

THE CITY AND BOROUGH OF JUNEAU, ALASKA
BOARD OF EQUALIZATION

August 10, 2006

CALL TO ORDER: The Board of Equalization meeting of the City and Borough of Juneau, held in Room #224 of the Municipal Building, met at 5:00 p.m. At that time only Mr. Alexander Hoke and Chairman Ed Kalwara were present for the board so it was decided to wait until 5:30 for Mr. Dennis Egan to arrive. Since Mr. Egan didn't arrive by 5:30 p.m. the board decided they would reschedule the meeting to August 25 at 2:00p.m. as the first option and 5:00 p.m. if after contacting the parties and Mr. Egan the 2:00 p.m. time did not work.

Chairman Kalwara recessed the meeting to the time certain of August 25, 2006 at 2:00p.m.

Within minutes of the meeting being recessed, the clerk's office received a message that Mr. Egan was on his way. Chairman Kalwara determined if staff and parties could be gathered back together, the meeting would go forward as originally scheduled.

Chairman Ed Kalwara called the meeting to order at 6:30 p.m. [Clerk's note – the audio recording was not turned on until 6:34 p.m.]

ROLL CALL

Members Present: Alexander Hoke, Ed Kalwara (Chair), and Dennis Egan

Members Absent: None.

Staff Present: Jim Canary, Assessor; Craig Duncan, Finance Director; John Skan, Appraiser; Kenneth Miller, Appraiser; Barbara Ritchie, Assistant City Attorney; Beth McEwen, Deputy Municipal Clerk; [Port Director John Stone was present initially but could not be contacted when the meeting was called back to order.]

Others Present: Charles Horan, MAI; Per Bjorn-Roli, MAI (telephonically)and Reed Stoops.

Per Bjorn-Roli was reconnected via telephone but had reached home by then and said he would have to work off his memory since his notes were at his office. It was decided if any further information was needed from him at the conclusion of the meeting that he would be able to send it in the next day if necessary.

PROPERTY APPEALS

Appeal #1 Subject Property:

Parcel Number: 1C100K830032 Location: ATS 3, South Franklin Waterfront

Appellant: Franklin Dock Enterprises

2006 Preliminary Assessed Value:

Site (Land): \$1,607,500 (\$14/sq. ft) Improvements: \$0 Total: \$1,607,500

Owner's Estimated Value:

Site (Land): Charles Horan appraisal \$4/square foot Total: \$455,392

Assessor's Recommendation: No change to current Assessed valuation.

Site (Land): \$1,607,500 Improvements: \$0 Total: \$1,607,500

Jim Canary, CBJ Assessor, reviewed Subject Property 1: ATS 3, South Franklin Waterfront, under appeal. He gave an overview of the packet materials and additional materials he handed out at the beginning of the meeting regarding the background timeline of events on the appeal. The Assessor's original estimate of value for the subject property was at \$16 per square foot.

[Audio recording began at this point 6:34 p.m.]

Mr. Stoops stated this appeal was not something he entered into lightly. He said on this particular case, the tidelands and the adjacent uplands they are discussing this evening are ones they feel the appraiser has not used comparable properties, and they feel there was only one comparable property due to the zoning and location of their property being different than the others used as comparisons by the assessor.

Mr. Alexander Hoke asked Mr. Stoops how many privately owned cruise ship docks are owned in this region. Mr. Stoops said they built the first one in Juneau and there are now two in Juneau, the other being the AJT dock. There are four in Skagway and he thinks half of them are private; Whittier has a private dock; Seward has one owned by the railroad. Ketchikan has one that is public right now although they are talking about a private one that will be turned over to the public later. Cruise ship docks are pretty much like any other business, you have land costs, construction costs, operating costs, and rental payments coming in and the appraisal/valuation is really not much different from any other commercial enterprise. You take your revenue and subtract that from your operating expenses and come up with your net revenue then you can afford to spend some multiple of that in order to build a facility. Appraisers are pretty good at establishing what that multiple is over time, fairly simple economics.

Mr. Hoke said most of the cases that come before the BOE relate to the impact on property taxes but he assumes in this case the tideland rental is probably more of an issue for them as a consequence of the property assessment than is the property tax issue. Mr. Stoops said it is for both as they have quite a bit of uplands that are dedicated and that they are paying a much higher property tax in this case with the long term lease agreement so whatever decision is made here today will set the term for somewhere in the neighborhood of the next ten year period.

Mr. Stoops introduced Mr. Charles Horan, MAI whom they had hired to assess the subject property. Mr. Horan gave his background as an assessor in southeast Alaska for 33 years and gave an overview of his extensive experience in assessing cruise ship docks and tidelands in and around Southeast Alaska. He also stated for the record, that Mr. Stoops hired him on an hourly basis and he has no interest in the value of the property.

Mr. Hoke asked if all addenda in the binder are from Mr. Horan or from staff. Mr. Horan said all that is from staff, that he did not provide any of those addenda. *[Clerk's note: Addendum B is Mr. Horan's appraisal document.]*

Mr. Horan briefed the board on his appraisal giving detailed information regarding the comparisons he made and how he arrived at the \$4/square foot appraisal. His arguments to the board are contained primarily in Pages 12-20 of his appraisal. When Mr. Horan referred to the AJ Dock having \$95,000 in tidelands leased from the State, Mr. Egan said he thought all the tideland leases were now done by the City. Mr. Canary said that the AJ Dock is still leased by the State. Mr. Horan asked if the board wanted to hear his rebuttal of Mr. Bjorn-Roli's appraisal review. Mr. Egan asked if they could hear from Mr. Bjorn-Roli first.

Mr. Per Bjorn-Roli was hired by CBJ to perform an appraisal review of the appraisal done by Mr. Horan. Since Mr. Bjorn-Roli was now calling from home, he was speaking from memory as all his notes were at work. He was given the opportunity to supplement his testimony with notes to be sent the next day if he felt the need to do so. Mr. Bjorn-Roli said Mr. Horan is a good appraiser and good appraisers on complex properties such as these sometimes disagree. He said he wanted to point out a couple of items that he disagreed with from Mr. Horan's appraisal as well as give a few points on his own review of the property in question. He asked Mr. Canary to read section 1.8 paragraph 1, sentence 3 of Mr. Horan's appraisal [Scope of Appraisal]. He said this was to point out the appraiser's methodology and the foundation for why they ended up with such different values. *"The cruise ship docking market is primarily served by municipalities or other public authorities which do not tend to operate on a market value basis."* Mr. Bjorn-Roli said Mr. Horan is acknowledging there in his own appraisal is that cruise ship dock transactions when they are initially done, the lessor, which is the city or the state, is highly motivated based on the economic benefit that those cruise ship docks will provide. As a result, all of them in the 1990's were done at very favorable rates because the communities required the economic development. He wanted to make that clear that Mr. Horan acknowledges that in the appraisal.

He pointed out paragraph 3 of that same section, in which Mr. Horan states *"Considering the zoning, location, and characteristics of the viable private sector cruise ship docks, I limited the scope of my appraisal to estimating the market rent allocated to the tideland portions of cruise ship dock facilities."* Mr. Bjorn-Roli argued that Mr. Horan's appraisal only looks at the cruise ship dock use as opposed to the "best possible use" of the land. Mr. Bjorn-Roli argued that the selection of comparables should be derived by the legal permissive uses for the property and by Mr. Horan limiting the scope of work, he did not consider a lot of the alternative uses of this property. Mr. Bjorn-Roli pointed out the examples contained in his appraisal of other comparable uses for the property which rely on the highest and best value of the land. He said that either A) Mr. Horan's value is low or B) Mr. Horan's value under cruise ship use, proves that cruise ship use is not the highest and best use. Mr. Bjorn-Roli said the comparables that he selected perform a natural high and best use; they include cruise ship comparables as well as commercial comparables and they include comparables inside of Juneau and in Ketchikan and these are the best comparables to use. He said Mr. Horan only had one viable comparable and he said that it is an inferior piece of property and Mr. Horan compared it across the board without the necessary adjustment for the inferior nature of the compared property.

Mr. Bjorn-Roli pointed out in his appraisal, a property he appraised, Comparable #7 [Addendum C – page 8] which is the Waterfront Storage Property located in Ketchikan. In that appraisal he estimated the value without the city's OK on cruise ship development. If the city were to give permission to develop it as a cruise ship site, the value was \$3.9 million and it subsequently sold for \$3.9 million improved to an investor. They are tearing down the improvement and they are going to end up spending as much as another \$100 to \$200/SF to fill the property. The reason he is highlighting this comparable is to demonstrate the significant demand for properties of this type at this time. He said the subject property is located between two cruise ship sites and it would be required for any cruise ship development in the neighborhood. From a developer's perspective, the tidelands are necessary to draw a cruise ship to the neighborhood but their primary motivation is to the foot traffic these cruise ships create and the tremendous value in turn derived from these uplands. In this case the income approach is not applicable because it doesn't consider the value increase to the uplands. A buyer of this is not going to underwrite the purchase strictly off the income from the dock. The probable buyer would be the adjacent landowner to increase the income from improvements to the uplands and that the cruise ship tidelands themselves would be secondary to the investor. Why would you as a seller accept a sale price of \$7 or \$4/SF under a cruise ship use per Mr. Horan's value estimate when you can turn around and sell it on a cost of \$15/SF? The answer is you would not.

Finally he argued that the cap rate analysis that Mr. Horan presented was highly subjective. There is no direct comparable data to extract the rate. He disagrees with Mr. Horan's rate of 15%; he thinks that if this were placed on the market, a rate below 8.5 % would be expected. DNR ground leases right now are at 8% so he feels Mr. Horan's analysis is on the high side. He said he would like again the ability to forward to the decision makers a copy of his actual notes that would make it more clear and get in his full testimony.

Mr. Egan asked Mr. Bjorn-Roli to explain his point on the tidelands being secondary because without the tidelands, a cruise ship wouldn't dock there. Mr. Bjorn-Roli answered that yes you have to have the tidelands but the value is derived from the uplands. He said you pay \$13/SF all day long because regardless of the income the cruise ship provides you, you are going to make out like a bandit because of the value increase from the uplands. If you are using the income approach, just using the income provided by the cruise ships themselves would drastically understate the value of the tidelands because it doesn't take into perspective the motivation of the buyer which is primarily going to be "I own uplands and I am going to develop them all with retail projects that are going to pay rent as much as \$8/SF monthly, and I'm going to obtain this tremendous value but I can only get that if I control these tidelands." He also stated that he felt this property was unique in that he felt there were no substitutes available, it is the last cruise ship dock that will likely be built and it is a pretty valuable site.

Mr. Hoke said that Mr. Bjorn-Roli mentioned that back in the 1990's that many municipalities as well as the state government, subsidized leases to developers of tideland properties for the purpose of spearheading the development of tourism in Alaska. Now that some time has elapsed the question he has is when Mr. Bjorn-Roli speaks to the value of uplands relative to the tideland dock development, isn't there a difference between future value as opposed to realized value of those uplands relative to the dock development? There are some areas of the downtown area that have been pretty fully developed as opposed to other areas that are not quite matured in their development. Does the municipality still have an interest to some extent in subsidizing projects that are on the fringe in terms of the spectrum of maturity of the tourism industry?

Mr. Bjorn-Roli said that sounds like a political question. Mr. Hoke agreed and said it is a political question. Mr. Bjorn-Roli said personally, he thinks so. The questions he was asked to address were with regard to the economic side of the question and that is what he has done. Having said that, he said he thinks it was a smart strategy on the part of municipalities and the state and it has created a tremendous benefit to Southeast Alaska and has resulted in economic revitalization of the region so he can understand a political motivation to do this.

Mr. Hoke said he isn't sure where the Board of Equalization sits in this political process. They are sitting in for the Assembly who might be in the position to make political decisions on these kinds of issues. He said he wanted to throw the question out there and he understands Mr. Bjorn-Roli's argument of the value of the uplands vs. the tidelands but he doesn't see the subject property as being as far along on the maturity spectrum as some other cruise ship dock areas in downtown Juneau.

Mr. Bjorn-Roli said with respect to the economic aspect of his question, he feels that is a fair assessment. He said if you were to value the tidelands as a percentage of the uplands, the value of this site relative to the sites to the north would be much, much lower. Mr. Canary said he would be bringing that up in relation to the \$125/SF for the matured areas. Mr. Bjorn-Roli said that at \$13/SF the upside potential is figured in at the current maturity level. He isn't quoting values but if this were a more mature site, the value would be dramatically higher. His valuation reflects AS IS value of the property today based on the condition as of the date of the appraisal.

Chairman Kalwara asked Mr. Canary to give his presentation. Mr. Canary pointed out, on the screen, the full property area owned by the appellant and narrowed it down to the areas covered in the appeals. When the assessor originally did this value, he had all of these appraisals in his files, or he has received them since he put the value in. The reason he said that is the last one, "Addendum L" is an appraisal that Mr. Horan did for the city just up the street from the subject property, up Thane Road, where he is confirming Mr. Canary's value isn't that far off. Mr. Canary went over the comparable properties found in the packet and the reasons for the values on each and how they compare to the value of the subject property. He pointed out that some of the comparable properties have similar economic conditions in which uplands are of similar accessibility to the "golden row" as the subject property is. He analyzed addenda A, B, C, & D for the board. He pointed out that in Mr. Horan's original appraisal on page 3, he has \$7.26/SF and when Mr. Canary was originally looking at these values and negotiating with the City Harbors Department over value and he was coming up with \$16/SF, he felt Mr. Horan's estimate was too low. When he did the overall analysis of this property, in the tidelands sections, under the description, he has a range of value, adjusted for time from \$14 to \$21/SF. That is a typical range of value for this location. In the second one, Mr. Horan came in with a full appraisal in which he came up with \$4/SF. At that time, Mr. Bjorn-Roli came in and reviewed Mr. Horan's appraisal and Mr. Bjorn-Roli came in at \$13/SF. At this time the assessor was at \$14/SF so there are two appraisers that are agreeing basically in value; if you can get within 5% of value, the saying goes, you are doing a good job.

Mr. Canary then explained further how the other comparable properties appraisals relate to the subject property ranging from \$25/SF for Merchants Wharf and Addendum F the Seadrome Land fair market value to \$65/SF which is what he is basing his value for the Seadrome site vs. the lands past the subject tidelands. He pointed out Addendum H in which the appraiser came in at \$128/SF for the mature tidelands on the inside of the dock. The assessor came in at \$150 on both sides of the dock for that same mature site. He said in Addendum I, Mr. Horan appraised DeHarts at \$22 sq ft on uplands and tidelands at \$3 sq ft and it sold for \$2.6 million. He said he finds it ironic that this has no cruise ship area and he thinks this is comparing apples to oranges and he finds it hard to believe that major cruise ship site is only worth a buck more a square foot than tidelands out at DeHarts Marine; he said it seems extremely low. In Addendum H, the appraiser, Mr. Wold, states the value of the tidelands is worth 25% of the upland value. Currently Mr. Canary has the upland value of the Franklin Dock Enterprises at \$75/SF which was not appealed and 25% of that is \$18.75. Again, it is supporting the overall value that the assessor has derived. Mr. Canary came in at \$16/SF, Mr. Wold's 25% of upland value comes in at \$18.75/SF, and Mr. Bjorn-Roli's appraisal comes in at \$13/SF

Mr. Canary then referred to the appraisal done by Mr. Horan for the AJ rock dump. The state asked Mr. Canary to review Mr. Horan's appraisal, which Mr. Canary turned down on basis of conflict because he is the assessor and an appraiser for out of town but he said he would comment on it similar to what he does when commenting for the Harbors on appraisals if they would provide him with a copy of the appraisal. The state provided Mr. Canary with a full copy of the appraisal. He reviewed it and he thought this was interesting because he just set the value of this property at \$8/SF at the AJ rock dump which is the most inferior of all the cruise ship sites in town. Mr. Horan had come in at \$3.13/SF for that area. It is a totally inferior piece of property and these things aren't washing in his overall review. Then Mr. Horan did an appraisal of Lot 1, ATS 357 which is a tideland portion next door to the brand new Alaska Cold Storage Building out in Auke Bay. His value came in at \$4.16/SF for tidelands. This is undeveloped tidelands with no cruise ship docks on it and he is coming in at \$4.16/SF, this value is a higher value for an undeveloped piece of tidelands than the subject property which has a working major cruise ship line on it. By the way, the city negotiated with the buyer; the buyer would not sell it to the city for the appraised value of \$111, they went to the Assembly. The Assembly listened to the realtors and he pointed out the laws of supply and demand. We are out of supply but there is a demand and you pay what the market will bear. The city paid \$365 asking price which breaks down to \$13.67 sq ft for eel grass which basically goes dry twice a day during low tide. These are the things he looks at. Can he pass the red face test. Is the

property going to sell for what his assessment is. The last one he put in was Horan's appraisal on Second and Main Streets which is a fraction of land. The subject uplands which are not under appeal tonight are appraised at \$75/SF before paving or anything else and the waterfront shows the subject property at \$14/SF.

Right now city code says it can only have 5 cruise ship docks at this time. We currently have 5 cruise ship docks in town and the only way to change that would be to change the city code. Going over the comparables of the Seadrome Building and Merchant's Wharf, he feels the assessment comes out reasonable. His final recommendation was to drop the assessment from \$1,650,000 to \$1,490,000 which makes it comes out at \$13/SF.

Mr. Hoke asked Mr. Canary to speak to the relationship between the rock dump assessment vs. the subject property assessment.

Mr. Canary showed a slide with an outline of the downtown docking areas. For the AJ rock dump site, there are no retail stores in the area and people either have to walk or take a bus from there. The walk is quite a long one with areas that do not have sidewalks. For the subject property, there are masses of people are walking down that street. He isn't disagreeing with the fact that this isn't the most prime area but there are arterials to it and there is a supply and demand; there is no supply but there is a demand.

Mr. Hoke asked about the 50% discount given in the paperwork from the assessor to which Mr. Canary responded that was to another property under appeal.

Chairman Kalwara gave the appellants the opportunity for rebuttal.

Mr. Stoops said he would like to speak to some of the factual references made in the previous comments. The fact that it was inappropriate to compare private and public tideland values because when these docks were constructed, that somehow there was subsidization of the tideland values, that is simply not true. The former mayor is sitting at one end of the table [Mr. Egan] and Mr. Stoops was the negotiator, the city didn't come to them and say, please build a cruise ship dock. They came to the city and said they would like to build a cruise ship dock and there was no discussion whatsoever to subsidize the tidelands. They had an appraisal done and they paid fair market value for the tidelands, just like the Jacobsen dock. They protested mightily the value of the tidelands, and they had the same experience. The city then and the city today tries to get fair market value for the property when it made them available. The value was accurate at the time and as Mr. Horan indicated if they moved it up 10% per year which is higher than inflation and certainly higher than any increases in rent, it would effectively double the value.

Another statement regarding facts, this is not the last cruise ship dock, we can allow five cruise ship docks and right now we have four. They are talking to the Harbor Board right now about the possibility of constructing a cruise ship dock at the old Willoughby Dock as part of a cruise terminal. There is room for a fifth dock so there are other opportunities.

Mr. Stoops went on to say that on the value of the uplands vs. the tidelands, a lot of these comparisons are tidelands that are usable for construction of retail buildings. You can drive pilings, and you can build a building over the pilings. In their case, the highest and best use is for a cruise ship dock. The second tier of tidelands, beyond the tidelands they already own, are too deep to build any buildings on them. It is only useful as a cruise ship dock and the only value they get from the cruise ship dock is the rents they receive from the cruise ships. They have disclosed that to Mr. Horan and he gave a fairly good portrayal on the income they receive.

Regarding the argument to the value of the uplands needing to be higher because they are going to make all this money from the uplands that just doesn't compute. First of all they just built a brand new retail building on this site and the rents of those are well less than half of what they are downtown. They started off with a \$3.50/SF rental rate and because of the remote area, they have had to reduce their rates and pick up a much greater percentage of the cost. The only traffic they have had to support that retail building is from the people coming off the ship at their dock. The people coming from the AJ dock take a bus into town, there are a few hearty people who walk by but not many, most of them bus right into the tram area. If you go down there, you will notice there is a one way flow. People who use that building are people who are getting off or on the cruise ships at their dock but nobody comes the other direction from downtown. They are in an inferior location. He is the one who developed the property and they didn't build the cruise ship dock to enhance the value of the uplands, they built the retail building to enhance the property as a cruise property. Before they built the retail building, people had to go downtown to buy anything. With this building, they made the cruise ship dock a little more attractive because they could go to the drug store and get other items without having to go downtown. The economics are fairly marginal and they are trying to do a building across the street and now, the rental income they get doesn't even come close to what it cost to remodel the building let alone the cost of building it from scratch. The economics in their area are nowhere close to the economics of the core area downtown because of the traffic patterns.

Mr. Hoke asked if Mr. Stoops owns the building across the street. He said AJT Mining was one of the partners in the Franklin Dock and owns that particular property. Mr. Stoops has been responsible for putting together development plans for it since they are partners on the other property together. So far the remodeling cost of that building is \$5.5 million dollars and the rents that they will receive will not cover the cost of that. The economics of this area are not the same and he said he thinks if you value the area as a cruise ship dock, the AJ property is not in a way inferior to theirs, the AJ is getting a higher rent at their dock because they are a floating dock and the subject property is a fixed dock and everyone is being bussed to town anyway. To him, it is the only similar comparable property.

Mr. Canary pointed out that the Seadrome building and the subject property have similar rents. He said if the Red Dog Saloon was in that brand new building, there would be a draw. A drug store and retail clothing store may not be the biggest draw to go in that direction.

Mr. Horan said he wanted to clarify a few misunderstandings that Mr. Bjorn-Roli had regarding his appraisal. He did state that a lot of docks are built on public lands and they don't necessarily have a public impetus to make money. For instance, when referring to the two city cruise ship docks, he was differentiating, "Some docks are leased and developed on private lands". Those are the ones he is focusing on, he didn't mean to say that all are subsidized somehow or another by the desire for government to have docks. Their docks aren't economically motivated necessarily. So there is no limitation to the appraisal that he is using some off market thing. He is using the private market. When the Franklin Dock tidelands were leased there was a market value appraisal just like what he did and they came up with \$2/SF in 1995 done by Julie Dineen. Currently, someone else just built a private cruise ship dock and it was appraised for \$3 and some odd cents per square foot. He is not appraising public property for public use; rather, he is appraising private property for private use with real indicators. He did not limit the scope of his appraisals to tidelands such that he was ignoring the larger parcel. They went into detail about the larger parcel; it is very clearly described with the comparable sales in his addenda referring to larger areas. What he was saying was that he was appraising the tidelands and he was limiting the appraisal to expressing an opinion on the value of the tidelands. This is an economically responsive appraisal. He agrees with Mr. Bjorn-Roli's highest and best use that this is a cruise ship dock. The reason these massive deep tidelands is worth less per square foot than the nice little cookie cutter, closer in tidelands are because these are like an anchor tenant in the mall. If you are building a mall, you are going to get SEARS paying 60 cents per square foot for rent so that you can rent to jewelry stores and others at

\$1.50/SF He doesn't think CBJ or other municipalities try to trick people to come in at a low rent with the idea that they know its worth more and they'll get the high rent. It is inconsistent with the economic concept that these people make a long term investment with the expectation that the market will proceed normally. He thinks Mr. Bjorn-Roli had it backwards and you aren't going to pay \$8, 10, 20 for the tidelands because you are going to be rich off the uplands and then pay for the uplands too. You pay the lower square foot rate for these larger second and third tier tidelands because you are going to get your value of \$50 or \$70/SF for the uplands. You aren't going to pay twice for the uplands and if you don't control the uplands then you can't extract the benefit your neighbor is going to get just by location.

Mr. Horan spoke to the argument that there is some kind of public discount due to the lack of maturity of the subject property vs. those closer to the downtown area. He said it is just a reality \$4 is not a subsidized rate \$4 is just market rate for cruise ship docks in similar locations. With reference to how the Franklin Dock line vs. the AJ Dock, the Franklin dock had 7% more passengers get off it last year and 17% less ship stops. Generally the income for these docks are a mixture of passenger tonnage and the length of the boat, so there are now 17% less ships at the subject dock and 7% more passengers. He also pointed out the differences in the zoning and uses between the Franklin Dock and those in the downtown area. The assessor's comparables aren't really comparable because the zoning is different. The comps are zoned Waterfront Commercial and they are in a parking district. The subject property is zoned Waterfront Industrial and he emphasized the highest and best use is as a cruise ship dock. Mr. Horan and Mr. Stoops pointed out that they just lost one ship a week from their dock to the AJ dock a 2,500 passenger ship for 15 visits, so all of a sudden there are 37,500 fewer people.

Mr. Horan went on to analyze the comparable property in Ketchikan given by Mr. Bjorn-Roli in his review and said he felt Mr. Bjorn-Roli had it backwards with regards to the uplands vs. tideland values.

Mr. Bjorn-Roli argued that the cruise ship dock sales are indicators of value before the cruise ship dock was developed. It is critical for the board to understand that. It is true for this situation and all of the comparables. He believes using these comps on an area where there was no cruise ship property would result in a reliable value before the cruise ship dock was developed, however after the cruise ship dock has been developed, the value will go up and that is why the exclusive use of cruise ship dock comps understates the value. With respect to his comment on below market terms that are often associated with the cruise ship comps, that comment was with respect to the general economic motivations of the parties and was not meant to imply that the initial subject lease was done below market. However \$2/SF to gain control of a future cruise ship dock site is a pretty nice deal. Thirdly, Mr. Horan made a reference to one of the comparables, but it was a comparable in Ketchikan that sold for \$13/SF. That site is actually inferior to the subject property because it is shallow draft; you can not do anything with that site except have day tours out of it. It is not ever going to be potentially developed as a cruise ship dock because it isn't a deep water site. The subject is a deep water site; the buyer would pay a substantial premium for the subject in anticipation of the economic potential associated with eventual cruise ship development. Bottom line is shallow draft sites are worth less than deep draft sites. Finally with respect to L7 which is the Waterfront Storage sale, it is tidelands. The property is going to be demolished; it is a staging area for part of a cruise ship development. He said the economics are the same in both cases; the land must be purchased by the adjacent land owners and without the subject site there would be no Franklin Street dock.

Chairman Kalwara said he would now move this issue to the board for consideration.

Mr. Hoke asked to hear the assessor's closing comments.

Mr. Canary said the one thing that he wanted to bring out that both he and Mr. Bjorn-Roli recognized is economics. The comps that Mr. Horan used were the rock dump site, Skagway, and Whittier. The

assessor looked at just Juneau and the review appraiser looked at, in Mr. Canary's opinion, the second most comparable location which is Ketchikan. There is no information provided by Mr. Horan regarding Ketchikan.

BREAK TAKEN 8:25 – 8:30 p.m.

Chairman Kalwara reconvened the meeting and asked the board for comments.

Mr. Hoke said he had a few more follow up questions he'd like to ask. He asked what last year's assessment was. Mr. Canary said last year's assessment was \$377,700 and that was based on \$3 sq ft. At that time, he didn't have the information that has been presented to the board today. He said when you look at the tideland sales in Auke Bay and then look at the major cruise ship properties, there was a huge disparity brought out by his review of the many appraisals that are before the board. Not to speak of the subject property but the board members weren't here in 2005 when the majority of the commercial properties downtown went up at least 300% if not more and that was because the assessor was trying to bring properties up to market.

Mr. Hoke asked if the public docks are in direct competition with the appellants.

Mr. Stoops said yes the public docks are in direct competition and they also charge about less than half of the market rate so one of their concerns with the city rates is that the city has superior location with the city dock and they are charging less than half of what the appellants are charging because the city has the ability to recapture money through head taxes and all sorts of other mechanisms that the appellant doesn't. In his opinion, the city ought to be charging a comparable rate with what the private docks have to charge.

Mr. Craig Duncan, CBJ Finance Director, said there is a difference between passenger fees that are being charged at city facilities vs. fees being charged at other facilities. He mentioned one fee that will sunset out this year.

Mr. Stoops said the city is still collecting \$6 and some cents by virtue of being a municipality that the appellants aren't collecting. Mr. Duncan said that is correct but those fees are not necessarily used for the dock themselves, they are used for waterfront development and other support features but in this particular case there is a differential in the fee between these two.

Mr. Egan stated that it isn't a crime for the private sector to make money. He said he doesn't want to limit the private developer just because they are making a profit; that is the whole idea. Someone took a risk, built the facility and they shouldn't base anything on the perception that just because they are keeping their records confidential that they are making a killing in the finance department.

Mr. Hoke said he thought, to be in proper form, they should be working with a motion.

MOTION by Mr. Hoke to grant the appeal according to the request by the appellant for purposes of discussion.

Mr. Egan asked if Mr. Hoke was asking for a "No" vote.

Mr. Hoke said he just wanted to put the motion on the table for purpose of discussion.

Mr. Hoke said in his previous opportunity to serve on this board, it was impressed upon him that unless they found that the assessor made a material error in their approach to arriving at the assessment [the

assessment stands]. It is a fairly high standard that just because there is a huge difference between last year's assessment and this year's assessment that is not sufficient grounds to grant an appeal. He said his personal opinion is that he is having a hard time looking at what the assessor has presented and his appraiser as constituting some kind of error. It looks to be a fairly solid appraisal and it makes sense to him and he has a certain level of comfort with it. He is also in a quandary, as he is very much persuaded by appellant's remarks and the arguments of Mr. Horan that it comes down to the economics of the viability of the subject site as a cruise ship dock so it gets to the essence of what the property is really worth. It is pretty stark when you drive down there to compare the differences between the more northerly cruise ship docks and the upland developments to the subject site. You see a noticeable difference and maybe five years from now there may not be such a noticeable difference in the maturity of the area. He doesn't feel he has a solid position one way or the other and his understanding is that the Board of Equalization is free to do whatever they want as far as modifying the proposal.

AMENDMENT: Mr. Hoke said he would like to amend the motion granting the appeal to have the assessment calculation based on a square footage value of \$12.

Mr. Egan asked to speak to the motion. Mr. Egan said he was going to suggest even more as he feels they are at a severe disadvantage. It may change in the future but for now, the passenger access to the core is a sever detriment to that. On rainy days like today, the people take shuttles but you see very little foot traffic to the core but when you drive up there on a sunny day, you can't get by. He said he's not sure what the tourists are doing on rainy days, going on tours or staying on the ship. There is a real disadvantage economically by those people not being able to walk across the street into the core tourist area in which Mr. Horan referred to as "Goldville". Mr. Egan said he likes \$12 a heck of a lot better than the assessor's recommendation. He appreciates where the assessors office is coming from but he felt there were some compelling arguments from the appellant and he was going to propose somewhere around \$10. Mr. Egan said, to him it is the traffic right now and he doesn't doubt that value eventually, but not now. He commented that it's too bad you can't see what the credit card receipts are for persons going back on the ships at the AJ Dock, the city docks, and the Franklin Docks, he feels it would be a tremendous difference based on the location of the ship.

Mr. Hoke said the assessor has to try to get a true market value for the property and without being able to compare it to recent sales, makes it difficult. He said he was very much persuaded by assessor's arguments for his square footage determination and it was only in the interest of solving his own internal conflict which Mr. Egan just expressed about the lack of maturity in development of that property compared to the ones up the street. One compelling case is that the AJ rock dump cruise ship dock is coming in at \$8 square foot and it wasn't appealed. It is clear to him that the potential market value with the subject property based on the difference between the rock dump site and the subject location, there is a clear difference there so he would like to stick with the \$12 figure.

Mr. Egan asked if Mr. Hoke wouldn't accept his amendment, to which Mr. Hoke shook his head.

Chairman Kalwara said that just so they would know his druthers on this, \$10/ would be out of the question for him. He said he thinks the city has done a good job in presenting its case and even though he has the same conflicts as the others, if the motion were for \$12 frankly he said he would have a hard time with that too.

Mr. Hoke said Mr. Bjorn-Roli's assessment was \$13 a square foot. Mr. Egan asked Chairman Kalwara if he would not support \$12 a square foot. Mr. Kalwara said he would support \$13. Mr. Egan asked if they could have a vote on the \$12 since the motion was on the floor.

Votes in favor of \$12/square foot: Mr. Hoke & Mr. Egan
Votes against \$12/square foot: Chairman Kalwara
MOTION CARRIED.

Mr. Canary recalculated the total assessed value with the final value at \$1,376,000 which includes a reversion, the reversion is due to this being on a lease and the lease will be expiring.

Appeal #2 Subject Property:

Parcel Number: 1C100K830040

Location: 900 Thane Road

Appellant: Franklin Dock Enterprises

2006 Preliminary Assessed Value:

Site (Land): \$3,516,200

Improvements: \$270,700

Total: \$3,786,900

Owner's Estimated Value:

Site (Land): Charles Horan appraisal \$4/SF for tidelands & \$20/SF for uplands

Assessor's Recommendation: Reduce 2006 Assessed value – Lower upland value to \$65/SF and tidelands to \$13/SF and then adjust 50% for location and equity

Site (Land): \$3,070,060

Improvements: \$270,700

Total: \$3,340,000 (rnd)

Mr. Canary said the subject property is the property just past the paved area on the screen (page entitled Subject Land) and just past the shed. Mr. Canary reviewed the packet materials. The uplands area is 84,000 square feet and the waterfront area is 52,317 square feet, the lot size is 3.129 acres, zoning is waterfront commercial industrial. The site is mostly level with steep access from Thane. The amenities include the adjacent cruise ship dock with a steam plant located on site for cruise ship dock facilities. Inspections of the property were performed December 2005 and then again May 2006 upon receipt of the appeal. Mr. Canary went over the comparables and their land values and how they compared to the subject property. He said they are trying to make an adjustment between mature area and not so mature area. The assessor is recommending that they reduce the amounts as listed above.

Mr. Horan said he did not do an independent full blown appraisal on this property like he did on the other two but in just looking at this in terms of the sales presented in the materials and looking at the value of the larger parcel of the cruise ship site based on the \$12/SF for the tidelands, this would be \$5 million based on that and would most likely be \$6 million plus and he doesn't see how it could be amortized out. So based on the understanding of the larger parcel going back to his earlier drawing, Lot 2, portions of Lot 3, and portions of the tidelands on Lot 1, and the lease lands are this six and half acres cruise ship dock and based on the idea of equalization, he is suggesting these values using \$4/SF for the tidelands and \$20/SF as industrial support land for the uplands. He compared them to the comparables indicated by Mr. Bjorn-Roli for the NOAA facility at in Ketchikan at \$16/SF and also the AJ rock dump uplands lease at \$12.50. In the spirit of compromise, his first impression was \$16/SF for the uplands and \$4/SF for the tidelands at 20% but this is a better location so he is suggesting \$20/SF for the uplands and \$4/SF for the tidelands.

Chairman Kalwara asked the parties to refer to either square feet or total dollar amounts but not flip flop between them.

Mr. Horan said Mr. Canary referred to rates last year increasing in the downtown area by 300% and he said that they most likely should have been increased by that much but he is looking at the subject property which is waterfront industrial land which has a faltering commercial facility on this Lot 1. He said he uses the term faltering since it is done as a conditional use permit that allows for the retail and

contracts the parking requirements unlike some of the comparable lots but this isn't zoned commercial but rather as industrial use which limits the use of the land.

Mr. Hoke asked him to speak about the parking requirements as he wants to figure out how big of an issue that is.

Mr. Horan said Mr. Stoops is getting \$2.50 or less than \$3/SF in rent for his building. Mr. Canary said he is actually getting more than \$3/sq ft for building because Rod Swope [Galligaskins Owner & City Manager] told him what he was paying last year.

Mr. Egan said it has been lowered.

Mr. Horan said Mr. Bjorn-Roli said you build a dock and you get \$8/SF. Mr. Horan said that is wrong, Mr. Stoops built a dock ten years ago trying to get \$3.25/SF with some ratchet ups but businesses did so poorly, he's had to negotiate down the rent. Unlike the build it and they will come, he is losing business to the AJ dock and other docks, he is trying to make his dock more amenable. He has already put a \$1.5 million extension on it to get bigger ships. He said the economics of it just aren't there. He argued the seaward parcel has not tripled since 1994, this isn't the 400 block of S. Franklin Street. He said he doesn't think Mr. Stoops understood the implications of not appealing the \$75/SF and was just tired of fighting it. Mr. Horan did some number crunching in comparing different square footage rates.

Chairman Kalwara said the city has given us the number of \$3,340,000 and asked Mr. Horan for the total number he is recommending.

Mr. Horan said his number is \$1,889,268, rounded that comes to \$1,890,000. That takes the tidelands from \$3.65/SF to \$7/SF which it is now and he is suggesting \$4/SF. In 2004 the uplands were \$7/SF and in 2005 it was \$16.67/SF and now its \$32.50/SF. He is suggesting \$20/SF.

The parties and the board discussed the differences between the city's amounts and Mr. Horan's amounts and Mr. Horan said there is over a \$1 million difference in his recommendation and the city's.

Mr. Canary gave his presentation and argued that Mr. Horan was looking at the property as a whole looking at all the lots, not just the subject property. Mr. Canary is looking at the subject property and there is nothing to prevent the owner from selling it or subdividing it or disposing of that portion of the whole piece. He said they are looking at a 84,000/SF of waterfront industrial land, next to or adjoining a cruise ship dock and 52,317/SF of tidelands. As a property owner, you can keep the tidelands and sell the uplands. As an investor, what a great place to buy, you have a cruise ship already built there and you have your competition across the street, so don't look at it just as a whole, this is an independent parcel of property. Mr. Canary explained the comparables used by the assessor in determining the values and the sales down the street and up the street. They did establish a value of \$65/SF for the uplands and \$14/SF for the tidelands in that same area due to equity. He said he did notice two things about this site: 1) currently there is no access to the subject property without going through the gate which is on the Franklin Dock Enterprises property. Granted they are the property owner and they could grant an easement into that property and you could as a developer purchase that property and subdivide it as retail. You'd have to get a conditional use permit but they have already done that next door so they know it is very possible. He is looking for highest and best for this property. Due to access limitations he discounted his \$65/SF & \$14/SF by a location adjustment of 50% so overall based on the access to this property he is now looking at half of \$65 and half of \$14. They also in their recommendation for equity dropped the \$14 to \$13 and then knocked that in half.

The Assessor's final recommendation was \$3,070,100 for the land, improvements at \$270,700 and \$3,340,000 for total property.

Mr. Horan argued for the board look at the whole area as the greater picture and not just consider the subject property on its own. There is an economic unity in use of that site even though they are individual sites. No owner is going to arbitrarily subdivide that property, he needs the 6 ½ acres; as a comparison, the AJ dock is almost 10 acres.

Mr. Canary said if he owned that site he would put another building on it.

Mr. Horan said part of it he wouldn't put another building on it and explained it showing the diagram as to which portions go with the dock and which portions are excess land areas.

Mr. Egan asked since the motion that passed on the first parcel was \$12, would the maker of the motion make a motion to \$12 for the tidelands to make it consistent?

MOTION by Mr. Egan to move the assessor's recommendation for the land at \$3,070,060 and lower the square foot value from \$13/SF to \$12/SF before the 50% adjustment recommended by the assessor.

Mr. Kalwara asked and Mr. Egan responded that he is basing this for consistency with the action taken on the previous parcel. Mr. Hoke asked if the 50% adjustment was essentially an arbitrary figure. Mr. Canary said yes, it is an arbitrary figure, it was based on his estimate of the risk a developer would have to take if they were to purchase and develop the property. Mr. Hoke asked the size of the lot. Mr. Canary said the total size is 136,317 split at 84,000 for the uplands and the 52,317 for the tidelands.

Chairman Kalwara asked Mr. Egan to restate his motion.

Mr. Egan said his motion is to accept the assessor's recommendation to amend the tidelands from \$13/SF to \$12/SF with the uplands being \$65/SF and then adjust 50% for the location and accessibility.

Mr. Canary said that works out to a total of \$3,043,900.

Mr. Hoke asked which property was the most accurate comparable. Mr. Canary said it was most similar to DeHarts which was assessed at \$20/SF for the uplands, while the actual sale that happened brought it to \$44/SF. He said you go through each of the criteria he analyzed and he thinks it's a fair value for the current market conditions and the current lack of supply of downtown waterfront property.

Mr. Hoke said he was a little uncomfortable with the DeHarts example.

The board members discussed the comparables and the various rates per square foot and discussed the factor of the property being zoned waterfront commercial vs. waterfront industrial.

MOTION WITHDRAWN

Mr. Egan withdrew his motion as he was thinking of this as waterfront commercial instead of waterfront industrial.

Further discussion took place regarding comparables, and the zoning of the lot as waterfront industrial vs. waterfront commercial.

MOTION by Mr. Hoke to set the assessment for the subject property at the rate of \$55/SF for the uplands and \$12/SF for the tidelands prior to a 50% adjustment.

Board members spoke to their reasons for their support or not of this amount. Mr. Egan was only in support of the \$55/SF amount because it isn't \$65/SF but feels that \$55/SF is high unless and until the zoning is change. Mr. Hoke gave his reasons for going with the \$55/SF value.

Chairman Kalwara called for the vote on the motion, the motion passed with unanimous consent.

Mr. Canary said the new amount for the uplands would then be \$2,623,900 and asked if the building amount would stay the same.

MOTION by Mr. Hoke moved that the building value remains unchanged from the assessor's recommendation. *Motion passed with unanimous consent.*

Appeal #3 Subject Property:

Parcel Number: 1C100K830041

Location: 950 Thane Road

Appellant: Franklin Dock Enterprises

2006 Preliminary Assessed Value:

Site (Land): \$1,565,100 Improvements: \$0 Total: \$1,565,100

Owner's Estimated Value:

Site (Land): Charles Horan appraisal \$4/SF for tidelands & \$20/SF for uplands

Assessor's Recommendation (from packet): Reduce 2006 Assessed value – Lower upland value to \$65/SF and tidelands to \$13/SF and then adjust 65% for location and equity

Site (Land): \$1,430,000 Improvements: \$0 Total: \$1,430,000

Mr. Canary said this is the same thing as the previous appeal, it is just further down the street, and the access from the roadway is a steeper area but there is a level portion that AML used. He said he is again doing same thing but making a larger adjustment due to the access issue and the Assessor's recommendation is to lower the \$1,565,100 current amount down to \$1,430,000.

Mr. Horan said this is even closer to the other industrial areas. He didn't prepare a full formal appraisal but he is suggesting \$16/SF for the uplands and \$4/SF for tidelands. With adjustments, the assessor is at \$22.75/SF and he is suggesting \$16/SF. Further discussion took place with comparing the Delta Western site and the AML site to that of the subject property.

Mr. Egan asked staff about the dock there that the Guard has access to and the city has access to. How does that affect the access to this property if in fact they sold this or can they sell it because of that easement that goes through that vacant property to that dock? Mr. Canary said the dock was on the neighboring property and that access is from two different directions. Mr. Egan asked if they could block one or the other access. Mr. Canary said he doesn't think they can block either easement. Mr. Canary said the dock was given to the city and Mr. Egan said the National Guard still retains access because the Department of Defense still requires access there. Mr. Egan asked if that would lower the value of what the current owners could do with that property. Mr. Canary said he will agree with Mr. Horan as he hadn't considered that point. He had dealt with that easement in the past and he would go with \$16/SF for the uplands.

Mr. Egan moved to accept the assessor's recommendation of \$16/SF for the uplands and \$12/SF for tidelands. It was determined a motion wasn't needed since that was the assessor's recommendation.

Mr. Horan said he still thinks the tidelands are obscene at \$12/SF and if the uplands are worth less, it makes sense that the tidelands would be worth less.

Further discussion took place regarding the tidelands price. Mr. Canary said he would agree to recommend \$6/SF for the tidelands due to the easement issue.

MOTION by Mr. Hoke to value the assessed value at \$16/SF for the uplands and at \$4/SF for the tidelands given the limitations pointed out.

Votes in favor of the motion: Mr. Hoke & Mr. Egan

Votes against the motion: Chairman Kalwara

MOTION CARRIED.

Mr. Horan asked to comment for the record that Mr. Stoops didn't appeal his other parcels but he believes that the values of Lot 1 and Lot 2 are overstated in light of the previous discussions this evening. He would suggest some other values but didn't know if the board could take that up or not. Chairman Kalwara said no, they couldn't take that up.

ADJOURNMENT - Chairman Kalwara adjourned the meeting at 9:55 p.m.

Signed: _____
Beth McEwen, CMC, Deputy Clerk

Signed: _____
Ed Kalwara, BOE Chair