



PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF REGULAR MEETING

August 10, 2015

COMMISSIONERS PRESENT

David Preston, President
Fred Gouge, Secretary
Mary Lou Block
Jim Orvis

STAFF PRESENT

Bob McChesney, Executive Director
Marla Kempf, Deputy Director
Tina Drennan, Finance Manager

OTHERS PRESENT

Amy Allison, Port Attorney
Karin Noyes, Recorder

COMMISSIONERS ABSENT

Bruce Faires, Vice President

CALL TO ORDER

Commission President Preston called the regular 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

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

- A. APPROVAL OF AGENDA**
- B. APPROVAL OF JULY 27, 2015 MEETING MINUTES**
- C. APPROVAL OF PAYMENTS**
- D. AUSTIN HARP ARTS: THREE-YEAR LEASE, BUILDING 3, 110 WEST DAYTON STREET, SUITE 104**

COMMISSIONER ORVIS SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

No one in the audience indicated a desire to address the Commission.

LONG-TERM DEBT UPDATE

Ms. Drennan recalled that on June 29th, the Commission authorized Port staff to call and retire the remaining \$615,000 in 1998 Revenue and Refunding Bonds. She reviewed that the 1998 Revenue and Refunding Bonds were issued in the amount of \$8,590,000 for the purpose of refunding the 1992 Revenue Bonds and funding capital projects (marina reconstruction, bulkhead/promenade project, a new dry stack storage facility). Interest rates ranged from 3.75% to 4.8%, and the original maturity was July 1, 2017. On January 1, 2015, the Port made an interest payment of \$21,600, followed by a principal and interest payment of \$306,600 on July 1, 2015. The remaining

amount of \$617,500 was paid on August 1, 2015. Calling and retiring the bonds on August 1st saved the Port approximately \$42,000 in interest over the next two years.

Ms. Drennan reminded the Commission that the Port still has outstanding 2005 Limited General Obligation (LTGO) Refunding Bonds, which were issued in the amount of \$3,925,000 for the purpose of refunding/refinancing the 1997 LTGO bonds. Interest rates for these bonds range from 3.0% to 4.1%, and the bonds mature on June 1, 2017. She reviewed that the Port made an interest and principal payment of \$749,666 on June 1, 2015, and an interest payment of \$30,566 will be made on December 1, 2015. Remaining bond payments include \$765,566 on June 1, 2016, \$15,683 on December 1, 2015 and \$780,683 on June 1, 2017.

Ms. Drennan reported that the Port also issued the 2011 Special Revenue Bond (Opus Bank Loan) in the amount of \$7,898,115.09 to refund/refinance the 2006 Special Revenue Bond that was issued to purchase the Harbor Square Buildings and buy out the leasehold's interest. The bond matures on August 1, 2021, and the interest rate is fixed at 5.25% for seven years. She explained that the annual required payments are \$573,481.32, but the Port has been making additional principal payments of approximately \$26,000 each month. In addition, the Port has been making additional principal payments at the end of each year, but is limited by a prepayment penalty for paying more than 10% of the loan balance in a year. The prepayment penalty is 5% in year 1, 4% in year 2, 3% in year 3, 2% in year 4 and 1% in year 5. The Port is currently in year 5, and there will be no prepayment penalties after year 5. She summarized that the current principal balance is about \$5.25 million. If the Port continues on the current payment schedule, a balloon payment of \$767,000 will be due in 2021. Port staff will review the available cash balances in December 2015 to see if another principal payment can be made in 2015.

Commissioner Gouge emphasized that, beginning in 2016, the Port could make larger principal payments without incurring a penalty. Ms. Drennan concurred that once the Port clears the five-year mark, it will have the unlimited ability to pay off the remaining interest and principal balances.

Commissioner Preston asked if the Port has the ability to pay off the LTGO bonds right away, and Ms. Drennan responded that these bonds were already refunded once and cannot be refunded again. It was noted that paying the Opus Bank Loan should be a priority, since it has the higher interest rate.

Commissioner Gouge commented that the Finance Committee will consider opportunities for additional Opus Bank Loan payments as part of their discussions in preparation for the upcoming budget process. At that time, they will have a better idea of what cash is available to pay the loan down.

MARINA CAMERA

Mr. McChesney reviewed that the webcam that was added to the Port's website eight years ago has been popular, and the Port has received feedback from tenants regarding its usefulness. He reminded the Commission that the webcam was slated for an upgrade as part of the website redesign in June of 2014. However, it was tabled for technical considerations, and the amount was budgeted for 2015. He recalled that at the Commission's April 2015 Retreat; staff provided a brief update regarding plans for upgrading the website camera. The camera was purchased in June, installed on July 8th, and went live shortly thereafter. No additional coding consulting was required to implement the new camera, as the Port's IT Staff arranged and configured the equipment successfully and under budget. He reported that the resolution of the new camera is twice that of the previous camera, and details are much sharper. In addition, a time lapse is now available for the last ten images. The camera view is available from 5 a.m. to 10 p.m., with updates every 30 seconds. He summarized that staff received three positive email comments regarding the new camera within a week of installation, with one request for an additional camera. Port staff is considering this request.

Commissioner Gouge emphasized that the webcam is not intended to be a security camera. Mr. McChesney concurred and explained that it is intended for the public's enjoyment.

2016 BUDGET MEETING SCHEDULE

Ms. Drennan advised that staff started working on the 2016 Preliminary and Operating and Capital Budgets at the end of July, and they will be ready to begin discussions with the Commission on September 14th. She briefly reviewed the proposed 2016 Budget Meeting Schedule as follows:

- August 13th – The Finance Committee will meet to discuss baseline conditions, property taxes and economic development.
- September 14th – The Commission will conduct a workshop to discuss the 2016 budget baseline conditions, property taxes, and economic development budget.
- Week of September 28th – The Finance Committee will meet to discuss the 2016 Preliminary Operating and Capital budgets.
- October 12th – The Commission will conduct a workshop to discuss the 2016 Preliminary Operating and Capital Budgets and accept public comments (not a public hearing).
- October 26th – The Commission will continue their discussion of the 2016 Preliminary Operating and Capital Budgets and conduct a public hearing.
- November 9th – The Commission will adopt the 2016 Operating Budget by resolution and approve the moorage rates, dry storage rates and marina operation fees. They will also adopt resolutions to approve the 2016 tax levy and bank excess levy capacity, and approve the 2016 Capital Budget.

Commissioner Orvis observed that the Commission would need to conclude their discussions and adopt the operating budget at their November 9th meeting or schedule a special meeting later in the month since the approved budget must be submitted to the Snohomish County Auditor by November 30th.

2ND QUARTER FINANCIAL STATEMENTS

Ms. Drennan reviewed the 2nd Quarter 2015 Financial Statements, noting that the revenues continue to be greater than expenses. Net income increased over the 2nd quarter 2014, and actuals were less than budget. She specifically noted the following:

- Gross profit for the six-month period ending June 30th was \$3,314,346, which was \$40,634 or 1.2% greater than budget
- Net fuel sales revenue was up by almost \$29,000, which is almost an 80% increase over budget.
- Launcher revenues were up by over \$9,000 or about 52% greater than budget.
- Guest moorage net revenue was up by \$19,375 or about 52% greater than budget.
- Permanent moorage revenue was \$9,855 (.64%) less than budget and dry storage revenue was \$17,297 (5.34%) less than budget.
- Travelift revenue was \$11,142 (24.76%) greater than budget, and the workyard revenue was \$10,395 (34.65%) greater than budget.
- Harbor Square property revenue was approximately \$29,000 (3.5%) less than budget and Landing revenue was \$14,036 (20.5%) less than budget. When the 2015 budget was adopted, the Port anticipated that the appraisal rate the Port received would be upheld, and it was not. This resulted in a variance of just over \$14,000.
- Operating expenses without depreciation were \$1,795,064 or 4.6% less than budget.
- Other costs of goods sold expenses were \$35,791 (87.30%) below budget. The Port had anticipated accepting credit cards for moorage and dry storage payments in 2015, and this has not occurred.
- Professional fees were \$19,386 (19.83%) below budget.
- Repair and Maintenance expenses were \$22,653 greater than budget due to the T Dock electrical problems and the broken water line that needed to be repaired.
- Salaries and wages were \$43,443 (5.42%) less than budget, but this will not likely continue through the year as seasonable staff is now on board.
- Supplies were \$12,690 (13.18%) less than budget.
- Net income for the six months ending June 2015 was \$671,880, which is \$181,668 greater than budget.
- Marina revenues actual to budget were approximately \$101,000 (4.23%) greater than budget, and marina operating expenses before depreciation and overhead were about \$44,000 (4.23%) less than budget.

- Net income for the marina was \$364,947 or \$198,272 (119%) greater than budget.
- Rental property revenues were approximately \$41,000 (3.6%) less than budget and operating expenses before depreciation and overhead were \$14,512 (4.73%) less than budget.
- Net income from rental properties was \$306,931 (2.18%) less than budget.

Commissioner Orvis asked if the budget allocates all marina revenues and expenses equally amongst the 12 months in 2015. Ms. Drennan explained that only two revenues (permanent moorage and dry storage) are allocated equally over the 12 months. The remaining revenues and expenses identified in the 2015 Operating Budget are based on numbers from the previous year.

Commissioner Orvis also asked if the significant increase in workyard, travelift and fuel sales revenue could be attributed to the new businesses at the Port (Puget Sound Express and Jacobsen's Marine). Ms. Kempf agreed there is some connection with the new businesses, but much of the increase can be attributed to great weather and low fuel prices.

Commissioner Gouge voiced concern that expenses were about \$80,000 greater than the same time period last year. Ms. Drennan said these additional expenses can primarily be attributed to the water line replacement and electrical improvement projects. While these two projects resulted in greater expenses than budget, the Commission authorized the work to move forward. Commissioner Gouge suggested it might be appropriate to look at a five-year average when considering the 2016 expenses. Mr. McChesney explained that it is difficult to capture unexpected projects in a budget discussion. When budgeting, it is not usually a good idea to factor in a contingency explicitly. However, it must be understood that sometimes things break unexpectedly and have to be fixed. He suggested the Commission continue this discussion as part of the budget process.

Commissioner Preston pointed out that, although the percentages are relatively low, the actual dollar amounts associated with the lower moorage and dry storage revenues are significant. Ms. Drennan reminded the Commission that the revenue and dry storage revenues are allocated equally over the 12 months.

Ms. Drennan referred to the investing report on Page 12 of the statement packet. She reviewed that in December of 2013, the Port began investing funds for longer term. They now have seven long-term investments with the first maturing in October of 2016. She explained that by investing long-term, the Port earned interest of \$15,893 for the first six months of 2015. If the money had remained in the Opus Bank money market account, it would have earned only \$2,260 on the same funds. The Port earned approximately 600% more by investing long term.

Ms. Drennan reminded the Commission that on June 29th, they authorized staff to call and retire the remaining \$615,000 of the 1998 Revenue and Refunding bonds, which will result in a cost savings of about \$42,000 over the next two years.

Ms. Drennan reviewed that on June 30th, the Harbor Square loan balance was approximately \$5.25 million and the balance the Port is required to maintain in Opus Bank per the loan agreement is \$3,152,730.

Commissioner Preston requested that future financial reports include information related to Port debt in the same type of format used for revenues and expenses.

2ND QUARTER MARINA REPORT

Ms. Kempf referred the Commissioners to the 2nd Quarter Marina Report and advised that activity during second quarter was good. She specifically noted the following:

- Public launch activities compared to 2nd quarter 2015 were up about 16%.
- The number of boats in guest moorage increased by 31%, and the number of nights by 26%. The number of groups stayed the same, but the number of vessels that were part of the groups increased by 11% and the number of nights for groups increased 16%.

- Fuel gallons sold increased by 31% over 2nd quarter 2014. Based upon seven price verifications during the quarter, the average price for unleaded fuel without the tenant discount was \$3.47 per gallon compared to \$4.23 in 2014. A simple average of all facilities surveyed was \$3.60 for unleaded and \$3.05 for diesel.
- Boatyard stall usage was up by 28% over 2nd quarter 2014, and some of this can be attributed to Jacobsen's Marine.
- Water moorage financial occupancy was 95% at the end of the 2nd quarter, compared to 94% in 2014. Dry storage financial occupancy was 88% at the end of June, compared to 82% during the same time period in 2014.
- Turnover in dry storage was slightly greater in 2015, but assignments were also greater. That means they are starting to close the shoulder season. People signed up for space earlier as a result of the boat show.
- Waterfront Festival revenues from the parking, gate, and beer garden are provided in the report, but the Port has not yet been notified of the total net revenue from the event. She noted that there is now statistical information available for the past five years.

Commissioner Orvis pointed out that there is no longer a significant disparity in fuel prices, and other marinas have adjusted their prices to more accurately reflect the cost of fuel rather than keeping them artificially low. Ms. Kempf said the Port's new approach of pricing fuel based on the market has also helped make the Port's fuel costs more competitive. Questions were raised about whether the Port's ValvTec fuel costs less per gallon than clear fuel. Ms. Kempf recalled that when the Port made the switch, it was estimated that the cost savings would be about \$.30 per gallon. The last report indicated that the cost difference between the two fuels is about \$.15 per gallon. She noted that another reason for the change is that it is becoming more difficult to purchase clear fuel.

2ND QUARTER HARBOR SQUARE REPORT

Jan Connor, Northwest Country Management, presented the 2nd Quarter Harbor Square Report. She noted that occupancy and revenue increased slightly, and this will change when they start receiving rent from the restaurant space in the 1st quarter of 2016. She noted that:

- One tenant terminated, leaving 4,000 square feet of warehouse space empty.
- Leasing activity and inquiries have increased, and many are serious customers looking for space.
- New leases were signed in Buildings 2 and 3, and leases were extended in Buildings 2, 3 and 5.
- All of the HVAC units on Building 3 have been replaced, and the roof project was completed, as well.

Commissioner Gouge said he was contacted by someone who was interested in leasing space for a distillery, and he agreed to provide contact information to staff.

UPDATE ON BOATYARD GENERAL PERMIT

Ms. Kempf explained that the Port operates its boatyard under the Boatyard General Permit, which is issued by the State of Washington Department of Ecology (DOE). The current permit was issued on March 2, 2011 and expires on May 31, 2016. She reported that the Port employs Best Management Practices (BMP's) in compliance with those outlined in the permit. They also collect water samples, send them to a lab and report monitoring results to the DOE in accordance with the permit.

- For the pressure wash wastewater, a grab sample is collected and sent to the lab in June, July, August and September. Samples are required to meet the parameters established by the permit for copper, zinc and lead. For pressure wash water treated and sent to a municipal sanitary sewer the limitations are effluent, which means the Port will be fined if they do not pass. To date, the Port has consistently met the requirements and passed the tests.
- For the boatyard, stormwater monitoring sampling of results happens once per month in October, November, January, April and May. The permit specifies benchmarks that represent a pollutant concentration based on performance of source control BMPs, treatment BMPs, or water quality criteria. According to the permit, benchmarks are set to achieve "all known, available and reasonable methods of prevention, control and treatment." There are seasonable average benchmarks for both copper and zinc, and the benchmarks are said to allow a period of adaptive management with increasing levels of effort or

treatment to comply with the permit values. Although boatyards are not fined for not meeting the benchmarks, once they reach certain levels, they are required to turn in reports to the DOE outlining what they will do to correct the problem. At this point, the Port has turned in several Level 2 and Level 3 Responses to the DOE because the requirements are too difficult to meet.

Ms. Kempf reported that the DOE expects to reissue the permit in early spring 2016 following a public comment period. The DOE hosted two workshops and listening sessions in July to present their plan for the Boatyard General Permit and to solicit suggestions for the new permit from current permit holders and other interested parties. She and Mr. McChesney each attended one of the workshop sessions. James Maroncelli, the DOE's new permit contact, was the presenter at the sessions. It was explained that the DOE's intent for the new general permit is to:

- Stay on course with no major substantive changes.
- Reorganize all general permits to make them consistent and less confusing.
- Define terms consistently.
- Clarify goals of and methods for monitoring.
- State universal requirements consistently.
- Correct errors and clarify ambiguities in the permit.

Ms. Kempf advised that the results of the Port's water sampling, as well as a copy of the DOE's presentation, were attached to the Staff Report. For example, she referred to the lab results for zinc level samples and noted that the Port's samples exceeded the permit limits six times, requiring them to file a Level 3 Response. Implementation of the response was to put more finely crushed oyster shells in the trench drain and vault. This resulted in lower zinc levels, but they are still too high to meet the levels outlined in the permit. To date, the Port has not received a response from the DOE regarding their Level 3 Report. Once the DOE responds, the Port will have 12 months to implement the solution outlined in the report.

Commissioner Preston questioned why the general permit does not have the same testing dates for both pressure wash facilities and boatyards. Ms. Kempf said the different dates might be because pressure wash facilities are used more heavily during the summer months.

There was some discussion about the scale that is used to measure zinc levels and why the monthly averages do not match up with the yearly averages. Ms. Drennan explained that the yearly average illustrates one point in time, and the monthly averages illustrate a series of points in time.

Ms. Kempf said she had a brief discussion with Mr. Maroncelli from the DOE to remind him that lead is supposed to come out of the permit. Every sample costs money and there is no need to monitor lead levels if it is not part of the permit. Although studies have shown that lead can have an impact in fresh water, that is not true for salt water. She was assured that the lead requirement would be eliminated for marine water permits.

HARBOR SQUARE BUILDING 3 HVAC WORK ACCEPTANCE

Mr. McChesney recalled that the Harbor Square Condition Survey that was conducted in 2013-14 identified Building 3 as a priority for capital maintenance, specifically describing the need to replace rooftop HVAC units. On February 23rd, the Commission authorized Port staff to bid the project in coordination with the new roof installation. Seven qualified bids were received on April 2nd, and the project was awarded to the low bidder, D.K. Systems, Inc., on April 14th. The contractor began work in June and was substantially complete on July 2nd. The few items that remained were coordinated with the roofing project that occurred in mid July and were completed by August 6th. The work was accepted by the Port Facilities Maintenance Manager after the final inspection.

Mr. McChesney advised that, upon acceptance by the Commission, the Port will arrange to release the contractor's retainage once the approvals by the state agencies have been received as part of the Public Works completion process. He noted that the total cost of the project was \$143,997, plus sales tax of \$13,679.72, for a total cost of \$157,676.72. He recommended the Commission accept the Harbor Square Building 3 HVAC contract as complete.

COMMISSIONER BLOCK MOVED THAT THE COMMISSION ACCEPT THE HARBOR SQUARE BUILDING 3 HVAC CONTRACT AS COMPLETE. COMMISSIONER GOUGE SECONDED, THE MOTION, WHICH CARRIED UNANIMOUSLY.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney reported that he attended the Washington Public Ports Association (WPPA) Executive Director's Conference in July. The conference was well attended and he enjoyed the opportunity to discuss how ports operate and what to expect legislatively with leaders in the industry. He announced his plan to attend the Edmonds Economic Development Commission meeting on August 19th on behalf of Commissioner Faires. He also reported that discussions relative to the City's revised Shoreline Master Program are continuing, and he will attend a public open house on August 20th sponsored by the Department of Ecology to discuss the interim cleanup plan for the Unocal Edmonds site. Lastly, he said he would attend the Snohomish County Tourism Bureau Board Meeting on August 20th.

Ms. Kempf announced that Governor Inslee signed the Marine Trade bill into law on July 2nd. The bill will become effective on September 1st. She explained that the bill has been the Northwest Marine Trade Association's (NMTA) top priority for a long time. She provided each Commissioner a copy of a handout prepared by the NMTA, in conjunction with other organizations, to explain the new law to boat owners. In particular, it is important that owners of large vessels understand that they can remain in Washington waters for longer than six months without being subject to a significant tax.

Ms. Kempf reported that down riggers were stolen from U and R Docks on three separate occasions (June 30th, July 9th, and July 24th). In response, Port staff sent out security alerts to 551 of the Port's nearly 1,000 tenants, and the emails were opened by 339 people. About 29 emails were bounced back, and the Port received six responses from tenants who offered suggestions. Staff believes the best way to prevent the situation from occurring again is to get the word out to tenants to secure their gear and always be aware of their surroundings. They should keep track of the serial numbers on their equipment and etch their drivers' license on their down riggers. Also, it is important to keep the gates to the docks locked.

Ms. Kempf announced that hours of operation for the marina will change on September 1st to 6:00 a.m. until 5:00 p.m. Once again, a number of the seasonal staff is leaving early and permanent staff will have to adjust their schedules to help fill in.

Commissioner Orvis asked if dry storage tenants who come in after hours could leave their boats at the guest moorage dock. Ms. Kempf agreed that is an option, but they would have to pay the guest moorage fee.

COMMISSIONER COMMENTS AND COMMITTEE REPORTS

Commissioner Gouge advised that the Finance Committee will meet on the morning of August 13th. Commissioner Orvis will attend the meeting on behalf of Commissioner Faires. He also announced his plan to attend the Economic Alliance Snohomish County meeting on August 20th at Paine Field. He noted that the Edmonds City Council will not meet on August 11th, as the City is celebrating its 125th Anniversary on that day.

Commissioner Orvis announced that he will attend the Economic Alliance Snohomish County Board Meeting on August 19th in Everett. He also reported that he met with Mayor Earling, Council Member Nelson and a few others to discuss how to utilize an advisory group that will be put together to discuss options for access over/under the tracks. It is anticipated that the group will include representatives from the Washington State Department of Transportation, Burlington Northern Santa Fe, Community Transit, Sound Transit and the Port of Edmonds.

Commissioner Preston complimented staff for the information that has been placed in the local newspaper in the "Around Town" section relative to the Artist in Action Program. He suggested the information could also include the Sea Jazz events.

Commissioner Preston encouraged other Commissioners to join him in attending the WPPA Small Port's Seminar in October in Leavenworth. Commissioner Gouge said he plans to attend.

Commissioner Preston advised that he would attend a Sea Scout meeting on August 12th.

Commissioner Preston asked staff to provide an update on the comments the Port has received in the “suggestion boxes.” He also suggested that a group of Commissioners and staff should meet with the Rotary Club to discuss issues relative to the Waterfront Festival.

ADJOURNMENT

The Commission meeting was adjourned at 8:15 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Fred Gouge". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Fred Gouge
Port Commission Secretary