



TOWN OF LAKE LURE  
*Office of the Town Manager*

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Incorporated 1927

**TO:** Mayor and Commissioners; Lake Advisory Board  
**FROM:** Chris Braund  
**DATE:** July 10, 2009  
**RE:** Report on Marina Gas Prices

From time to time, citizens have raised the issue of marina gas prices with the Town Council. Generally, the concerns expressed are along the lines of “*Why is the price so much higher than at the gas station?*” and “*If the town owns the pumps, shouldn’t they provide gas to the citizens at cost?*”

While the marina and beach are owned by the town, they have been operated for some time by a concessionaire as for-profit, private enterprises. This arrangement has proven beneficial to the town. By partnering with a focused, customer-oriented, private enterprise that is incented to maximize revenues and profits, we see a higher quality of service and improved financial returns. Such public-private partnerships work best without excessive business oversight by the Town. A lease/concession agreement should outline the Town’s specific policy objectives and expected performance standards. Beyond meeting the objectives and standards, the concessionaire needs to be free to structure the business to meet changing market opportunities and challenges.

***Marina Operates Under A Concession Agreement***

In October of 2007, the town extended the marina and beach concession agreement with Lake Lure Tours, Inc. (LLT) -- an agreement that was originally in effect from February 2001 (recall there was a change in ownership of the concessionaire). The current agreement is valid through October 2017 and guides the management, operation and maintenance the marina facilities. The agreement outlines certain standards for hours of operation and care of facilities, but has no provision for the Town to intervene in business decisions regarding goods, services or prices. Service fee schedules are to be reviewed annually with the Town. According to the agreement, “*all decisions regarding purchases and management expenditures shall be made by LLT in LLT’s sole discretion*”. Does this autonomy extend to setting prices? For gas and other goods, I would say yes. For fees, see the next point.

***Public Fees***

Each November, the concessionaire is to provide the Town Council a proposed fee structure for the coming fiscal year. These fees would include beach entry fees, picnic area rental, etc. Town Council is to agree upon the fee schedule for the beach at the December meeting. Marina boat slip rental fees are established by the Town Council. All other prices for goods and services are set by the concessionaire (gas prices, boat tour fees, boat rental fees, food and merchandise).

***Concession Fees***

The concessionaire is to pay the town:

- 2% of all sales of gasoline, oil and all other marina merchandise and all rentals of boats and other equipment.
- 90% of all permanent and temporary boat slip rentals (slip fees established by Town Council)
- 15% of all beach revenues
- 5% of boat permit sales

There are no provisions in the agreement related to the price of gas.

### ***Gas Docks: A Convenience, Not A Town Mission***

According to the concession agreement, “the mission of the Town of Lake Lure is to offer Lake Lure residents and others both covered and uncovered boat slips for this permanent mooring of boats and other normal services of a marina.” While gas service is not uncommon at marinas, the majority of lakes do not have dockside pumps available. In these cases, taking your boat to the gas station or bringing gas to your boat using containers are the only options. Where there is a gas dock, the gas is typically sold at a premium. Consumers can evaluate the costs and convenience of the various options and make their own decisions. While it is a good that the Town of Lake Lure can provide such an amenity, it has not (to my knowledge) been identified as an essential public service. While some lakefront boat owners may be challenged to get gas to their boat, boating is essentially a discretionary, recreational activity.

### ***Gas Pumps***

As set forth in the concession agreement, the Town is responsible for maintenance, repair and replacement of major capital equipment including, but not limited to, gas pumps and the gas storage tanks. The current credit-card-enabled gas pump was purchased by the town (approx. \$20,000).

### ***Gas Prices at the Town Marina***

The price of gas typically runs about \$1 above gas station prices. This fluctuates because the gas station prices respond much more quickly and frequently to market conditions. Marina gas is pre-purchased; the price is set according to the cost when delivered and will remain the same until the tank is emptied. In times where the price of gas has risen quickly, marina gas has been cheaper than at the gas station. When the market price is falling quickly, the marina premium will be larger. Here is a sampling of prices on July 10<sup>th</sup>:

- |                        |                          |
|------------------------|--------------------------|
| • Lake View Grocery    | \$2.49/gal (gas station) |
| • Washburn Marina      | \$3.45/gal (gas dock)    |
| • Marina at Lake James | \$3.49/gal (gas dock)    |

The major components of the premium paid at the Washburn Marina include:

- Wholesale cost of gas is higher – due to a smaller tank, smaller volume sold and a fundamentally different wholesaler relationships than exists at Lake View Grocery or Ingles.
- Cost of funds – the concessionaire (not the town) prepays an entire tank and then is reimbursed as the gas is sold. The ‘float’ (lost interest on the funds) is a cost to the concessionaire in this wholesaler model.
- 2% concession fee – charged by the Town.
- Credit Card processing fees – Paid by the concessionaire, these average 4-5% per credit card transaction (90% of all marina gas sales are by credit card). Gas stations typically don’t have these fees due to their volumes and different supplier relationships.
- Higher profit margin – gas stations have very low profit margins on gas (most of the profit goes to the wholesalers and refiners). They offset this with higher margins and volumes on convenience store sales...a situation not available to most marinas. Lake Lure Tours entered the current concession agreement with a business plan of their revenues and profit margins from the various components of their operation, including gas sales. Changing the gas component of their business plan could have significant impact on their viability and interest in the arrangement.

The Town marina operates in a free market. If the concessionaire sets prices too high, consumers will alter their gas-buying behaviors and their business will decline. Ideally, having another gas dock on the lake would provide competitive pressure that would work to the benefit of consumers (as we saw when the Dam Marina was open).

### ***Summary***

In Lake Lure, the premium charged by the marina concessionaire for the convenience of a gas dock is in line with standard business practices for marinas. If the Town wishes, as a matter of public policy, to intervene and influence the setting of gas prices, it has a few options:

- Forego the 2% concession fee. In 2008/2009, these fees from gas sales were \$1,800. Over the long run, these revenues are used to fund capital expenditures at the gas dock and marina.
- Change the concession agreement when it is renewed in 2017 – setting objectives and procedures for gas prices (for example, pegging them to a market price index or establishing a fixed profit margin) and for providing cost subsidies when needed. Depending on the conditions, a concessionaire may or may not be interested in gas sales.
- Terminate the current concession agreement (with a one year notice) and then renegotiate using some of the conditions noted above. A possible risk is the loss of other provisions that are advantageous to the town.

### ***Something Citizens Can Do To Reduce Gas Costs***

North Carolina's Department of Revenue will refund approximately 18¢/gallon of the 24¢/gallon tax to those recreational boaters who apply using form GAS 1201 ("Claim for Refund-Tax-paid Motor Fuel Used Off-Highway"). You should file a claim annually providing original receipts. You may file for purchases made three years back.

The forms are available on the NC Department of Revenue site <http://www.dor.state.nc.us/downloads/motor.html> Form 1201 is year-specific, so be sure to download the appropriate form. The instructions are included in a separate document that you should print out and read carefully.

Mail the claim form and original invoices to:

North Carolina Department of Revenue  
Motor Fuels Tax Division  
PO Box 25000  
Raleigh NC 27640-0950

If you have questions, call the NC Department of Revenue at (919) 733-3409, or send a fax to (919) 733-8654.

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