

PORT COMMISSION OF THE PORT OF EDMONDS
MINUTES OF REGULAR MEETING

July 29, 2013

COMMISSIONERS PRESENT

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

STAFF PRESENT

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

OTHERS PRESENT

Karin Noyes, Recorder

COMMISSIONERS ABSENT

David Preston, Secretary

CALL TO ORDER

Commission President Orvis 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

Item D was pulled from the consent agenda.

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

- A. APPROVAL OF AGENDA**
- B. APPROVAL OF JULY 8, 2013 MEETING MINUTES**
- C. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$439,979.85**

COMMISSIONER GOUGE SECONDED THE MOTION, AND THE MOTION CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

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

POLICY NUMBER 3.50.25 – ACQUISITION OF MATERIALS, SUPPLIES AND EQUIPMENT

Mr. McChesney advised that the proposed change is a housekeeping item to tighten the purchasing policy and modify the limits. He noted that the State Auditor recommended that the policy should be officially adopted by the Commission.

Ms. Drennan explained that Policy 3.50.25 applies to the acquisition of materials, supplies and equipment, but not to public works or professional services, which have different legal requirements. She reviewed the proposed changes as follows:

- The public works and professional service contracts were removed from the policy. These contracts have different requirements, but were erroneously included in the 2009 update.
- The purchasing parameters were updated. In the previous version, bids or quotes were not needed for purchases less than \$1,000. This amount was updated to \$3,000.
- Language related to the Small Public Works Roster was removed, as it only applies to public works projects.
- Purchasing limits were adjusted and the number of staff who have purchasing authority was reduced.

Ms. Drennan advised that the proposed changes would have no fiscal impact and they meet the Port's mission of being a responsible financial steward. She explained that the policy specifically outlines budgetary authority, how many quotes are needed and who can authorize purchases. At the request of Mr. McChesney, Ms. Drennan reviewed the "purchasing parameters" (Item 3 of the Policy) as follows:

- Office supply purchases of less than \$500 may be made by designated employees or regular full-time employees with approval from a director, manager or supervisor. Typically, one person in the administrative office and one person in the marina operations office are responsible for purchasing supplies.
- Janitorial supply purchases of less than \$1,000 may be made by designated employees or regular full-time employees with approval from the director, manager or supervisor.
- Purchases less than \$3,000 may be made by the department director or manager. However, the purchaser must ensure that the purchase is budgeted and does not exceed the approved budget item unless that purchase is approved in writing by the Executive Director.
- Purchases that are greater than \$3,000 but less than \$10,000 must be approved by the Executive Director. The purchaser would be required to fill out a purchase approval form, attach three written quotes, and submit to the Finance Manager to fill in the budget and financial information.
- Purchases greater than \$10,000 but less than \$25,000 must be approved by the Port Commission. The department director or manager must prepare an agenda item for approval and provide a minimum of three quotes.
- Purchases greater than \$25,000 must be completed by formal sealed bid and must be approved by the Port Commission.

Commissioner Faies noted that the proposed policy changes were not reviewed by the Port Attorney. He asked if staff foresees any conflicts between the proposed policies and state requirements. Ms. Drennan answered that the State allows ports to create their own purchasing policies for purchases of goods below \$300,000.

COMMISSIONER GOUGE MOVED THAT THE COMMISSION APPROVE PORT OF EDMONDS POLICY NUMBER 3.50.25—ACQUISITION OF MATERIALS, SUPPLIES AND EQUIPMENT AS PRESENTED BY STAFF. COMMISSIONER FAIRES SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

APPROVAL OF RESOLUTION NUMBER 13-06 – AUTHORIZING CHECK SIGNERS ON PORT OF EDMONDS CHECKING ACCOUNTS (Item D on the Consent Agenda)

Ms. Drennan advised that while she and Mr. McChesney sign most Port checks, it is important to have others authorized to sign checks as a backup in the event that she or Mr. McChesney are not available. She explained that

proposed change would update the Port's authorized check signers. She noted that a signature card is required for each person authorized to sign checks on behalf of the Port, and this process can be cumbersome and require a significant amount of information. She advised that, at this time, staff is proposing to simply remove Ms. Borth, who is retiring, and add Ms. Kempf to the list of authorized check signers for Port of Edmonds checking accounts. Commissioner Block said she is not concerned about any of the people identified as authorized check signers, but she questioned if it would be better to use titles rather than specific names of individuals (i.e. Commissioner, Finance Director, Executive Director, etc). Ms. Drennan explained that banks require specific names of the individuals authorized to sign checks. She advised that the Port has the ability to remove and add names to the list of authorized check signers as needed. However, Commission approval is required for each change.

COMMISSIONER GOUGE MOVED THAT THE PORT APPROVE RESOLUTION NUMBER 13-06 – AUTHORIZING CHECK SIGNERS ON PORT OF EDMONDS CHECKING ACCOUNTS AS PRESENTED BY STAFF. COMMISSIONER FAIRES SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

2ND QUARTER HARBOR SQUARE REPORT

Ms. Conner reported that 2nd quarter Harbor Square revenues were flat. She advised that some late fees were assessed, and there was some leasing activity. One company, in particular, expressed an interest in warehouse space in Building 5. The owner is currently working with the Public Utility District to address the significant power requirements. She has continued to have contact with a potential restaurant tenant, but there is nothing concrete to report at this time. There were some lease extensions, but they lost a one-man office tenant. No tenant improvements were needed, and conference room rentals were up for the quarter.

Ms. Conner reported that the Building 2 roof project is moving forward. It is anticipated the project will take four weeks to complete. The contractor is doing good work, and the tenants have been apprised of the situation. They have not received any complaints from tenants. Because the contractor is using a heat-seal system, there is no strong smell associated with the work. As of the end of last week, the contractor indicated that the project was 30% complete due to good weather. Once the roof is finished, the contractor will work on the skylights.

Ms. Conner advised that all sidewalks at Harbor Square were pressure washed. She reminded the Commission of the incident in Building 4 caused by a toilet supply line failure. They have moved through the remediation process by replacing carpet and painting. A rubber base will be installed soon. Once all work has been completed, she will submit the documentation and invoices to Port staff.

Commissioner Faires asked if there has been any reaction from tenants relative to the fact that the Port has decided not to move forward with redevelopment of Harbor Square. Ms. Conner answered that some tenants have requested updates, and she has informed them that the Port will not move forward with redevelopment at this time. A number of long-term tenants have renewed their leases. The tenants seem to have confidence in their space, and tenants in Building 2 are particularly excited to have the roof replaced. One tenant in Building 2 renewed his lease for an additional three years.

Mr. McChesney reported that the roof contractor is doing a good job and has found ways to reduce the total contract cost by about \$30,000. For example, the contractor has worked with the supplier to figure out a way to do the project without lifting all of the rooftop HVAC units and mechanical equipment, but still meet the warranty parameters. The vapor barrier will not be needed, either. The project is on schedule and staff is comfortable with the contractor's progress.

Commissioner Faires requested an update on potential tenants for the restaurant space in Building 2. Ms. Conner said she has been working with a gentleman who is putting together a business plan and obtaining financing. They are not quite ready to write a lease, but it is still an option. She said she has worked with a few other potential tenants for the space, as well, to determine the level of interest.

Commissioner Orvis observed that the Antique Mall property owner has given notice to his tenants that they will need to vacate the site. Ms. Conner said the Antique Mall property owner has aggressively tried to recruit Harbor Square tenants to his site, but the higher rents create a challenge. Commissioner Faires commented that the changes

made at the Antique Mall site will be a community benefit and allow the property owner to make good use of the space for as long as it remains. He applauded his efforts.

2ND QUARTER MARINA REPORT

Ms. Kempf reported that the 2nd quarter of 2013 was very busy with good results in many program areas. She specifically noted the following:

- Public launch activities were up 42% on one-way trips and 27% on round trips compared to the same time period in 2012.
- Although there was a small decrease in the number of boats in guest moorage compared to 2012, the number of nights was just 2% short of meeting the 2012 totals. She reminded the Commission that 2012 was a banner year for groups during the 2nd quarter, and the number of groups increased in 2013 from six to seven. However, the number of boats and nights that groups stayed decreased by 25%.
- Fuel gallons sold increased by 25% over 2nd quarter 2012. The Port's average price for unleaded during the 2nd quarter of 2013 was \$4.11 compared to \$3.82 in 2012. The average price for diesel was \$4.21 compared to \$3.64 in 2012. The simple average for all facilities surveyed was \$4.16 for unleaded and \$4.21 for diesel. Commissioner Orvis said he understands that Brownsville and Poulsbo have finally figured out how much they are subsidizing their fuel dock and prices have increased. Ms. Kempf explained that the Port's prices cannot compete with these two facilities. She reminded the Commission that the two facilities switched to ethanol gas without any additives, and this requires them to keep their prices artificially low in order to sell fuel. She expressed her belief that the Port did a good job of keeping its prices competitive and they saw an increase in the amount of fuel sold. Commissioner Orvis said he recently read an article about ValvTect Ethanol Gasoline Treatment in a national magazine. The additive is used in over 600 marinas, all of which passed inspection to ensure what they are selling is, in fact, what they are advertising. ValvTect's reputation related to the product has improved dramatically. Ms. Kempf noted that the Port has not received any complaints since they made the change in November of 2010.
- Water moorage financial occupancy, according to revenues, was 92% as of the end of the 2nd Quarter 2012. Financial occupancy as of the end of 2nd Quarter 2013 was 93%.
- Terminations for the 2nd quarter remained about the same as in 2011 and 2012. She noted that three tenants have been terminated in 2013 for nonpayment.
- When reviewing 2nd quarter 2013 results for dry storage, it is important to keep in mind that there were significant program changes during the 2nd quarter of 2012. This makes it difficult to compare 2012 and 2013 numbers. The total number of spaces was reduced from 280 to 232, and the Port initiated a variable rate structure for new customers. Dry storage financial occupancy, according to revenues, was 93% at the end of the 2nd quarter 2012. Financial occupancy as of the end of the 2nd quarter 2013 was 85%. Dry storage physical occupancy at the end of the 2nd quarter was 99% with nine names on the wait lists for boats and 3 names on the waitlist for trailers. Ms. Drennan pointed out that closure of the east lot reduced dry storage spaces. Without consolidation, vacancy would have been 50 slips at the end of 2nd quarter 2012, and the financial occupancy would have been 74%.
- During the 2nd quarter of 2013, 56 assignments were made in dry storage compared with 45 in 2012 and 38 in 2011. This indicates that people are signing up for space earlier because they know the facility will fill up.
- While the number of people on the water moorage wait list continues to decrease, the Port received 31 applications for the wait list during the 2nd quarter of 2013 compared to just 15 in 2012.

Jack Bevan asked if the Port receives a net return on fuel sales if amortization of the building and equipment is factored in. Mr. McChesney answered that when calculating gross revenues less the cost of goods sold, direct operating expenses, depreciation and overhead, the fuel dock is operating in the red. He advised that the Commission would reassess the situation as part of their upcoming budget discussions.

Ms. Kempf advised that the Rotary Club has indicated that the 2013 Waterfront Festival may be their best one ever. The weather was great and attendance was good. She said she would provide a more detailed report when it is available from the Rotary Club.

Mr. McChesney observed that the decrease in the number of boats in guest moorage during 2nd quarter could be attributed to the fact that the guest moorage dock was closed for approximately three weeks to accommodate the electrical upgrade project. Ms. Kempf agreed that the Port did have to turn down potential guests while the construction work was taking place.

Commissioner Gouge asked if Port staff is prepared for the onslaught of what is expected to be a fantastic fishing season. Ms. Kempf said the Port has been busy for the past three weekends, which has enabled the seasonal staff to receive enough experience to handle the additional boats that are anticipated.

Mr. McChesney reported that the Port has signed a grant agreement with the Washington Recreation and Conservation Office (RCO) for funding to upgrade the public launch. They are waiting for the RCO to execute the final documents. He reported that the launcher's brakes failed on a recent busy Saturday, creating the need to shut the facility down for several hours. The Port's Facilities Maintenance Manager was able to repair the machine and get it back in operation quickly. This situation illustrated the fragility of the aging equipment. He noted that the engineering work for the upgrade project has been completed, and the Port is ready to move forward with the project as soon as the grant documents are finalized.

2ND QUARTER FINANCIAL STATEMENTS REPORT

Ms. Drennan reviewed the 2nd Quarter Financial Statements Report, specifically noting the following:

- Gross profit for the six-month period ending June 30th was \$3,041,661 or 1.5% greater than budget. Net income for the same period was \$407,261.
- Permanent moorage revenues were \$1,414,160 or .12% greater than budget and 93% of full financial occupancy. Annual occupancy was budgeted at 93%.
- Dry storage revenue was \$299,688 or 6.5% less than budget and 85% of full financial occupancy. Annual occupancy was budgeted at 91%.
- Harbor Square property revenue was \$760,666 or 3% greater than budget.
- Operating expenses without depreciation for the three-month period was \$834,555 or \$82,620 less than budget.
- Employee benefits expense was \$236,840 or \$20,660 less than budget. This is primarily a timing issue. The employee benefits budget was allocated equally over 12 months, but the Public Employee Retirement System (PERS) contribution did not increase until July 1st. In addition, the Port didn't start making PERS contributions for seasonal employees until May. In 2002, the PERS rate was unreasonably low and she expected the significant increase. In addition, she is working on another General Accounting Standards Board (GASB) pronouncement that may require the Port to start accounting for the risk associated with the potential failure of the State's PERS program.
- Supplies expenses were \$123,730 or \$13,730 greater than budget. However, it is important to keep in mind that repair and maintenance expenses and supplies go together and supplies is the amount paid for materials Port staff needs to complete jobs in house. Now that the Port has a Facilities Maintenance Manager with the skills to complete more projects in house, supplies expenses have increased while the repair and maintenance expenses have decreased.
- Salaries and wages expenses were \$743,097 or \$20,403 less than budget.
- Net non-operating miscellaneous expenses included an operating grant for the pumpout operation and a PUD grant for LED light bulbs.
- Net non-operating income for the six-month period ending June 30th was \$407,261 or \$180,725 greater than budget.
- The benchmark to determine the Port's investing performance levels is the one-year Treasury Bill, which was 0.14% on June 30th. Liquid Port funds earned between 0.10% and 0.30%. The Federal Reserve recently announced that it would allow interest rates to float up by the end of the year, and staff will continue to research options to earn more interest.

Ms. Drennan referred the Commissioners to the graphs that were provided at the end of her report to illustrate revenues and expenses, monthly revenue trends, and budget to actual for the Port as a whole, the marina, and rental properties. She advised that the graphs would be updated each quarter and presented to the Commission to inform

them of where the Port is financially compared to previous years. She noted that the Port has consistently had greater revenues and lower expenses than budgeted, which is a good thing. Commissioner Faires said he would prefer the actual revenues and expenses to be closer to budget. He commented that being conservative is reasonable, but perhaps they are being too conservative in some areas. He suggested they continue to strive for being off by 3% rather than 10%.

Commissioner Orvis reminded the Commission that the budget is simply divided into increments of twelve and revenues and expenses vary by month. He suggested that they will not have a good handle on how close actuals are to budget until early 2014. He expressed his belief that it is unreasonable to expect to be anywhere near 3% at this time of year. While it is important to keep track of revenues and expenses compared to budget, they must keep in mind that other items could have a significant impact on the final outcome of the 2013 budget. Commissioner Faires concurred but suggested the Commission go through the 2014 budget process trying to do the best they can to figure out the most probable and conservative answer.

Jack Bevan commented that the public should be happy with the Port's budget, especially considering the problems the City of Edmonds is faced with.

The Commissioners all agreed that the new graphs provided by Ms. Drennan were enlightening and helpful. It was noted that because the Port has more capability to do work in house, they will be able to budget differently in the future. Although supplies expenses are expected to increase, repair and maintenance costs should decrease overall and the Port should be able to do more work with less money. Ms. Kempf specifically referenced the recent incident with the public launcher. It would likely have cost \$5,000 for the Port to call in a contractor to repair the equipment. If staff had not had the needed part on hand, the equipment would have been down for a longer period of time.

COMMISSION MEETING SCHEDULE

Mr. McChesney advised that the Commission would begin their budget discussions on August 12th. Staff would also report on the 2013 marina operating promotions and provide recommendations for moving forward with 2014 promotions.

Mr. McChesney reported that Commissioner Preston would attend the Washington Public Ports Association (WPPA) Trade and Economic Development Seminar on August 22nd through 23rd at the Great Wolf Lodge in Grand Mound.

Mr. McChesney advised that the Commission would continue budget discussions on August 26th. It was noted that the Commission's last meeting in September was moved to September 23rd to avoid conflict with the Candidates' Forum that is scheduled for September 30th.

Mr. McChesney reported that Commissioner Orvis and Ms. Kempf are tentatively scheduled to attend the Northwest Marina and Boatyard conference on November 7th and 8th in Port Townsend. The event is co-sponsored by the Northwest Marine Trade Association (NMTA) and the WPPA.

Commissioner Gouge asked staff to schedule a finance committee prior to the Commission's budget discussion on August 26th. Mr. McChesney agreed to schedule the meeting as soon as possible.

Ernie Collins, Edmonds Yacht Club Liaison, suggested that when the Port discusses their 2014 marketing promotion program, they should take note of the Edmonds Yacht Club's schedule. Last year there was a conflict, and the yacht club members were unable to participate in some of the programs.

Commissioner Block announced that she has a potential conflict and may not be able to attend the WPPA Environmental Seminar on September 26th and 27th in Vancouver. Commissioner Orvis agreed to attend the event if Commissioner Block is unavailable.

Commissioners Faires, Orvis and Gouge announced their plan to attend the WPPA Annual Meeting in Tacoma on November 20th through 22nd. Commissioner Orvis noted that the annual meeting conflicts with the Economic

Alliance Snohomish County (EASC) meeting. Mr. McChesney agreed to attend the EASC meeting to represent the Port.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney announced that the City Council is scheduled to continue their discussion about the Harbor Square Master Plan on July 30th. While he does not expect any major decisions, he plans to attend the meeting to represent the Port. He further announced that the City's draft Shoreline Master Program (SMP) Update will come before the City Council for approval sometime in August. He reminded the Commission that Eric Laschever, K&L Gates, prepared a letter on behalf of the Port to the Edmonds City Council expressing the Port's position on the Shoreline Master Program (SMP) Update. He said he would be surprised if the City Council did not give the letter some consideration when making their final decision.

Mr. McChesney reported that last weekend he attended a craft distillery workshop in Snohomish that was sponsored by the Northwest Agriculture Business Alliance. He and Commissioner Orvis met previously with representatives from the Alliance, as well. He reminded the Commission of the Port's interest in attracting potential craft distiller businesses to Harbor Square, and he attended the event to gain a better understanding of what goes into a business model, financing, etc. for distillery businesses. He said Port staff will continue to pursue opportunities, but it is important to understand the challenges that businesses face obtaining financing and the necessary licenses. For example, before a business can apply for a license, it must have a location and floor plan. The front end lead time is quite long.

Ernie Collins, Edmonds Yacht Club Liaison, advised that the Blue Water Distillery at the 12th Street Marina in Everett participates in a group of budding distillers. Perhaps the Port could use this group as a resource for marketing the Port's available space.

Mr. McChesney advised that, with Ms. Borth's retirement this week, there will be some changes in the Port's administrative office. While they are sad that she is leaving the Port, the change presents an opportunity for the Port to do some things differently. Rather than an executive assistant, they will have an administrative assistant and an office manager. Duties will be shifted around to smooth out the work flow.

COMMISSION COMMENTS AND COMMITTEE REPORTS

Commissioner Faires reported that he attended the Edmonds Chamber of Commerce Economic Development Committee Meeting on July 10th. The primary topic of discussion focused on the City of Edmonds and Chamber working together to implement the City's newly adopted Strategic Plan. He suggested that the Port Commission could utilize the City and Chambers efforts as they move forward to create a strategic plan for Harbor Square.

Commissioner Faires said he met on July 15th with the committee that is organizing the September 30th Candidates' Forum. He reported that each of the three Commissioners, who are running unopposed, will be given a few minutes to address the public and explain their priorities for the Port.

Commissioner Block reported that she attended the recent Arts Summit, which was well planned and well attended by people who have a real interest in seeing the arts develop in Edmonds. Some very good ideas and thoughtful discussions came forward. She said she hopes the concept behind the summit will continue and people will stay engaged.

Commissioner Gouge reported that he attended the Chambers picnic on July 10th, which was co-sponsored by the EASC. The event was well attended. While there was only one representative from the EASC, he was able to talk to many Chamber members that did not know what Port Commissioners do. He said he was grateful for the opportunity to explain that the Port Commissioners are elected officials and do not operate under the City of Edmonds. Edmonds Mayor Earling and Stephen Clifton, Edmonds Economic Development/Community Services Director, attended the event, as well.

Commissioner Gouge observed that the Edmonds City Council's liaison to the Port Commission has not attended recent Commission meetings. He and Commissioner Orvis indicated they would try to attend the July 30th City Council Meeting where the Harbor Square Master Plan will be discussed.

Commissioner Gouge said he plans to be on vacation along the coast, and may attend the Pacific Coast Congress of Harbor Masters and Port Managers semi-annual conference in Eureka, California in September.

ADJOURNMENT

The Commission meeting was adjourned at 8:22 p.m.

Respectfully submitted,

David Preston
Port Commission Secretary