

PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF REGULAR MEETING

November 9, 2009

Commissioners Present

Bruce Faires, President
Mary Lou Block, Vice President
Marianne Burkhart, Secretary
Fred Gouge
Jim Orvis

Staff Present

Bob McChesney, Executive Director
Marla Kempf, Deputy Director
Tina Drennan, Finance Manager
Kevin Danberg, Port Operations Supervisor

Others Present

Bradford Cattle, Port Attorney
Karin Noyes, Recorder

CALL TO ORDER

Commission President Faires called the meeting to order at 7:00 p.m.

PLEDGE OF ALLEGIANCE

All those in attendance participated in the Pledge of Allegiance to the American Flag.

CONSENT AGENDA

The Commission amended the agenda by removing Item VI.E (Completion of M/N Gangway Ramp Replacement) from the agenda and moving Item VI.A (Resolution Number 09-14 – Establishing the 2010 Operating Budget) to after Item VI.C (Resolution Number 09-15 – Banking Excess Levy Capacity for 2010).

COMMISSIONER BURKHART MOVED THAT THE CONSENT AGENDA BE APPROVED TO INCLUDE THE FOLLOWING ITEMS:

- A. APPROVAL OF AGENDA AS AMENDED.**
- B. APPROVAL OF OCTOBER 26, 2009 COMMISSION MEETING MINUTES**
- C. APPROVAL OF CHECK NUMBERS 5463 THROUGH 5488 IN THE AMOUNT OF \$952.55 FOR TENANT REFUNDS.**
- D. APPROVAL OF VOIDED CHECK NUMBER 68699 IN THE AMOUNT OF \$52.50 FOR ACCOUNTS PAYABLE.**
- E. APPROVAL OF CHECK NUMBERS 68733 THROUGH 68759 INCLUDING DIRECT DEPOSITS D00535 THROUGH D00545 IN THE AMOUNT OF \$44,935.33 FOR PAYROLL.**

- F. APPROVAL OF CHECK NUMBERS 68760 THROUGH 68766 IN THE AMOUNT OF \$28,225.72 FOR PAYROLL.**
- G. APPROVAL OF CHECK NUMBERS 68767 THROUGH 68814 IN THE AMOUNT OF \$83,036.47 FOR ACCOUNTS PAYABLE.**
- H. APPROVAL OF CHECK NUMBERS 11074 THROUGH 11087 IN THE AMOUNT OF \$26,682.61 FOR HARBOR SQUARE ACCOUNTS PAYABLE.**
- I. APPROVAL OF CHECK NUMBER 11088 IN THE AMOUNT OF \$58.55 FOR HARBOR SQUARE ACCOUNTS PAYABLE.**
- J. AUTHORIZING THE SALE OF ABANDONED BOATS – RESOLUTION 09-13**

COMMISSIONER GOUGE SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

No one in the audience expressed a desire to address the Commission during this portion of the meeting.

PUBLIC HEARING ON DRAFT 2010 OPERATING BUDGET

Ms. Kempf advised that this is the last of three public hearings on the Port of Edmonds 2010 Draft Operating Budget. The budget packet has been available on the website since Friday, November 6th. The public will have an opportunity to make comments on any elements of the 2010 Marina and Property Budget, the 2010 Harbor Square Budget, the 2010 Combined Operating Budget, the proposed moorage and dry storage rates, the marina operations rates, and the proposed tax levy. Comments made by the public should be taken under consideration by the Commission as they review the elements of the draft budget later in the meeting. She noted that formal notification of the public hearing has been made in the appropriate publications and posted in the appropriate locations. The hearing is the last and final public hearing, and staff will recommend the Commission approve the final budget later in the meeting. She emphasized that the budget must be sent to the Snohomish County Assessor by November 30, 2009.

Dick Potter pointed out that he constructed his comments based on the draft budget that was considered by the Commission on October 26th because he was unable to obtain an updated copy from staff prior to the meeting. He said that he has attended many Port Commission meetings over the past several years, and he has always admired how the five Commissioners have been forthright. However, he feels that is not the case this year. At their last meeting, the draft budget identified a 3% moorage rate increase, but it also included another 5% increase to cover additional charges that have always been included as part of the moorage rate. The proposal would equate to an 8 to 9% increase, which was not clearly pointed out to the public. He also expressed concern that the numbers on the spreadsheet do not add up, and expenses have been overstated by 6%. He noted that neither the 2006 actual numbers nor the 2010 estimated numbers are added up correctly.

Mr. Potter noticed that staff expenses constitute a large portion of the Port's budget. For example, in 2006 approximately 62% of the actual operating expenses were associated with staff. That number has increased to 73% in the draft 2010 Operating Budget. He recognized that a large portion of the increase is due to the new requirement that the Port must set aside money for post employment benefits, but he is concerned that staff costs make up such a large percentage of the budget. He observed that the Port currently has the equivalent of 29.2 full-time employees. By dividing the total amount for salaries and wages equally amongst the employees, he found that the average employee makes \$49,000 per year. He felt this was a high number, and he suggested the Commission take a closer look. He questioned if other ports and public and private marinas of similar size require a similar-sized staff to what the Port of Edmonds currently has. He noted that this question was not answered in the documentation provided by staff.

Mr. Potter said the Commission has always said they would bill tenants an amount that adequately covers the services the Port provides. They have also had a policy that the moorage tenants would not be asked to subsidize other Port operations, and other Port operations and the taxpayers would not be asked to subsidize the moorage

tenants. However, this is not the case in the proposed budget. He reminded the Commission that there is a 35% vacancy rate at Harbor Square, and it appears the proposed budget is trying to recoup the approximately \$400,000 shortfall by raising moorage rates. He suggested there are other solutions. He said it is not clear in the proposed budget how much money the Port has in the bank, and he questioned if it is necessary for them to make a profit this year. As per the proposed budget that was reviewed on October 26th, the net income would be 1.8 times the debt service amount, which means the Port would be able to bank an additional \$800,000 this year.

Mr. Potter recalled that for the past 10 years, the Port has reported that their waitlist is approximately 4 to 5 years, particularly for the larger slips. He said he would like staff to list all of the slips that were leased out this year and identify how long the new tenants were on the waitlist before they obtained a slip. This would provide a good indication of the actual waitlist time and not all of the extra people who are paying \$25 per year to stay on the list. He summarized his belief that the waitlist is not as long as the Port would like people to believe. He emphasized that there are many questions that need to be answered, and it would make sense to allow more time for the Commission to work through the issues before accepting the proposed budget.

Jack Bevan referred to Page 1 of the draft 2010 Operating Budget and requested clarification about the revenue numbers identified for the former Edmonds Yacht Club (EYC) space. He asked if the space has been leased out. Commissioner Faires answered that it has not been leased yet. Mr. McChesney explained that the estimated revenue for the former EYC space is calibrated for six months of 2010. Ms. Drennan added that this would be new revenue generated once the EYC moves out and the space is leased. As per the proposed budget, staff anticipates the space would be leased out by July of 2010.

Mr. Bevan referred to Note 3 on Page 6 of the draft 2010 Operating Budget and requested clarification about the electrical depreciation schedule. Ms. Drennan explained that the meters are on a depreciation schedule of 40 years. Mr. Bevan also referred to Note 11 on Page 7 and requested additional clarification. Ms. Drennan answered that "Parking" contains three items. The Port collects fees for parking permits. The first parking pass is free for tenants, but they are charged \$5 for the second pass and incremental charges for each additional pass. The Port also charges for people to park their vehicles and trailers when they launch their boats. Lastly, the Port currently has a lease with Sound Transit for parking space through April 2010. Commissioner Faires said he does not anticipate this lease would be renewed in 2010. Commissioner Orvis added that the Port entered into a lease with Sound Transit for 50 parking spaces for 18 months, with no expectation of an extension.

Mr. Bevan asked if a hearing date has been scheduled for the Mid Marina Breakwater litigation. Mr. Cattle reported that a hearing date will be scheduled within the next month. As soon as the date is identified, the Port and the public would be notified.

Herb Anderson agreed with the comments provided earlier by Mr. Potter about how difficult it was to obtain up-to-date materials from staff. This makes it difficult for the public to ask timely questions. He noted that while the staff report indicates the materials have been available to the public since October 23rd via the website, the information is very different than the budget that is currently proposed. Commissioner Faires agreed the budget has gone through considerable evolution since October 23rd, much of which has to do with public comments that were received at previous hearings. He agreed it is a misstatement to say the current budget has been available since October 23rd.

Mike Jones observed that of the proposed \$400,000 in property taxes the Port would collect in 2010, \$250,000 would be allocated to Harbor Square and only \$150,000 to marina operations. Commissioner Faires clarified that the \$150,000 would be allocated to the properties on the west side of the Port (flowers, Commission expenses, etc) but not for marina operations. Mr. Jones questioned if the proposed distribution is fair given that the Harbor Square is only 25% of the total budget and the marina and dry storage operations are 75%. He suggested the allocation be based upon the income that each operation brings in.

Commissioner Orvis emphasized that if Harbor Square was able to pay for itself, the Port Commission would most likely reduce the amount of taxes rather than use the tax revenue to support operations on the west side. The

\$250,000 that is allocated for Harbor Square is intended to help the Port recover from having to purchase the buildings that were in poor condition. This tax revenue would not have otherwise been collected and diverted to the marina. He clarified that the tenants are not subsidizing Harbor Square. Commissioner Faires added that the Port's policy is that tax dollars should not be used to subsidize the marina and vice versa, and the Commission will conduct an extensive review of the issue in early 2010. He clarified that, at this time, the Port is taxing the Port District residents (owners) for the investment the Port Commission is making at Harbor Square. The Commission believes this is in the long-term best interest of the community and the taxpayers.

Mr. Jones asked why the waler replacement project, which is estimated to be \$110,000, was identified as an expense in the operating budget rather than as a capital budget item. Commissioner Faires pointed out that this project would replace an asset that has worn out, so it must be considered maintenance. Mr. Jones asked if the Port has set aside money for projects of this type. Commissioner Faires explained that the Commission has a goal of setting aside money for replacement of capital assets in the marina, but they do not break it out into small chunks. Unfortunately, the mid-marina breakwater and marina replacement were major assets funded by money that was saved over the years by virtue of making a profit each year. The profit goes towards preparing for future replacement of capital assets.

Mr. Jones announced that on October 20th, the Port of Everett Commission approved a budget that included a 10% decrease in operating expenses and a 21% decrease in capital budget expenses. The Port of Edmonds, on the other hand, is proposing a 6.5% increase in expenses. He emphasized that times are tough for everyone, and he was glad to see the proposed moorage rate increase is lower than what was originally proposed. He asked the Commissioners to keep the rate increase to a minimum.

Commissioner Faires said his understanding is that the Port of Everett is proposing a 2% moorage rate increase. Mr. Jones said he recently visited the Port of Everett and learned that they currently have vacant slips in the larger sizes because of their recent expansion, and they have actually proposed a rate decrease for some of their larger slip categories. Commissioner Block pointed out that the Port of Everett does not change their rates until the spring of each year.

Commissioner Faires asked staff to respond to Mr. Potter's comment that the columns on the spreadsheet do not add up. Mr. McChesney said staff would check their arithmetic again, but he believes the numbers do add up correctly. He explained that staff has been charged with presenting a balanced budget to the Commission. The process was iterative and involved a lot of interaction with the Commission, staff and public starting in July. He recalled that at the last meeting the Commission achieved some consensus as to the specific expense item reductions, and staff believes the proposed budget represents the maximum cuts possible while still keeping the facilities in top condition. He summarized that the moorage rate increase appears to be the only item left to be decided by the Commission. As per the Commission's recommendation, the draft budget identifies three scenarios for rate increases: 2%, 3% and 4%.

Mr. McChesney recalled that as staff attempted to prepare a draft budget that was balanced and kept moorage rates flat, they discovered there were some operating expenses they could not get their arms around. They ended up working backwards by calibrating an increase schedule of first 12% and then 6%. Staff felt it was worthwhile to discuss with the Commission a scenario that would have included a 6% increase to moorage rates or a 3% increase to moorage rates and an additional 3% increase to cover additional expenses. However, at the last meeting, the Commission directed staff to eliminate the proposed new billing method and identify what the real rate increase would be. The identified rate increases of 2%, 3% and 4% are a result of this decision. He apologized for the misunderstandings that resulted from staff's proposed new method for billing out moorage costs to tenants. The new method was an attempt to dissect the moorage rates and identify those costs the Port has been absorbing that they can no longer do. Rather than adopting the new method as part of the proposed budget, the Commission has agreed to discuss the concept again in 2010.

Commissioner Faires explained that staff originally proposed to charge separately for three items the Port does not have control over. These items would have been separate from the standard moorage rate fee. Unfortunately, their enthusiasm to incorporate the program appeared to some as an attempt to hide something from the public. The

Commission agreed that interjecting a new way of looking at the budget in the middle of a budget cycle was poor timing, and the idea was not included in the draft that is currently before the Commission for consideration. At some time in the future, the Commission would reconsider the option of billing for these items separately.

Mr. McChesney responded to Mr. Potter's concerns related to the Port's current staffing level by saying that staff levels at the Port he previously worked for were twice as high as those of the Port of Edmonds, and their operating budget was less. He said he can state as a fact that the number of employees at the Port of Edmonds and the associated employee costs as a percentage of total operating budget are in line with industry standards and consistent with the kind of service the Port's customers have grown to expect and demand. Commissioner Faires added that the Commission spends a significant amount of time discussing the appropriate staffing level. At one point, they agreed to maximize seasonal staff and minimize permanent staff. While this represented a cost savings from an accounting standpoint, there were significant efficiency and safety issues. The Commission believes the current staffing level is very close to the right level for the Port of Edmonds. Commissioner Orvis explained that equating staff to revenue does not work for ports. He observed there are ports in Eastern Washington that have 3 or 4 times the revenue with only five staff members. However, they are not required to operate a marina or equipment.

Regarding the issue of whether or not the marina tenants are subsidizing Harbor Square, Commissioner Orvis explained that the Port traditionally had one budget that included real estate, marina, workyard etc. However, when the Port purchased Harbor Square, the bank required them to provide a separate budget for Harbor Square. The other budget (Marina Property Budget) includes revenue from Anthony's, Armies, the Harbor Inn, and the Harbor Square Athletic Club. He suggested that a portion of these revenues are used to compensate for many of the things that the moorage tenants and taxpayers think they are paying for (i.e. flowers, marina maintenance, boardwalk maintenance, overhead, etc.). While there has been a long-term feeling amongst the tenants that they are subsidizing the rest of the marina, the Commission does not agree. If debt service is taken into account the landward properties are actually subsidizing the water side. He reminded the public that the Commission would conduct a thorough review of this issue in early 2010 so that the revenues and expenses can be more clearly defined.

Mr. Potter said that because the proposed budget is different than the one provided on the Port's website, he suggested the Commission postpone their decision until the next meeting so the public has an opportunity to review the updated proposal and provide comments. He referred to Page 3 of the draft budget that was reviewed by the Commission on October 26th and pointed out the following:

- Advertising expenses are estimated to be \$1,500 for Harbor Square and \$15,000 for the remainder of Port properties, yet the marina is full and occupancy at Harbor Square is about 65%.
- Auto expenses are estimated to be \$500 for Harbor Square and \$20,000 for the remainder of Port properties.
- Bank charges for Harbor Square are estimated to be \$600, while \$3,000 is estimated for the remainder of Port properties.
- Business taxes for Harbor Square are estimated to be \$1,000 for Harbor Square and \$14,000 for the remainder of Port properties.
- Commission Costs would be \$22,000 for Harbor Square and \$87,000 for the remainder of Port Property.
- Economic Development is all charged to the marina and property budget, yet Harbor Square is the Port's economic development project.
- About \$334,000 of employee benefits were charged against the Marina and Property Budget, and only \$26,000 against Harbor Square.
- The Marina and Property Budget identifies an insurance expense of \$153,000, and the Harbor Square expense is only \$32,000.
- Membership dues were all charged against the Marina and Property Budget, as were office expenses of \$63,000.
- The vast majority of payroll taxes were charged against the Marina and Property Budget.
- About \$1,350,000 was charged against the Marina and Property Budget for wages and salaries, but only \$100,000 was charged against Harbor Square.

Mr. Potter advised that he reviewed all of the minutes from 2009 and found the Commission only considered seven business items related to the marina. Everything else was related to other issues. On the other hand, the Commission spent a significant amount of time discussing issues related to Harbor Square. He suggested the expenses are not balanced fairly.

Ms. Drennan provided the following explanation to Mr. Potter's issues:

- Equipment costs are related to fuel and vehicles that are primarily used on the west side. Only one vehicle has been assigned to Harbor Square.
- Business taxes in the Marina and Property Budget are primarily based on launcher and guest moorage fees. At Harbor Square they are related to late fees and room rentals, which are minimal.
- Employee benefits were allocated based on the number of staff at each location, and the same is true for salaries and wages.
- Insurance costs are based on the actual costs associated with each area.

Commissioner Faires explained that Harbor Square is managed by a management company that provides their own office supplies, etc.

Mr. Potter also raised a concern about the distribution of professional fees. Ms. Drennan provided an explanation of the various fees associated with this line item, which include the Port Attorney, the Port Recorder, Public Relations, Environmental Engineering related to issues in the workyard, etc.

Commissioner Faires agreed that a greater amount of the Commission's time has been spent on Harbor Square over the past few years because they are working on a master plan for the site. However, if they get the master plan right, they will hopefully be able to spend more time on the west side. He pointed out that the Commission does not generally reallocate their time and overhead each year, but the costs essentially balance out over time. He reminded the public of the Commission's goal to reexamine the Port's entire financial structure in 2010.

Commissioner Orvis explained that the economic development budget is spent entirely on the west side for the Destination Port of Edmonds Program and advertising the marina. Not all of this funding comes from moorage tenants; much of it comes from the restaurants and other property leases on the west side. Harbor Square is also considered economic development, but as required by the bank, the budget for this property is separate.

Mr. Potter said he is not so worried about what he will have to pay for moorage in 2010. He is more worried that the number of boats in the marina will decline because the Port would no longer be considered a bargain. While it is a beautiful marina, if the marina is not full, the taxpayers will be required to provide more funding. He recalled that the Huskies, Seahawks and Sonics priced themselves out of the market and didn't take care of their customers, and he is worried the Port would do the same thing. He reminded the Commission of the presentation provided by Paul Sorenson regarding the status of public marinas in Washington State. He talked about how he and his wife lived in Kenmore, but came to the Port of Edmonds to walk on their boardwalk because they enjoyed seeing the boats. The people who use the boardwalk do not want to see empty slips. Commissioner Faires emphasized that the Commission does consider market factors when they adjust their moorage rates.

Mr. Bevan expressed his belief that the taxpayers are actually subsidizing the entire Port. He emphasized that the tenants do not own the Port. He said he could fill the room with stockholders (taxpayers), except they understand the Port's current situation related to the purchase of the Harbor Square buildings. They also realize that if they do not provide financial support, the Port would lose their bond rating. He summarized that the issue is greater than just moorage rates. Once the Harbor Square situation is in hand, he plans to request the Commission reduce or eliminate taxes.

Mr. Jones agreed with Mr. Potter that the Commission must keep in mind what the market will support when considering rate increases. He noted that a 2% moorage rate increase along with the proposed environmental fee

increase of \$4 and the proposed electrical fee increase of \$5, would result in a total rate increase of up to 5.8%, depending on the size of the slip. Mr. McChesney explained that the draft budget includes an environmental surcharge increase to \$10 to cover the Port's existing and projected environmental expenses. He reminded the Commission and public that workyards and marinas are under intense scrutiny and pressure on the part of the Department of Ecology. Every year that goes by, ports are called upon to do studies and analysis for water quality, and the \$4 additional environmental charge increase would cover the increased cost of the program. Commissioner Faires pointed out that when expenses are broken out of the moorage rate, the leasehold taxes are slightly less.

Mr. McChesney said staff is very sensitive to the issues brought forward by the public, and they tried to abide by the guidance set forth by the Commission to present a budget that fairly reflects the Commission's intent. Staff believes the proposed budget is fair and reasonable; it covers expenses and generates a small amount of net revenue to put back into the facility.

Commissioner Faires said he is still concerned about Mr. Potter's comment that the numbers on the spreadsheet do not add up. He asked staff to go through the numbers one more time to make sure they are right. Ms. Drennan explained that she runs the numbers on Excel, and she also uses an adding machine to verify the totals. Commissioner Faires suggested staff also review the numbers with Mr. Potter. Perhaps some changes should be made next year, so the total amounts are easier to identify.

RESOLUTION NUMBER 09-15 – ESTABLISHING THE AMOUNT OF TAX TO BE LEVIED IN 2010

Mr. McChesney recalled that the Commission reviewed and discussed the 2010 Tax Levy needs on September 12th, October 12th, and October 26th. He explained that the Port of Edmonds may levy a property tax of \$509,371 (2009 levy limit) plus the estimated amount of new construction for a total of approximately \$511,000. The tax levy for 2009 was set at \$400,000, and the proposed tax levy for 2010 would be \$400,000. The proposed mil rate for 2010 would be approximately \$.0945. He recommended the Commission approve the resolution as presented.

COMMISSIONER GOUGE MOVED THE COMMISSION APPROVE RESOLUTION 09-15, ESTABLISHING THE AMOUNT OF TAX TO BE LEVIED IN 2010 IN THE AMOUNT OF \$400,000. COMMISSIONER BURKHART SECONDED THE MOTION.

Commissioner Gouge recalled that at their last meeting, he raised the idea of lowering property taxes and was reminded of the Harbor Square debt. However, if the Commission is going to consider keeping the moorage rates flat, he suggested that they also consider reducing the property taxes. When they start the process of breaking out the marina and other budget items in 2010, he suggested they also consider giving the taxpayers a break, and not just the tenants.

Commissioner Burkhart reminded the Commission that when they purchased the Harbor Square Buildings, they planned to invest the tax revenue into the property for the next three years to make the necessary improvements. She noted that 2010 will be the third year of using taxpayer revenue to subsidize Harbor Square. If the Commission's planning was right and everything goes well, they should be able to consider a tax reduction next year.

THE MOTION CARRIED UNANIMOUSLY.

RESOLUTION NUMBER 09-16 – BANKING EXCESS LEVY CAPACITY FOR 2010

Mr. McChesney advised that the Port of Edmonds may levy a property tax of \$509,371 (2009 levy limit) plus the estimated amount of new construction, and they are proposing to levy a tax of \$400,000 for 2010. Washington State law allows the Port to bank the additional 1% it could levy, which would allow the total legal levy to grow without assessing the full amount. He recommended the Commission approve the resolution as presented.

COMMISSIONER BLOCK MOVED THE COMMISSION APPROVE RESOLUTION 09-16, BANKING EXCESS LEVY CAPACITY FOR 2010. COMMISSIONER ORVIS SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

RESOLUTION NUMBER 09-14 – ESTABLISHING THE 2010 OPERATING BUDGET

Mr. McChesney reviewed that tonight was the last of three public hearings on the draft 2010 Operating Budget, which identifies three alternatives for moorage rates, 2%, 3% and 4% increases. He noted that the Commission and staff have reviewed and discussed elements of the draft budget at five Commission meetings on August 31st, September 14th, September 28th, October 12th, and October 26th. He reported that they spent a great deal of time on the proposed budget. He recommended the draft proposal be approved as presented, subject to the Commission making a final decision as to what the moorage rate increase should be.

Commissioner Gouge expressed his belief that the staff and Commission have worked the budget to death. He has personally spent countless hours discussing the issue with both the Commission and with staff, and he has also considered all of the numerous public comments that have been received. As he reviewed the budget, he carefully considered the longevity of the marina and Harbor Square. He reminded the Commission that it is their fiduciary responsibility to look out for the taxpayers' assets, which is what the proposed budget does. It is important that they continue to maintain the marina, and it is very difficult or impossible to make up for lost revenue. He reminded the Commission that the 2009 moorage rate increase was actually 1.8% less than CPI, and if they do not increase the rates enough this year, they may be required to institute a greater rate increase plan to make up the difference.

Commissioner Block encouraged the Commissioners and staff to take time in early 2010 to break down the costs for the various cost centers to make sure the allocations are correct. They must also find a tenant for the soon to be vacant Edmonds Yacht Club space as soon as possible. She also recommended the Commission consider the idea that was brought up earlier by Mr. Anderson about reducing garbage costs by requiring people to carry out their garbage. She expressed concern about the difficulties the Port has experienced with their recycling program because people are not careful and end up contaminating the recyclable materials with garbage. In addition, the dumpsters tend to look unsightly, and a significant burden is placed on staff to keep the areas clean. She noted the Port spends about \$60,000 for garbage service, and these costs are expected to increase. While she recognized that several issues would need to be addressed, she encouraged the Commission and staff to research ways to bring the costs down and to do a better job with the concept of recycling and garbage disposal without having it cost so much and becoming a deterrent from having an attractive marina.

Commissioner Orvis expressed concern about balancing between what they charge for marina fees and what they charge the taxpayers. Taxpayers get value from the Port, but they have essentially mortgaged their properties to pay the bonds because if the Port loses their bonds, they will have to raise taxes to cover the costs. He cautioned that raising taxes always seems to be the easiest way out of a difficult situation. He reported that he recently attended a marina conference where many port directors in attendance indicated they are worried that they have insufficient funding to complete their needed maintenance projects. He noted that the two new marinas (Everett's 12th Street and Shilshole Bay) charge a higher moorage rate than the Port of Edmonds because they are still paying for the construction costs of the new facility. However, he acknowledged that some of the older marinas that are paid for such as the older portion of the Port of Everett, Elliott Bay, etc. have lower rates. However, it is important to keep in mind that they are not maintained as well as the newer facilities. Many of the private marinas are in trouble because of new Department of Natural Resources and Department of Ecology requirements, and the tribes who lease the land are also dramatically increasing their fees. He summarized that with the new environmental requirements, the boating business in Washington State is under attack, and it will get worse.

Commissioner Orvis expressed his belief that the proposed budget offers a good balance. Next year they can divide the real estate revenues and expenses into various categories. He said he believes the public and tenants have a right to know where their money is going, and the Commission needs to have confidence that taxpayers, moorage tenants and property leases are all paying their own way.

Commissioner Burkhart observed that another option for increasing revenues in the future is to utilize the land that is currently being leased by Sound Transit for some type of revenue-producing use. She encouraged the staff and Commission to give priority to this issue in 2010 so the property can be used to help the Port's overall finances in the future. She said she is pleased that rather than significantly raising rates, the Commission has agreed to space out the major repair and maintenance programs by moving the dock sealing project to 2011. She expressed her belief that once rates are increased to pay for a particular project, they are seldom reduced once the project has been paid for. She encouraged the Commission and staff to develop a 5-year plan for the major repair and maintenance projects. Commissioner Orvis pointed out that while the dock sealing project was deferred until next year, it is important to keep it in mind that it has already been deferred for five years.

Commissioner Burkhart said she intends to support a 2% rate increase because she is particularly concerned with the Port's market position and potentially shrinking waitlist.

Commissioner Faires reviewed that the Commission has been dealing with the budget since July, and at this point he believes the numbers are as accurate as they have resources to provide. They may move things around, but it wouldn't change the bottom line. He said he believes the balance in staffing is pretty good at this point. He reviewed that a 2% rate increase would result in a net income of \$166,400, a 3% rate increase would result in a net income of \$199,400, and a 4% rate increase would result in a net income of \$233,400.

Commissioner Faires read a letter the Port received from long-time tenant, Mike Thorsen, who has been a Port District Resident for 42 years and a moorage tenant for 26 years. Mr. Thorsen expressed alarm and disappointment in the proposed increase in the cost of moorage in Edmonds. He pointed out that his friends who are running businesses are cutting back in every conceivable way to get through these lean times, but he sees no evidence of that at the Port of Edmonds. He said it appears the Commission is looking solely to the moorage tenants to balance their budget, and he questioned how long he could continue boating when the value of his boat has dropped 30% in the last year and the actual proposed increase in moorage is 6%. He concluded his letter by stating that "you can put lipstick on a pig, but it is still a pig."

Commissioner Faires expressed his belief that public perception is important, particularly in light of the current financial situation. From a perception standpoint and, more importantly from a realistic standpoint, the Port's budget needs to be as lean as possible. They need to run the Port as a business and be as connected to reality as possible. He said he intends to support a 2% rate increase. From a policy standpoint, the Port has typically raised rates based on CPI, but last year they raised the rates less than CPI, and this year they are raising them greater than CPI. He said he supports the 2% increase because costs that are outside of the Port's control have or will increase.

COMMISSIONER BURKHART MOVED THE COMMISSION ADOPT AND APPROVE A MOORAGE RATE INCREASE FOR THE 2010 OPERATING BUDGET OF 2%. SHE FURTHER MOVED THE COMMISSION APPROVE RESOLUTION 09-14, ESTABLISHING THE 2010 OPERATING BUDGET ON THAT BASIS. COMMISSIONER ORVIS SECONDED THE MOTION.

Commissioner Orvis said he was ready to recommend a 3% moorage rate increase. However, in light of the additional environmental and electrical fees, he would support a 2% increase instead.

Commissioner Gouge observed that the Port has a little more than \$6 million in the bank right now, and they got hit hard because a new Washington State law requires banks to insure or collateralize public monies at 100%. Therefore, interest rates have dropped significantly, and the Port lost about \$200,000 in interest rates in just 2009. This situation will not likely improve in the near future. However, it is important to look forward. He agreed that it is important for the Commission to further discuss budget issues in early 2010. While he would have supported a higher moorage rate increase, he would go along with the majority of the Commissioners' desire to increase the rates by 2%.

Jack Bevan suggested the Commission find some way to help the public and tenants understand that without the tax revenue, the Port would lose their bonding capacity. It is also important for them to understand how the new Washington State law that requires banks to insure or collateralize public monies at 100% has impacted the Port's interest income. Perhaps it would be appropriate to provide this information in the next Executive Director article that is published in the local newspapers. He also suggested that when the economy recovers, the Port should consider selling the Harbor Square property.

THE MOTION CARRIED UNANIMOUSLY.

Commissioner Orvis referenced Mr. Bevan's previous comment and explained that state law previously required banks that accept public money to insure each other in case one failed. When one bank failed recently, it had a tremendous impact on other banks and they subsequently decided to no longer accept public money. The legislature has subsequently changed the law so that every bank that takes public funds has to insure or collateralize public monies at 100%. That means the interest rates are very, very low, and he does not anticipate this will change in the future.

ANTHONY'S ROOF REPLACEMENT CHANGE ORDER

Mr. McChesney reviewed that the Commission authorized staff to solicit bids for installing a new roof on the Anthony's building on August 31st. After a competitive bidding process under Washington State Public Works contracting statutes, bids were opened on September 23rd, and the Commission authorized staff to award the contract in the amount of \$216,983 (plus Washington State Sales Tax) to Meyer Brothers Roofing as the low bidder. Subsequent to the award and prior to the project commencement, new conditions were discovered that resulted in a change to the contract specifications. Specifically, the changes affected the validity of the roof warranty. He explained that the original design specifications assumed a 1/4-inch slope, when the actual slope was determined to be less than 1/16 inch. The roof material supplier would not provide a warranty for a roof with less than a 1/8-inch slope, and Change Order 1 in the amount of \$103,910 would provide an insulation package to build up the slope.

Mr. McChesney further advised that the existing equipment screen was to be removed and replaced to match the existing materials. However, the mounting framework was later determined to be a part of the roof structure and was creating a dam that impeded sheet flow to the primary drain, which caused severe ponding. This would also have nullified the roof warranty. The contractor worked with the design architect on a different mounting specification leading to Change Order 2 in the amount of \$26,935. He summarized that while it would have been much preferred to have known of these conditions prior to the original bid, the Port would have had to do this work anyway in order to obtain the proper warranty. He reminded the Commission that Anthony's is a 50-50 cost share partner and they have agreed to the changes. He recommended the Commission approve Change Orders 1 and 2 as presented and authorize the Executive Director to sign and execute modifications to the original contract with Meyer Brothers.

Commissioner Orvis noted that the total cost of the project would still be below the original estimate of \$400,000. Mr. McChesney agreed and expressed his belief that the change orders are necessary. He again noted that even if the specifications had been drawn up correctly, the work would have been required anyway. However, the Port would have had the ability to bid the job. He summarized that he would have preferred to have the correct specifications in the original document, but that is not the case and they need to move forward with the roof project as soon as possible.

COMMISSIONER ORVIS MOVED THE COMMISSION APPROVE CHANGE ORDER NUMBERS 001 AND 002 TO THE ANTHONY'S ROOF CONTRACT, BY MEYER BROTHERS ROOFING CONTRACTORS, IN THE AMOUNTS INDICATED AND MODIFY THE TOTAL CONTRACT AMOUNT IN THE SUM OF \$130,845.00. HE FURTHER MOVED THE COMMISSION AUTHORIZE THE EXECUTIVE DIRECTOR TO SIGN THE CHANGE ORDERS AS PRESENTED. COMMISSIONER BURKHART SECONDED THE MOTION.

Commissioner Gouge said he hopes this is the last discussion about change orders related to the roofing project. He noted that the Port has a good contract with Anthony's and they have been a good tenant. The architect was hired by Anthony's. However, it is important to keep in mind that most of the bids were a lot higher than the initial bid from Meyer Brothers, even without the specification changes. Commissioner Block expressed frustration that the architect did not address this issue. Mr. McChesney agreed the architect assumed too much and did not field verify his assumptions before drawing up the specifications. But they have wasted enough time dealing with the issue and need to get the project moving forward as weather permits.

THE MOTION CARRIED UNANIMOUSLY.

EXECUTIVE DIRECTOR COMMENTS

Mr. McChesney reported that he participated in the joint Edmonds Planning Board/Citizens Economic Development Commission Meeting on October 28th where he was invited to make a joint presentation with Debra Knutson of the Snohomish County Economic Development Commission. The purpose of the presentation was to introduce some ideas and concepts related to economic development and explain a little about what economic development means to the Port. It was not his intent to convince the members of the group to support any particular program or plan, but to share thoughts and build a partnership that will be necessary in order to move forward with redevelopment projects in the future. Commissioner Burkhart said she appreciates that Mr. McChesney took the time to explain why some of the ideas brought forward by members of the group would not likely be successful.

Mr. McChesney reminded the Commissioners of the special public meeting that has been scheduled for November 16th at 7:00 p.m. in the Edmonds Yacht Club regarding the Harbor Square Master Plan. The consultants will be present to present their concepts, to discuss economic issues, and to hear from the Commission, staff and public regarding the future of Harbor Square. He said he anticipates a packet of materials from the consultants would be available for the Commission's review by November 11th.

COMMISSIONER COMMENTS AND COMMITTEE REPORTS

Commissioner Gouge reported on his attendance at the Edmonds City Council Meeting of November 2nd where the City Council approved the Fire District 1 proposal by a vote of 6-1. In addition, Joyce Elders from Community Transit was present to announce that a public ceremony to celebrate the opening of the new SWIFT Line was scheduled for November 29th starting at 11 a.m. at the Everett Station. She advised that Community Transit anticipates a \$130 million loss by the year 2013. The new service runs along Highway 99 from Everett to the Aurora Village Station, and includes a connection from 196th to Highway 99. A segment of the ceremony will take place at the 196th Street station. He encouraged staff to put information about the ceremony and the new program on the Port's website.

Commissioner Gouge reported that the Edmonds City Council also decided to cancel a public hearing regarding an easement on the 700 block of 8th Avenue. About 40 people were present to speak about a decision the City Council made in 2008. The citizens expressed concern that they did not have due process.

Commissioner Gouge thanked the public for electing him to serve for another four years.

Commissioner Block reported that the Prosperity Partnership Lunch where Alan Mulally was scheduled to speak has been rescheduled to February 26th. She noted that all purchased tickets would be honored on the new date.

Commissioner Orvis reported on his attendance at the Northwest Marina Conference at the Lake Union Boathouse. It was an interesting event, and he particularly noted the following presentations:

- A representative from the Department of Natural Resources talked about a new proposal regarding “Sustainable Balance of Benefits and Stewardship of Properties.” The laws will have a much greater impact on entities that have underwater activities, particularly those who lease from the Department of Natural Resources. He said he would be very interested in reviewing the Port’s management agreement, if one exists. They also talked about LEED Certification and provided information on what is required to obtain silver, gold and platinum LEED Certification. They acknowledged that developing to meet LEED standards is expensive.
- A New England company provided an extraordinary presentation about E Paint, which is an environmentally friendly paint with no copper. It has been approved by the Federal Government, and the Coast Guard is now using it on their cutters and the Navy uses it on their smaller vessels. It works with photochemical reaction with the paint to generate small amounts of hydrogen peroxide that keeps the aquatic life from attaching to vessels. They advertise that tests have demonstrated that the paint allows boats to go faster, as well. The paint contains a very small amount of zinc, but less than shampoo. CSR is using the paint and has tested it on 100 boats. Given other issues such as the Department of Ecology’s new requirements, this paint may be popular in the future. Those who use it may no longer have to pull their boat out of the water every three months because the boats could be cleaned while in the water.
- He spoke with Eric Johnson, Executive Director of the Washington Public Port Association (WPPA), regarding the Department of Ecology’s (DOE) economic analysis associated with the stormwater permit. He noted that in addition to a letter from the Port to the WPPA, Larry Crockett from the Port of Port Townsend sent a much stronger letter. The DOE’s study indicates that it costs \$50 to take a sample and have it analyzed, but this is not an accurate figure. Mr. Crockett expressed his belief that the entire DOE study that was done to meet the requirement is substandard, and the DOE has not completed all of the work they are required to do. Mr. Crockett’s letter was also sent to the Department of Commerce and his legislators.
- The Legislative Committee talked about sales tax and the ability of counties in the State to increase sales tax for economic development. The Legislature may have serious problems with the law because several counties have used their sales tax revenue to build things it was not intended to support. It was suggested that the Legislature may place this money, as well as MTCA funds into the general fund, which would allow them to be spent for various uses. The Legislature is also considering several options for increasing taxes such as increasing the gas tax, increasing the motor vehicle excise tax, and implementing a sales tax on services and other items that are not normally taxed. The Federal Government is talking about a tax bill, as well. One particular idea that would impact the Port of Edmonds is the concept of a street utility tax, which would allow cities to assess a tax based on how much a business or entity is expected to use a road. There is a new proposal related to the Open Public Meetings Act. As per the legislation, if someone submits a records request and an entity cannot fulfill the request within 15 days, the request will be forwarded to a hearing. Once a hearing has been conducted, an entity would be required to comply with the final decision of the hearing body. No penalty would be imposed until after the hearing body has ruled. It also appears that the unions have quit pushing the prevailing wage legislation forward, which would have required people who lease from public entities to pay prevailing wages. This would have had a significant impact on those who lease business property from the Port.

Commissioner Burkhart reported on her attendance at the November 2nd Woodway Town Council Meeting where she invited them to attend the Port’s public meeting on November 16th to discuss the Harbor Square Master Plan. Unfortunately, this is the same night as their regularly scheduled meeting, but they agreed to invite Mr. McChesney to attend one of their meetings in January or February to provide information regarding the proposal. She said the Town Council discussed the concept of investing in other city’s bonds, which was recommended by the State Auditor. She also reported that the Town Council had a different way of handling their public hearing for the budget. The Mayor opened the public hearing and the Town Council reviewed and discussed the budget before the Mayor invited members of the public to comment. This allowed the public an opportunity to hear what was being proposed before they commented. She suggested the Commission consider this option for their 2011 Operating Budget hearings.

Commissioner Burkhart reported that she attended the October 28th joint Edmonds Citizens Economic Development Commission/Planning Board Meeting. She noted that both groups are scheduled to make a presentation to the City

Council in January. She further reported that she would attend the Ferry Partnership Meeting on November 12th and the Snohomish County Economic Development Council Meeting on November 18th.

Commissioner Faires reported on his attendance at the joint Edmonds Citizens Economic Development Commission/Planning Board Meeting on October 28th. He observed that as a group, they are still in the “wandering in the wilderness” stage, and they have a lot of people with a lot of different perspectives. They need to be patient and let everyone share their ideas before they can focus their direction.

Commissioner Faires asked that the December 14th meeting agenda include election of 2011 Commission Officers.

Ms. Ocfemia expressed her thought that everyone in attendance wants what is best for the Port, and that is to keep the existing tenants and increase the number of tenants and to maintain the high-quality facilities. They should keep in mind that the budget issues are a result of the current recession. It was interesting to hear the Commissioners justify how the money is being spent.

At the request of the Commission, Mr. Potter reported on the status of the new Edmonds Yacht Club building. He noted that Commissioner Block attended a tour he provided for over 70 of the Edmonds Yacht Club Members a few days ago. Commissioner Block said the building is amazing and suggested that Mr. Potter offer to take the other Commissioners on a tour, as well. Mr. Potter said he would be glad to provide a tour to Port staff and Commissioners upon request. He agreed the building is amazing, and the architect from Taylor, Gregory and Butterfield (currently TGB Architects) did an outstanding job.

Commissioner Burkhart inquired if the building is on schedule to be completed by the end of the year. Mr. Potter advised that while some unforeseen situations had to be addressed, they are still working hard to have the building open by the first of the year.

Mr. Potter explained that the yacht club decided not to proceed with their request to extend the height limit to accommodate architectural features on the lighthouse portion of the building. Upon further discussion with the City regarding the process, they felt it was unlikely the City Council would make a precedent setting exception to their Comprehensive Plan amendment process to allow the amendment to proceed in 2009. However, he urged the Commission to include this request as part of their Master Plan proposal for Harbor Square. He noted that the zoning in downtown Edmonds already allows an additional five feet in height for architectural features, and this same allowance would also be appropriate for the Port property. He explained that the yacht club building’s lighthouse feature was designed so that it could be raised if and when the City were to approve the zoning change in the future. The Commission agreed they were interested in pursuing the concept further with the City as part of the Master Plan update.

Commissioner Gouge inquired if the Port Commission intends to respond to Snohomish County’s Environmental Impact Statement (EIS) related to Point Wells. Commissioner Block explained that the City of Shoreline is appealing the EIS and the County’s designation of Point Wells as an Urban Center, and Commissioner Burkhart said the Town of Woodway is also considering the option of appealing the EIS. Commissioner Burkhart said Woodway’s main issue is related to transportation, and they are opposed to the County identifying the property as a transportation corridor. Although it is located along the tracks, there is no current or planned stop on or near the site. Commissioner Block advised that Shoreline’s position is to convince Snohomish County that a one-size-fits-all Urban Center designation would not be appropriate for the Point Wells site. They have noted that Point Wells is the only Urban Center site that is located on the waterfront, which makes it a unique site. They are suggesting a separate designation be established for this site to address the unique characteristics that exist. The Commission agreed that, at this point, the Port should not get involved in the appeal process unless the EIS language has been changed and no longer includes “marina” as a possible use on the site, as requested earlier by the Port.

ADJOURNMENT

The meeting was adjourned at 9:20 p.m.

Respectfully submitted,

Marianne Burkhart
Port Commission Secretary