



KETCHIKAN GATEWAY BOROUGH

1900 First Avenue Ste 126 • KETCHIKAN, ALASKA 99901

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DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT

MEMORANDUM

TO: ASSEMBLY
THRU: CYNNA GUBATAYAO, ASSISTANT MANAGER
FROM: RICHARD HARNEY, DIRECTOR OF PLANNING AND COMMUNITY DEVELOPMENT
SUBJECT: SOUTHEAST CONFERENCE PELLET MILL REQUEST
DATE: 3/30/2022

BACKGROUND:

Southeast Conference (SEC) proposes a demonstration project that will inform the economic viability of a small pellet mill that could lead to deployment in other communities in rural Alaska to supply the local pellet market in each area. The project intends to develop a proof of concept that is purpose-built and scaled to meet the local demands for pellets.

REQUEST:

SEC desires to work with the Ketchikan Gateway Borough as the research and development community. SEC chose Ketchikan primarily due to the community's use of pellet boilers at a few facilities, low energy costs, and the potential of biomass waste available in the community.

The location of choice is a portion of the old Seley Mill Site on the Airport Reserve property. The desire is to utilize approximately 10 acres of the vacant portion of the Seley Mill site for this R&D project and potentially as a business incubator for other businesses in the future (see Exhibit A).

If SEC secures an EDA construction grant for this "Natural Resource Complex," a lien is often required on the property for 20-25 years for long-term site control. Part of the request by SEC is for the Borough to provide the site free of charge (or discounted) to SEC and utilize the property lease value as the match for the grant.

ANALYSIS:

The request has many unanswered questions and challenges. Primarily, pellet making has been attempted and unsuccessful in the past. The pellet boilers employed by the Borough and other facilities pose challenges all their own, specifically with the moisture and composition of the pellets. The Borough has championed biofuels over the last ten years, with numerous resolutions supporting the use of biofuel instead of oil. However, acquiring enough wood waste to produce locally sourced pellets for the boilers has been unsuccessful.

The Seley Mill site has its own set of constraints and challenges. It is owned by the State of Alaska Department of Transportation and Public Facilities and regulated by the Federal Aviation Authority. The Borough maintains the property's management, but the FAA and State DOT&PF need to review any use. The majority of the Seley Mill site is under lease for the Division of Forestry's logging operation in Vallenar Bay, being conducted by Alcan Timber. The nonexclusive lease will likely be in force until the logging is concluded. The pellet mill site is not part of that lease area but is nearby.



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The following is a brief list of perceived benefits and negative impacts that staff foresees.

The pellet mill provides the following perceived benefits:

- New industry for the economy
- New jobs (potentially five)
- Lessee is a known entity with a public interest in benefiting the community and a proven track record
- Use of a vacant, underutilized industrially property owned by the Borough
- All improvements and new structures on a vacant Borough owned property that become borough assets
- Locally sourced resources and value-added product
- Low potential for a contaminated site or pollution requiring clean up
- If successful, it could lead to the development of the Borough's adjacent land set aside for economic development

Potential negative impacts and concerns regarding the pellet mill:

- Will the State Leasing office allow a no rent / in-kind lease?
 - If not, how will the approximately \$30,000¹ lease rate be funded?
- Use and occupation of a portion of the fully graded Borough owned property
- Long term lease restricting site for other uses
- EDA lien on the property for 20 to 25 years
- New structure that may need to be maintained by the Borough if the project does not succeed
- Unknown wood source
- Unknown funding sources for continued operation after construction
- Pellet boiler use has not been as successful as the Borough once thought

RECOMMENDATION:

Staff can see the potential benefits of the R&D project to determine if a locally sourced pellet mill facility model will be successful. However, staff does not have a recommendation for the Assembly based on the information provided. Therefore, staff seeks Assembly direction to pursue discussions and a draft agreement with SEC to answer the unknown questions and address the concerns before working toward a long-term lease with SEC.

¹ KGBC 10.10.070(h)(2) Nonaeronautical functions and purposes, within the airport perimeter fence or accessible by road from the airport ferry lease fee of up to \$0.174 per sqft.per year. The site is approximately 200,000 sqft.



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Exhibit A

