

MEMORANDUM

Date: August 15th, 2011

From: BCF Board

To: BIMC Board

Re: Installation of a card-lock fueling system at the Blakely Island Marina

Background:

The BCF is a for-profit wholly owned subsidiary of the BIMC. Its formation was for the exclusive purpose of entering into a long-term lease with a Crowley Family controlled entity which owns the Blakely Island Store and Marina. The BCF's business plan is to operate the fueling system directly and to sub-lease all other aspects of the Marina operation to an independent operator. The other aspects of the marina operation include: transient moorage, coin operated laundry and showers, ice sales, and retail store sales.

The general business arrangement between the BCF and an independent operator will be for the BCF to assume all fixed costs associated with the Marina (BIMC Dues, DNR Lease fees, liability insurance, and property taxes), and to maintain the existing structures and some of the equipment. In return, the BCF will retain all net proceeds from fuel sales. The independent operator receives a turn-key business location, for \$1/year, and is entitled to all other revenue sources.

In the course of this arrangement, the independent operator acts as the agent for the BCF in the sale of fuel.

Current Fuel System Description:

The BCF fuel farm complies with all regulations, as determined by the WA State Department of Ecology (DOE). During the past three operating seasons, the facility has been inspected by the DOE on two separate occasions and by the US Coast Guard once. In all inspections, we passed with only minor discrepancies which were soon after corrected.

In each of the past three years, the leak detection system has been tested, in accordance with DOE regulation, and passed. In two of the past three years, the system has undergone cathodic protection testing and passed. In short, this system, as is, complies with all regulations.

Current Problems with the Fuel System:

The weakness of this system is twofold: A) the selling agent is effectively unable to reconcile, on a per transaction basis, whether or not the amount of fuel dispensed is in fact the amount of fuel purchased, and, B) an open nozzle in the system could go undetected, which may create a spill at either the upland locations or at the dock. It is important to reiterate this system is currently both compliant and insured.

Our inability to control our inventory results in inventory loss. During 2010, the BCF lost approximately 200 gallons of gasoline and 80 gallons of diesel, which amounts to roughly \$840.

The BCF depends on the independent operator to handle all fuel transactions. On a monthly basis, the BCF bills the operator for fuels sold. We need to wait a month to allow the operator's merchant account to release the funds to the operator. During the months of July and August, this amount can exceed \$100,000 in each month. Thus, during the peak season, at any given time, the operator owes the BCF a substantial amount of money. Should an operator's business fail, the BCF would be an unsecured creditor. Most likely, we would collect a fraction, if any, of the outstanding balance owed.

It is important to note as of this writing, the existing operator is current on all fuel payments. That being said, they owe us approximately \$75,000.

Under the current arrangement, the BCF will be owed a substantial amount of money all summer, every summer. Statistically, it seems probable that sooner or later an operator will fail mid-season.

Solution:

The BCF proposes to install a credit-card lock control device for the entire fuel system. There would be two card lock stations: one on the dock, and one attached to the store. They would operate the dock pumps and the upland pumps, respectively.

The BCF would have its own credit-card merchant account and all proceeds would go directly to the BCF for fuel sales. The independent operator would no longer act as the BCF's agent for collection of fuel receipts.

The pros of this system are as follows:

The fuel shrinkage issue should be eliminated, as each transaction is pre-approved and the system shuts off automatically when the gallons dispensed are reached.

The risks associated with spills are minimized, as the system turbines will no longer be on for extended periods of time. For each transaction, the system will turn on and then turn off. This limits the amount of possible spillage to each transaction's pre-approved volume.

The independent operator will no longer collect money on behalf of the BCF. Thus, the BCF's financial exposure, in this capacity as outlined above, will be eliminated.

The independent operator should process their customer's other transactions faster, as they will no longer handle fuel transactions.

The BCF should be able to operate with less working capital, as we will no longer need to carry large A/R balances before we get paid for the fuel we sell.

Because the entire system will be depreciated over 7 years, we will minimize our tax obligation, if any, over the foreseeable future.

