



# City of Homer

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Port and Harbor

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## Memorandum 20-049

TO: HOMER CITY COUNCIL

THROUGH: MARVIN YODER, INTERIM CITY MANAGER

FROM: BRYAN HAWKINS, PORT DIRECTOR/HARBORMASTER

DATE: APRIL 8, 2020

SUBJECT: LEASE APPLICATION – SEA TOW SOUTH CENTRAL ALASKA-TREY HILL

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Sea Tow South Central Alaska has submitted a completed Lease Application for the portion of Lot 48, also known as 4667 Homer Spit Rd. The property was included in a City Land Available for Lease RFP advertised starting February 28<sup>th</sup>, 2020 and closing on March 17<sup>th</sup>, 2020. The applicant was the sole responding proposer. This property was leased in the past to Kachemak Port Services as a ferry ticket office until 2013 and includes a single story ground floor office building (336 sq. ft.), and the 2<sup>nd</sup> floor of the connected 2 story building providing additional office space and restrooms with exterior stair access (960 sq.). The first floor of the 960 sq. footprint building is a City owned pump house equipped with a water storage tank and not available or included in this lease proposal. This property is currently vacant, and because it houses critical City infrastructure, must be maintained. The main details, staff comments, and notes of the lease proposal are listed below.

### Basic Notes:

- Term requested is - 5 years. City does not have to renew lease at end of 5 year term as lease is exempt from HCC 18.08.110. At the end of the term, the City may reissue the RFP to ensure competitiveness of the lease rate and assess if additional public interest in the building exists.
- Primary proposed business is a maritime business - 24/7/365 On-water Service Provider, providing recreational and commercial boater assistance with tows, jumpstarts fuel/part drops, and salvage/recovery services. This proposal also includes an exterior public use safety life-jacket station and arrangement for 4 employee parking spaces to be included in the land lease square footage
  - HCC 21.30.020 (f) Marine Industrial- permits use in the area of marine equipment sales, rental, services, repair and storage
- Secondary proposed use for the property is employee housing.
  - HCC21.30.020 (l) permits “caretaker, business owner or employee housing as an accessory use to primary use, limited to no more than 50 percent of the floor area of a building”, and occupants have to live there for more than 30 consecutive days.
  - The first floor (other 50%) of this building houses City facilities as a pump house and water tank storage and falls under a primary permitted use listed in HCC 21.30.020 (a) Port and Harbor facilities.

- The \$30 lease Application fee has been paid as of 3/18/20. \$300 lease fee due at time of lease finalization.
- Tenant improvements and benchmarks for development- Interior flooring replaced and interior paint applied to building upon one week of occupancy. Remodel of bathroom to include shower/laundry and kitchenette upgrade to be completed 6 months from time of occupancy. Estimated cost of improvements to be covered by tenant \$9,000- \$11,000. The City is willing to work with applicant regarding timeline for improvements in light of COVID-19's impact. All improvements to the building will be reviewed and owned by the City.
- In 2013 the last set base rent for this property was:
  - Land (foot print of lower building and parking spaces) = a base rent rate of \$5.90/sf/annum  
AND
  - 960 sq ft (of office space where they didn't have control of the land underneath or the entire building) = a base rent rate of \$1.61/sf/annum
  - At the Port and Harbor Advisory meeting on March 25, 2020 day, the Commission approved the original proposal submitted by Seatow's through the RFP, which was initially at a lower rate. Ensuing staff negotiations with the applicant resulted in Seatow submitting a higher base lease rate while also providing additional clarification on what improvements they were going to complete. The current proposal offers a bid matching the 2013 base rent rates, plus the addition of \$9,000- \$11,000 of improvements to the City owned property, the cost of which will be covered by the tenant.
- Any proposed improvements to the building will be reviewed by staff prior to execution. Applicant may be required to go through State Fire Marshal review as well; all expenses would be the responsibility of the tenant. Estimated timeline for Fire Marshal Review can be at minimum 4 months.
- The cost of an appraisal of the vacant City owned property and improvements is estimated at a minimum of \$1,500 and has the possibility to exceed this cost. Given the base rent rate, it's believed that any increase to base rent as a result of appraisal will not equal or exceed the cost of the appraisal itself within the 5 year term of the lease. Staff recommends that City Manager and City Council waive the appraisal requirement per HCC 18.08.100 (a) as a cost saving measure to the City. The proposed draft lease does retain the option for the City to appraise the property at a later date. Base Rent will however be subject to annual CPI increases.
- As stated before, this building is currently vacant. Applicant has requested the City consider upgrades to the building, including converting the current electric heat to gas and exterior improvements including "repairing trim work, giving the building's exterior a fresh coat of paint and repairing any dry rot." Under the "City of Homer Derelict Building Maintenance Needs (2020-2025)" section of the FY20/FY21 budget, improvements for the Old Ferry Office building include replacing the roof (\$21,000) and exterior paint (\$9,100) in FY21 for a total of \$30,100 in capital improvement expenses to the City. Because this property houses essential City equipment it must be maintained. Lease income generated by the property could be used to off-set the price of that required maintenance. Over the proposed 5 year term of this lease, projected revenue through lease payments would total at least \$38,860.50 in addition to the tenant making \$9,000 - \$11,000 in improvements. The tenant's request to change from electric heat to gas will be further evaluated by staff but at this time is not considered essential.

- This building is insured by AMLJIA and currently has a replacement value of \$580,908. AMLJIA will insure the building but will not cover tenant's content and betterments in the building which is why the tenant is required to maintain separate insurance/liability coverage. If tenant's improvements increase value of the building when City assumes all improvements at end of lease, AMLJIA may adjust the replacement cost of the building at that time.

**Recommendation:**

At their March 25, 2020 meeting, the Port and Harbor Advisory Commission moved unanimously to approve Seatow's proposal. Staff subsequently forward the Commission's positive recommendation to Council for consideration.

**Attachments:**

- HCC 21 Marine Industrial
- RFP document