

CBJ DOCKS & HARBORS BOARD  
SUB COMMITTEE MINUTES  
For Wednesday January 9<sup>th</sup>, 2013

I. Call to Order.

Mr. Kueffner called the Sub Committee meeting to order at 12:03 p.m. in CBJ Room 224.

II. Roll Call.

The following members were present: Tom Donek, Kevin Jardell and Eric Kueffner.

Also Present Carl Uchytel – Port Director, and John Sahnaw – CBJ Deputy Assessor.

III. Items for Discussion

1. Goldbelt Tram Lease

Mr. Kueffner said his understanding of the lease regulations, is that Docks and Harbors is entitled to negotiate the two appraisals. If there is no agreement between the two appraisals, then a third appraiser, shared cost, would choose which one. Mr. Kueffner said that the Board is not wanting to take that step because of the large difference between the two appraisals.

Mr. Kueffner asked Mr. Sahnaw, CBJ Deputy Assessor to give a short overview of how property is assessed. Mr. Sahnaw said the Assessor's Office is required by state statute to assess property at fair market value with the caveat that Alaska is a non-disclosure state, which means when you buy or sell property, you are not required to tell what you sold it or bought it for. The methodology process that is followed is taking the sales that CBJ does know and can verify and there is a model created by location, size of parcel with corner increments, and then value the land as if it were vacant. In the process of creating this model, the Assessor's Office is creating a set of standard adjustments that are market derived. With tidelands, there is a base rate for an area, and then adjustments are applied. If there is a waterfront parcel, the base rate for the area is for the upland land. A sloping tideland would be applied a 50% adjustment to that portion and the portion below the meander line would be 50% of that. There are properties that property owners have improved the site with a dock structure or seawalk structure, and that is then assessed the same as an upland rate. The Tram is figured like that. The assessed value also reflects a reversionary factor that is applied because the value of the property goes down because over the time of the lease, the lease will go back to CBJ. This is also the Tram property. Their property value is adjusted because of their lease hold interest.

Mr. Uchytel said so over time, the Mt. Roberts Tram property will decrease.

Mr. Sahnaw said that is correct. He handed out a sheet and showed what he was describing above.

Mr. Jardell asked if that would be the difference between the assessed value and the appraised value.

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Mr. Sahnaw said that would show possessory interest value. The difference between the appraised value and the fee simple assessed value is the appraisers have the data and the assessors don't.

Mr. Kueffner said plus the fact that the appraiser is doing an appraisal for a different purpose. Mr. Kueffner asked Mr. Sahnaw if he looked at the Alaska Appraisal Association appraisal analysis and asked for comment? He asked if this information was useful in assessing property?

Mr. Sahnaw said all information is useful, primarily what the assessors are looking at is the different comparable properties used to come up with their analysis.

Mr. Kueffner said the reason he asked is this appraisal analysis does not give a per sq/ft value, but it is just a summary of an appraisal that ends up to be \$42 per sq/ft.

Mr. Uchytel said it was \$42 per sq/ft but then Goldbelt went to North Pacific Erectors and requested a quote for site work. North Pacific Erectors provided a quote of \$158,000. The site work quote was deducted from the \$42 per sq/ft and the final property value was \$260,000, or \$26 per sq/ft.

Mr. Sahnaw said this sounds like a value in use. They are essentially saying, because of economical times, they would not be building a Tram, therefore, there is no economic value. The way the assessor is looking at this property as if it were vacant. The scope of work and the purpose of assessing property is different than an appraiser.

Mr. Jardell asked to look at page three of the appraisal and asked if that is how he assesses property?

Mr. Sahnaw said no.

Mr. Jardell asked Mr. Sahnaw to explain the difference.

Mr. Sahnaw said the difference is if you had a piece of property that was just a gravel lot at \$100 per sq/ft, then you build a building on it, and still leave a gravel lot, then that \$100 per sq/ft will not change for assessment purposes. As soon as that gravel lot is paved, lighted, add curb and landscaping there would be a percentage applied that takes into account those site improvements. It is not a big number, but it is a few dollars per sq/ft. This is the rationale that assessors used to place a site value on the Tram and Taku Smokeries. Their land has the same functionality once the wharf was built as if it were filled for the purpose of putting a building on it or parking on it. This would be the same as if they brought in fill and paved it. So with that, the assessor does value it differently.

Mr. Jardell said so the way the assessor values it is site improvements are taken into account, such as paving, lighting and curbs.

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Mr. Sahnaw said that is correct.

Mr. Kueffner said so that tells him that \$300 per sq/ft is high for purposes of using the assessors value because this includes site improvements and the lease states not to include any improvements above or below ground to establish rent.

Mr. Jardell said if the lease appraisal is doing raw land and the lease assessed value is taking into account site improvements, are you saying the lease appraisal should be higher?

Mr. Kueffner said no, the assessment will be higher.

Mr. Uchytel said so the assessment will have the improvements to the site to be able to put a building on it.

Mr. Sahnaw said yes.

Mr. Jardell said if the assessment is correct.

Mr. Sahnaw said that is a good point due to the difficulty gaining data. Assumptions based on assumptions. If the assessor is wrong in the assessment, they typically hear about it right away from the property owner.

Mr. Jardell said the assessors only hear if they are wrong one way.

Mr. Sahnaw said this doesn't make the assessors numbers correct, but it does work for now.

Mr. Jardell said the difference between the assessed value and the appraised value is solely based on the extraordinary assumption. No one has criticized Horan's analysis outside of the extraordinary assumption of the lease because of the burden of the use restriction.

Mr. Uchytel said except for the two page analysis from the Alaska Appraisal Associates.

Mr. Jardell said that can't be used because we were not given the whole report.

Mr. Donek said the problem he is having is the large range from zero to \$300 per sq/ft, and the other points in between with the Archipelago property. Why is there such a large range? With Mr. Sahnaw describing how the property is assessed, he is starting to believe there is something wrong with the Horan appraisal because his unimproved site value is the same as the assessed value.

Mr. Jardell asked because it takes into account improvements?

Mr. Donek said it is either Horan has valued it too high, or Mr. Sahnaw has valued it too low. It is not helpful with all the different amounts from zero to \$26 per sq/ft to \$42 per sq/ft to

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\$150 per sq/ft to \$300 per sq/ft. It is unknown if the \$300 per sq/ft is too high or too low.

Mr. Jardell said Horan's analysis is higher than the assessment and there are two different analysis, but he is saying he has followed the analysis he is suppose to follow under the contract. No one is pointing out that Horan's analysis is wrong, but there is an argument from Goldbelt that the analysis should have the extraordinary assumption.

Mr. Uchytel said the analysis of the appraisal completed by Alaska Appraisal Associates should be discounted. There was another appraisal completed by Alaska Appraisal Associates in 2005 that indicated the Miner's Hall lease property was appraised at \$125 per sq/ft, this is the same amount that Horan showed in his comparable property in his 2012 appraisal. There are some other appraisals Mr. Wold has completed in the downtown area, but were not presented as a comparable.

Mr. Donek asked if everything is striped off the land, how does it compare?

There was discussion on the location of the Miner's Hall property and it was determined that this is a comparable piece of property.

Mr. Uchytel said based on previous comparable by Wold, to come in at \$42 per sq/ft is not a real value. For the Miner's Hall appraisal, a fee simple was used. Initially it was at \$247.50 per sq/ft and it was discounted 40% for being over tidelands, so 60% of the \$247.50 which is \$148.50 per sq/ft was the proposed rate. This sub-committee has seen \$150 per sq/ft before also in that area.

Mr. Donek said with that being \$150 per sq/ft, why is the Horan appraisal at \$300 per sq/ft. He said he is an engineer and looks at it like an engineer does. He has a problem with the two different numbers. He wants an explanation.

Mr. Jardell said moving forward, he is not going to characterize the Alaska Appraisal Associates two page analysis as an illegitimate appraisal because he does not have the appraisal. He can't value the work behind the analysis until he sees the report. If he was given the whole report, he might be convinced that they are right and everyone else is wrong, but he has not been given that opportunity.

Mr. Kueffner said through e-mails, he thought Goldbelt offered to provide the whole appraisal report, but because they couldn't attend the meeting today was why they were not going to provide the whole appraisal.

Mr. Jardell said there was a demand in the e-mail that they would only show the whole appraisal report if Docks and Harbors would commit right now to substantially lowering the Horan rate. Moving forward, staff should talk to CBJ Law and ask if Docks and Harbors negotiates between the two appraisals under the contract that is in existence currently, can we utilize all the appraisals from that area. With the potential of having six appraisals to look at

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for that area might provide enough information to sit down at a table and discuss a reasonable valuation amongst those and somehow negotiate.

Mr. Kueffner said he thinks that would be too complicated. All the other appraisals are just interesting, but the real question is what does Alaska Appraisal Associates full appraisal reveal that verifies their analysis rate of \$26 per sq/ft.

Mr. Donek said he does not understand the numbers and he will not sit down with a stack of appraisals and try to go through them to come up with a number because he is not an appraiser. He would like a professional explanation as to why there is a range from zero to \$300 per sq/ft on property value.

Mr. Jardell said what if staff talks to CBJ Law and find out if the other appraisals can be used, and the appraisers are invited, at shared expense with Goldbelt, to explain to the Sub-Committee how they came up with their numbers.

Mr. Donek said that would be fine to send all the appraisals to Horan, and to Alaska Appraisal Associates and have them tell us why the differences. He said there is going to be conflicting opinions. He said he is not ready to go to a third appraiser at this time.

Mr. Uchytel said you can shop appraisers and get one to tell you exactly what you want, but that is what you need to be careful of.

Mr. Kueffner is leaning toward following the lease provision and getting a third appraiser to review the two appraisals.

Mr. Uchytel said the Alaska Appraisal Associates Appraisal was completed from the request of Mr. Jardell and himself asking to do a similar comparison to what Horan provided and not with the assumption of a non-economical parcel. Goldbelt will have the argument that they have acted in good faith and have done as asked, so now our response is that we have acted in good faith also.

Mr. Jardell said he typed up a proposed response to Goldbelt.

Mr. Kueffner said he would like to use Mr. Jardell's letter.

Mr. Jardell said at the last meeting with Goldbelt, we proposed a path forward. Now we need to schedule another meeting with Goldbelt and have them propose a path forward. If we can't negotiate between the two, the contract states a third appraiser needs to be hired.

Mr. Donek would like to ask Horan where he arrived at the \$300 per sq/ft? With the fact that CBJ just bought a piece of property just down the street from the Tram for less than the Horan appraisal and the fact that Mr. Sahnou was just describing the way property is assessed saying the assessed value should be more than the appraised value, why is it the assessed value the

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same as the Horan appraisal.

Mr. Jardell said he would support going to Horan and asking him to explain where he arrived at his numbers.

Mr. Uchytel tried calling Mr. Horan and he did not answer.

Mr. Kueffner suggested to send the letter Mr. Jardell drafted to Goldbelt.

Mr. Jardell said if both parties are unable to negotiate a rent rate, then a third appraiser would need to be hired.

Mr. Donek said he is unsure how much latitude the Board has to not go with the appraised value.

Mr. Jardell said this lease is different because it is a contract and the Assembly approved this contract. The terms of the contract are laid out. There is to be negotiations to see if there is an agreement on a fair market value between the two. If the parties are not able to reach an agreement, then a third appraiser is hired to pick the closest to the market value they think it is. The way he reads that is if the third appraiser thinks it is \$150,001, they would pick Horan. If the third appraiser thinks it is 149,999, they would pick the Goldbelt appraisal at zero.

Mr. Uchytel said that it wouldn't be zero because the contract also says rent amount plus royalties.

Mr. Jardell said the only thing that can be negotiated is the fair market value. The royalties is a modification of the contract that has its own provision on how you modify a contract.

Mr. Kueffner said Docks and Harbors Board has the opportunity to do anything in between the \$260,000 and the \$3.3 million. If they were averaged out, it would be \$1.8 million.

Mr. Donek said he still has a problem with not knowing what is behind the \$260,000 because the committee was only given an analysis, and an explanation from Horan why he came up with \$3.3 million. He said he can't negotiate between the two appraisals until he has answers.

Mr. Jardell said for him to feel comfortable with making a decision he has to believe the valuation is the actual valuation. If the Assembly were to question how the rate was determined, he would not feel comfortable with simply saying because it was halfway in between.

Mr. Kueffner said he recommends sending Mr. Jardell's letter to Goldbelt and ask them the next step moving forward. The second thing would be to schedule another meeting and invite Horan to attend to explain the reason how he came up with the numbers in his appraisal.

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Mr. Jardell agreed to have Horan explain how he came up with the numbers.

Mr. Donek agreed, but would like him to attend in person.

Mr. Kueffner asked Mr. Uchytel to contact Mr. Horan and ask him to attend the next Finance Meeting.

Mr. Uchytel did bring up the fact that Wold's comparisons in his 2005 appraisal valued other properties at \$300 per sq/ft to \$585 per sq/ft with discounts on location.

Mr. Kueffner asked about the e-mail attached to the Alaska Appraisal Associates.

Mr. Uchytel said that was just asking Golbelt how they came up with their numbers. It was \$262,000 rounded down to \$260,000.

Mr. Kueffner said so the \$42 per sq/ft is before the site improvements are subtracted out. It is actually only \$26 per sq/ft.

Mr. Uchytel said if the Board did decide to go with a third appraiser, he has a DNR approved appraiser list.

Mr. Kueffner said there is no mechanism put in place how to pick the third appraiser.

Mr. Donek said some appraisers on the list will only do appraisals in certain areas, so it should get narrowed down fairly quickly.

Mr. Uchytel asked if he should schedule Mr. Horan at the next Finance meeting on January 29<sup>th</sup>.

The Sub-Committee agreed to have Mr. Horan attend the Finance Meeting on January 29<sup>th</sup>.

VI. Adjournment.

The Sub-Committee Meeting adjourned at 12:58 pm.