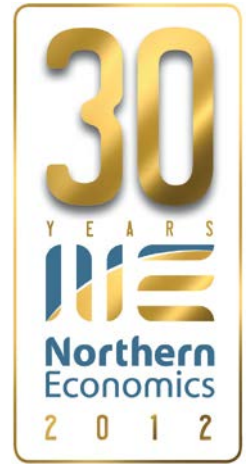


Memorandum

Date: December 20, 2012
To: Darsie Culbeck, Haines Borough
From: Patrick Burden, Michael Fisher, and Alexis Bond of Northern Economics, Inc.
Re: Recommendations for Port of Haines: Potential for Development



The purpose of this memo is to provide the Haines Borough with a set of recommendations, drawn from Northern Economics' port development analysis, which suggests a path forward for the Port of Haines.

At this time the study team believes it would be premature to begin either expansion of existing facilities or construction of new port facilities at Haines. Most of the mines nearing production intend to export via Skagway; proximity and acceptance of industrial development—rather than facilities—seem to be the primary factors driving this decision.

The study team instead recommends that Haines begin a process of information gathering and planning in anticipation of future port development. Actions we recommend include:

Maintain existing facilities for existing users

Keep the Port of Haines' existing facilities in good working order through scheduled maintenance, repairs, and other upkeep as needed to serve the needs of its current users. Also consider any upgrades required to serve changing needs or levels of use.

Improve availability of information

Consolidate information about the Port of Haines and its facilities. Make this information available through the official borough website so that readers know the material is from a reliable source. At present, information about Haines' port and harbor facilities is limited; the information that is available is conflicting and spread across multiple, unaffiliated websites. Coordinate borough efforts to facilitate clear communication with potential port users.

Provide baseline data where available and initiate steps to fill data gaps in baseline information

Begin gathering baseline data that a company would need to see when considering use of or expansion of a facility. These data include surveyed tidelands, drainage patterns, water quality reports, wave studies, marine mammal and fishery studies, listed environmental concerns such as endangered or protected species, etc. Environmental Impact Statements for similar port facilities may be beneficial for identifying data for the borough to gather. Identify an industrial corridor through Haines to the

Lutak Dock and proceed through a public process to designate the corridor as such.

Develop conceptual plans for a deep draft dock and loader to handle ships with 36 feet of draft (Handymax)

Conceptual plans will give potential users an idea of the project that the borough envisions, as well as estimated costs and timelines for development. Questions to consider include whether the borough envisions a deep draft facility that will be developed as an extension of the Lutak dock (which would present navigational issues for AMHS unless the AMHS dock were also extended outward), or if the deep draft facility should be built in another location.

Decide on ownership and operating options for facility

The borough should give some thought to the operating agreement that it envisions. Would Haines want to own and operate the facility? Would it make more sense for the borough to retain ownership but allow for a private operator? Should the Alaska Industrial Development and Export Authority be involved with ownership of all or part of the facility?

Create a financial model for an ore facility to determine feasibility and rates

The borough should increase its understanding of the costs involved with operating an ore-transporting facility. We recommend calculating the likely debt repayments that would be required for construction and operation, and assessing what revenues would be sufficient to cover these costs.

Suggestions for Improving Relationships with Industry

In addition to these preparations, Haines should continue to market its advantages and build relationships with industry players. More specifically:

Proactively identify potential mining activity located in the western Yukon

A Yukon mine with an access road leading to the Klondike Highway is much less likely to move cargo through the Port of Haines. Once one company has built an access road, other developers will prefer to use the same access route so that costs of the road can be shared, rather than incurred independently. Haines will benefit from mining access road construction that extends west, to the Alaska Highway.

Advertise Haines' advantages

Haines has available storage space, low traffic volumes, and open roads. In addition – and unlike Skagway – Haines does not have to balance demands of both industrial activity and a high passenger count. The borough should advertise these advantages to potential port users. Marketing material available electronically via the borough website and in hard-copy form at regional mining seminars and conferences could prove influential.

Involve private industry where appropriate

The need for development or expansion of marine facilities does not appear to be a significant obstacle if capital costs and permitting for expansion are reasonable and predictable. If Haines is prepared with the materials outlined above, it will be prepared to move forward with design and construction when user contracts are signed. The study team suggests that Haines work with potential users to finance upgrades and expansions as this will ensure that both parties are invested in the project's success. If Haines can demonstrate to the State of Alaska that the borough has a sustainable plan for the facility, the state is more likely to be receptive to requests for grant funding.