

**DRAFT****Memorandum of Understanding****Between White Pass & Yukon Route Railroad & Municipality of Skagway**

As Negotiated on August 7, 2017

1. **Proposed Amendment to 1968 Lease Including Environmental Remediation.** Amend the existing March 19, 1968 "tidelands" lease and the August 1, 1968 "uplands" lease (collectively, the "1968 Lease"), with the inclusion of a section relating to remediation, including related dredging of the Ore Dock basin, as follows:

- A. The annual rent under the 1968 Lease would be increased to \$250,000 per year.
- B. The term of the 1968 Lease would remain intact, so that it terminates on March 18, 2023.
- C. White Pass and the MOS would agree to split the cost of a new floating dock in a manner to be agreed upon that results in the equivalent of a 50% contribution or reimbursement by the Municipality and White Pass contributing the other 50%, and the lease amendment would specify the general design parameters for that floating dock, based on the "3B design" proposal that has been outlined by Moffatt & Nichol, for the approximate cost of \$15 million dollars (subject to bidding and mutually agreeable finalization of the design). Upon execution of the lease amendment, White Pass and the MOS would diligently pursue the construction of the floating dock with a goal of having it ready for the 2019 tourist season.
- D. The leased premises would be reduced to the Ore Dock area and the Broadway Dock area, which amounts to 334,862 sq. ft. The tidelands area to be covered by the amended lease shall be only the land directly beneath the existing and new Ore and Broadway docks and any current and future improvements located above the leased tidelands.
- E. The current operations conducted by White Pass to operate the cruise terminal may be continued by White Pass through the term of the lease. **The "Cruise Terminal Operator" is an entity that manages the cruise ship traffic to the Port of Skagway. Duties include making determinations on scheduling, berthing, and all cruise-related maritime operations.**
- F. The Municipality or its representative shall conduct an inspection of all premises semi-annually, before and after the cruise ship season, to observe and note the condition of and existing damage to the Premises and determine repairs and maintenance required to be performed. Responsibility of repairs and any defects will be the sole responsibility of White Pass. **The Ore Dock north of the ship loader is to be in safe structural condition, as approved by a mutually agreed upon independent engineer.**
- G. There are currently seven subleases or other agreements between White Pass and third parties related to the use of the area encompassed by the 1968 Lease. Upon execution of the 1968 Lease amendment, White Pass will assign these subleases and other agreements to the Municipality. For the period of the lease amendment through the end date of those sublease and agreements, and any extensions of those leases and agreements through March 18, 2023, the Municipality will remit to White Pass the current amount of revenue in each currently existing sublease or agreement and no more and no less. If the Municipality voluntarily chooses to terminate any of the currently existing subleases and agreements prior to 2023, the Municipality will still be subject to the make whole provision for that specific sublease or agreement through March 18, 2023. The Municipality shall not be subject to the make whole provision if, after good faith negotiations, the current holder of the sublease or agreement refuses to enter an extension of the current sublease or agreement to March of 2023. The Municipality may also negotiate new leases with the current sublessees in an

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amount greater than the current lease payments to White Pass, and in that event, the Municipality shall be entitled to the amount above the current lease payments. The lease amendment shall specifically state that any current subleases or agreements shall not be extended by White Pass. The existing subleases or agreements are with: AIDEA, AML, CLAA, Harbor, Harbor Flowage, NOAA, and TEMSCO.

- H. The lease amendment would incorporate tenant and environmental “defend and indemnify” obligations from White Pass.
- I. The lease amendment would provide that the Municipality and White Pass would share Ore Dock use rights on the following basis: (i) cruise ships would have docking priority rights in all instances; (ii) White Pass would receive all revenues and fees related to cruise ship docking, disembarking, embarking, etc.; and (iii) the Municipality would receive Ore Dock revenues and fees in relation to all non-cruise ship docking, disembarking, embarking, loading, unloading, etc., excluding the Commercial Passenger Vessel (CPV) excise tax. The lease amendment will include a provision that the Municipality and White Pass shall share responsibility for repairs and maintenance of the Ore Dock. As between White Pass and the Municipality, White Pass shall bear all responsibility for any damage to the Ore Dock caused by any cruise ship and the Municipality shall bear all responsibility for any damage to the Ore Dock caused by any ship other than a cruise ship and White Pass shall have no responsibility for damage to the Ore Dock caused by any ship other than a cruise ship. White Pass and the Municipality will meet once a month during the tourist season and twice during the winter to discuss scheduling and operations.
- J. The amendment will include a provision that the Municipality grant easements to White Pass for all areas to conduct business as currently conducted by White Pass without additional payments for those easements, and White Pass will allow the Municipality access to the leased premises to conduct reasonable inspections and for the purpose of achieving remediation addressed in the Environmental Remediation section of the lease amendment. White Pass and the Municipality agree to consider changes in easements that help to facilitate commercial or industrial advancement that does not interfere with current railway operations.
- K. The lease shall not be sold, transferred, or assigned without the written consent of the Municipality, and if the sale, transfer or assignment is to an LLC, each member of the LLC shall sign a guarantee of performance of the Lease in accordance with SMC 16.02.160(D). Approval of the sale, transfer, or assignation cannot be unreasonably withheld.
- L. The remediation section of the lease amendment will specify that the remediation would be to Alaska Department of Environmental Conservation (“ADEC”) standards. The remediation would be pursuant to a scope of work prepared by Golder Associates and approved by the ADEC.
- M. The remediation would be funded with a \$2,500,000 \$2,750,000 contribution from White Pass and a \$1,500,000 contribution from the Municipality. The Municipality’s contribution to remediation shall be capped at \$1,500,000. To the extent that, after initial site excavation, it was determined that the required scope of work will be more than \$4,000,000 \$4,250,000,

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White Pass shall pay this excess cost and the Municipality will jointly pursue funding from other potentially responsible parties as identified by ADEC.

- N. ~~White Pass will obtain and deliver to the Municipality a corporate surety company bond, to assure full performance of remediation.~~
- O. The execution of this lease amendment, including the remediation section, is a condition precedent to the Municipality entering a new lease with White Pass.

**2. New Lease Agreement.** White Pass and the MOS would enter into a new lease that would relate to the period after the 1968 Lease term:

- A. The term of the new lease will be for fifteen (15) years, beginning on March 19, 2023, and ending on March 19, 2038.
- B. The leased premises would be the Ore Dock area and the Broadway Dock area. The tidelands area to be covered by the new lease shall be only the land directly beneath the existing Ore and Broadway docks and any current and future improvements located above the leased tidelands.
- C. The annual lease payments shall increase by 3.5% annually as follows:
- 2023: \$250,000
  - 2024: \$258,750
  - 2025: \$267,806.25
  - 2026: \$277,179.47
  - 2027: \$286,880.75
  - 2028: \$296,921.58
  - 2029: \$307,313.83
  - 2030: \$318,069.82
  - 2031: \$329,202.26
  - 2032: \$340,724.34
  - 2033: \$352,649.69
  - 2034: \$364,992.43
  - 2035: \$377,767.16
  - 2036: \$390,989.02
  - 2037: \$404,673.63
  - 2038: \$418,837.21
  - **TOTAL: \$5,242,757.44**
- D. White Pass shall operate the cruise terminal through the term of the new lease. The “Cruise Terminal Operator” is an entity that manages the cruise ship traffic to the Port of Skagway. Duties include making determinations on scheduling, berthing, and all cruise-related maritime operations.
- E. The new lease shall provide that the Municipality will reimburse White Pass, with Assembly approval of capital improvements, unless a new lease is negotiated on or before 2038, for

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capital (other than maintenance or repair) improvements according to the following schedule:

- Before: no reimbursement
- 2029: 10%
- 2030: 20%
- 2031: 30%
- 2032: 40%
- 2033: 50%
- 2034: 60%
- 2035: 70%
- 2036: 80%
- 2037: 90%
- 2038: 100%

The new lease will contain a provision that defines “capital improvement” mutually agreed upon by the Municipality and White Pass. At the end of the lease term in 2038, the Municipality receives all tidelands assets, including the Ore and Broadway docks in their improved states.

- F. ~~The new lease will include a provision that the Municipality will grant easements to White Pass for all areas to conduct business as currently conducted by White Pass without additional payments for those easements. White Pass will allow the Municipality access to the leased premises to conduct inspections for the purpose of achieving remediation addressed in the Environmental Remediation section of the lease amendment. White Pass and the Municipality agree to consider changes in easements that help to facilitate commercial or industrial advancement that does not interfere with current railway operations.~~
- G. The new lease will have provisions similar to the 1968 Lease amendment described above in relation to ship revenue, Ore Dock sharing, Ore Dock damage, and tenant indemnity and environmental indemnity obligations from White Pass.
- H. The new lease will have the “defend and indemnify” provisions previously agreed upon by White Pass and the Municipality.
- I. The lease shall not be sold, transferred, or assigned without the written consent of the Municipality, and if the sale, transfer or assignment is to an LLC, each member of the LLC shall sign a guarantee of performance of the Lease in accordance with SMC 16.02.160(D). Approval of the sale, transfer, or assignation cannot be unreasonably withheld.