

PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF REGULAR MEETING

February 24, 2014

COMMISSIONERS PRESENT

Jim Orvis, President
David Preston, Vice President
Fred Gouge

STAFF PRESENT

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

OTHERS PRESENT

Karin Noyes, Recorder

COMMISSIONERS ABSENT

Mary Lou Block
Bruce Faires

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

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

- A. APPROVAL OF AGENDA**
- B. APPROVAL OF FEBRUARY 10, 2014 MEETING MINUTES**
- C. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$244,573.67**

COMMISSIONER PRESTON SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

Terry McCartney, Jacobsen's Marine, provided a status report on their project at the Port. He said they hope to have the necessary building permits in hand by mid March. The building will take four to five months to complete, and they are hoping to open for business in their new location by midsummer. They have shared the project with their customers and provided an exhibit of the new facility at the Seattle Boat Show. Everyone appears to be excited about the change.

City Council Member Joan Bloom noted that the minutes from the February 10th meeting indicated that the Commission would be discussing the Port's Strategic Plan, but it is not on tonight's agenda. Mr. McChesney explained that the original intent was to continue their discussion on the Strategic Plan. However, they are still awaiting final comments from a few Commissioners. The continued discussion will likely occur on March 10th.

Commissioner Gouge asked staff to forward a copy of the draft Strategic Plan to Council Member Bloom as soon as it has been updated with all of the Commissioners' comments.

HARBOR SQUARE 4TH QUARTER REPORT

Steve Lyon, Northwest Country Management, provided a summary of the Harbor Square 4th Quarter Report, announcing that total revenue for 4th Quarter 2013 was \$380,496.70, or about 2.2% higher than the same time period in 2012, and occupancy was 74.8% in 2013 versus 74.9% in 2012. He advised that space was shown in Buildings 1, 2, 3 and 5 during the 4th Quarter, and they received phone inquiries from five prospective tenants. He noted that several of the inquiries were for warehouse space, which is not currently available. He reported the following lease activity:

- Building 5 – A 2-year lease (\$29,832), which is non-commissionable
- Building 4 – A 2-year extension of an existing lease (\$72,534)
- Building 4 – A 3-year extension of an existing lease (\$161,028)
- Building 5 – A 3-year extension of an existing lease (\$113,590)
- Building 2 – A 2-year lease (\$25,523), which is non-commissionable
- Building 2 – A 4-month extension of an existing lease (\$3,190)
- Building 5 – An 18-month lease (\$29,249), which is non-commissionable

Commissioner Gouge asked if tenants are still concerned about how their businesses might be impacted by the Harbor Square Master Plan. Mr. Lyon said tenants raised concerns related to the numerous articles in the local newspapers regarding the master plan. The inquiries stopped when it became clear that the master plan was no longer being considered for incorporation into the City's Comprehensive Plan.

No tenant improvements were needed during the 4th quarter. The conference room was only rented once during the quarter, resulting in net revenue of \$60, with no set up costs. There was one rent abatement during the quarter for about \$11,000, and only two late fees were charged. They received security deposits from three tenants, and no security deposits were refunded.

Mr. Lyon announced that space in Building 1 has been vacant for quite some time, and it is beginning to fill up. A prospective tenant has come back twice this month to measure space for the furniture, which is a positive sign. The biggest issue with the vacant restaurant space is how to bring it down to a more manageable size or change the use entirely. Mr. McChesney said the first step is to remove the existing mechanical equipment, which is old and obsolete. Commissioner Gouge asked how the Port plans to dispose of the equipment. Mr. McChesney answered that the equipment does not have sufficient value to justify the expense of trying to sell it, but they are hoping the stainless steel has some salvage value.

Commissioner Orvis asked about the break-ins that occurred at Building 4. Mr. Lyon explained that they believe the break-ins are an anomaly and not indicative of any particular problem that needs to be addressed. He noted that no break-ins occurred in the previous eight years. The parking lots are well lit, and most businesses are keeping less cash around. This provides less incentive for future incidents.

MARINA 4TH QUARTER REPORT

Ms. Kempf provided a summary of the Marina 4th Quarter 2013 Report and the five-year annual statistics. She reported that the public launcher had a great year, which is interesting given that the Port was unable to handle the larger boats due to weight limits. Not only was activity up, they also had a positive bottom line, after depreciation and overhead, for the first time in many years. Customers received 218 complimentary launches as a result of the promotion that offered a free launch to customers who purchased five launches.

Commissioner Gouge asked if the Port has received input from customers regarding the hours of operation for the launcher. Ms. Kempf recalled that there was a timeframe when the launcher did not open until 7 a.m., and the only time the Port extended the hours of operation was during the fish derby. However, a few years ago, the Port decided to open the launcher at 6:00 a.m. during the summer months, and this has typically satisfied the customers. Customers who want to get out earlier can have their boats launched the night before and stay in guest moorage.

Commissioner Gouge asked how the Port notifies potential customers of the extended hours of operation. Ms. Kempf explained that extending the hours depends on the availability of seasonable help, but the goal is to start the extended hours by July 15th. Port staff tries to post the extended hours two to three weeks in advance in various locations.

Commissioner Gouge suggested that the Port hold a ribbon cutting event to celebrate the opening of the new launcher. Mr. McChesney announced that completion of the project has been delayed by two weeks because the crane and trolley system fabricator is located back east and has been impacted by the severe weather conditions. It is anticipated the project will be completed by mid March. Ms. Kempf suggested that a celebration event could be scheduled in conjunction with the Recreation and Conservation Office's (RCO) walk through of the new equipment.

Ms. Kempf continued her report by announcing that guest moorage had a good year. Although the total number of boats and nights was greater in 2012 compared to 2013, it is important to note that the Edmonds Yacht Sales space was vacated and used for guest moorage in 2012. This space was converted to permanent moorage slips in 2013. She also reminded the Commission that the guest moorage area was closed for an extended period of time in 2013 so that the electrical equipment could be replaced. She noted that of the 4950 nights, 14.5% (728) were placed in the Loan-A-Slip Program.

Ms. Kempf advised that total gallons sold at the fuel dock was up significantly in 2013, and there was increased activity in the workyard (stall usage, travelift, and sling-time) compared to 2012. She noted that stall usage was significantly higher in 2011, but 742 days of the annual total were impounded boats.

Ms. Kempf reported that occupancy for water moorage was at 95% from a financial standpoint. Financial occupancy in the dry storage was at 94%. Commissioner Preston inquired about the inventory change that occurred in water moorage in 2013. Ms. Kempf said this was related to the Edmonds Yacht Sales dock, which was converted to permanent moorage in 2013. The inventory change in dry storage was a result of the Port's decision to close the east lot in 2012.

Ms. Kempf advised that the turnover ratio increased in 2013 for both water moorage and dry storage. However, given the current economy and vacancies at other marinas, the Port's financial occupancy has remained steady. She reported that the wait list decreased from 76 in 2012 to 69 in 2013, which is indicative of the trend over the past five years. The Port currently has no wait list for boats under 32 feet, but they continue to have a wait list for the larger boats. The majority of the terminations were boats smaller than 32 feet.

Commissioner Gouge commented that the wait list is becoming more dynamic as opposed to static. He encouraged the Port to continue to recruit younger boaters to replace older individuals who are getting out of boating. He said he is not particularly concerned about the wait list numbers. As long as people continue to sign up, it appears that the Port's rates are within the market range. Commissioner Preston agreed that a dynamic wait list is the new normal. He expressed his belief that as other marinas close down and the overall supply decreases, the demand for slips at the Port of Edmonds will increase.

Ms. Kempf commented that the Port's philosophy is to provide value and a quality facility, and they heard numerous comments at the Seattle Boat Show that indicate people are recognizing this effort. Although tenants with smaller boats terminate and trailer their boats somewhere else for winter storage, they tend to want to return to the Port because of the value they receive.

Commissioner Preston expressed concern about the low percentage of tenants who provided current insurance and registration paperwork in 2013. Ms. Kempf said collecting updated paperwork is a challenge for all marinas, and the process is time consuming. While she was disappointed with the 2013 numbers, they demonstrate what happens when the Port does not send out a letter reminding tenants of the requirement. She reminded the Commission that tenants cannot obtain parking permits unless their paperwork is up-to-date, so she anticipates the numbers will improve during the 1st quarter of 2014. Commissioner Gouge asked if the new marina software would allow the port to track when a tenant's boat registration or insurance documentation has expired. Ms. Drennan answered that the current software already tracks this information.

Ms. Kempf advised that the Port's Marketing Plan, which was adopted in 2013, included a number of successful promotions. The boat show promotion, offering the 1st and 12th month for \$20.13, was successful, and 20 of the 45 people (44%) who signed up under the promotion are still tenants. She referred the Commission to the list of promotions, noting that the Sea Jazz Program would continue in 2014 in conjunction with the Artists in Action Program. The Port's 2013 National Marina Day event went well, and they plan to repeat the event in 2014.

Ms. Kempf concluded her report by announcing that the Port is in the process of updating its webpage. She also noted that her report contains a list of the comments received from tenants who terminated moorage.

PRELIMINARY 2013 YEAR END FINANCIAL STATEMENTS

Ms. Drennan provided a summary of the preliminary 2013 Year End Financial Statements, noting that all major transactions staff is aware of have been recorded. Over the next few months, staff will prepare the final 2013 Year End Financial Statements in the Budgeting, Accounting and Reporting System (BARS) format. She advised that, occasionally during this process, staff finds other transactions that need to be recorded. Staff will notify the Commission of any changes when the 2013 Year End Financial Statements are presented.

Ms. Drennan referred the Commission to the graphs on Page 2. One provides a comparison of revenues and expenses for 2010, 2011, 2012, and 2013, showing that revenues exceeded expenses in all four years. The other graph provides a comparison of the budgeted revenues and expenses to actual. Total revenues were greater than budgeted and total expenses were less than budgeted. She advised that gross profit for the 12-month period ending December 31, 2013 was \$6,364,137, or 3% greater than budget.

Ms. Drennan reported that both fuel sales and launcher revenue were 38% greater than budget. Guest moorage revenue was more than 11% greater than budget. Permanent moorage was budgeted at 93% occupancy, and actual occupancy was at 95%, resulting in increased revenue of about 2.2%. Dry storage revenue was approximately on budget. The travelift and workyard revenue was below budget, and Harbor Square revenue was a bit greater than budget.

On the expense side, Ms. Drennan reported that bad debt expense was greater because a tenant at Harbor Square was asked to vacate space and the account was sent to collections. Interest expenses for non-operating items were \$26,777 below budget primarily due to the Port making more principal payments than required on the Opus Bank loan. She explained that bond issuance expense was budgeted for 2013, but it was written off in 2012 as per Governmental Accounting Standards Board (GASB) requirements. She further explained that "gain/loss on investments" is the difference between the price at which the Port purchased securities and the fair value on December 31, 2013. GASB requires the Port to report investments at fair value at year end. If the Port holds the investments to maturity or call date, there will be no realized loss.

Ms. Drennan reminded the Commission that the Port also received unbudgeted grant funds of \$32,284. These funds were used for the launcher, pump stations and retrofitting lights with LED bulbs. There was also some water damage in Building 4 at Harbor Square, which was reimbursed by the Port's insurance company.

Ms. Drennan reported that net income from the 12-month period ending December 31, 2013 was 75% greater than budget. Revenues exceeded budget by about \$190,000, and operating expenses were about \$162,000 below budget. Non-operating expenses were approximately \$68,000 below budget.

Ms. Drennan referred to the graphs on Page 5 of the report. The upper graph provides a comparison of marina revenues and expenses for 2010, 2011, 2012 and 2013. The lower graph compares budgeted marina revenues and expenses to actual. Commissioner Gouge observed that expenses continue to decrease. He expressed his belief that the Port has likely trimmed the expense budget as much as possible without impacting customer service. Mr. McChesney agreed that the "low-hanging fruit" has already been reaped, but the Port's strategy is to be more efficient on the margin by hiring competent staff, rotating and cross training staff and doing more work in house. This has resulted in significant gains over the past few years. He explained that there are huge costs associated with bidding out a project. In addition, it takes more time to bring projects on line. The net result is a loss of productivity. Doing work in house reduces the cost and increases the productivity and quality of any given project.

Ms. Drennan referred to the graphs on Page 6 of the Report. The upper graph compares rental property revenues and expenses for 2010, 2011, 2012 and 2013. The lower graph provides a comparison of budgeted rental property revenues and expenses with actual.

Ms. Drennan reported that the 2013 Capital Budget was \$636,000, and actual purchases were \$670,342. The primary differences include:

- The guest moorage electrical system was upgraded at a cost of \$94,573 after an evaluation found that the system needed immediate attention.
- Harbor Square Building 2 was reroofed at a cost of \$479,241. This was originally budgeted as a roof repair of \$50,000. Because the repairs were not holding up, the Port decided to move forward with the reroofing project.
- The Port postponed the telephone system upgrade (\$25,000), tractor purchase (\$30,000), and fuel dock upgrade (\$186,000). They also postponed the majority of the launcher renovation costs and approximately \$95,000 in budgeted Harbor Square upgrades.

Ms. Drennan advised that in December 2013, the Port began investing funds for a longer term. Three investments totaling approximately \$1.5 million were purchased from the Federal Home Loan Bank (matures 2/28/2017), the Federal National Mortgage Association (matures 1/30/2018) and the Federal Home Loan Mortgage Corporation (matures 10/14/2016). The Port also has a certificate of deposit (CD) with Opus Bank that matures on March 27, 2014. At that time, staff will decide whether to reinvest in a CD or invest the money in a longer-term option.

The Commissioners indicated they like the new format that was used for the Preliminary 2013 Year End Financial Statements. They commented that it is easy to read and understand from a lay person's standpoint.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney reported that he attended the Mayor of Edmonds "State of the City" address last week. The theme of the report was "Building Bridges." Mayor Earling mentioned many good things that are happening in Edmonds, including the new Jacobsen's Marine facility.

Mr. McChesney advised that he attended the Edmonds Economic Development Commission meeting on February 19th where the discussion focused on implementing the Strategic Action Plan. He also announced that Port Day is scheduled for February 26th, and Commissioner Orvis will attend the event on behalf of the Port of Edmonds.

Ms. Kemps announced that a tenant workshop titled "Alternatives to Copper Bottom Paint" is scheduled for the evening of February 26th. There are currently 94 people signed up to attend the event. Tenants who attend will receive a coupon for 50% off the Port's travelift service in October, November, and December.

COMMISSION COMMENTS AND COMMITTEE REPORTS

Commissioner Gouge reported that he, along with Commissioner Preston, Mr. McChesney, Ms. Kempf, and Mr. Osterman, met to discuss updating the Port's website. The intent is for the site to be more user-friendly and interactive. Commissioner Preston added that the goal is for the website to become more of a tool to help the Port communicate information to potential customers and inform current customers of events and activities.

Commissioner Gouge reminded the Commission that the Edmonds City Council will meet on February 25th to select a new member to fill the position that was vacated by Mr. Yamamoto.

Commissioner Preston announced that he will attend an Enduris Insurance and Risk Management Seminar in Lynnwood on February 27th. He said he also attended the "State of the City" address.

Commissioner Orvis reported on his attendance at the recent Sea Scout meeting where they discussed the potential donation of a larger 40-foot boat that would allow them to eliminate one of their smaller boats. At this time, the Sea Scouts are participating in various Regatta events.

Commissioner Orvis reported on his attendance at the Washington Public Port Association's (WPPA) Legislative Committee meeting where the following items were discussed:

- Governor Inslee has proposed reallocating \$109,000,000 of the Model Toxic Control Act (MTCA) funds for education, but the proposal is not getting a lot of support.
- Airplane owners are moving their aircraft to Idaho and Oregon to avoid paying the State's new excise tax.
- The marine tourism bill that would have provided tax exemptions to out-of-state boat owners and allow them to stay in Washington waters up to six months without paying sales and uses taxes has died. As a result, many boat owners have moved their vessels to Canada.
- Senator Hasegawa has sponsored a bill that would consolidate port districts in King and Snohomish County into a single, large district. The bill did not move forward this session, but it is likely to come up again next year.
- A bill is moving forward that sets the prevailing wage at the comparable union contract scale for any particular trade. If there is no comparable trade, a contractor would have to figure out what is closest. This will be a particular problem in rural areas, as it will prevent local people from bidding on jobs. It basically means that only union companies can be hired for government contracts. There was a bill that would calculate prevailing wage in a statistical way, similar to the process used by most other states, but the Committee Chair does not believe the Department of Labor has the capability to handle this approach.
- The derelict vessel bill appears to have shifted to commercial vessels, which is where the most damage occurs.
- The fish consumption legislation is likely to result in nothing more than a study at this time. As per the legislation, industries that discharge toxins into Washington waterways must abide by water pollution standards that are set based upon on how much fresh fish people in the area are eating. Concern was expressed that the technology does not exist for cities to meet the requirements and the cost would be astronomical.
- Another bill is moving forward that would place a 2% tax on cargo transiting through the State of Washington. This will likely result in a significant amount of cargo being shifted to Prince Rupert in Canada or Los Angeles, California.

Commissioner Orvis reported on his attendance at the "State of the County" address where County Executive Lovick made a great presentation, stating that the County is in good shape and getting better.

Commissioner Orvis announced that the Snohomish County Economic Alliance is scheduled to provide its regional update on March 20th. Banner Bank is sponsoring a private event on March 20th for sea level executives and businesses. He said he has tickets for interested individuals to attend the March 20th event. He plans to attend the March 20th presentation.

Commissioner Orvis announced that he would attend Port Day in Olympia on February 26th. He has an appointment to meet with Representative Lillian Ortiz-Self, who was recently appointed to fill the position vacated by Marko Liias. He said he plans to invite her to tour the Port facility. He also has appointments to meet with Representative Cindy Ryu, Senator Marko Liias, and a staff member from Maralyn Chase's office.

ADJOURNMENT

The Commission meeting was adjourned at 8:18 p.m.

Respectfully submitted,



Bruce Faires
Port Commission Secretary