

PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF REGULAR MEETING

August 11, 2014

COMMISSIONERS PRESENT

Jim Orvis, President
David Preston, Vice President
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

COMMISSIONERS ABSENT

Bruce Faires, 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

There was some discussion about whether or not Commissioners could vote to approve minutes of meetings they did not attend. Mr. Cattle explained that, under Robert's Rules of Order, approval of the minutes is a procedural motion and Commissioners can participate in the motion to approve the minutes regardless of whether they were present at the meeting or not.

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

- A. APPROVAL OF AGENDA.**
- B. APPROVAL OF JULY 28, 2014 MEETING MINUTES**
- C. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$211,635.38**

COMMISSIONER PRESTON SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

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

WEBSITE REDESIGN

Mr. McChesney reviewed that website redevelopment began on June 19th, with the selection of a WordPress template, and a design conference followed on June 25th to further discuss the details. It was decided that high-resolution photographs were needed, and the Port hired Focus Photography to provide 30 custom photographs. Aerial photographs were also obtained from a separate vendor. Staff is very pleased with the photographs that were

provided. Commissioner Preston suggested that the aerial photographs hanging at the back of the Commission Meeting Room should be updated with the new photographs.

Mr. McChesney summarized that the project is generally on time and within budget. There are still a few minor technical design items to be approved in the coming weeks for the home page, but staff has been happy with the responsiveness of the consultant. He is working to construct the interior pages and anticipates the site will be available for committee review sometime in September.

Mr. McChesney advised that a desire for a new webcam came up as part of the website redesign process. However, he recommended that the website redesign be completed under the existing scope of work while staff continues to review webcam possibilities. If determined appropriate, a new webcam could be included in the 2015 budget. Commissioner Preston asked if there are webcams at Anthony's and/or Arnie's Restaurants that the Port could link into. Mr. McChesney agreed to research this opportunity. Commissioner Orvis cautioned that webcam coverage is something to be considered thoughtfully, and Mr. McChesney concurred. He advised that staff would report back with a recommendation for the type of camera and how it would be set up after the website redesign work has been completed.

HARBOR SQUARE 2ND QUARTER REPORT

Jan Conner, Northwest Country Management, presented a summary of the Harbor Square 2nd Quarter Report. She specifically noted the following:

- Although occupancy decreased slightly, revenues had a modest increase.
- There were a number of late fees for a total amount of \$1,155.78.
- The Common Area Maintenance (CAM) reconciliation took place during the 2nd quarter and adjustments were reflected in the April numbers.
- Two current tenants are looking for additional space in Buildings 2 and 3. A current tenant is also looking for space for a special project (September through December) in Building 5. A number of tenants have expressed a desire for additional warehouse space, which is not available.
- A counseling service is contemplating space in Suite 104 in Building 1, which has been vacant for a considerable amount of time.
- Current tenants signed lease extensions in Buildings 3 and 5.
- The Conference Room was only rented four times, resulting in net revenue of \$458.08.
- Two leases in Building 3 were terminated during the 2nd quarter.
- A tenant improvement bid for Suite 201/203 in Building 1 (Hart Crowser) was awarded to All Phase Interiors. The project is moving forward and should be completed by the end of August. The contractor has been responsive and considerate to current tenants.
- D.K. Systems completed the HVAC project on Building 1, and Scholten Roofing has started the roof improvement project.
- The maintenance workshop was relocated from Building 5, and the space will be leased by Hart Crowser.
- The urinal in the men's restroom in Building 3 overflowed into Suite 101. The flushing mechanism has been replaced, and damage was minimal.

Commissioner Orvis observed that, with the Hart Crowser lease, Building 1 is approaching full occupancy. Ms. Conner agreed that the second floor would be fully occupied, but they lost a 20-year tenant in July.

Ms. Conner reported that there has been quite a bit of showing activity, particularly in August. She is in the process of preparing proposals for tenants looking at spaces in Buildings 2 and 3, as well as a lease extension for current tenants in Buildings 2 and 3. She has also prepared a proposal for a perspective tenant who is interested in leasing space in Buildings 1 or 2.

MARINA 2ND QUARTER REPORT

Ms. Kempf provided a summary of the 2nd Quarter Marina Report, reporting that 2nd quarter was good from an activity standpoint. In addition, she specifically noted the following:

- One way launches increased by 5% and round trip launches by 2%.
- Guest moorage improved in all categories. There was a 4% increase in the number of boats over last year, and a 7% increase in the number of nights. The number of groups increased by only one, but the number of boats associated with the groups increased by 14% and the number of nights by 19%.
- Total gallons of fuel sold decreased by about 9%, but this may be related to an increase in fuel prices compared to 2013.
- Boatyard stall usage was down by 22%, and travelift to the yard was identical to 2013 numbers. About 40 of the 86 boats that went to the yard took advantage of the 50% off promotional rate that was offered in March. This is a clear indicator of the need for incentives.
- Financial occupancy for water moorage was 94%, which is a slight improvement over 2013 numbers.
- Financial occupancy for dry storage was at 82% at the end of the quarter. Physical occupancy (how many boats are in dry stack storage on the very last day of the 2nd quarter) was at 98%. As of today, there is one space available.
- While there were 10 more assignments in water moorage in 2014, the number of terminations was the same. In dry storage, the turnover ratio nearly doubled, but the same number of slips were assigned.
- The total number of names on the waiting list increased from 73 to 81. However, it is important to note that the waitlist statistics are not a true measure of pent-up demand. Following 2nd quarter closing, many waitlist applicants chose not to renew; and at the end of July, approximately 47% of the people on the waitlist were tenants who already have slips in the marina but have special requests for another slip.

Ms. Kempf provided pie charts to illustrate the demographics of Port guests, customers and tenants during the month of September 2013, which is the month staff felt best represented the mixture. Commissioner Preston questioned the difference between guests and customers. He also said he would like the charts to include specific numbers the percentages represent. The Commissioners agreed that two pie charts should be provided: one for tenants and another for guests/customers.

Commissioner Preston requested clarification of the last note at the bottom of Page 1 of the Staff Report. Ms. Kempf explained that there were previously seven 36-foot slips occupied by Edmonds Yacht Sales. These slips, along with a 34-foot end tie slip, were converted to Port moorage consisting of four 44-foot open slips and one 26-foot open slip. Commissioner Preston advised that because the slip inventory decreased by three slips, the note on Page 2 of the Staff Report should be corrected to indicate a total of 662 slips.

Commissioner Preston asked staff to further break down the waitlist to identify the number of people who are current tenants. Ms. Drennan explained the difficulties associated with providing this more detailed information based on the limitations of the Port's current software. Mr. McChesney agreed to take the request under advisement and report back to the Commission. One idea was to provide the more detailed information just once per year, at the end of the 2nd quarter.

Commissioner Preston inquired about the Port's process for collecting insurance and registration information from tenants. Ms. Kempf recalled that the new derelict boat legislation requires ports to collect registration information from tenants, but the specific details of the requirement are still vague. She explained that registrations expire in June each year, and that is why the numbers are so low for the 2nd quarter. The number does not mean that only 41% of the boats in the marina are registered. It just means that tenants had not submitted their new information as of June 30th. She suggested that one way to deal with the insurance requirement is to require tenants to list the Port as an interested party on their policy so that insurance companies send the Port a copy of each renewal or cancellation. She said the Port tries to follow up on the registration and insurance requirements at a certain time each year, but insurance information is more difficult to keep on top of because policies expire at different times throughout the year. She also noted that parking permits are not issued to tenants who are out of compliance with the insurance and/or registration requirements. Ms. Kempf summarized that because the Port is so far ahead of most other marinas in requiring proof of registration, she does not anticipate problems complying with the requirements of the new legislation related to derelict boats.

Commissioner Preston questioned if it would be beneficial to require tenants to renew their contracts on a regular basis. Ms. Kempf reminded the Commission that the turnover rate in the smallest slips is 60%. Tenants with

smaller boats often terminate their moorage during the winter months. When they come back in the spring, they have to sign a new lease agreement. She said between 150 and 170 lease contracts are signed each year, and she did not believe it would be necessary or beneficial to require long-standing tenants to sign new contracts, as well.

2ND QUARTER FINANCIAL STATEMENTS

Ms. Drennan provided a brief summary of the 2nd Quarter Financial Statements, specifically noting the following:

- The graph on Page 1 of the Staff Report shows 2nd quarter revenues and expenses for the past five years. Although revenues and expenses decreased in 2011, there have been slight increases in subsequent years.
- Gross profit for the six-month period ending June 30th was \$3,120,613, which is \$8,187 or 0.3% less than budget. Net income for the same period was \$503,712.
- The graph on Page 2 of the Staff Report illustrates budget to actual for both revenues and expenses. While actual revenues were less than budget, the actual expenses were about the same.
- Marina operations revenue actual to budget showed a 41.93% increase for miscellaneous, 1.23% decrease for permanent moorage, and 9.92% decrease for dry storage.
- Rental properties revenue actual to budget was 2.68% greater.
- Operating expenses without depreciation were \$1,745,893 or \$26,357 less than budget.
- Operating expense actual to budget showed a nearly 21% decrease for professional fees, a nearly 2% increase in salaries and wages, and just over 12% increase in supplies.
- Net income for the marina was \$503,712, which is \$38,662 greater than budget.
- The graph at the bottom of Page 3 of the Staff Report illustrates marina budget to actual for the past five years. Revenues were 2% below budget, and expenses were 2.73% below budget. Actual net income was \$289,684 compared to a budgeted amount of \$220,520. This equates to an increase of over 31%.
- The first graph on Page 4 illustrates the history of revenues and expenses for rental properties over the past five years. The second graph illustrates budget to actual for rental properties. Revenues were \$1,028,362 or 1.64% greater than budget, and expenses were \$306,165 or 5.94% greater than budget. Net income for rental properties was \$234,211 or about 5% greater than budget.

Commissioner Preston asked if the numbers for marina revenues and expenses include the travelift repair and the HVAC improvements at Harbor Square. Ms. Drennan answered that the HVAC project is not an expense item. Instead, it will be capitalized under "rental properties." The Port has not received a statement for the travelift repair, so it was not identified as an expense in the 2nd quarter.

Ms. Drennan referred to the Investing Summary on Page 5 of the Staff Report, and reminded the Commission that in December 2013, the Port began investing funds for longer terms. The Port purchased three investments, which totaled approximately \$1.5 million. The Port's bond reserve certificate of deposit matured in March of 2014, and the funds were reinvested in a bond that matures at approximately the same time as the reserve is no longer required.

Last, Ms. Drennan reviewed the Investment Report, which was included on Page 10 of the Staff Report. She shared specific information about each of the longer-term investments and noted that the Harbor Square Loan Balance was \$6,119,256 at the end of 2nd quarter, and a capital replacement of \$3,671,256 is required as per the loan agreement. Commissioner Gouge asked when staff would be prepared to discuss potential opportunities for paying down the Harbor Square Loan. Ms. Drennan said the information needed to make this decision will not be available until December.

Commissioner Preston referred to the Income Statement on Page 6 of the Staff Report and requested clarification of the number shown for the Harbor Square Athletic Club. Ms. Drennan explained that this number is for the land lease only, which was negotiated directly with the Port. The building lease was done separately between the Harbor Square Athletic Club and Harbor Square Associates (previous owner of the Harbor Square Business Complex).

2015 BUDGET MEETING SCHEDULE

Ms. Drennan reviewed the proposed 2015 Budget Meeting Schedule. She noted that staff began preliminary work on the operating and capital budgets at the end of July, and they will be ready to begin discussions on various budget

items with the Commission starting in September. She announced that the Finance Committee would meet on August 19th to discuss baseline conditions, property taxes and economic development, and the Commission will conduct workshop discussions on September 8th and 29th. The focus of the first workshop discussion will be baseline conditions and the Cash Flow Model, and the second workshop will focus on property taxes and economic development. The first public hearing is scheduled for October 13th, followed by additional hearings on October 27th and November 10th.

Commissioner Gouge recalled that although State Law only requires one public hearing prior to final budget approval, the Commission has held three hearings in recent years. He expressed his belief that three hearings is too many. Rather than having three public hearings, Mr. McChesney said staff has discussed the idea of having two public meetings where public comment is invited, but just one public hearing prior to final approval of the budget. This will allow for three opportunities for public comment on the budget without the formality of conducting three separate public hearings.

Commissioner Orvis suggested that rather than having a public hearing on the night the Commission is scheduled to approve the budget, it would be more beneficial to have the public hearing at an earlier meeting. If the public hearing is held just prior to Commission approval, the comments become less relevant than they should be. Conducting the hearing earlier in the process would allow the Commission to discuss and incorporate potential changes into the budget before it is presented for final review and approval. The Commission agreed that public comments regarding the draft budget would be solicited at the October 13th meeting, but it would not be a formal public hearing. A formal public hearing would be held on October 27th, after which the Commission could provide direction for updating and preparing the final budget. A final meeting would be held on November 10th, at which time the public would be allowed to comment prior to the Commission taking final action.

Mr. Cattle summarized that the proposed process would provide more opportunity for public input than required by State Law. As proposed, the public would be invited to participate at a public meeting, a public hearing and another public meeting prior to final approval of the budget. He emphasized that the public notifications should be clearly worded to identify the three opportunities for public participation. Commissioner Orvis agreed and suggested that public meeting notices related to the budget should be placed in other local news besides *THE EDMONDS BEACON*, such as myedmondsnews.com.

Ernie Collins, Edmonds Yacht Club Liaison, commended the Commission for their decision regarding the upcoming budget process. The perception in previous years has been that the public hearing was a waste of time because it appeared the Commission had already made decisions related to the budget. Placing the hearing earlier in the process will create a legitimate opportunity for people to be heard.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney said he attended the Snohomish County Tourism Bureau's meeting last week, and he plans to attend the Edmonds Strategic Action Plan Group's meeting next week. In addition, he will attend and make comments at a City Council Meeting on September 2nd at which the Shoreline Master Program will be the topic of discussion.

Mr. McChesney announced that the annual Staff and Safety Meeting Barbeque is scheduled for August 14th at noon, and Commissioners are invited to attend.

Mr. McChesney reviewed that several projects are moving forward. The HVAC improvements at Harbor Square Building 1 were completed on time and within budget, and the roof replacement project should be completed by the end of August. Difficulties with the public launch festoon track continue, but the contractor has been very responsive to come up with new design features that will be installed when the parts are available. Problems with the travelift have been resolved.

Ms. Drennan announced that the State Auditor is on site as of August 11th, and expects to be at the Port for 2.5 weeks. Commissioners Gouge and Preston indicated they would be available to attend an audit entrance conference on August 14th at 2:30 p.m.

Ms. Kempf announced that the Marina Operations hours of operation would be reduced early as some seasonal staff have left early to pursue other opportunities. Current staff will be working overtime to keep the extended hours on weekends. Hours Monday through Thursday will be 7 a.m. to 5 p.m. Friday through Sunday hours will be 6 a.m. to 7 p.m. The fuel dock will close at 4:30 p.m. on Monday through Thursday and 6:30 p.m. Friday through Sunday.

COMMISSION COMMENTS AND COMMITTEE REPORTS

Commissioner Preston reported on his attendance at the Washington Public Port Association's (WPPA) Commissioners Seminar, where he learned that most Commissions conduct their meetings during daytime rather than evening hours. He suggested the Commission consider other options, as well. Commissioner Orvis noted that this has been the topic of previous discussions. The Commission held a few meetings during the day on a trial basis but found that attendance was low. People who work were unable to attend. The Commission agreed to consider the option again.

Commissioner Preston said that at the Commissioners Conference there was discussion about fuel coming from North Dakota. It was reported that the natural gas boom has created more clean air than anything the Environmental Protection Agency has ever done. It was suggested that they need to rethink about the oil fields because a lot of supplies are going to North Dakota to build infrastructure, and methadone gas is being shipped to China to create plastics. The Department of Ecology announced that 90% of Puget Sound's pollution is caused by non-permitted activities.

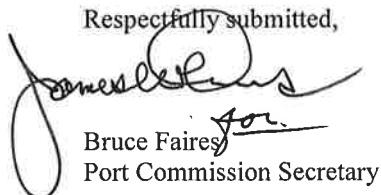
Commissioner Preston said he recently met with Council Member Bloom to discuss ideas for providing access over the train tracks to the water. He plans to meet with Council Member Johnson to discuss viable options, as well. He said he is also trying to schedule a meeting with a representative from the Snohomish County Public Utility District to discuss solar power options.

Commissioner Preston observed that it is common amongst public entities for people to want things their own way, and this demand for philosophical purity creates dysfunctional governments. Good government requires a balance between philosophical purities and people need to be willing to compromise.

Commissioner Orvis reported that he visited a number of marinas during his recent vacation. While many have been kept in good repair, some are quite ugly. He found that the Port of Edmonds is really a Cadillac marina. While on his trip, he visited the port at Prince Rupert. It is located right on the ocean, and ships are able to come right up to the shore to unload supplies. It is a deep water marina, and no dredging is required. It is a spectacular facility. Mr. McChesney asked if there is land available to expand, and Commissioner Orvis answered that there is land available. Although it is a delta, the river is deep enough to allow ship access. Commissioner Orvis said they have a successful process for moving ships through efficiently.

ADJOURNMENT

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

Respectfully submitted,

Bruce Faires
Port Commission Secretary