

PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF REGULAR MEETING

August 10, 2009

Commissioners Present

Bruce Faires, President
Mary Lou Block, Vice President
Marianne Burkhart, Secretary
Fred Gouge

Commissioner Absent

Jim Orvis

Staff Present

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

Others Present

Karin Noyes, Recorder

CALL TO ORDER

Commission President Faires called the 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 BURKHART MOVED THAT THE CONSENT AGENDA BE APPROVED TO INCLUDE THE FOLLOWING ITEMS:

- A. APPROVAL OF AGENDA**
- B. APPROVAL OF JULY 13, 2009 COMMISSION MEETING MINUTES.**
- C. APPROVAL OF JULY 27, 2009 COMMISSION MEETING MINUTES.**
- D. APPROVAL OF CHECK NUMBERS 5432 THROUGH 5440 IN THE AMOUNT OF \$501.55 FOR TENANT REFUNDS.**
- E. APPROVAL OF CHECK NUMBERS 68263 THROUGH 68298 INCLUDING DIRECT DEPOSITS D00469 THROUGH D00479 IN THE AMOUNT OF \$77,843.12 FOR PAYROLL.**
- F. APPROVAL OF CHECK NUMBERS 68299 THROUGH 68347 IN THE AMOUNT OF \$152,341.22 FOR ACCOUNTS PAYABLE.**
- G. APPROVAL OF CHECK NUMBERS 11006 THROUGH 11019 IN THE AMOUNT OF \$19,506.26 FOR HARBOR SQUARE ACCOUNTS PAYABLE.**
- H. APPROVAL OF STATE OF WASHINGTON INTERGOVERNMENTAL COOPERATIVE PURCHASING AGREEMENT FOR POLITICAL SUBDIVISIONS**

COMMISSIONER GOUGE SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

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

HARBOR SQUARE QUARTERLY REPORT

Mr. McChesney reported that staff has met several times with Ms. Conner to discuss continuing programs for landscaping, grounds keeping, maintenance and marketing. He advised that quarterly revenue was reported at \$367,471.68, which is just slightly above 3.8% more than the same period last year. The occupancy rate is holding steady with about 68%, which is good considering the current economic situation. Staff and the property manager will continue to work to retain existing tenants and the broker to recruit new tenants.

Mr. McChesney reported that staff and the property manager has been working with a tenant, Clear Cover, to identify a strategy for resolving their past due account. As agreed upon, the tenant would pay an additional \$500 each month, and would be completely caught up by the end of 2010. However, he advised that the Finance Manager is still working to resolve issues regarding the accrual of late fees. He noted that the current lease agreement includes a guarantee, and that would be the Port's next option if the tenant does not follow through with the agreed upon payment schedule. Staff would continue to monitor the situation carefully.

Commissioner Burkhart inquired why the Harbor Square Athletic Club is paying less this year than last. Ms. Drennan pointed out that last year work was done on the parking lot, and the club had to pick up their portion of the cost. Last year was an anomaly.

Commissioner Faires inquired if the Clear Cover debt would be carried as bad debt. Ms. Drennan explained that through the end of 2008, everything that was owed was carried over as bad debt. However, 2009 debt is still being carried as accrued rent.

Commissioner Gouge observed that the broker, Colliers, has not played a significant role in showing the vacant space to prospective tenants. Mr. McChesney said he would meet with the broker next week. He agreed the market report is tepid, and they need to find out if the broker has a better strategy. If not, he would likely recommend the Commission find a new broker. He cautioned against blaming the entire situation on the broker because the market has been depressed, as well. Commissioner Gouge noted that most of the activity that occurred last month was accomplished by the staff, Commission and property manager.

Commissioner Burkhart noted that a recent development proposal for the downtown/waterfront area did not include any office space. She observed that perhaps this is an indication that people are beginning to realize that there is not a market for more office space in downtown Edmonds.

PORT QUARTERLY REPORT

Ms. Kempf reviewed the quarterly report for the 2nd quarter of 2009. She noted that activity during the 2nd quarter showed slight increases over the same period in 2008, which is very good news. She reported that fuel prices were significantly lower in 2009 compared to 2008, and the Port sold more gallons during the second quarter, even with the three-day fuel dock closure for equipment installation. She advised that asterisks were used to identify the anomalies, and a description was provided in the report for each one.

Ms. Kempf referred to the handout that was prepared to provide a historical view of the waitlist, slip vacancies and delinquent accounts. She specifically referred to the waitlist table, which provides waitlist information for the second quarter to identify the categories that are decreasing. She noted that the waitlist for the 30-foot and smaller slips decreased by 64% compared to 2008. In 2007 the number of people on the waitlist was 36, but there are only 10 in 2009. The waitlist for the 32-foot covered slips decreased by about 46%.

Commissioner Burkhart asked how the Port's waitlist numbers compare with other marinas in the area. Ms. Kempf explained that there are no good comparisons in the market because both Shilshole Bay and Everett recently reconfigured their facilities to decrease the number of small slips and increase the number of large slips. While the

Port may have received additional tenants as a result of these two reconfigurations, the waitlist for the small sized slips is still decreasing in size.

Commissioner Burkhart suggested the Port consider modifications in their advertising effort so that the public has an accurate perception of the current waitlists. She observed that many people have the impression that the Port of Edmonds' waitlists are long, but that is no longer the case.

Commissioner Faires observed that the waitlist is the best indicator of how close the Port's moorage rates are to market value. The information provided by staff would undoubtedly be useful when the Commission discusses moorage rates for 2010. He suggested staff expand the report to also evaluate whether the larger slips would be impacted, as well. He said another leading indicator is the number of turn downs. When times are great, people on the list are anxious to accept the slips. However, when the economy is bad, more people turn the slips down. Ms. Kempf pointed out that the number of turn downs was lower in the second quarter of 2009 compared to the same period in 2008.

Commissioner Block asked staff to elaborate on why the assignment numbers are larger in 2009 than in previous years. Ms. Kempf observed that there were 28 vacancies in the first quarter and only 10 in the second quarter, which means the slips are being filled. However, it is important to keep in mind that some tenants are on the waitlist to change from one slip size to another, and these were included as part of the assignment numbers. She noted that during the second quarter of 2009 there were 31 terminations and 54 assignments. Commissioner Burkhart suggested there is value for staff in keeping track of the number of tenants who move from one slip to another. The Commission is more interested in tracking new tenants. It is important for the Commission to have clear information about how many new assignments there were compared to terminations, but this information is not available via the current data.

Commissioner Gouge referred to the cost center data, which indicates that wet moorage net income was down about \$100,000 compared to the same period in 2006, even though rates are higher. Ms. Drennan noted the most significant difference is related to the law suit that is currently in process.

Commissioner Gouge expressed concern about raising moorage rates given the current state of the economy. The Port needs to have a healthy waitlist to keep the marina full. While the Port could lose tenants if they were to raise the rates in 2010, they also must balance the increased expenses. He expressed concern that expenses would continue to increase and revenues would remain flat. Commissioner Block recalled that a large portion of the increased expenses are associated with the law suit, and other expenses are slightly under budget.

Commissioner Burkhart expressed concern that salaries have increased by about 40% since 2006 and employee benefits have increased by about 70% during that same time period. Ms. Drennan suggested the figures are somewhat misleading. When staff is working on capital projects, the expense is allocated to the capital budget. She noted there were some very large capital projects in 2006 (Mid Marina and North Breakwater). It is also important to keep in mind that prior to 2006, the Commission had cut the number of staff to a very low level. Over the past two years, additional staff has been added to meet the Port's requirements. Commissioner Burkhart observed that if staff believes they have reached the right level for staffing, they may be better able to forecast future expenses. She suggested that the waitlist plays a role in the budgeting process. The Port needs to increase the waitlist in order to improve the situation.

Ms. Kempf suggested that at some point in the future, it may be appropriate to reconsider the current configuration of the marina. However, she noted that the Finance Manager reminded her that the vacancy in small slips is a very small percentage of the total number of slips. Commissioner Faires pointed out that many of the smaller slips are located in places where it would be difficult to reconfigure to accommodate larger vessels. However, he agreed it is important to keep track of vacancies in the various slip sizes and consider appropriate options.

Ms. Kempf referred the Commission to the table that was prepared to illustrate delinquent accounts. She summarized that there was a decrease in the number of past due accounts in the 30 and 60 day categories. However, there was an increase in the 90-day category. It is important to keep in mind that many of the tenants who are in the 90-day category have abandoned their vessels. Although the delinquent accounts are slightly higher than in 2008, she is not

significantly concerned at this point. Ms. Drennan added there were no abandoned boats in 2008, which is extremely unusual.

Commissioner Faires said he would like the waitlist information to be expanded to include more categories. He said he would expect the waitlists for the larger slips to be more stable. Ms. Kempf agreed that staff could track all of the numbers and present them to the Commission as part of the 3rd Quarter Report.

FINANCE QUARTERLY REPORT

Ms. Drennan reviewed the 2nd Quarter Financial Report and specifically noted the following:

- Gross profit for the six-month period ending June 30, 2009 was \$2,896,970 or 2% less than budget.
- Net income for the same period was \$65,075.
- Net electrical service charges were -\$4,333, and staff is monitoring and reviewing the situation. There could be an allocation issue.
- Net fuel sales were \$29,342 or 38% less than budget. Staff intends to review the markups and pricing policies of other fuel docks in the area and perhaps propose some changes. This number identifies gross revenue less the cost of fuel.
- Permanent moorage revenue was \$1,312,670 or 1% less than budget.
- Dry storage revenue was \$298,388 or 6.5% less than budget. The dry storage revenue was hit hard over the winter when more tenants decided to store their boats at home to save money.
- Workyard revenue was \$67,040 or 34% greater than budget.
- Harbor Square Property revenue was \$760,717 or 2.5 % less than budget.
- As of August 1st, the lease with the Landing is due for a CPI adjustment, which is based on the semi-annual CPI for the first half of 2009. Staff anticipates this number would be published by the end of the week.
- Operating expenses without depreciation for the six-month period were \$1,721,698 or 3% less than budget.
- Bad debt expense was -\$671. Staff does not expect this to continue. Two abandoned boats were sold at auction in June, and staff has given the previous owners 30 days to make payment before writing the accounts off and sending them to collections. There are also four boats waiting for the auction process, which staff is trying to speed up.
- Professional fees were \$149,028 or 16% greater than budget primarily due to legal fees.
- Repair and maintenance expenses were \$152,745 or 24% less than budget. Although staff is very conscientious of expenses, they don't expect this large difference to continue throughout the year. They expect that repair and maintenance expenses will also increase as the Port gets busier.
- Utility expenses were \$135,529 or 14% less than budget.
- Interest income was \$48,694 or 55% less than budget.
- In the first quarter of 2009 the Port received the final FEMA payment of \$8,802 for the December 2007 storm damage.
- Net income for the six months ending June 30, 2009 was \$65,075, which is \$64,975 less than budget.

Ms. Drennan reminded the Commission of their previous discussion with staff about modifying the quarterly reports. She suggested that future reports include the following:

- Statement of Revenues and Expenses for the Port as a Whole
- Statement of Revenues and Expenses for the Marina and Leases West of the Tracks
- Statement of Revenues and Expenses for the Harbor Square Property
- Amended Operating Budget
- Management Report Allocating Overhead and Interest
- Investing Report
- Investing Summary

Commissioner Faires suggested that staff provide examples of the items they are proposing to include in the quarterly financial reports for the Commission's review. He suggested the Commission should review any changes that are made to the report.

Ms. Drennan referred the Commission to the Investing Report. She reported that the benchmark to determine performance levels is the one-year Treasury bill, which was .51% on June 30, 2009. Liquid Port funds earned between .66% and 1.75%. As of July 1, 2009, the Public Deposit Protection Commission requires that all banks that operate as public depositories must collateralize their uninsured public deposits at 100%. As the banks are no longer able to use government funds to make loans, the interest rates have dropped dramatically. She was recently informed by the manager of the Edmonds Branch of the Bank of Washington that at the end of June, they would be paying .65% on deposits up to \$250,000 and .125% on funds above \$250,000. She advised that the Port has been moving funds in excess of short-term needs out of the Bank of Washington and into accounts where the Port would earn more interest. She further reported that in June of 2009 the Port funded the capital replacement reserve for 2008 and 2009 at \$219,193, and interest would be added to the reserve monthly.

Commissioner Burkhart inquired why parking revenue increased significantly in the first quarter of 2009 compared to the same time period in 2008. Ms. Drennan reminded the Commission that Sound Transit is leasing property from the Port to use as a parking area during their construction process. However, this arrangement would only occur through the end of 2009.

Commissioner Gouge inquired why guest moorage expenses increased so dramatically in 2009. Ms. Drennan reminded the Commission that the Port replaced the whalers on the guest moorage dock in early 2009. Commissioner Gouge suggested it would be helpful if staff were to identify the anomalies and provide a brief explanation as part of the quarterly report. The remainder of the Commission concurred.

Ms. Drennan advised that salaries and benefits were unusual this year as a result of the previous Executive Director's retirement, which required the Port to pay out a large sum of money.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney announced that Ms. Drennan, the Port's Finance Manager, received the Professional Finance Officer Award for 2009, for the fourth time in a row. He thanked her for doing a great job representing the Port of Edmonds.

Mr. McChesney provided the following report on the status of the Edmonds Yacht Club (EYC) Building:

- The project is approximately 20 days behind schedule, primarily due to unknown underground interferences and the necessity to add a "hot-tap" shutoff valve in the fire line. The lack of information about Arnie's use of the fire line and the seawall tie back issues created most of the delay. The plumbing subcontractor was delayed for a few days getting the necessary permits from the City, as well.
- The Executive Director would meet with representatives from the City of Edmonds Public Works Department to review the stormwater issue to make sure there is a clear understanding of how the stormwater would tie into the Port's system. He plans to review the permit and make sure there have not been any changes in design and function as per the plan.
- Once the utility work is done, the contractor would pour the foundation and start framing the building.
- The EYC has indicated the project budget is tracking as anticipated.
- The EYC's desire to construct a taller lighthouse feature is still proceeding, and the issue should go before the City Council on August 17th or 25th. Dick Potter is pursuing the effort on behalf of the EYC.
- Commissioner Faires said he recently spoke with Dick Potter, who is doggedly pursuing approval for additional height for the lighthouse feature on the northeast corner of the new EYC Building. He explained that not only does the change require City approval, but it must also be approved by the State. He estimates approval could take up to six months, and the EYC is prepared to take whatever steps they can during the construction phase so

the structure could be modified if approval for greater height is obtained. He noted that the EYC would incur additional expense associated with the proposal, but they believe it would provide a public benefit.

Commissioner Faires advised that Mr. Potter has invited him to attend the City Council Meeting and describe the action the Port Commission has taken to endorse the idea of the lighthouse being an iconic feature at the Port of Edmonds. He requested the Commission provide feedback and direction. The Commission recalled that they previously approved the design, including the taller lighthouse feature. They agreed it would be appropriate for Commissioner Faires to attend the City Council meeting and voice the Commission's support.

- Staff has received some complaints from tenants on P Dock regarding the lack of parking. It was noted there is parking available across the street. Appropriate signage has been added and the space is being well used. The complaints primarily focused on the fact that available parking is further away from the dock and the difficulty tenants will have loading and unloading even after the project is done. Over time, the number of complaints has decreased. Disability parking was sufficiently addressed, and everyone seems to understand that when the project is finished, parking would be available on the south side of the building.

Commissioner Faires inquired if staff has been successful encouraging tenants who are out of the marina for long periods of time to park in the lot across the street. Ms. Kempf clarified that signage for the lot across the street limits parking to a maximum of three hours, which is consistent with other visitor parking lots on Port property. She said the recent parking inventory indicated there are some critical times when parking is an issue, but the situation has improved significantly since the first weekend. Staff has suggested that people who are leaving for long periods of time should park near Admiral Way so that people who are coming and going can park closer to the dock. Commissioner Block suggested that, at some point, the Port may want to establish a designated area for long-term parking.

- The large container box that was recently placed in the parking lot is not associated with the EYC's project. Instead, it will be used by the contractor that has been hired to remodel Arnie's walk-in refrigerator. The project should be completed by the end of the week, and the container would be removed at that time.

Mr. McChesney reported that over the past several weeks he has had ongoing discussions with Anthony's about the re-roof project. He noted the discussion has been going on for close to ten years. He reviewed that the last correspondence from former Executive Director, Chris Keuss, to Budd Gould at Anthony's (dated April 29, 2009) outlined the key points in the agreement. Anthony's would provide the plan and specifications, and the Port would bid the job under public works contracting regulations, including prevailing wages. The project would commence in early fall of 2009, and the timeline would be contingent upon Anthony's schedule. The final cost would be shared 50/50.

Mr. McChesney advised that Anthony's has indicated they would like to delay the project until the spring of 2010. He reviewed that the operative clause in the lease states, "With respect to the roof, LESSEE shall be responsible for normal maintenance and repair but LESSEE shall not be responsible for damage caused by fire or other casualty. The parties shall each pay one-half of the cost of replacing the roof at the end of its useful life." He suggested the real issue is the term "useful life," which does not have a precise definition. He noted that although Anthony's has not agreed to indemnify the Port against loss or damage, the Port Attorney has recommended the Port put them on notice that if they wish to delay the project beyond what has already been agreed upon, they would do so at their own risk without any liability or risk exposure to the Port. He advised that he asked the Port Attorney to draft language for the Commission to consider at their next meeting.

Commissioner Burkhart noted that business has been extraordinarily good this year for Anthony's as a result of the warm weather. Continuing to operate without disruption could make a huge difference on their revenue. Commissioner Gouge agreed but pointed out that Anthony's has postponed the project for the past four years. Commissioner Faires summarized that the Port's only option is to put Anthony's on notice that the Port would not be liable if they choose to delay the project.

Mr. McChesney reported that the first phase of the Harbor Square landscaping project would go out to bid later in the week. The initial phase would involve establishing an ongoing contract maintenance program for the property. The cost should be 90% recoverable as common area maintenance. The second phase would go out for bid in a few weeks and would involve improvement of the Washington State Department of Transportation (WSDOT) property at the intersection of SR-104 and Dayton. He explained that the Port has already obtained the necessary permit from WSDOT, and they are currently working with the City on their permit requirements. He noted that the City has agreed to turn over the irrigation system and continue water metering without cost to the Port. The Port would pay for maintaining the landscaping.

Mr. McChesney announced that the new ramp for M/N Dock was installed last week to design specifications. The project was supervised by Mr. Yeager, and all contractor submittals and shop drawings were approved by the Port's engineer.

Mr. McChesney advised that a Property Committee Meeting has been scheduled for August 17th, where LMN and Berk Associates would provide a progress report on the Harbor Square Master Plan that is currently on schedule.

Mr. McChesney reported that staff met last week to discuss 2010 budget issues. They are looking forward to working with the Commission on the cost recovery formula and all aspects of the Capital and Operating Budgets starting at the next meeting.

Ms. Kempf reported that when the workboat was hauled out last week, staff discovered the bottom was significantly damaged. Dick Troberg was hired to conduct a marine corrosion survey, which diagnosed the problem as "classic poultice corrosion," a situation that occurs when stagnant water is against aluminum. Mr. Troberg provided some recommendations for appropriate repair, and staff would likely go out to bid soon. Options include drilling out the damaged portions and patch the holes or replacing the bottom of the boat. Staff would obtain estimates for both options. Mr. Troberg also provided recommendations for how the Port could avoid the problem in the future. He indicated that if the boat is properly cared for, it could last 50 years.

Ms. Kempf reported that during the recent hot weather, many people contacted staff to complain about the smell that was coming from the breakwater as a result of the bird droppings. The Edmonds Fire Department agreed to use the fireboat to spray off the breakwater as a training opportunity.

COMMISSIONER COMMENTS AND COMMITTEE REPORTS

Commissioner Gouge reported that he was not able to attend the last Edmonds City Council Meeting, but at their previous meeting they voted against the levy in 2009. They agreed to reconsider it again in 2010. They are also waiting to see the outcome of the regional fire authority proposal.

Commissioner Block announced that she attended the dedication ceremony for the new park that is located on the Old Woodway Elementary School site. The park was named after Dr. Hickman, who attended the event. J.P. Patches also attended the event and spoke at the ceremony. She reported that the park is absolutely beautiful.

Commissioner Block reported on her attendance at the WPPA Public Relations Seminar, where she participated in the following sessions:

- A public relations person from the Port of Longview gave a presentation on some really great things they are doing. For example, she carries around a kit that contains head shots and biographies of their port's management team and commissioners, handouts about what is going on at their port, quick facts on a card, etc. She distributes the information at port related events that she attends. She suggested it is important that all staff know what is going on so they are comfortable talking to people, and this could be accomplished via a new employee's packet. She indicated that she takes every opportunity to play up their port and she invites reporters to come to their events. When the stories are published, she purchases extra copies and uses them as handouts.

- A session regarding social networking indicated that some ports are really getting involved with Facebook and twitter programs, etc. She learned that WSDOT now provides route information via a twitter page, and the Port of Tacoma just put together a manual on social media policy. She invited the Commissioners to review the materials she collected regarding the issue.

Commissioner Burkhart reported that she attended the Washington State Ferries Partnership Group Meeting where she learned that the Legislature would not increase funding for ferries at this time. Instead, they have sent the message that Washington State Ferries should figure out how to do better with what they have before asking for more money. The project to design a test reservation system is within that context. They have reviewed current programs from 14 ferry companies in the United States and abroad to gather information about how reservation systems function. They want to make sure customers would benefit from a reservation program, and they could then relay this benefit to the Legislature. They are hoping the Legislature would eventually approve their pre-design so that the program could be tested on the Edmonds/Kingston Ferry. The group will meet once a month starting in July.

Commissioner Burkhart reported on her attendance at the Edmonds Economic Development Commission meeting. Since it was the group's first meeting, each of the Commissioners were invited to introduce themselves. Stephen Clifton, Edmonds Economic Development/Community Services Director, is publishing a lot of information on the City's website, and the group would meet on a monthly basis.

Commissioner Burkhart advised that she also attended the Woodway Town Council Meeting where it was reported that the Town of Woodway is being hurt by the new requirement that all banks that operate as public depositories must collateralize their uninsured public deposits. They are planning to work with other cities to lobby for higher interest rates. Two Commissioners from the Olympic View Water District, Lora Petso and John Elsasser, were present to address concerns about the officious way their staff treats residents. It was noted that State law requires the District to coordinate their cross connection policies with local municipalities. Commissioner Burkhart advised that the Town Council also went on record that 800 units or less and a height of 65 feet or less should be the standard for what they would like to see developed at Point Wells.

ADJOURNMENT

The meeting was adjourned at 8:30 p.m.

Respectfully submitted,

Marianne Burkhart
Port Commission Secretary