



City of Pensacola

222 West Main Street
Pensacola, FL 32502

Memorandum

File #: 17-00245

City Council

4/13/2017

LEGISLATIVE ACTION ITEM

SPONSOR: Ashton J. Hayward, III, Mayor

SUBJECT:

PORT WAREHOUSE #9 TERMINATION OF LEASE AND WAREHOUSE #1 LEASE AMENDMENT WITH OFFSHORE INLAND MARINE & OILFIELD SERVICES, INC.

RECOMMENDATION:

That City Council authorize the Mayor to take all action necessary to terminate the Lease Agreement for Port Warehouse #9 and to amend the Lease Agreement for Port Warehouse #1 with Offshore Inland Marine & Oilfield Services, Inc.

HEARING REQUIRED: No Hearing Required

SUMMARY:

On May 12, 2016, City Council granted an extension to Offshore Inland Marine & Oilfield Services, Inc. ("OIMO") to complete construction of the Tenant's Structure located on the Ground Lease Premises of the May 30, 2014 Lease Agreement ("Warehouse #9 Lease") between the parties. The Tenant's Structure was to serve as a submersible pipe manufacturing facility once completed. OIMO had requested the extension of the construction completion date as all construction work on the facility had halted in the fall of 2015 due to the decline in the barrel price of oil and market depression.

On October 13, 2016, City Council rejected a request from OIMO for partial deferral of rent under the Warehouse #9 Lease, which includes the lease premises of Warehouse #9 and up to three and one-half (3 ½) acres of Ground Lease Premises.

OIMO is requesting the City terminate the City's Warehouse #9 Agreement with OIMO. In the proposed agreement to terminate, OIMO would vacate all of the Ground Lease Premises, including both Warehouse #9 and the adjacent land and Tenant's Structure. The City would keep all improvements in Warehouse #9 and the submersible pipe manufacturing facility. The proposed agreement to terminate states the termination shall not release OIMO from any rents or amounts due and payable under the Warehouse #9 Lease, or any rents, fees or amounts due and payable under any other lease or operation at the Port.

As City Council has been previously advised, when the oil market crashed in 2014/2015, OIMO's business partner in the Warehouse #9 venture, DeepFlex, was unable to secure the additional investor financing necessary to complete the development. DeepFlex ultimately closed its Houston, Texas and Manitowoc, Wisconsin facilities and pulled out of the Pensacola project. Without DeepFlex or the partnership of another

submersible pipe or other offshore drilling component manufacturer, OIMO has no use for the facility. Currently, OIMO does not owe any outstanding rent or any other past due amounts applicable against the Warehouse #9 lease.

In conjunction with the above termination request, OIMO is requesting that the City agree to amend the City's June 17, 2010 Lease Agreement ("Warehouse #1 Lease") between the parties, which includes the lease premises of one-half (½) of the Warehouse #1 structure. The amendment would provide for a payment plan addressing outstanding amounts owed by OIMO to the City under the current Warehouse #1 Lease, and provide terms and conditions for possible expansion of OIMO into the full space available in the Warehouse #1 structure upon completion of City improvements currently contemplated, or into a portion of the space not currently occupied by OIMO. The amendment would not extend the term of the current lease, which expires May 1, 2022. The amendment does provide that upon City determination to terminate the lease for any non-payment of monetary obligations, OIMO will immediately within twenty (20) days, vacate the Port and surrender all of the Leased Premises and all improvements, fixtures, equipment and personal property thereon, to become the exclusive property of the City.

Additionally, as City Council has been previously advised, repayment of certain grant-funded construction project expenses paid by OIMO is in question. As a result, the Port Director, with the City's Chief Financial Officer's consent, has allowed OIMO to hold \$363,000.00 in invoices owed to the Port in abeyance pending final determination by the Port Director, with the consent of the City's Chief Financial Officer. As a result of an extended market downturn, OIMO's business volumes at the Port continued to be depressed throughout 2015 and 2016, resulting in OIMO accumulating an additional past-due balance above and beyond the \$363,000.00 without the approval of the Port Director or the City's Chief Financial Officer. As of March 15, 2017, that remaining past due amount was \$269,247.00. The payment plan stipulated in the proposed lease amendment addresses both the outstanding past-due balance at 12% interest, as well as final reconciliation of invoice amounts held in abeyance, which may be at 12% interest.

It is important to note that even with these market-driven negative factors, OIMO's tenure at the Port has been generally positive. The outstanding payment amounts do not represent unpaid rent and the Port Director has imposed processes to restrict any increases in the outstanding balance. Since inception of their operations on the Port, OIMO has paid more than \$3.6 million in fees and charges directly to the Port (not including the outstanding unpaid amounts), including \$74,000 in sales tax assessed on their rent amounts. Additionally, a \$2 million State Economic Development Grant was awarded to the Port. According to the Port Director, approval of the proposed Warehouse #1 lease amendment will facilitate construction of the overhead crane facility contemplated under the grant, adding a valuable and highly marketable asset at no cost to the Port. City Council's approval of the early termination of the associated Warehouse #9 lease would immediately vest to the Port a partially-completed warehouse facility valued at approximately \$3 million in its current condition, according to OIMO.

OIMO further represents to the City that the new overhead crane facility will allow them to bid component repair and fabrication jobs for which they currently are unable to compete. Additionally, while they continue to market to the offshore and subsea construction market, which is beginning to show some signs of slow market improvement, they have been aggressively marketing to the blue water fleet, including tankers, for topside maintenance and repair opportunities. It is this diversified marketing strategy that has resulted in the recent uptick in offshore-related vessel activity at the Port.

PRIOR ACTION:

April 22, 2010 - City Council approved the Offshore Inland lease for a portion of Warehouse #1 and associated open storage and working areas.

January 10, 2013 - City Council approved a FDOT Economic Development Transportation Project Fund Agreement for infrastructure improvements at the Port.

March 13, 2014 - City Council approved and authorized the Mayor to negotiate and execute a lease agreement for Warehouse #9 and approximately three and one-half (3½) acres of immediately adjacent undeveloped land with OIMO.

May 12, 2016 - City Council approved and authorized the Mayor to take all necessary actions to provide OIMO with a twelve (12) month extension to complete construction and obtain a certificate of occupancy for the Tenant's Structure located on the Ground Lease Premises of the May 30, 2014 Lease Agreement for Warehouse #9, contingent upon the Tenant's Structure being storm hardened and enclosed prior to July 31, 2016.

FUNDING:

N/A

FINANCIAL IMPACT:

Approval of the Warehouse #9 lease termination will result in the loss of \$12,966.72 per month in rent revenue to the Port. However, the facility will be marketed to new potential users (both short-term and long-term). Approval of the Warehouse #1 lease amendment establishes a formal payment plan of OIMO's current outstanding balance of \$269,247.00 at 12% interest. Further, the payment plan provides authorization for the resolution of the \$363,000.00 outstanding amount as it relates to Grant invoices. Approval of the amendment also establishes conditions for OIMO to occupy the entire warehouse premises at a proportional increased amount above the \$8,891.40 rent revenue currently paid.

CITY ATTORNEY REVIEW: Yes

3/30/2017

STAFF CONTACT:

Eric W. Olson, City Administrator
Richard Barker Jr., Chief Financial Officer
Amy Miller, Port Director

ATTACHMENTS:

- 1) Termination Agreement for Warehouse #9
- 2) Amendment to Warehouse #1 Lease Agreement

PRESENTATION: No