



May 9, 2019

Borough Assembly

Re: Proposed Petro land swap

On October 29, 2018 Petro 49 submitted a letter outlining their position on the proposed land swap, with an offer including any excess valuation funds towards a potential berthing dolphin project. (attached)

On December 17, 2018 the Borough Manager provided Jason Werner, CFO of Petro Marine a list of the proposed issues the Borough wished to negotiate on the proposed land swap. (attached)

On January 25, 2019 the Borough received a response from Jason Werner, CFO of Petro Marine outlining their position on the proposed land swap (attached). In general, the position of Petro Marine is the Borough would be responsible for paying the difference in appraised values to Petro for the properties involved.

Leased Property – Described as 100 Dock Street and 902 S Nordic (parcel ID's 01010050 and 01010051), and further described as the gas station property and the adjacent warehouse. Appraised Valuation of \$285,000 per the formal appraisal in 2017.

Petro Warehouse – Described as 703 S Nordic (parcel IDs 01010137-42), Lots 1-7A. Appraised Valuation of \$365,000 per the formal appraisal in 2019.

The difference in valuation is to Petro's favor by \$80,000.

To proceed with the process, the Borough Assembly must authorize several steps, and once authorized, this must be offered to Petro in a formal document for their approval.

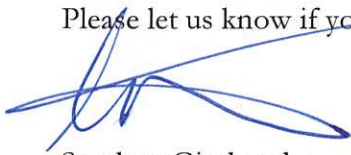
Borough Assembly must approve;

- Authorize the Borough Manager to have a Phase 1 Environmental Assessment completed on the Petro Warehouse property, at the Borough's expense.
- Authorize the Borough Manager to order a full title search on the Petro Warehouse property.
- Authorize the Borough Manager to make a formal offer to Petro that includes paying Petro \$80,000, elimination of the berthing dolphin proposal, and transfer of ownership for the properties involved.

- Authorize the Borough Clerk to have the Borough Attorney prepare all documents needed to cancel the existing lease and sell the leased property, and purchase the Petro Warehouse.

Once these items are all completed, the Borough Manager will work with the Borough Attorney, Borough Clerk and Petro Marine to finalize the transaction to cancel the lease, transfer ownership, and arrange for payment.

Please let us know if you have any questions.



Stephen Giesbrecht
Borough Manager
Petersburg Borough

Borough Administration

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**PETRO
MARINE**

a division of **Petro 49, Inc.**

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October 29, 2018

Mr. Stephen Giesbrecht
Borough Manager
PO Box 329
Petersburg, AK 99833

Dear Mr. Giesbrecht and Borough Assembly Members:

Petro 49, Inc. (Petro) has submitted a request to the Petersburg Borough for a land exchange, as described in the attached Land Disposal Application dated June 5, 2018 (the "Application"). This letter is submitted in support of Petro's application and to provide additional information to the Petersburg Borough, (the "Borough").

Petro currently owns improved land located at 703 Nordic Drive S (Parcel ID#01010137-42, Lots 1-7A) and as further described in the Application, ("Petro Property"). The improvements on the Petro Property include a small warehouse, covered loading dock and office. The land and improvements are not needed for Petro's business.

Petro currently leases land from the Borough, located at 100 Dock St and 902 S Nordic Drive (Parcel ID#s 01010050 and 01010051) and as further described in the Application, ("Borough Property"). The Borough Property is in close proximity to Petro's offices. Improvements on the Borough Property include a warehouse and gas station that is subleased. Petro has a current business use for the Borough Property.

Petro proposes exchanging the Petro Property for the Borough Property, based upon the current appraised value of each parcel and a payment of the difference in value to the party who receives the property with the lower appraised value. Based on previous appraisals of both properties, it is anticipated that the Petro Property has a higher appraised value than the Borough Property.

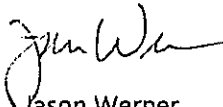
Petro proposes that if the land exchange results in Petro receiving title to the Borough Property and additional cash, Petro will pledge the net proceeds from the land exchange towards the construction by the Petersburg Borough of a berthing dolphin adjacent to the fuel dock (the "Berthing Dolphin Project"). It is likely that the construction costs of the Berthing Dolphin Project would exceed the amount of net funds that Petro receives from the land exchange, so other funding sources would be required to fully fund the berthing Dolphin Project and those funds would be the responsibility of the Petersburg Borough to secure. The Petersburg Borough would also be responsible for the planning, construction, supervision and completion of the Berthing Dolphin Project. The Berthing Dolphin Project would allow larger vessels, like cruise ships, to partially rest against the dock face and the dolphin. This would allow for Petro to continue to fuel other commercial vessels at the open space of the dock face. Currently, when large vessels are tied up at the dock, there is insufficient space for fueling smaller vessels.

This transaction will provide mutual benefits to the Borough and Petro and will improve the dock area. Petro looks forward to working with the Borough on this transaction. Petro's proposal is subject to finalization of legally binding agreements with the Borough.

If, after 30 months from closing the land exchange, the Berthing Dolphin Project has not achieved full funding, Petro would request that the net proceeds be applied to its remaining lease payments (Parcel 1, Parcel C&D upland easement, Parcel C&D submerged easement) with the Borough until exhausted.

We welcome any comments, questions or feedback and will wait to hear back from you regarding the next steps.

Best Regards,



Jason Werner
C.F.O.



December 17, 2018

Mr. Jason Werner
Chief Financial Officer
Petro Marine
1813 East First Avenue
Anchorage, AK 99501

Dear Mr. Werner;

The Petersburg Borough Assembly has directed me to open discussions with Petro 49 on the proposed land swap for property located within the Borough. The Borough Assembly approved moving forward in the process despite some major concerns regarding the potential for remediation of contamination on the property and the long-term loss of the lease revenue. The Borough has reached out to Alaska's Department of Environmental Conservation and it appears the Borough would likely be responsible for any cleanup of contaminants if they were discovered in the future on the property. In the opinion of the Borough, this lessens the overall value of the property and potentially limits the Borough's ability to make full use of the property due to these potential contamination issues. While it is unknown if this limitation will affect the appraised value of the property, it does present a future financial risk that the Borough will need to account for.

In addition, the Borough Assembly is concerned regarding the loss of the future lease revenue from the property currently leased by Petro. All things being equal, the value of the leased property has more positive financial impact to the Borough than the potential sale. While Petro's offer to give any "excess" proceeds to a potential berthing dolphin project is appreciated by the Borough, it is clear Petro will also benefit from the addition of the berthing dolphin through increased fuel sales at the facility. It is the Assembly's contention that the overall decision to move forward with the land swap must consider all the aforementioned issues. As a basis of discussion, I have outlined the Borough's position below.

Please let me know when you would be available to discuss.

Sincerely,

Stephen Giesbrecht
Borough Manager
Petersburg Borough
907-772-5402

Petersburg Borough's position

6.I.

Petro 49 agrees to coordinate with the Borough for a Phase 1 Environmental Assessment to be conducted on the properties which would be transferred to the Borough. The costs of such an assessment will be the responsibility of Petro 49.

The Borough and Petro 49 will agree to a straight swap of the properties involved despite any differences in appraised values.

The Borough will waive the requirement for Petro to pay to have the properties appraised if the straight swap of the properties is agreed upon.

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Petro 49 agrees to pay an equivalent amount of 7 years lost lease revenue, or \$199,500 (\$28,500 x 7) to the Borough. These funds will be payable upon both parties agreeing to the transaction and will be dedicated by the Borough to the design and construction of a berthing dolphin at the Petro 49 dock in Petersburg. The Borough will be responsible for any costs for the berthing dolphin design and construction over and above this amount. Any excess will be dedicated to ongoing maintenance of the berthing dolphin until such time as the funds are exhausted.

The Borough will have a period of five (5) years to design and construct the berthing dolphin. The current estimate from PND Engineering has the cost of the dolphin near \$400,000. Extension of the time period will be necessary to build up enough fund reserves for the Harbor to enter the construction process.

6.I.

Petro 49 agrees and understands that the berthing dolphin, when completed, will become a component of the existing lease on the fuel dock, and that there will be an equivalent valuation increase in the lease as the result of the berthing dolphin construction.

Both parties agree that any attorney costs incurred during the negotiations are the responsibility of the parties themselves.



a division of **Petro 49, Inc.**

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Phone 907.586.4400
www.petromarineservices.com

January 25, 2019

Mr. Stephen Giesbrecht
Borough Manager
Petersburg Borough

Dear Mr. Giesbrecht;

In response to your letter on December 17, 2018 regarding the Borough's position on the proposed land swap:

Petro 49 agrees to coordinate with the Borough for a Phase I Environmental Assessment on the properties which would be transferred to the Borough. As the Borough would be acquiring title to the property from Petro 49, it is the Borough's responsibility to pay for the Phase I on the property it would acquire. Petro 49 would have the responsibility to pay for the Phase I on the property that it is acquiring from the Borough.

Petro 49 will agree to the land exchange process outlined in Petersburg Borough Ordinance #2018-12, Section 16.12.140 where property values are determined by appraisal. Petro 49 will not agree to a straight swap of properties unless the appraisal process determines the properties to have equivalent values.

Petro 49 will not pay for the Borough's lost lease revenue. The Borough is responsible for the related financial impacts of acquiring, financing and utilizing the new property in exchange for the leased property.

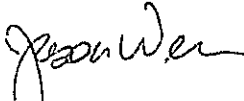
Petro 49 is willing to wait 30 months from the closing of the land exchange for the berthing project to achieve full funding. After 30 months, Petro 49 requests to have the net proceeds be applied to its remaining lease payments.

The Berthing Dolphin Project allows Petro 49 to continue servicing its local customers while a cruise ship is berthed. Customers displaced by a cruise ship either adjust the timing of their purchase or shift the purchase to another Petro 49-owned facility in Southeast Alaska. Additional fuel sales in Petersburg generate additional sales taxes.

Petro 49 would not agree to have a valuation increase of the fuel dock lease when the Project is completed. Petro 49 would already be funding a portion of the Project with the excess proceeds from the land swap and the Project serves to enhance the cruise ship docking.

Should you have further questions, I would be happy to discuss our proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason Werner". The signature is fluid and cursive, with the first name "Jason" and last name "Werner" clearly distinguishable.

Jason Werner

C.F.O.

Petro 49, Inc.

907-273-8267