

PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF REGULAR MEETING

April 28, 2014

COMMISSIONERS PRESENT

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

STAFF PRESENT

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

OTHERS PRESENT

Bradford Cattle, Port Attorney
Karin Noyes, Recorder

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

- A. APPROVAL OF AGENDA
- B. APPROVAL OF APRIL 14, 2014 MEETING MINUTES AS AMENDED
- C. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$1,139,434.35

COMMISSIONER PRESTON SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

Mr. McChesney introduced Jeff Arnot, Chief Operating Officer for Anthony's Restaurants, who was present to speak to the Commission about the recent successful remodel project at the Beach Café and Anthony's, specifically, the trellis that was removed to accommodate the construction project.

Jeff Arnot, Anthony's Chief Operating Officer, thanked the Port for partnering with Anthony's on a very successful remodel project. They are very proud of the new space and have received great feedback from their guests. They are looking forward to a busy summer season. Mr. Arnot recalled that the trellis was removed from the building to accommodate construction, and it was to be reinstalled when the project was completed. While this is still an option if the Port desires, he asked the Commission to consider eliminating this requirement. He explained that, absent the trellis, there are great views from the restaurant to the west, and light comes into the dining area through the clerestory windows. Leaving the trellis off also allows more sunlight onto the outdoor dining area. He summarized that the building is beautiful, inside and out.

Given that no overwhelming concerns have been raised, Commissioner Faires said he would support Anthony's request not to reinstall the trellis.

Commissioner Gouge expressed concern about the blank wall, which would be viewed by visitors who look back at the building from the boardwalk. While he supports the request to leave the trellis off the building, perhaps something else could be done to break up that façade. Commissioner Block agreed that something significantly less than the trellis could be added to the façade to break up the wall. The remainder of the Commission concurred.

Mr. McChesney advised that staff has discussed some relatively inexpensive ideas with representatives from Anthony's, but his understanding is that Anthony's would prefer to leave the building the way it is. He suggested the Commission postpone the decision until the fall so Anthony's can get through their summer season. Mr. Arnot said he would appreciate more time to explore potential options, but indicated that Anthony's is willing to reinstall the trellis now if that is the Commission's desire.

The Commission agreed that the trellis should not go back up, as the light and view allowed by the current situation is a benefit to customers. However, they are also concerned about the view for those looking at the building from the boardwalk. They agreed to table the issue until fall, and they asked Anthony's to consider options that would make the two remaining trellis features blend together better.

SEA JAZZ PERFORMANCES

Mr. McChesney announced that the Sea Jazz Program has been a resounding success, and plans for this summer's events are underway. In years past, the Port has given a \$1,000 stipend to the Edmonds School District Music Program in recognition of their help in organizing and promoting the program. In addition, Anthony's Homeport hosted a table for the performers at the Beach Café following each performance. He recommended that the Commission authorize him to remit a stipend to the Edmonds School District at the completion of the season.

COMMISSIONER PRESTON MOVED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE DIRECTOR TO REMIT A STIPEND UPON COMPLETION OF THE SEASON, IN THE AMOUNT OF \$1,000 TO THE EDMONDS SCHOOL DISTRICT MUSIC DEPARTMENT IN CONSIDERATION OF THE SEA JAZZ SUMMER MUSIC PROGRAM AT THE MARINA. COMMISSIONER FAIRES SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

ARTISTS IN ACTION (2014 EDMONDS ARTS FESTIVAL)

Mr. McChesney reviewed that the Edmonds Arts Festival has been a large community event for the past 56 years. The Port has supported the event in the past by providing parking space; and in exchange, the Port has been shown as an event sponsor. Last year, the Port expanded its support by providing \$1,000 for the youth art competition. In exchange, the Edmonds Arts Festival agreed to organize the Artists in Action Program, which took place each Sunday afternoon. The events were successful and complimented the Sea Jazz Concerts. He recommended the Commission, once again, approve the Edmond Arts board of Director's proposal for a Summer Arts Program at the Marina and authorize \$1,000 to support the 2014 Edmonds Arts Festival.

COMMISSIONER FAIRES MOVED THAT THE COMMISSION APPROVE THE EDMONDS ARTS FESTIVAL SUMMER ARTS PROGRAM AT THE MARINA FOR 2014 AND FURTHER AUTHORIZE \$1,000 SUPPORT TO THE EDMONDS ARTS FESTIVAL. COMMISSIONER BLOCK SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

HART CROWSER TENANT IMPROVEMENT ARCHITECTURAL AND DESIGN SERVICES

Mr. McChesney recalled that the Port recently entered into a lease with Hart Crowser for space in Building 1 at Harbor Square. As per the lease agreement, the Port would fund the tenant improvements, and Hart Crowser would select the consultant for architect/space planning. Just today, the Port received the scope of work and contract from Allbee Romein to develop and prepare architectural and design service specifications for public works bidding and permitting. The total cost of the contract is \$14,687. He recommended the Commission approve the contract as presented.

Commissioner Orvis asked if the contract would also include the fees associated with furniture selection and shower room construction drawings. Mr. McChesney answered that the Port's scope of work ends with construction and project administration, which would be offered on an as-needed basis.

COMMISSIONER GOUGE MOVED THAT THE COMMISSION APPROVE THE CONTRACT WITH ALLBEE ROMEIN FOR SERVICES TO PREPARE ARCHITECTURAL AND DESIGN SPECIFICATIONS FOR THE HARBOR SQUARE BUILDING 1 HART CROWSER TENANT IMPROVEMENTS PUBLIC WORKS BIDDING PROCESS. COMMISSIONER PRESTON SECONDED THE MOTION.

Mr. McChesney recalled that, at their last meeting, Commissioners raised concern that delays in the tenant improvements could call into question the terms of the lease. They asked him to reaffirm Hart Crowser's intentions before the project moves forward. To address this issue, he reported that Hart Crowser has signed a concurrence that states that the schedule may go out as far as September.

THE MOTION CARRIED UNANIMOUSLY.

HARBOR SQUARE 1ST QUARTER REPORT

Jan Conner, Northwest Country Management, pointed out that the Port's Finance Manager will track the tenant improvements associated with the Hart Crowser lease, which is included in the total amount of the tenant improvements.

Ms. Conner presented a summary of the Harbor Square 1st Quarter 2014 Report, specifically noting the following:

- There were four late notices.
- January through March revenue increased slightly in spite of a miniscule decrease in occupancy.
- Receivables at the end of March totaled \$32,592.56, including prepaid rent from Genwest.
- Security deposits were received from the Branding Iron (\$1,376.92) in January and Hart Crowser (\$34,852.98) in March. Hart Crowser has signed acknowledgement of the anticipated September lease date, and Ms. Conner received an email with the construction documents.
- There was a fair amount of activity related to leasing during the 1st quarter, but only two leases (Branding Iron and Hart Crowser) materialized. A potential tenant looked at the restaurant space, but elected to locate at Salish Crossing at a higher rate because of the space's close proximity to a future art gallery and other activities. Another gentleman has been looking at the restaurant space for several months, and she met with him again recently. She is waiting for a written proposal from him.
- New leases included a 1-year lease and 1-year lease extension in Building 2, a 3-year lease extension in Building 3, a 5-year lease in Building 5, and a 64-month lease in Building 1.
- The Conference Room was rented three times for a total net revenue of \$1,461.95, and three of the five rentals required no set up.
- Pacific Rep Works' lease expired in February, and they elected to relocate due to the roof leak and other problems associated with the space. The roof problems have been addressed, and repairs to the fire suppression system is out to bid.
- The glass was replaced in Suite 101 in Building 4 as part of a lease extension.

Ms. Conner summarized that, with the Hart Crowser lease, occupancy will be at about 80%, but there are a few tenants in Building 3 who will relocate when leases expire. She said she receives numerous calls for warehouse space, which is not available at this time. Commissioner Gouge suggested the Commission consider creating more warehouse space if and when Harbor Square is reconfigured.

MARINA 1ST QUARTER REPORT

Ms. Kempf presented the 1st Quarter 2014 Report, particularly noting the following:

- Public launch round trips were up by 3% and one-way trips were up by 28%. However, she noted that 28% equates to just 14 boats.
- Total gallons of fuel sold increased by more than 8% over 1st quarter 2013.
- The number of boats and number of nights in Guest Moorage decreased, and staff believes that weather was a significant factor.
- Staff focused on maintenance during the 1st quarter. Projects included rub board replacement, pressure washing, stormwater treatments, replacing rotting boardwalk planks, and replacing dock slip numbers.
- Boatyard and travelift activity were both down.
- Water moorage financial occupancy was at 90%, which represents a 2% increase over 1st quarter 2013.
- Waitlist applications increased by 1 over 2013.
- Dry storage financial occupancy for 1st quarter was at 75%, which represents a 3% decrease over 1st quarter 2013. However, there were six more assignments during 2014 than in 2013, and one less termination.
- Insurance and registration compliance continues to be a challenge. Compliance at the end of 1st quarter was at 85% for insurance and 87% for registration.

Commissioner Orvis pointed out that recently adopted legislation related to derelict boats will require all boaters to show proof of insurance via a sticker on their boats. However, it is still not clear how the requirement will be managed. The law will require marinas to obtain proof of insurance when boaters sign leases for moorage space. While boaters will no longer be able to claim they did not know that insurance was required, the law does not require boaters to notify marinas when insurance policies expire. Ms. Kempf suggested this issue could be addressed by listing marinas as “additional insured” and requiring insurance companies to send copies of insurance renewal certificates to marinas. She said staff continually struggles to get tenants to comply with the insurance requirement. Commissioner Orvis suggested that because proof of insurance will become a state requirement on July 1st, it might be easier for the Port to enforce its current requirement. Ms. Kempf reminded the Commission that marinas would be responsible for enforcing the new law, and not the state.

Commissioner Faires noted that compliance with the insurance and registration requirements was lower in 2012. Ms. Kempf suggested this is a result of the Port’s decision to stop sending reminder letters to tenants during the fourth quarter.

Commissioner Preston questioned if the new State law provides the Port an opportunity to communicate the insurance and registration requirement to tenants. Ms. Kempf reminded the Commission that there is a lot of controversy surrounding the new law, particularly from private marinas who have asked Governor Inslee to veto it. Public marinas are not as concerned because they already require proof of insurance. It is likely that the issue will come up again in the next legislative session, and changes may be made. She suggested the Port wait to communicate the requirements of the new law to tenants until they know exactly what is going to be required.

Commissioner Faires suggested that the Port pursue this issue with the Washington Public Port Association (WPPA) over the next few months. Commissioner Orvis said it appears that the WPPA has taken the position that the new law is fine the way it is written. However, the Northwest Marine Trade Association (NMTA) will likely raise the issue again on behalf of private marinas who do not currently collect the documentation that would be required by the new law. Commissioner Preston noted that a representative from the Department of Natural Resources (DNR) has been invited to the WPPA’s spring meeting to describe the implementation of the new law.

Commissioner Preston said he appreciated the demographics staff provided for boat show sign ups and asked if similar demographics could be prepared for current tenants based on zip code. He suggested that these demographics could be used as a baseline and could be added to each year to illustrate changes. Mr. McChesney said the Port’s new marina program may allow staff to prepare this information.

Commissioner Preston voiced concern about charging a reservation fee for guest moorage. Ms. Kempf said the Port charges a \$10 per night fee for guest moorage to cover the costs of administering the reservation program. The fee does not apply to drop in guests. She noted that the Port’s guest moorage rates are comparable to other facilities in Puget Sound, and slightly lower than some.

Commissioner Gouge said he supports the reservation fee. Many people are willing to pay the extra charge to ensure that a slip is ready for them when they arrive. Ms. Kempf pointed out that reserving the slip allows boaters to come and go throughout their stay without losing the space. She advised that the Port will not accept individual reservations during the busy season (August and September). In past years, guest moorage has been so busy during these two months that boats have been rafted off of each other. This makes it difficult to guarantee a space. Commissioner Gouge commented that it is important to allow space for boaters who return to the marina each year to fish. Ms. Kempf agreed the Port should accommodate the small fishing vessels who use the public launch, guest moorage and fuel dock year after year. She noted that boaters also take advantage of the loan-a-slip program during the busy months.

1ST QUARTER FINANCIAL REPORT

Ms. Drennan provided a summary of the 1st Quarter 2014 Financial Report. She referred to the graph on Page 1, which illustrates how revenues and expenses during the 1st quarter of 2014 compared to the same time periods in 2010, 2011, 2012 and 2013. She noted that 2014 revenues were higher and 2014 expenses were lower than any of the previous years. She advised that gross profit for the three-month period ending March 31, 2014 was \$1,459,130 or approximately 2.7% less than budget. Net income for the same period was \$220,777. Commissioner Orvis pointed out that for some line items, the budget was divided into 12 equal parts.

Ms. Drennan highlighted the following elements of the report:

- Permanent moorage revenue was \$696,613 or 5.61% less than budget.
- Dry storage revenue was \$118,706 or about 16% less than budget.
- Harbor Square actual revenue was \$393,221 or 3.28% greater than budget.
- Operating expenses without depreciation were \$804,147 or \$97,728 less than budget.
- Employee benefits were below budget by about 8%.
- Payroll taxes were about 23% below budget.
- Salaries and wages were about 20% less than budget.
- Supplies were about 20% less than budget.
- Utilities were about 27% greater than budget.
- Net income was \$220,777, or \$62,502 greater than budget.

Ms. Drennan advised that when comparing actuals to budget for the marina, revenues were 5.7% less and operating expenses were 16.4% less. Comparing actuals to budget for rental properties, revenues were 2.07% greater and operating expenses were 1.47% greater.

Ms. Drennan reviewed that in December of 2013, the Port began investing funds for longer terms. The Port purchased three investments for a total of approximately \$1.5 million. In March of this year, the Port's bond reserve certificate of deposit matured, and the funds were reinvested in a bond that matures at approximately the same time that the reserve is no longer required. She specifically referred to the Investment Report on Page 10 of the report, which provides a summary of the Port's investments and their maturity dates. She advised that the Harbor Square loan balance (Opus Bank) was \$6,303,499 at the end of March. As per the loan agreement, the Port must maintain a 60% loan balance at Opus Bank, and this amount is currently \$3,782,069. At this time, there is \$4,983,976 in the Opus Bank Money Market account.

Commissioner Faires asked if the salaries and wages budget was divided equally into the 12 months. Ms. Drennan answered affirmatively. She recalled that previous attempts to allocate the budget for the summer months higher to account for temporary help were difficult because salaries and wages expense is inconsistent from year to year. While recognizing that staff accomplished several maintenance projects during the 1st quarter, Commissioner Faires expressed concern that wages in the 1st Quarter of 2014 was 25% below budget. He asked if staff attempts to divide the staff budgets associated with the projects into the two business units (marina and rental properties). Ms. Drennan said she does the best she can, but it is difficult to get the numbers to come out close enough to predict the next year's allocations. She noted that the staff time associated with some of the winter projects was allocated to the Capital Budget rather than salaries and wages. Commissioner Faires agreed to discuss the salaries and wages line item further with staff to address his concerns.

Commissioner Gouge asked if staff anticipates the Port will have extra funds available at the end of the year to pay down the Opus Loan. Ms. Drennan answered that it is difficult to forecast at this time, and she won't have the necessary information until closer to December.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney reviewed that most of the issues related to the public launch project have been resolved with the contractor, and the rework is nearly complete. The one remaining item will be addressed on Wednesday. Staff hopes to present to the project as complete at the Commission's May 12th meeting.

Mr. McChesney advised that Jacobsen's Marine is laying their foundation materials at this time, but the Port is not significantly involved in the work.

Mr. McChesney reported that staff continues to work with Commissioners Gouge and Preston to redesign the Port's website. The committee has met a few times, and will meet again on April 29th to review the final proposal.

Mr. McChesney reminded the Commission that tenant improvements at Harbor Square will move forward as discussed earlier by the Commission. In addition, the Port is moving forward with the HVAC and roof projects on Building 1. Staff is currently working with the Snohomish County Public Utility District (PUD) to develop some specifications that will allow the Port to obtain a rebate from the PUD for providing energy efficient rooftop units. They are specifically reviewing the benefit to the Port in terms of capital outlay relative to the amount of the anticipated rebate.

Mr. McChesney explained that the Weather Center Project will involve a lot more than just cosmetic upgrades, particularly given that weather exposure creates havoc with the hardware. Staff is preparing a scope of work to overhaul the entire facility, which was originally developed years ago with cooperation and funding from the Noon Rotary Club and students from the Edmonds School District. Since that time, maintenance has fallen to the Port staff, who have done a commendable job. Because the facility is a permanent feature that contributes to the amenities of both the public and the boaters, it is important to do a good job on the rebuild, including new weather proof monitors and enclosures, as well as a new roof. He said he does not anticipate the project will start until the winter of 2015, and much of the work will be done in house.

Commissioner Faires recommended that staff contact the Noon Rotary Club to apprise them of the pending project. This group contributed funding to construct the original facility and were part of its evolution. Mr. McChesney agreed to keep the Rotary Club in the communication loop.

Mr. McChesney advised that staff is planning to move forward with the fuel dock overhaul this summer as discussed with the Commission previously. While they are not currently experiencing problems with the current delivery infrastructure, regular inspection reports suggest it is time for the Port to move forward with the replacement project.

Ms. Kempf reviewed that "North of Falcon" meetings take place each year to determine the fishing schedules in Puget Sound. At the most recent meeting, representatives from the Tribes recommended that Areas 9 and 10 be closed for Chinook Salmon. It was noted that this closure would have a significant impact on the marinas in these areas, as well as the boating industry. With the help of lobbyists from several groups, a compromise was reached to allow Chinook Salmon fishing in Areas 9 and 10, but the limit was reduced to one. At the meeting, representatives from the Tribes shared statistics that "catch and release" results in 20% fatality to wild salmon. Commissioner Preston questioned the scientific evidence that supports the Tribes claim of a 20% fatality rate.

Ms. Kempf reported on her recent conversation with George Harris from the Northwest Marine Trade Association (NMTA) regarding the 1st quarter boating statistics, which indicate that boats sales were up 18% in units and 19% in dollars. While about 2/3 of the boats sold in the past were fiberglass, the trend has shifted and most of the boats sold during the 1st quarter were aluminum fishing boats. In addition, 96% of the boats sold were 26 feet or smaller. Mr. Harris indicated he is convinced that a reduction in the fishing opportunities in Puget Sound will directly impact boat sales.

Ms. Kempf reported that fishing for ling cod opens on May 1st, halibut on May 9th through June 7th, and shrimp from May 3rd to May 7th. She noted that while there are other fishing opportunities in Areas 9 and 10, including Coho and pink salmon, fishing for Chinook salmon is the most popular.

Commissioner Faires said he suspects that the majority of aluminum boat owners fish in rivers rather than the ocean. He said he would be interested in seeing numbers from Paul Sorensen as to where people are fishing and whether he believes the reduction of Chinook salmon fishing will have an impact on marinas.

Ms. Kempf reported on her attendance at the Pacific Coast Congress (PCC) Conference in Newport, Oregon on April 9th through 11th. The meeting marked the PCC's 40th anniversary. Those in attendance were able to tour the Port of Newport's facilities, including the new National Oceanic and Atmospheric Administration (NOAA) and Rogue Ale facilities. There was some discussion about how to appeal to younger people to get them involved in boating, and there was a session about corrosion.

COMMISSION COMMENTS AND COMMITTEE REPORTS

Commissioner Faires announced his plan to attend the Washington Public Port Association (WPPA) Spring Meeting on May 14th where he, Commissioner Orvis, Commissioner Preston, and Mr. McChesney will attend a dinner sponsored by a subgroup known as the Washington Tourism Alliance. The topic of discussion will focus on how Ports might contribute to make the Alliance effective and successful. Commissioner Preston announced that the Alliance is doing a road show in Leavenworth that same morning. He said he contacted a representative from the Alliance about obtaining a copy of their software or getting him signed up prior to the meeting in Vancouver.

Commissioner Preston advised that he would attend the WPPA Finance Seminar. He also indicated he had comments and suggestions for staff related to the Port's technology policy that was discussed at the Commission's last meeting.

Commissioner Preston indicated his desire for the Port to pursue "radical" color changes at Harbor Square. He provided examples of other developments that illustrate the concept he has in mind. Commissioner Block suggested that adding murals on some of the empty walls would be a nice addition. However, she reminded the Commission that the Port currently has several capital projects going on.

Commissioner Gouge reported on his attendance at the most recent Technology Committee meeting, where the group reviewed proposals from consultants. The committee will meet again tomorrow.

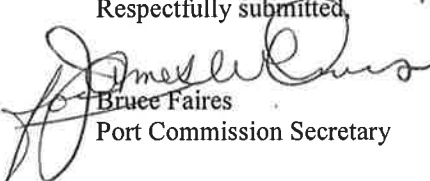
Commissioner Orvis announced his plan to attend the WPPA Spring Meeting. He noted that he would attend the WPPA Environmental Meeting in October, as well.

Commissioner Orvis pointed out that the City of Edmonds does not have a representative participating on the Washington Tourism Alliance. Information on their website related to businesses in Edmonds appears to have been provided by Snohomish County's Tourism Division. He suggested the City should be encouraged to participate on this group. He also encouraged Anthony's representatives to visit the Alliance website to make sure there is a link to their restaurants.

Commissioner Gouge advised that he, Commissioner Orvis and Mr. McChesney would attend the annual meeting of the Economic Alliance Snohomish County on May 22nd.

ADJOURNMENT

The Commission meeting was adjourned at 8:40 p.m.

Respectfully submitted,

Bruce Faires
Port Commission Secretary