: Purchase of Lot 42 on Homer Spit

City officials have been in conversations with the Alaska Mental Health Trust Authority Land Office (“TLO”) since before I became City Manager regarding ownership of land next to the entrance of the Homer Harbor. TLO claimed ownership of a long baseball bat shaped piece of land that extended along the entrance and through the mouth of the Harbor and a corner of Lot 41 (see ‘Exhibit A’, ArcMap overlay sketch from TLO), a claim that the City of Homer strongly disputed. Lot 42, which is currently leased to Icicle Seafoods, is owned in part by the State of Alaska Department of Natural Resources (“DNR”) and in part by the Alaska Mental Health Trust (“Trust”). While the City has acknowledged the Trust’s and DNR’s respective ownership of Lot 42, the TLO’s interpretation of ownership interests in the Harbor calls into question ownership interests regarding Lot 42 as well as the boundaries of that lot. This issue came up when the City sought to acquire a right of way for the construction of the Homer Spit Trail in 2013. The easement was granted, but resulted in TLO claiming ownership both of its portion of Lot 42 as well as land essential to Harbor operations and management. The City administration and Attorney Wells met with the TLO and appeared before the Trust advocating for the City’s ownership of the parcels at issue and presenting the City’s strong legal basis for its ownership assertions. While the City strongly believes its interpretation of the ownership interests on the Spit and in the City Harbor is well founded, it also recognizes the uncertainty surrounding the City and the Trust’s ownership interests on the Spit. As a result, and given the significant value that Lot 42 ownership would have for the City, the City began working with the Trust to devise a plan that would resolve any and all ownership disputes between the Trust and the City in or around the Harbor and result in the transfer of Lot 42 to the City as a single parcel rather than requiring the City to negotiate the purchase of a portion of Lot 42 with DNR and a portion with the Trust.

After extensive negotiations, the TLO and the City administration were able to come to a compromise and both parties agreed that the City, if approved by both the City Council and the Trust, would purchase Lot 42 in its entirety and the Trust would deed to the City all other parcels in the Harbor in which the Trust disputed the City’s ownership, in exchange for \$550,600 from the City. More specifically, under this proposed agreement DNR will transfer their ownership of a portion of Lot 42 to TLO so the City can acquire all of Lot 42 in one transaction. As part of the agreement, the TLO will drop their argument claiming ownership of any portion of the ‘baseball bat’ and transfer any claimed interest in that property to the City of Homer. Cleaning up this cloud on title is of great interest to both parties. It allows us to continue to operate the Harbor and associated leases without disruption and avoids a costly and lengthy legal battle with TLO. Though the City and Attorney Wells agree that there are many sound arguments why the City would win such a case, the stakes are high and the fees would easily outweigh any benefit. Additionally, owning Lot 42 would be of great value to the City of Homer Port and Harbor. Lot 42, a 64,033 sq/ft lot near the Fish Dock and an essential piece of the economic make-up of Homer’s fish processing capability, holds substantial value to the City.

Why Purchase Lot 42

Lot 42 is currently leased by Icicle Seafoods. Together with Lot 41, which they lease from the City of Homer, makes up their Homer operations, an office and storage yard. Lot 42 is a great investment for the City. It is in a prime location next to the Fish Dock right off the mouth of the Harbor. The Port and Harbor owns almost all the surrounding land, and staff believe that it is beneficial for the City to own this lot for current and future economic development in the area. The Lot's existing tenant, Icicle Seafoods, recently signed a 20 year lease with the City for Lot 41 proving that Icicle Seafoods is interested in maintaining their operations in Homer and would likely continue to lease the land from the City. The lessee operates on Lot 41 and 42 as if they were the same lot, their office space even bridging the lot line between the two. The lease income from Lot 42 would be used to help pay a loan for the purchase of the lot.

The estimated value for Lot 42 based on the appraised value of neighboring Lot 41, which is almost identical in size, is \$34,577 annually. Lot 42 will be appraised before entering into a new lease; it is standard practice that leased lots on the Homer Spit be appraised every 5 years by the City. There is reason to believe Lot 42 could come in slightly higher in value than its neighbor (Lot 41) due to its uniform size (Lot 42 is a rectangle whereas Lot 41 is T-shaped).

How to Purchase Lot 42

My recommendation is to split the cost of Lot 42 between the Port and Harbor Enterprise Reserve and a loan from General Fund, a financing method the City has used successfully in the past.

Purchase price for Lot 42	\$550,600
Down payment from Enterprise	\$250,600
10 year loan from General Fund at 3%	\$300,000
Annual payment to General Fund	\$34,762
Annual revenue from lease of Lot 42	\$34,577
Payback time period including interest paid and 2% CPI on lease revenue	16 years*

*How payback is calculated: Down payment from enterprise (\$250,600) plus loan principal (\$300,000) plus interest paid to GF over 10 years (\$47,619) = \$598,218. Total cumulative value of annual lease payment (34,577) with 2% CPI applied annually over 16 years = \$597,954.

Recommendation:

Approve the purchase of Lot 42 from the Alaska Mental Health Trust Authority Land Office for \$550,600 with \$250,600 from the Port and Harbor Reserves for that purpose. Authorize a loan from the General Fund for the remaining \$300,000 over a 10 year period with a 3% interest rate.

Enc:

Exhibit A: ArcMap overlay sketch of project area from TLO