



PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF SPECIAL MEETING AND SUMMARY MINUTES OF RETREAT

April 16, 2018

COMMISSIONERS PRESENT

David Preston, President
Steve Johnston, Vice President
Jim Orvis, Secretary
Bruce Faires
Angela Harris

STAFF PRESENT

Bob McChesney, Executive Director
Marla Kempf, Deputy Director
Tina Drennan, Finance Manager
Brittney Williams, Manager of Properties and
Marketing
Brian Menard, Facilities Maintenance Manager
Renae Ebel, Administrative Assistant

CALL TO ORDER

Commissioner Preston called the special meeting to order at 9:00 a.m.

PLEDGE OF ALLEGIANCE

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

CONSENT AGENDA

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

- A. APPROVAL OF AGENDA
- B. APPROVAL OF MARCH 26, 2018 MEETING MINUTES
- C. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$166,426.41

COMMISSIONER ORVIS SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

Bill Fieldstead asked for clarification of a letter the Port sent to Dry Storage tenants regarding the recent changes related to moorage. He said he has some concerns about how the changes will impact security for tenants. Mr. McChesney suggested it would be best if he talked directly with staff, who could provide information on the alternatives that were studied and evaluated before decisions were made.

APPROVAL OF RESTROOM REMODEL CONTRACT NO. 2017-282 AS COMPLETE

Mr. McChesney advised that the restroom remodel at Marina Operations is now complete. He reviewed that \$200,000 was budgeted for the project, and the Commission approved a contract with design consultant, NAGELSport LLC, in July of 2017 to assist with renovation design, permitting and architectural services. The project was advertised for bid in October, and a contract was awarded to A to B Builders, LLC on November 13th for \$147,328 plus tax. During the demolition stage, some complications were discovered in the structure that required change orders. For example, a sheet of plywood was added above in the plenum and covered with a waterproof membrane to create some protection for the persistent leaks from the restaurant above. The Commission also authorized a new door at Marina Operations. Staff is happy with the work provided by the contractor, which was substantially completed on March 30th. The restrooms have been open since March 31st. He reminded the Commission that the restroom project also included a new laundry facility, which is now being used frequently. He recommended the Commission approve the contract with A to B Builders, LLC in the amount of \$162,649.50 plus tax for the restroom remodel contract 2017-282 as complete.

Commissioner Orvis asked if there is still some trim work that must be done by staff to complete the project. If so, why wasn't this included in the contract? Mr. McChesney answered that the Port had originally requested a polished concrete floor, but this was omitted from the bid specifications that were prepared by the architect. Rather than a polished floor, Port staff coated the floor with four layers of epoxy-based paint. The Port did not pay for the polished floors as part of the contract, and staff is satisfied with the solution. In addition, some trim work was omitted from the bid specifications, and staff completed this minor work. All work has been completed, and staff has received good feedback overall.

COMMISSIONER JOHNSTON MOVED THAT THE COMMISSION ACCEPT CONTRACT 2017-282 WITH A TO B BUILDERS, LLC IN THE AMOUNT OF \$162,649.50 PLUS SALES TAX FOR THE RESTROOM REMODEL CONTRACT AS COMPLETE. COMMISSIONER ORVIS SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

APPROVAL OF HARBOR SQUARE PROPERTY HVAC REPLACEMENT CONTRACT AWARD NO. 2018-294

Mr. McChesney reminded the Commission of the Harbor Square Maintenance Program, which identifies a need to replace the original and aging HVAC units. Twelve units were scheduled for replacement in the 2018 budget at an estimated cost of \$160,000. The project went out to bid on March 21st for nine units on Building 2 and three units on Building 4. A pre-bid walkthrough was conducted on March 28th, with seven prospective contractors in attendance. Four qualified bids were reviewed on April 5th, and the low bidder was Morgan Mechanical, Inc. for \$146,900. Staff will work with the contractor to minimize any disruption to tenants during installation. He referred to the bid tabulation that was attached to the Staff Report, noting that the high base bid was \$220,000. He recommended the Commission authorize him to enter into a contract with Morgan Mechanical, Inc. in the amount of \$146,900 plus sales tax for the base bid for Harbor Square Property HVAC Replacement Contract No. 2018-294.

Commissioner Faires observed that a large portion of the contract can be attributed to the cost of equipment. Therefore, he questioned the large spread between the high and low bidders. Mr. McChesney responded that it is not unusual for the spread to be significant; but in this case, he cannot really offer a solid explanation. Commissioner Preston pointed out that some contractors want the work more than others who already have a variety of projects on their schedule. Mr. McChesney said staff is somewhat concerned that replacing this large magnitude of HVAC units under a single project may cause some code issues with the City of Edmonds Building Department. For example, the City has requested guardrails, equipment screens and other elements that are not there now and are not contemplated by the current contract. To date, they have been able to work with the City to avoid these extra cost factors, but it may be more challenging as they move forward, particularly when they do a large number at one time. He complimented Mr. Menard, who has been working with the contractors, enabling them to move forward without having to go to the extra cost of adding screening and guardrails.

Commissioner Johnston asked if these are new City regulations and if there is some flexibility. Mr. McChesney answered that the codes have been updated many times since the original units were installed in 1982 and 1983. Typically, units can be replaced without meeting the additional requirements. A permit is required and the City may decide to take a stricter interpretation of the existing code. He cautioned that the cost to add these additional elements is not insignificant. Staff will work with the City's building department to make sure every consideration is being attended to, emphasizing that the project should not be considered new construction, but simply replacing existing units.

Commissioner Preston said it would be helpful to have information about how many total HVAC units there are at Harbor Square, as well as the number that have been replaced. Mr. McChesney advised that there are approximately 80 total units, and approximately 36 still need to be replaced. He reminded the Commission that the plan is to replace 12 units each year.

COMMISSIONER ORVIS MOVED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE DIRECTOR TO ENTER INTO A CONTRACT WITH MORGAN MECHANICAL, INC. IN THE AMOUNT OF \$146,900 PLUS SALES TAX FOR THE BASE BID FOR THE HARBOR SQUARE PROPERTY HVAC REPLACEMENT 2018 CONTRACT. COMMISSIONER FAIRES SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

The special meeting was concluded and the retreat started at 9:18 p.m.

FINANCE

Investments: Speaker, Peter Becker, Time Value Investments

Mr. McChesney introduced guest speaker, Peter Becker, from Time Value Investments. Ms. Drennan reviewed that the Port has been investing long-term for the past five years based on the Port's current investment policy. She briefly reviewed the policy, which addresses safety, liquidity and return. She also shared the thought process and training that went into the Port's current long-term investment policies and strategies, starting with training she received to become a Certified Public Funds Investment Manager.

Peter Becker, Time Value Investments, advised that as of September 2017, the Port's current cash/investment portfolio is \$13.68 million, with approximately 50% invested long term, which is very much in line with what other public entities are doing as far as the ratio of invested funds to total cash assets. He referred to Revised Code of Washington (RCW) 39.59.040, which provides a list of authorized investments for public funds. He explained that public entities, including the Port, can only invest in the 8 investment types included in the list. Commissioner Faïres clarified that the list identifies the financial instruments available to public entities, but the Port can also invest in real estate. Mr. Becker concurred and added that certificates of deposit are also an option for public entities. He emphasized that safety is the number one priority. The intent is to allow public entities to increase yield, but without sacrificing safety and liquidity.

Mr. Becker provided a graph to illustrate interest rate movement from January 1, 2017 to the present time. As the Federal Reserve has gradually increased the Federal Fund rate, interest rates have begun to rise. However, 20 to 30 year rates have stayed relatively flat in recent months. He also provided a graph to illustrate 2-year treasury rates since 2008, explaining some of the situations that caused the fluctuations and pointing out how far they have come since the depth of the financial crisis.

Mr. Becker explained that, with the recent change in state code (RCW), a number of public entities have expressed a desire to invest in corporate bonds in order to earn a greater rate of return. Currently, the RCW allows 25% of the portfolio to be invested into corporate bonds, which have to be at least A rated with a stable outlook. He explained that the additional yield provided by A-AAA-rated corporate bonds is between .08 and .30% above government agency bonds. However, assuming a maximum 25% of the portfolio is reallocated to corporate bonds, picking up .30% above government agency bonds, the total portfolio yield would increase by just .075%. For this relatively minimal increase in yield, most public funds investors would not see enough benefit for the added default risk. For that reason, the Port has elected not to go into corporate bond investments.

Mr. Becker reviewed that the Port currently uses U.S. Bank Safekeeping as its bond custodian, and bonds are purchased using the Delivery-Versus-Payment (DVP) process. The DVP process is considered a “Best Practice” by the Government Finance Officers Association (GFOA). He briefly described the bond purchasing process. He concluded that the Port has no exposure, because the funds are retained until the bond is delivered. Ms. Drennan added that U.S. Bank keeps the bonds for the Port and sends out a statement every month to let the Port know what the fair market value is. They also accept the bond principal payments twice a year for each bond and remit the funds to the Port.

Mr. Becker reviewed the report that was prepared by Time Value Investments for the Port of Edmonds. He specifically noted that the weighted average Yield to Maturity (YTM) is 1.63%, and the weighted average Yield to Worst (YTW) is 1.51%. If none of the callable bonds are called, the weighted average maturity would be 2.59 years, but if all of the callable bonds are called, the weighted average maturity would be just 0.49 years. The market value on January 31, 2018 was \$6,173,216, but it decreased to \$6,167,431 as of February 28, 2018. This difference of \$5,786 can be attributed to rising interest rates. Commissioner Preston summarized that the loss means nothing if the bonds are held until their maturity date.

Mr. Becker reviewed the composition of the Port’s investment portfolio, as well as their maturity distribution. He also provided information on the how the Port’s investments performed versus benchmarks as of February 28, 2018. He emphasized that, as expected, the Port’s investments continue to outperform the Local Government Investment Pool (LGIP). It is anticipated that, on long-term, bond portfolios will continue to outperform liquid accounts.

Mr. Becker presented charts and graph to illustrate the anticipated cash flows coming out of each bond at the point of maturity from March 2018 to February 2019. He also noted the large principal payments in August, November and February and provided more detailed information about each investment in the Port’s portfolio.

Mr. McChesney asked Mr. Becker to remind the Commissioners of what the upside has been for following the program compared to what it would have been if they stayed with the LGIP. Mr. Becker responded that a summary of the comparison was provided on Page 2 of the report. He summarized that, on average, the bond portfolios will outperform liquid accounts. The one-year average for the bond portfolio was 1.63%, and the one-year average for the LGIP was 1.1%. However, it is important to note that the Port has been investing in bonds for several years, and throughout most of that time, the LGIP was substantially lower. He summarized that, over the life of the Port’s \$6 million portfolio, the Port has probably beat the LGIP by about 1%, which equates to about \$60,000 per year.

Cash Flow Model

Ms. Drennan explained that the Cash Flow Model was originally developed in 2011 and was intended to answer four questions:

- What will happen when the Port’s Limited Tax General Obligation (LTGO) Bonds and Revenue Bonds are paid off in 2017?
- Will the Port be able to issue bonds to replace major marina capital assets when they reach the end of their useful lives?
- When does the Port estimate the major marina capital assets will need to be replaced and how much will that cost?
- What moorage rates should be charged?

Ms. Drennan explained that the Cash Flow Model was intended to guide important policy decisions for planning cash flow requirements as measured against anticipated capital replacement. However, she cautioned that the numbers were estimations. Commissioner Faires asked Ms. Drennan to identify the major assumptions that were made as she reviews the Cash Flow Model.

Ms. Drennan reviewed that the Cash Flow projections include: beginning cash, reserves (assumptions), net income from annual operations (only items that affect cash), bond transactions (borrowing money, as well as paying it back), changes to reserves and capital projects. She recalled that the original Cash Flow Model projected 10-years of activity and was later expanded to a 30-year model to include an illustration of projected costs to replace major marina capital

assets at the end of their estimated useful lives. The 2018 updated model shows projected cash flows through 2070, which is 23 years after the model shows the issuance of a 20-year bond issued in 2047 to replace major marina assets.

Commissioner Faires emphasized that the Cash Flow Model is a model, and they have no idea what will transpire over the next several years. They cannot plan for what is unknown, The model is intended to represent a reasonable scenario, and they can adopt to the real changes as they occur.

Ms. Drennan said one assumption of the model is that everything does not break at one time. Some of the elements of the marina may be extended through preventative maintenance, and the Port intends to replace depreciated marina assets at the end of their economically useful life (when it costs more to maintain than to replace). It is assumed that marina capital assets will need to be replaced in phases as specific systems and structures are no longer worth maintaining.

Ms. Drennan reviewed that the 2011 Cash Flow Model showed that moorage rates needed to increase by 5.25% annually to bank sufficient cash and have sufficient bonding capacity to replace major marina assets at the end of their useful lives. They know that rate increases are constrained by the market; and since 2013, the Port has increased moorage and dry storage rates by the Consumer Price Index (CPI) plus 1%. She advised that the Finance Committee reviews the Cash Flow Model annually and has reaffirmed this process every year.

Commissioner Orvis added that the 2011 Cash Flow Model also assumed that the marina would all need to be replaced at the same time. Ms. Drennan reminded the Commission that the majority of the marina was constructed at the same time, so it is assumed that it will need to be replaced within a 5 year timeframe. But other factors must be considered. For example, they know that the docks in the south marina are deteriorating faster than those in the north marina because of weather.

Ms. Drennan briefly reviewed the Cash Flow Model structure, noting that the primary document is the Projected Cash Flow Schedule. The other documents interact with the Projected Cash Flow Schedule to complete the illustration. She referred them to the proposed 2018 to 2070 Projected Cash Flow Model, which begins on Page 13 of the Staff Report and illustrates the following:

- Beginning Total Cash and Investments is the ending cash from the previous year less current liabilities.
- Reserves are deducted from Beginning Total Cash and Investments to arrive at Beginning Unreserved Cash/Operating Cash, which is cash available for bond payments and capital projects.
- Net Income Before Non-Cash items is added to the Beginning Unreserved Cash/Operating Cash.
- Reserve changes show changes to Bond Reserve, Operating Reserve, and Environmental Mitigation Reserve. The assumption is a \$1 million Ending Unreserved Cash/Operating Cash and the remainder of the funds will be transferred to the Capital Replacement Reserve.
- Ending Reserves are shown with all of the funds equaling Ending Total Cash and Investments. This amount is carried forward to the next year's Beginning Total Cash and Investments.

Ms. Drennan explained that reserves are funds that are set aside and not available for a variety of reasons. She referred to Page 5 which illustrates the beginning reserves for 2018. She briefly reviewed each of the reserve accounts, noting that the total reserve amount is \$12,163,000.

Commissioner Faires questioned if the Environmental Mitigation Reserve is adequate given that it has not been increased since it was established in 2006. Ms. Drennan said the number is based on a Governmental Accounting Standards Board (GASB) rule that requires a weighted average of the range of possibilities. In the Port's case, the high was \$1.05 million, and the low was \$175,000, and \$612,500 is the weighted average of both of those numbers. She cautioned against making changes now. Unless there is a change in the condition or what the Port plans on doing, GASB rules do not require that the number be updated. The number is increased annually by its applicable share of interest, but the Commission could change the number as appropriate.

Ms. Drennan referred to Page 6, which is a discussion about Net Income before Non-Cash Items. She advised that the numbers exclude non-cash items such as depreciation, other post-employment benefits and accruals for pension benefits. The 2018 numbers are based on the budget and future years' revenues and expenses are projected by the

average increases over the past five years. Interest expense is shown through 2020, when the current special revenue bond/loan matures. Property taxes are shown at the current property tax levy amount of \$400,000.

Commissioner Preston said that, in addition to the average change between 2013 and 2017, he would like staff to include the total change between 2013 and 2017.

Ms. Drennan reviewed a graph illustrating the projected financial results, which indicates expenses will increase more rapidly than revenues given the current situation. She reminded the Commission that the end date of 2070 was chosen to illustrate the effect of bonds in the Projected Cash Flow with Bonds Schedule. The 2018 to 2020 bond principal payments show the timing of the payments required by the 2017 Special Revenue Bond/Loan with Opus Bank.

Ms. Drennan advised that the Capital Replacement Reserve is funded annually by the increase in unreserved cash, less \$1 million. Interest on the capital replacement reserve fund is added quarterly and capital projects are funded from this reserve. The current balance is \$6,724,000. She referred to a snapshot of the Capital Replacement Reserve for 2018 through 2022. The 2018 Capital Projects are brought forward from the approved 2018 Capital Budget. The remaining annual capital budget items are for illustration, both in timing and cost, based on the estimated lives in the Fixed Asset Register and a 3% annual increase in costs. She referred to the Capital Replacement Reserve graph, which demonstrates that when the time comes to replace major marina capital assets, the Port will not have sufficient reserves alone to do so. Commissioner Faires asked how realistic a 3% annual increase in cost is. Ms. Drennan said from a discussion with the Facilities Maintenance Manager, it's probably low.

Ms. Drennan observed that the major marina assets cannot be replaced using reserves alone, and the Port will like have to borrow money. In general, debt is not looked at as positive, but that is not always true for businesses. It may not be a good idea to forego an opportunity that generates more money because you don't want to go into debt. She explained that government entities borrow funds through the issuance of bonds, and the Port can issue either Limited Tax General Obligation (LTGO) Bonds or Revenue Bonds. LTGO bonds are one of the best available financing tools for government agencies. Because they are backed by the agency's ability to levy taxes, they are less risky and the interests rates are lower. Commissioner Faires asked Ms. Drennan to quantify the delta between LTGO and non-tax secured bonds. Ms. Drennan answered that it depends on how the bonds are rated, the type of project, interest rates, etc., but she has seen a difference of up to 50 basis points or about 0.5%.

Commissioner Orvis asked if Ms. Drennan is suggesting that it is better for the Port to tax at its maximum ability rather than banking the ability to tax at the maximum allowed. As long as the Port is capable of levying a tax of \$1 million by 2040, he asked what would be the difference between levying that amount now and banking the ability to levy the amount at a later time. It would seem to him that the banked levy is just like having money in the bank as opposed to levying it now and using it. Ms. Drennan explained that by levying the maximum tax now, the Port would not have to do anything to increase the levy. Having the money in hand would be looked at more favorably when it comes to borrowing. Commissioner Orvis commented that the Port could levy the maximum tax a year or two before going out for bonds instead of levying the tax for the 20 years previous. Ms. Drennan agreed that is an option, as long as it is politically possible.

Commissioner Faires summarized that there would be a penalty of about 0.5% if the Port does not have the required tax levy to support a LTGO bond. However, the Commission could choose to raise the taxes before issuing the bonds. Ms. Drennan agreed, but reminded the Commission that this approach does not take into account emergencies require major funds.

Ms. Drennan explained that the capacity for LTGO bonds that are issued without the approval of the voters is limited to .25% of the assessed value of the property located within the Port District. From 2008 to 2018, the assessed property value has increased at an average of 3% per year, and the analysis shows that if property values continue to increase at this same rate through 2045, the assessed property value would be about \$13 billion. Therefore, the Port's LTGO bonding capacity would be \$32 million.

Ms. Drennan advised that Revenue Bonds are backed by the cash net income of the government agency. Typically, the first revenue bond requires a 125% debt coverage ratio, and additional revenue bonds require a 135% debt coverage ratio. In 2017, the Port's debt coverage ratio was 247%, which means the Port generated sufficient revenue to pay the bond debt service 2.47 times. There are other restrictions regarding revenue bond issuances. For example government

agencies need to spend bond funds within three years and they are required to calculate arbitrage on their bond funds and submit the positive arbitrage to the Internal Revenue Service. There is also the practical limitation that requires the Port to generate sufficient cash to be able to make the semi-annual interest and annual principal payments. For illustration purposes, the calculations on Pages 34 and 42 show that LTGO bonds in the amount of \$11 million would be issued in 2045 and revenue bonds in the amount of \$21 million would be issued in 2047. This example shows the Port would have to begin drawing down its operating reserves in 2057.

Commissioner Faires asked if the numbers for End of Year Cash Reserves are in current dollars. Ms. Drennan answered that the numbers were flat, recognizing that interest rates will be volatile. Commissioner Faires commented that the picture could change quite a bit.

Ms. Drennan summarized that the estimated replacement costs and timing of major marina capital assets is not precise. The Cash Flow Model illustrates the need for the Port to annually review moorage, dry storage and other marina rates and to continue to charge market rates. The policy of CPI plus 1% appears to be the maximum annual increase sustainable in the current competitive market. When planning projects and purchases, the Port should continue to be mindful of its capital reserves, future replacement costs and bonding capacity.

Commissioner Faires commended Ms. Drennan for going back to square one and starting over again on the Cash Flow Analysis. It goes out a long ways, with a new set of numbers. This was not an easy task.

Commissioner Orvis suggested the Commission needs discuss how much tax revenue is coming in relative to income and is the moorage and dry storage rate adjustment of CPI plus 1% working in light of the market and the cost of maintaining the marina in its present condition. Ms. Drennan asked if Commissioner Orvis is suggesting the Port conduct a market survey. Commissioner Orvis responded that he would like to simply look at marina rates around Puget Sound. His perspective is that they should continue the current approach unless they see something that warrants a change. However, they need to seriously consider the tax revenue because the Port is doing better than anticipated. He noted that \$200,000 of the tax revenue was intended to compensate for expenditures at Harbor Square. While he does not want to have a discussion about potential changes now, they should put it on a future agenda prior to the next budget process. Commissioner Faires added that he would like to have these two discussions using a corrected version of the Cash Flow Model, which includes the correct assumptions for rate of return. Mr. McChesney summarized that Commissioner Faires would like staff to incorporate the information provided by Mr. Becker.

Mike Shaw said he and his wife own property near the waterfront in Edmonds, and they already pay 14% of their monthly income on property taxes. This has forced him to vote against things like school levies, library levies, etc. They are close to not being able to afford their home because of property taxes, and he does not foresee they will ever go down. He urged the Commission to be very careful when considering additional tax increases.

Marjorie Fields said it appears the Port is in good financial shape, but she is most concerned about environmental issues. She encourage the Port to find ways to be more environmentally friendly. When making future decisions, she encouraged them to be concerned about more than financial costs. Decisions the Port Commission makes can have serious impact to the environmental health of the community.

The Commission took a 15-minute break at 10:45 a.m. They reconvened the retreat at 11:00 a.m.

ENVIRONMENTAL POLICIES

Marina

Ms. Kempf reviewed the Best Management Practices (BMP) and programs the Port uses on a daily basis. She emphasized that BMPs are low-tech items that can guide people's activities, and the Port's BMPs have been copied by a number of other marinas. The Port's BMPs apply to all commercial activities that take place at Port facilities, any work done on engines and bilges, boat fueling, sewage, vessel cleaning, surface preparation and refinishing, hazardous waste and solid waste disposal. Signs are posted on all gates throughout the marina to let people know what is and is not allowed in the marina. She specifically noted the following BMPs and programs that are currently in place as follows:

- Each of the BMPs listed for work being done in the boatyard are items that have been identified in the boatyard permit. In addition, the Port's requirements go above and beyond what is required by the permit. The BMPs must be signed by everyone who takes a boat into the yard, and fines are given to people who violate them. She said the dry storage BMPs apply primarily to the washdown area, and they are posted on the fence. Only minor maintenance is allowed in the washdown area. Anything beyond that must be done in the boatyard. The washdown water goes into a tank where the sediment is filtered out, and then into the City's sanitary sewer system.
- Staff training is done on a regular basis, including a 24-hour HAZMAT training course for all new operations and maintenance employees and 8-hour refresher courses. She described the training programs and provided a chart illustrating the staff training that has taken place so far this year. She reminded the Commission that tenants are required to participate in training before they are allowed to self fuel their boats. Commissioner Johnston asked if it is safe to say that the vast majority of staff has received HAZMAT training, and Ms. Kempf answered that all employees in Marina Operations have been trained, as well as some administrative staff.
- Over the past 25 years, the Port has put about 126,000 pounds of waste through its Hazardous Waste Facility. All staff must have training before taking in any of the items that are accepted at the Hazardous Waste Station. Most of the materials collected are either oil or bilge water. Snohomish County conducts unannounced inspections six times each year, and most have resulted in no violations or required actions. She briefly described some of the features of the facility.
- The Port's current recycling program is designed to be simple and convenient to a wide array of users. It is limited to glass, plastic, aluminum, tin and mixed paper. The program has been generally successful, and less than 10% of the annual recycle container pickups are contaminated and disposed of as garbage. The Port believes that education, communication and oversight are the key to the program's success.
- The Port's pump-out stations have facilitated proper disposal of over 400,000 gallons of blackwater and sewer from onboard marine sanitation devices. The service is free to encourage boaters to protect Puget Sound, and users do not have to be tenants of the Port. Commissioner Faires suggested that at some point during the next year, the Commission and staff should have a discussion about expanding the blackwater pickup places throughout the marina beyond the two pump-out stations.
- The Pressure Wash Treatment Facility treated nearly 1 million gallons of water over the past five years. It uses a simple concept that works fabulous. She briefly described the process that is used to clean the pressure wash pad and treat the water before the clean water is released into the City's sanitary sewer. The Port has been very successful meeting the permit requirements, which means the sludge can be released as solid waste disposal.
- The Port has been certified as a Leadership Certified Clean Marina by Clean Marina Washington. The award certifies the Port is a leader in pollution prevention. The Port has also been certified as a Leadership Certified Clean Boatyard, which certifies environmental responsibility at an even higher level than the Clean Award and recognizes a true commitment to environmental protection going well above and beyond legal requirements. The Port is only one of 10 recipients in Washington State to receive this award. The Port's success in the workyard can be attributed to strong BMPs and the oyster shell filtration system. She said she anticipates that both certifications will be renewed this year based on recent reviews.
- The Port uses an oyster shell filtration system in the boatyard. The Port has been able to meet the seasonal average requirement of the boatyard permit for zinc, but the most recent tests indicate it is not quite meeting the seasonal average requirement for copper. The copper and zinc contaminants come from a variety of places, both upland and on Port property. The benchmark requirements are stringent and extremely difficult to meet, and there is a process the Port must follow if it fails to meet benchmark requirements. The Port conducted a higher level of testing which determined that the spent oyster shells were not a state dangerous waste or a federal hazardous waste and could, therefore, be disposed of as just a municipal solid waste.

- The Port has experimented with non-copper paint alternatives, using E-Paint on Workboat 1 and Seahawk Smart Solutions on Workboat 2. The requirement to promote non-copper bottom paint alternatives has been eliminated from the Leadership Certified Clean Boatyard requirements because there are questions about whether technology even exists. The legislation that was passed to phase out copper bottom paint is being reconsidered to push the requirement out further because of the lack of better alternatives.
- The Port has a green initiative relative to consumables (garbage can liners, cleaners, tissues and towels). It has been determined that some eco-friendly products are cost prohibitive or more labor intensive. However, when it makes sense, the Port uses products that are certified by the Environmental Protection Agency (EPA), Green Seal, Designed for the Environment, and Sustainable Forestry Initiative.
- About 450 students participate in education programs at the marina every year. The Port staff collaborates with college class professors to allow field trips to the marina, which enables students to observe the many different kinds of marine invertebrates living on the docks. One popular educational opportunity was the Biology and Bluegrass event that was held last April.
- The Salt Water Net Pen Project, which occurs every February, aims to enhance saltwater recreational fishing. Port staff provides assistance to this program.
- The next “Clean the Bottom” Dive is scheduled for May 5th and will focus on the north side of H Dock. Another dive event is being planned for August, as well.

Commissioner Orvis commended Ms. Kempf, who has been a leader in environmental practices and improving Puget Sound for the past 30 years. While other boatyards were fighting during the early stages of the boatyard permit work, Ms. Kempf was working on solutions. The Port conducted one of the first evaluations of a filtration system in Puget Sound. This has been a long-term project for the Port, but a much longer project for Ms. Kempf. Commissioner Faires added that the impetus has been how to do a better job of taking care of the marina in the context of existing environmental capabilities. The effort has not been driven locally; it has been driven by Ms. Kempf and the Port as a continuous improvement process as opposed to a reaction to a political situation.

Chemicals: Guest Speaker – Joe Kalmar, Landau & Associates

Ms. Kempf introduced Joe Kalmar from Landau & Associates, who was present to report on his evaluation of the Port’s herbicide use. She noted that this topic has come up over the past several months.

Mr. Kalmar explained that the purpose of his evaluation was to determine if the Port’s current herbicide program follows applicable manufacturer recommendations, as well as applicable rules and regulations, and to identify potential modifications that could improve the current program. He pointed out that the Port does not maintain and/or have control of a number of properties along the waterfront, including The Landing, Jacobsen’s Marine, Edmonds Yacht Club, Anthony’s Restaurant, Marina Beach Park, some portions of Harbor Square, and the Washington State Department of Transportation’s right-of-way. Commissioner Faires pointed out that some of these properties are owned by the Port and others are not. Going forward, the Port must differentiate between properties it can control by virtue of ownership and those which they can advise but really can’t control.

Mr. Kalmar provided a map to illustrate the area of treatment on the marina side, and advised that the two chief products include Casaron and Roundup. He briefly reviewed how the Port’s use of these products compares to the manufacturers’ guidelines:

Herbicide	Max. Use Limits per Acre Annually	Estimated Port Use per Acre Annually	% of Limit
Roundup ProMax	7 quarts	0.5 quarts	7%
Crossbow	1.5 gallons	0.12 gallons	6%
Casoron 4G	200 pounds	174 pounds	87%

Based on this information, Mr. Kalmar concluded that:

- The Port uses spot-treatment of herbicides sparingly as needed.
- The application of pesticides in landscaped areas is preceded by manual weeding and mulching.
- Herbicides are applied infrequently. Casoron is applied once a year, and spot spraying is done twice annually to control blackberries along the railroad fence line.
- The Port's landscape maintenance is carried out by staff with state-certified applicator licenses, and usage is recorded on application forms in accordance with regulations.

Commissioner Preston asked how much Roundup was used in 2017, and Mr. Kalmar estimated that the Port used approximately 1/3 of a gallon. Commissioner Faires asked where Casoron is applied, and Mr. Kalmar said it is typically used in gravel areas to prevent weeds from growing. He explained that Casoron is applied in the early spring to prevent new weeds from growing, and Roundup is applied to kill weeds after they emerge.

Commissioner Faires asked if there are any guideline that specifically apply to near-water usage. Mr. Kalmar said there is a specialized additional license for aquatic applications, but the Port does not do any in-water applications. However, since training is required anyway, this additional training could be added to address situations close to the water.

Although his study did not identify any inappropriate uses of herbicides or chemicals, Mr. Kalmar said there are some things the Port should consider in the future. In addition to avoiding overwatering, requiring staff training, and reducing the concentration of herbicides and pesticides, the Port should consider the following actions:

- As upgrades are installed, include rain monitoring equipment in irrigation systems to reduce potential for runoff.
- Evaluate effects of reducing concentration of Crossbow and total use of Casoron to minimum manufacturer recommended treatment usage.
- Use continuing education requirements in the Washington State Department of Agriculture's pesticide licensing to advance environmentally conscious practices in Port landscaping staff.
- Consider recommendations from the Pacific Northwest Pollution Prevention Resource Center (PPRC), such as adding aquatic weed control endorsement to pesticide licensing, evaluating surfactants in Roundup ProMax, and choosing a test pilot area to assess alternative products and practices.

Commissioner Johnston commented that the Port has done some experimental applications using vinegar solutions to help control weeds. He asked if this program is experimental or if it has been formalized. Mr. McChesney answered that it is an informal program. As new programs come on line, Port staff is very open to trying them. They are looking for alternatives that are cost effective and do the same job. Mr. Kalmar advised that Clallam County is experimenting with a variety of alternatives to herbicides, and the Port could look to them for ideas about what works and what does not.

Commissioner Harris said she understands that the Port's current practices are well within the requirements, but she would like the Port to be a leader in this area. Commissioner Faires agreed. The Port staff and the BMPS do an outstanding tactical job of dealing with this very sensitive and difficult challenge. He suggested that the Commission needs to be more involved and provide policy direction relative to expectations. A policy statement could emphasize and reinforce the really good job that staff has already done.

Commissioner Orvis expressed his belief that it would be a mistake to come up with a policy statement that calls for specific action when they have no idea whether it can actually be done. They should start by researching what is possible and within the realm of achievement before creating policies and goals. He has seen government agencies

making all kinds of goals and promises that are impossible to keep. Commissioner Harris commented that creating an overall policy would be like putting a wrapper around the issue. Once this is done, they can start researching all of the great programs and opportunities that are available.

Commissioner Preston suggested they create a policy that no herbicides and pesticides would be used for 12 months. He commented that this type of trial would not result in any damage to buildings or boats. If they don't like what happens, the policy could be changed. Greg Baugh commented that the Port already uses very little herbicide, and eliminating its use could require significantly more staff time to pull weeds. Mr. Kalmar cautioned that the Commission should come up with policies that are reasonable without going completely overboard. Because there are no requirements for upland areas, stormwater runoff into Puget Sound will continue to be contaminated regardless of any changes the Port makes. Commissioner Harris commented that, regardless of what their neighbors are doing, the Port could do better.

From a staff perspective, Mr. McChesney said he would not recommend total elimination of all chemicals in its landscaping. He does not believe the landscaped areas would look very good if they implement a 12-month ban on herbicides and pesticides. Current staff will not be able to keep up with the weeds. Commissioner Orvis cautioned that when discussing potential policies, they need to consider how much they will cost, are they worth it, and what are the tradeoffs and benefits. Commissioner Johnston agreed that their responsibility is to balance the benefits and costs, using all available information. Commissioner Preston suggested that the first step is to define the problem they are trying to solve. This needs to be done soon and before the Commission continues its discussion about possible solutions and policies.

Stormwater Management

Mr. McChesney observed that stormwater management is an important issue and a recurring theme in a variety of discussions. Stormwater management, in general, falls under the City's NPDES Permit, but the Port also takes steps to maintain its own systems. In addition, the Port tries to stay apprised of all the new ideas and technologies in the industries to find ways to better manage stormwater. For example, there has been a lot of discussion about the amount of stormwater that enters the marsh at Harbor Square, but the truth is less than 5% of the stormwater that goes into the marsh originates at Harbor Square.

Brian Menard explained that the biggest cost of introducing oyster shells into the stormwater vaults is cleaning the vault after the life of the oyster shells has expired. He described a device he developed to address this problem. Oyster shells can be loaded into this serviceable cartridge, and the cartridge can then be lowered into the catch basin. The device will be used in a test project, and it is anticipated that it will have to be recharged once or twice a year with new oyster shells. The device provides the ability to remove the oyster shells from the catch basin without requiring vactoring. He advised that the Port would hire Landau & Associates to test the water to determine the effectiveness of the device. Given the effectiveness of oyster shells at the workyard, he is confident the results will be positive. Mr. McChesney clarified that the device would be tested on the marina side, since all of the catch basins the Port is in charge of at Harbor Square flow into the City's main stem line that discharges into the marsh. If the test project is successful, the device could be deployed in all of the Port's catch basins.

Commissioner Faires commented that, although the Port contributes relatively little to the total stormwater runoff, it is important for them to innovatively lead by example.

Mike Shaw commented that they need vision and leadership in the country. Some states, cities and local agencies have stepped up, but he does not trust the chemical companies to provide correct information about how their products harm the environment. He expressed his belief that herbicides contained in surface runoff in the City are damaging the marsh. Surface water runoff is a problem in Edmonds, and they need to do better. He said he has visions of having a healthy salmon run up Willow Creek and this will require the efforts of the Port of Edmonds, City of Edmonds, homeowners, and all citizens. He suggested that educating citizens will be critical in the effort. He encouraged the Port to do more, particularly east of the railroad tracks. They should also hire only green landscape companies for Harbor Square.

Commissioner Faires agreed that the Port should continue in its efforts to do a better job, but the Port must also consider whether or not environmental policies, programs, etc. make good economic sense. He hopes that Mr. Shaw

will trust the Commission to make these decisions with the best possible outcome for the environment in mind relative to the economic equation.

Green Port Policy Discussion

Commissioner Harris reported that she researched a variety of other ports to see how they address environmental issues. Most of them have some type of “green port” policy in place. She suggested that putting together an overall policy could raise awareness of what is going on and help the Commission find gaps and identify areas they want to focus on. She provided an example of a program, which includes goals, policies and objectives in each of the following seven areas: air, water, energy, waste management, sustainable development, and wildlife. The Green Port Program could continue the Port’s existing environmental efforts and expand on them through innovative programs and initiatives.

The Commission concurred that the Environmental Committee should meet together to create a set of goals and objectives for the Commission’s continued discussion. They should start by creating framework goals, followed by identifying what is already being done and what should be done. This will enable them to identify gaps and create a plan of action for each of the categories.

Mr. Ross Dimmick suggested the website Environmental Management Systems (EMS). An EMS is a set of processes and practices that enable an organization to reduce its environmental impacts and increase its operating efficiency. This site provides information and resources related to EMS for small businesses and private industry, as well as local, state, and federal agencies.

The Commission took a lunch break at 12:38 p.m. They reconvened the meeting at 1:02 p.m.

ECONOMIC DEVELOPMENT

Marina Side Vacant Parcel

Mr. McChesney reminded the Commission of the Port’s vacant parcel on the east side of Admiral Way that is currently used as a laydown area for Port maintenance and parking for Anthony’s. In 2017, the Port obtained a Shoreline Permit to redevelop the parcel as a marina-related business. Because the permit required Architectural Design Board review, the Port is now locked into the design that was presented as part of the Shoreline Permit application. Now that they know what it can be used for, it is time to market the property to find a tenant to move development forward. He described the Port’s plan for marketing the property, noting that information was sent to marine-related businesses and staff will follow up with them to explore their level of interest. Another strategy is engaging a commercial real estate broker who has more contact with developers and users. He pointed out a variety of businesses that might be interested in the property.

Mr. McChesney advised that the Shoreline Permit was issued in December of 2017 and has a shelf life of five years. The intent is to aggressively market the property in 2018. Commissioner Johnston asked if the Port has a list of target companies, and Ms. Williams answered that Ms. Kempf helped her prepare a list of businesses in the area that might want to expand. It also includes companies in Ballard and Seattle who might want to relocate their operations to Edmonds.

Commissioner Faires observed that, over the next five years, the Port will have more money than they used to have. The Port can continue to invest these additional funds long-term and earn interest, or it can invest profits somewhere else. As an alternative, he would like to create a business case for the Port making a significant monetary investment in property and see if it would pay back at a rate greater than is anticipated from interest. Ms. Drennan reminded the Commission of a previous study that indicated the Port would be better off financially by leasing the land than by owning the building and renting it out. Commissioner Faires said he agreed at that time, but he would like a new comparison of the rate of return from investing in property development. He expressed his belief that the Port must find a way to invest future profits at some rate nearly equal to or greater than the cost of replacement of the present physical asset. This property might provide that opportunity. Mr. McChesney agreed that market conditions have changed over the years. The property value is significantly higher. He looks at it as an opportunity independent of the Cash Flow Model, and the ability to generate a market return should be the goal.

Harbor Square

Mr. McChesney reported that Harbor Square is full. The Port will continue to own, operate and maintain the buildings as an asset for the Port. At this time, the Port does not have any plans to redevelop the property. He explained that the Cash Flow Model informs that even though the marina generates surplus revenues, it does not generate enough to self-fund its own replacement. To the extent that it does not, Harbor Square and the Port's other rental properties make up the difference. Harbor Square is a key asset for the Port going forward.

Tourism

Ms. Williams reported that, using a grant from the Port of Seattle, the Port worked with the City of Edmonds and the Snohomish County Tourism Bureau to complete a project that provides on line advertising to showcase Edmonds as a weekend destination. The effort resulted in a video that can be used by both the City and Port to advertise Edmonds. Using clips from the video, they were also able to create shorter video advertisements that are currently running on Facebook. She showed the Commissioners the video, titled Come to Edmonds, as well as an example of a shorter video that is currently running on Facebook.

Mr. McChesney advised that the Port of Seattle contributed \$10,000 to the project, and other funding came from the City of Edmonds (\$2,000), the Port of Edmonds (\$5,000) and Puget Sound Express (\$2,000). Ms. Williams said it was fun working with all of the local business, and everyone was excited about promoting Edmonds in this way. She played an example of a shorter video that is currently running on Facebook. She noted that the short ads are linked to a landing page for the campaign, and the landing page provides information about the City of Edmonds and Port of Edmonds, as well as a link to purchase whale watching tickets from Puget Sound Express. There are also links to the different airports in the region, maps, and other transportation opportunities.

Ms. Williams advised that at the halfway point and conclusion of the campaign, she will provide analytics for the short advertisements on Facebook. As an example, she pointed out that one video has been viewed 12,000 times, 52 people have responded and 23 people have shared. She explained that the amazing thing about Facebook advertising is that the Port can choose its demographics so specifically. All of the reactions in the video are aimed at people between the ages of 30 and 55 who live within 20 miles of Denver and have shown that they like some type of travel or adventure. That means that the cost per click and the money the Port spends is really focused on the target. She briefly explained the reasons for focusing the advertisements on the concentrated area of Denver.

Council Member Tibbott suggested that the video should be shown to the Edmonds City Council, and Commissioner Preston suggested that it be included in the Port's report to the City Council that is scheduled for May 18th.

The Commissioners commended Ms. Williams for her fine work.

Marketing

Commissioner Orvis asked if the Port plans to publish and send out another brochure in the fall. Ms. Williams answered that the Communications Committee has recommended that a retrospective picture postcard celebrating the Port's 70th Anniversary be sent out in the spring. They have also discussed sending out a newsletter in the fall to update the Port District residents about what is happening at the Port. The intent is that it would be a more casual take on the glossy brochure that was sent out in 2017.

Parking

Mr. McChesney said parking is an issue for the Port, but also a general issue for the City of Edmonds. However, he recognized that the Port cannot solve the City's parking problems. Instead, the intent is for the Port to address its own parking issues. The 2018 work plan includes a feasibility study on a structured parking facility on the north side of Jacobsen's Marine. The study will take into consideration the engineering, land-use and economic aspects. Commissioner Orvis asked if it would be feasible for the Port to have discussions with the City of Edmonds and Sound Transit regarding opportunities to partner together to address the parking needs of the City and Sound Transit, as well. He noted that if a parking garage is to benefit the City, it probably should be located closer to the downtown. It was

noted that parking for the new Community Center still needs to be addressed. Mr. McChesney agreed that there needs to be a more in-depth discussion with both the City and Sound Transit about alternatives to address the parking problems, but it would be difficult for the Port to do a feasibility study on property it does not own or control. The Commissioners agreed that it would be appropriate for all of the players to be at the table when parking alternatives are discussed. They further agreed that the Port should be part of the solution, but not the leader. It was emphasized that parking is primarily a City problem.

Council Member Tibbott commented that there is already a pent up demand for parking, but there will likely need to be more pain before a serious effort is made to find a solution. The Commission continued a discussion with Council Member Tibbott about the various parking needs they foresee moving into the future.

WRAP UP – POLICIES, IDEAS AND INITIATIVES

Mr. McChesney summarized that a correction needs to be made on the Cash Flow Model having to do with the non-operating revenues. In addition, the green port concept has been well-embraced, but needs some refinement via by the Environmental Committee. The Port will continue to market the marina-side parcel and continue their tourism efforts. In addition, the Port will kick off a Phase 1 parking study for a parking garage. Lastly, Mr. Menard will move forward with a test of his new device for catch basins.

Commissioner Orvis invited the Commissioners to Congressman Jayapal's transportation roundtable. Commissioner Harris indicated she plans to attend.

Ms. Williams asked if the Commissioners received their invitation to the event celebrating the arrival of Puget Sound Express' new vessel, the Saratoga. It is scheduled for April 25th at 9:45 p.m. The Commissioners indicated they received the invitations, and Ms. Williams encouraged them to RSVP if they plan to attend.

Commissioner Preston suggested that the Port consider adding electric vehicle charging stations so there are two near Arnies, two in the middle and two down south by the Dry Storage Facility. Regarding the use of herbicides, he suggested the Port think in terms of a fish-friendly weed removal system as an alternative.

Commissioner Harris said she has received requests from citizens about the possibility of voice recording Port Commission meetings and posting them on the Port's website. The Commission agreed to place this discussion on a future agenda.

ADJOURNMENT

The Commission meeting was adjourned at 2:00 p.m.

Respectfully submitted,



Jim Orvis
Port Commission Secretary