

PORT COMMISSION OF THE PORT OF EDMONDS
MINUTES OF REGULAR MEETING

October 26, 2009

Commissioners Present

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

Staff Present

Bob McChesney, Executive Director
Marla Kempf, Deputy Director
Tina Drennan, Finance Manager
Kevin Danberg, Marina Operations Supervisor

Others Present

Bradford Cattle, Port Attorney
Karin Noyes, Recorder

CALL TO ORDER

Commissioner Faires called the meeting to order at 6:00 p.m. The regular session was immediately adjourned to an executive session.

EXECUTIVE SESSION

An executive session was conducted to discuss with legal counsel a potential real estate transaction, discussion of which in public could potentially disadvantage the Port District. The Commission discussed the initial review of the performance of the Executive Director as called for in the Executive Director Employment Agreement. No action was taken, and no announcement was made with respect to the discussion that took place. The Executive Session was adjourned at 6:30 p.m.

REGULAR SESSION

The regular session resumed 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 AS AMENDED.**
- B. APPROVAL OF OCTOBER 12, 2009 COMMISSION MEETING MINUTES.**
- C. APPROVAL OF \$139,410.83 FOR SEPTEMBER ELECTRONIC TRANSFERS.**
- D. APPROVAL OF CHECK NUMBERS 68655 THROUGH 68676 INCLUDING DIRECT DEPOSITS DD00524 THROUGH DD00534 IN THE AMOUNT OF \$42,301.15 FOR PAYROLL.**
- E. APPROVAL OF CHECK NUMBER 68677 IN THE AMOUNT OF \$185.90 FOR PAYROLL.**
- F. APPROVAL OF CHECK NUMBERS 68678 THROUGH 68732 IN THE AMOUNT OF \$221,184.06 FOR ACCOUNTS PAYABLE.**
- G. APPROVAL OF CHECK NUMBERS 11062 THROUGH 11073 IN THE AMOUNT OF \$19,849.33 FOR HARBOR SQUARE ACCOUNTS PAYABLE.**

COMMISSIONER BLOCK SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY, WITH COMMISSIONER ORVIS ABSTAINING FROM VOTING ON ITEM B.

PUBLIC COMMENTS

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

WORKSHOP DISCUSSION ON 2010 DRAFT OPERATING BUDGET

Mr. McChesney reminded the Commission that at their last meeting they conducted their first workshop discussion and public hearing on the 2010 Draft Operating Budget. Taking the first discussion under advisement, the Finance Committee met again and identified a few more meaningful cuts that are reflected in the revised budget that is now before the Commission for review. He recalled that staff previously recommended a new method for calculating moorage rates that would allow the Port to bill direct operating expenses back to the tenants. He referred to Page 17 of the Staff Report, which outlines what the rate increases would be based on the proposed new method (3% increase for direct pass-through costs), as well as no additional rate increase, a 1% increase, a 2% increase, a 3% increase and a 4% increase.

Mr. McChesney summarized that, as per the Commission's direction at the last meeting and what staff heard from the public, they tried to calibrate revenues and expenses to come up with a budget that makes sense and is workable for the coming year. He referred to Page 15, which outlines the cuts that have already been made that total approximately \$200,000. He expressed his belief that the budget is at the point where staff does not feel there is anything left that could safely be cut.

Ms. Drennan reminded the Commission that the budget is an accumulation of many calculations by staff, meetings with the Finance Committee, and several Commission meetings. She briefly reviewed the items that have been changed since the last meeting as follows:

- The Advertising and Notice expense was reduced from \$18,000 to \$15,000.
- The Repair and Maintenance expense was reduced from \$414,000 to \$364,000 by removing the Marina Operations Restroom Remodel from the 2010 Budget.
- The Landscaping expense was reduced from \$17,000 to \$10,500 by removing the replacement of broken and cracked curbs and installing car stoppers from the 2010 Budget.
- The Employee Benefits expense was reduced from \$337,000 to \$334,000.
- The Payroll Tax expense was reduced from \$173,000 to \$166,000.
- The Salaries and Wages expense was reduced from \$1,421,000 to \$1,350,000 by reducing the pay increase from 2.8% to .6%, removing 1 Marina Operations seasonal staff position, removing the \$10,000 merit pay, and removing the \$20,000 for pay adjustments.

Ms. Drennan pointed out that the \$10,000 identified in the draft budget for merit pay is intended to fund merit pay for the staff's 2009 goals. Mr. McChesney explained that as per the previously approved merit pay program/policy,

eligible employees would receive merit pay if they were able to accomplish certain specified, pre-approved goals and objectives. This pay is an implied promise for 2009, but the dollars would not be paid until 2010. He suggested taking away this funding would be disappointing and awkward to those who have participated in the program. Commissioner Burkhart agreed the Commission has made a prior commitment to the employees, and she was surprised to see that the merit pay dollars were taken out of the draft budget. Mr. McChesney agreed and advised that staff would consider other program options for next year and would likely propose a different type of program at some point in 2010. The Commission agreed that the merit pay dollars should not be removed from the budget because the Port has already made a commitment to the employees for this amount.

Commissioner Orvis said he understands the present economic conditions, but he is very much concerned that the Port is heading down an insidious path by not doing all of the maintenance work that needs to be done. He observed that those individuals who are likely to suggest the Port cut the maintenance funding will be the first ones upset when the ramifications of the decision affect their slips. This work will eventually have to be done, or the Port will face even larger costs. At that point, an even greater rate increase would be necessary to cover not only the maintenance, but the resulting damage to the existing facilities. He recommended the Port move forward with the two maintenance projects (replacing the walers and sealing the docks), but the restroom program could be postponed.

Commissioner Orvis suggested that when comparing the Port to other marinas, they should focus on Elliott Bay, Shilshole and the Everett 12th Street marinas. The other marinas in the area do not reflect the same type of facility and location that is offered at the Port of Edmonds. When comparing to the marinas he mentioned earlier, he found the Port's rates were comparable and in many cases lower.

Commissioner Orvis said that while the Commission established a policy of raising moorage rates by the Consumer Price Index (CPI) plus 1%, the increase in 2009 was much lower. In the recent past, the Commission has been setting moorage rates based on what they thought was appropriate and he suggested they continue to do so. He recommended that CPI be used only as a starting point. He expressed support for the staff's proposed method of charging tenants for the pass-through costs. However, he felt it is important to clearly inform tenants about what their total costs per month would be and then the cost for each expense could be broken out. He said he did not believe a 6% total moorage increase would be appropriate. Instead, he suggested the Port raise the moorage rates to cover the 3% pass-through costs, but keep the base moorage rate the same.

Commissioner Burkhart recalled that the Commission has often stated they want the marina to pay for itself, and she questioned the amount of the Port's current bond payments. Ms. Drennan said the payments for the bonds and the Harbor Square loan are approximately \$1.7 million. However, the bond payments alone are just under \$1 million for both interest and principle.

Commissioner Burkhart advised that she and Commissioner Orvis (Finance Committee) visited the docks to observe the condition of the existing walers. She particularly noted the significant problems on N Dock, where the end of the dock is tilting. While the walers on other docks are not quite as bad, they are in extreme need of attention. Commissioner Orvis pointed out that when docks start to rack, the typical cause is worn out walers. He pointed out that in some locations the rubber is completely torn off the docks, and in other places it has broken loose. He summarized his belief that it is definitely time to perform the maintenance project proposed by staff.

Commissioner Faires referred to Page 17 of the Staff Report and said the numbers provided by staff to illustrate what the moorage rates would be based on their proposed method were unclear to him. He noted that, in the past, the term "moorage rate" has referred to the total amount a tenant has been required to pay for a slip. Now, staff is proposing to change this definition, which doesn't make sense to him. He recalled that at the last meeting, he requested staff provide information comparing the current moorage rates to the actual amount tenants would be required to pay based on the new method. However, this information was not provided. He suggested the term "moorage rate" should be used when referring to the current moorage rate program and a new term should be used to identify the proposed new method of charging tenants for pass-through costs. This would make it clear that the pass-through costs are in addition to the regular moorage fee. Again, he expressed his belief that he is very unclear at this point as to how

much the moorage rates would actually go up based on staff's proposal. He stressed the importance of making it clear that, as proposed, the moorage rates would increase approximately 6% (3% increase for the base moorage rate and 3% increase for pass-through costs). He expressed his belief that a 6% increase would not be appropriate at this time.

Mr. McChesney agreed that staff's proposal is to increase the base moorage rate by 3% and then charge an additional 3% for pass-through costs. However, it is important to keep in mind that the Commission has not made a decision as to what the actual moorage rate increase would be. Commissioner Orvis said that regardless of the final decision, it is important to provide the tenants with a clear understanding of exactly what their total 2010 moorage costs will be each month. Ms. Drennan agreed that once the budget has been approved, staff would identify what each tenants' total moorage rate would be.

Commissioner Faires emphasized that if the Commission decides to increase the base moorage rate by 3% and then add an additional charge of 3% to cover pass-through costs, they should advertise the change as a 6% increase. He pointed out that the Port of Everett has announced their plans to increase moorage rates by 2%. He suggested staff prepare a draft budget that identifies a total moorage rate increase of 2%, including pass-through costs. He said he has talked to tenants who have indicated they would get on waiting lists in other marinas that are considerably less costly than the Port of Edmonds. While the Port of Edmonds offers a nice facility, he suggested their moorage rates are currently more constrained by market than by actual costs.

Commissioner Burkhart pointed out that using a 2% increase as recommended by Commissioner Faires would result in a revenue decrease of \$128,000. She suggested he identify what could be cut from the proposed budget to make up for the decrease in revenue. Commissioner Faires suggested they could eliminate the proposed .6% pay increase for Port employees. While the policy in the past has been to raise salaries by CPI plus 1%, this was done to make Port salaries more comparable to similar facilities. There is no requirement that the Commission continue this policy into the future. He questioned whether a CPI increase would be warranted. He suggested they could also eliminate the dock sealing project unless they are allowed to capitalize it. He expressed his belief that it would likely be possible to eliminate an additional \$20,000 to \$30,000 in other locations, as well.

The Commission referred to a letter from Reid Middleton, the Port's Engineer, which points out that sealing the docks would extend their life expectancy. They also discussed whether or not it would be possible to capitalize the dock sealing project. Mr. McChesney agreed that the issue of capitalization is an arguable point. He referred to the Engineer's letter and explained that normally the sealing would have been included in the specifications for the original contractor and it would have been capitalized. However, because the concrete needed time to cure before the additive work was done, there is a timing issue. It is clear from the Engineer's letter that sealing is recommended and would extend the life of the asset, but there is a question about how much. Commissioner Faires expressed his belief that because the dock sealing project would extend the life of a Port asset, it should be capitalized. Mr. McChesney said that, theoretically, he would agree. However, it may be necessary to quantify how long it would extend the life of the asset. Commissioner Faires said he would only support moving forward with the dock sealing project in 2010 if the Port is allowed to capitalize it and if it extends the life of the asset.

Mr. McChesney said he would like additional time to take the issue of capitalization under advisement. He agreed to seek the State Auditor's opinion on the matter. He noted that Ms. Drennan has done a lot of work evaluating the issue and has offered her sound professional opinion, but he agreed it may not be conclusive at this point. Commissioner Faires suggested that whether the Port can move forward with the dock sealing project depends on whether it can be capitalized or not. He said he does not believe the Commission can reach a consensus on the matter until they know the answer to this question.

Commissioner Burkhart said it would be helpful for the staff and Commission to identify all of the known maintenance projects and then create a plan for accomplishing each one over a longer period of time. This would eliminate situations where two large projects must be done in a single year. She expressed her belief that if moorage rates are increased to pay for the two large maintenance projects, it is not likely they would be reduced in the future. The remainder of the Commission agreed it would be appropriate to more evenly space the large maintenance projects.

Mr. McChesney summarized Commissioner Faires' request that a new budget be formulated that identifies a 2% total moorage rate increase. In addition, staff would make changes to the table on Page 17 to make it clearer as to what the new method would mean relative to the proposed moorage rate increase.

Commissioner Gouge said that if the Commission agrees to only increase moorage rates by 2%, he would like staff to present a draft marina operations budget that removes all the revenue from Anthony's, Harbor Square and Arnie's. He expressed his belief that, at the present time, these rental property leases are actually subsidizing the marina costs. Commissioner Faires agreed that this would be a good concept for the Commission to consider at some point in the near future, but not as part of the budget process. Commissioner Gouge stated that if the Commission is going to consider eliminating any salary increase for staff in order to keep the moorage rate increase at 2%, the budget should be changed to reflect all of the true costs related to marina operations. He reminded the Commission that they are going to ask the taxpayers to provide \$250,000 for Harbor Square and \$150,000 for the marina side. While they are worried about raising marina rates, they should be worried about taxpayers, as well. He suggested the budget be left as it is currently proposed. If Commissioner Faires wants to reduce the moorage rate increase to a total of 2%, he should sit down with staff and identify which expenses should be cut. Commissioner Burkhart observed that if the dock sealing project is capitalized, the Port could come up with a balanced budget using a 2% moorage rate increase.

Commissioner Orvis reminded the Commission that they have postponed the dock sealing project for years. He observed that increasing the rates by 3% to cover the pass-through costs only, would result in a minimal total increase per tenant. Commissioner Gouge pointed out that the rates at comparable marinas are more costly than those at the Port of Edmonds. If tenants choose to move to Anacortes or Kingston, it is important to keep in mind that the additional costs associated with ferry fees and increased fuel costs would be more costly than the additional \$11.08 that would result from the proposed moorage rate increase. He said he does not believe a rate increase would drive tenants away.

Commissioner Orvis cautioned against shaving the budget so thin that no slack remains for maintaining the Port. He emphasized that the Commission's job is to keep the Port going long after the current tenants and Commission are gone. If they are going to cut something out of the budget, they should reduce the amount they charge the taxpayers rather than the amount they charge tenants. Many of the taxpayers can afford the cost far less than someone who owns a 50-foot boat in the marina. He summarized that every year the Port ends up subsidizing the marina more and more with revenue from their rental properties and taxes. While this may be required to some degree, they should not do it any more than absolutely necessary.

Commissioner Gouge expressed his belief that if the dock sealing project needs to be done now, it should not make any difference whether it can be capitalized or not. The issue of capitalization is merely a bookkeeping matter. Regardless of how the Port accounts for it, the project would still result in an expense of about \$160,000. Extending the life of the asset should be the focus of the Commission's decision. If the project is postponed another year, they will come up against the same issue when considering the 2011 Operating Budget. He said the Commission needs to make a decision about whether or not they want to do the project. He urged the Commission not to require the employees to bear the burden of the poor economy.

Commissioner Faires reminded the Commission that they are currently working to balance the budget and not the cash flow statement. They don't want to go into 2010 with a "0" bottom line, and they don't want to raise moorage rates by 6%. Whether or not the dock sealing project can be capitalized is a key component of the Commission's final decision. Again, he said he would like to see a budget that identifies a 2% total moorage rate increase.

Commissioner Orvis agreed it would be helpful for staff to add 2% as an option on the budget that is presented to the Commission at their next meeting. He said that while the issue of capitalization is interesting, they are talking about total Port revenues. Whether the money is spent in the operating budget or the capital budget is not really a significant issue because the money has to come from somewhere. He suggested the issue of "capitalization" is really "smoke and mirrors." The bigger issue is whether or not there is sufficient revenue to pay for the project.

Commissioner Orvis referred to the letter from Reid Middleton and suggested it would not be feasible to expect staff to have a definitive answer regarding the issue of capitalization by the Commission's next meeting. Mr. McChesney agreed that staff may not receive sufficient information for the Commission to make a final determination. Perhaps the best approach would be to agree to pursue the dock sealing project in 2010 only if it can be defined as a capital project. This would remove the item as an expense in the 2010 draft Operating Budget.

Commissioner Gouge expressed concern that postponing necessary maintenance projects is not the right thing to do for the taxpayers of the Port. The Port is asking the taxpayers to pay their fair share of the costs, and they should do the same for the tenants. He cautioned that the cash flow would not likely be any better within the next year or two. Commissioner Orvis agreed and said they may also develop other large maintenance items that must be done. If they postpone projects, they will just keep piling up. Commissioner Burkhart suggested they develop a plan that would allow them to do the waler project in 2010, the dock sealing project in 2011 and perhaps the restroom project in 2012. She recalled that staff mentioned the idea of doing the restroom project in house as part of the winter maintenance work, which would significantly reduce the cost of the project. Again, she said it would be helpful to have a clear plan that outlines a schedule for the larger maintenance projects.

Commissioner Faires said he understands the concern about pushing back maintenance projects, but it is important to keep in mind that the country is in the middle of the largest recession since the 1930's. The CPI for the last year was at -.4%. He expressed his belief that the situation would be different next year, and on average things should be better. He said he left the tax argument alone in reaction to the current economic climate, but he cannot justify a significant moorage rate increase when CPI was negative. There is a lot going on that puts people's mind in a place where a 6% increase would look like the Port doesn't care about them. When the economy recovers, the Port will be able to take steps to balance all aspects of the budget.

Once again, Commissioner Gouge suggested the Commission consider removing rental property revenue from the marina operating budget and attempt to reduce taxes. He noted that the Port currently owes over \$8 million on the Harbor Square loan, with a balloon payment due on April 1, 2016. He suggested the Finance Committee develop a payment schedule that would allow the Port to pay off the loan early.

Commissioner Faires said he discussed with Mr. McChesney the need for the Commission and staff to spend some quality time discussing the basic financial structure of the budget. However, they should not have this discussion within the context of the current budget proposal. Commissioner Gouge expressed his belief that the Commission will need to support a larger moorage rate increase now or be faced with an even larger increase in the future in order to replace assets. They cannot keep relying on the taxpayers for financial support. Commissioner Faires said he is not convinced the taxpayers are subsidizing the moorage, and that is why the Commission needs to have a discussion in the future. The same is true for the rental properties. Commissioner Orvis said that as long as the moorage rates do not pay for the total cost of operating the marina and the bond payments, tax and rental property revenues would be required. If the Port were not using rental property revenues to support the marina operations, they would be able to use the money to cover Harbor Square expenses instead of relying on funding from the taxpayers.

Commissioner Faires recalled that 6 or 7 years ago, the Commission approved a significant rate increase to cover the full cost of operating the marina, and it took a few years for the Commission and tenants to have a clear understanding of how the cost recovery program worked. He suggested the Commission work through this exercise again to identify how much money is coming in and from where. If the Port is significantly subsidizing the cost of moorage, they need to balance the expenses better. Up to what the market will bear, the tenants should be paying the full cost of parking their boats in the marina. However, it is the Commission's job to identify this amount.

Mr. McChesney summarized that the Commission would like staff to rerun the budget using a few different scenarios: based on normal rate increases of 2%, 3% and 4%. He recommended they eliminate the sealing project from the budget because he did not feel staff could resolve the capitalization issue prior to the next Commission meeting. The Commission could make a decision later on about whether or not to move forward with the project in 2010 if it can

be capitalized. The waler project would remain as part of the budget. The Commission agreed to leave in the .6% salary increase plus the \$10,000 for merit pay. They also agreed to leave in the estimated amount for replacing the radio in Marina Operations, recognizing that they may receive a better bid than the staff's estimated amount.

Commissioner Gouge said he would be opposed to eliminating the .6% salary increase that has been proposed by staff.

Commissioner Faires said that while it has been easy to support a CPI increase for salaries when the financial picture was good, it is a much harder decision to make now. He noted that Snohomish County is considering a 5% decrease in salaries and the City of Edmonds is considering reducing the wages based on CPI. Commissioner Gouge said he does not care what the County and City are doing because they run terrible budget programs. He said he is concerned about the staff and the taxpayers of the Port.

Commissioner Orvis once again pointed out that capitalizing the program would not provide funding for the dock sealing project. If the Port cannot afford to do the project as part of the operating budget, they can't afford to do it no matter how it is budgeted. No matter how much they move items around in the capital and operating budgets, the money all comes from the same "pot."

Commissioner Burkhart advised that the Finance Committee recommended eliminating the Port's participation in the Seattle Boat Show and the Destination Port of Edmonds Program. However, Ms. Kempf has recommended against this action. Mr. McChesney said that in discussing the issue with staff and some Commissioners, perhaps these two programs have more value than originally thought. Staff is recommending that both programs be funded in the amounts presented.

Ms. Kempf commented that the Port's participation in the Seattle Boat Show and the Destination Port of Edmonds Program go hand in hand. She expressed her belief that it would be a mistake to eliminate either of these two programs because staff has seen an increase in the number of groups and guest moorage visits each year. Many of these people visited the Port's booth at the boat show. In addition, they typically receive two or three new dry stack tenants as a result of the show, and this past year they got two people to sign up for slips in the under 30 foot category. Many people inquire about the Port's wait list. She reminded the Commission that the wait lists are declining, and the boat show is the place where prospective tenants can obtain information about the Port. She suggested they specifically focus on improving the wait list during the next boat show. She provided graphs to illustrate the steady increases that have occurred in the number of nights, number of groups and number of guests in guest moorage. In fact, the 3rd quarter numbers for guest moorage are fantastic due to the good fishing season, good weather, and lower fuel prices. But exposure at the boat show and the Destination Port of Edmonds Program also has an impact. Staff receives many requests and comments from people regarding the program, and the bags, cards and books are particularly popular and well received.

Commissioner Burkhart questioned if maintaining the program of handing out cards and books, as well as the friendly and helpful staff would be sufficient to keep the guest moorage numbers up. Ms. Kempf explained that all of the bags, books and cards for 2010 have already been ordered. Next year's budget would be used to develop the 2011 – 2012 program. If this item is eliminated from the budget, the Port would be unable to extend the program for two more years. If the program is cancelled for a few years, she questioned how successful it would be to ask the merchants to participate again several years later. Ms. Drennan clarified that items ordered for the Destination Port of Edmonds Program are not expensed until they are actually used.

Commissioner Faires questioned how much staff time is charged to the boat show, particularly overtime. Ms. Kempf said there is a small amount of overtime related to the boat show, but the majority of staff spend time at the show during their normal working hours. Much of the staffing cost would not go away if the Port decided not to participate in 2010. Commissioner Faires summarized that if the boat show were eliminated from the budget, there would not be a total savings of \$10,000. The savings would be closer to \$4,000. Commissioner Block agreed with Ms. Kempf that the boat show is a rich source for getting new tenants and potential guests to the marina.

Commissioner Gouge pointed out that launcher trips have steadily increased since 2004, and many ports on the west coast have indicated a desire to replicate the Port's Destination Port of Edmonds Program. Ms. Kempf observed that the boat show and the Destination Port of Edmonds Program are the Port's only marketing programs. She cautioned against removing the Port from the largest boating event in the Seattle area, particularly given their competitors, Shilshole Bay and the Port of Everett, both participate. She said she is not sure this is the right message to send to potential customers.

The Commission agreed that funding for the Seattle Boat Show and the Destination Port of Edmonds Program should remain in the draft budget. They further agreed that the salaries and wages should be increased by .6% and that the dock sealing project should be removed from the budget for 2010. Again, Mr. McChesney agreed to run three different scenarios for the Commission to review at their next meeting.

Commissioner Faires suggested staff search for additional expenses that could be eliminated from the budget. For example, he suggested the supplies expense could be further reduced. Commissioner Burkhart reminded the Commission that staff has carefully managed the supplies expense over the past year. Mr. McChesney agreed and complimented staff, and particularly Ms Drennan, for keeping up with the budget.

Ms. Drennan reminded the Commission that Snohomish County requires the Port to submit their approved operating budget by November 30th, which is the date of the Commission's last meeting in November. If the Commission does not approve the budget at their November 9th meeting, they would have to hold a special meeting.

MR. CATTLE LEFT THE MEETING AT 8:32 P.M.

PUBLIC HEARING ON 2010 DRAFT OPERATING BUDGET

Mr. McChesney said that this is the second of three public hearings on the Port of Edmonds 2010 Draft Operating Budget. He noted the budget packet has been available on the Port's web site since October 23rd. The public would have an opportunity to make comments on any elements of the proposed budget. Comments from the public should be taken under consideration by the Commission as they review the draft budget at their next meeting. He noted that the third and final hearing would be held on November 9th, after which staff would ask the Commission to approve the final budget.

Jack Bevan referred to the Commission's earlier comments that tax revenue is being used to not only subsidize Harbor Square, but the marina, as well. Commissioner Faires agreed that tax revenue is being used to subsidize Harbor Square and some activity on the west side of the railroad tracks. Mr. Bevan said he understands that tax revenue is used to fund items such as the flower program and the public is well aware of the problems associated with Harbor Square and why they need to provide financial support. However, if the Commission is unable to make the budget break even, the public may look for a change in management. The Port should be able to stand on its own. He referred to Commission costs of \$110,000 and noted that he did not hear any recommendation to reduce these costs. Ms. Drennan noted that the Commission Education and Travel budgets were each reduced by \$1,000. Mr. Bevan observed that this was a minimal reduction. Commissioner Block pointed out that, to a large extent, the Commission costs are set by the State.

Mr. Bevan requested clarification regarding the professional fees line item. Ms. Drennan explained that there is only one mitigation (mid marina breakwater) action in progress right now at an estimated cost of \$100,000. She advised that the professional services line item funds the Port Attorney, the Port Recorder, Computer Technology Assistance, etc.

Mr. Bevan referred to Page 11 of the Staff Report and pointed out that the average moorage rate increase for the past 10 years is 5.4%, which is 50% over the time period. Commissioner Faires noted that much of this was associated with fee step increases in the early years, which were based on the philosophy that tenants should pay their share of the operating costs. Before that time, the taxpayers were subsidizing the moorage tenants. Mr. Bevan expressed his

belief that the stockholders of the Port expect to know exactly how much of their tax dollars are being used to subsidize the marina.

Herb Anderson pointed out that over the past 10 years, the average rate increase has been 5.4%, which is more than CPI in many cases. He recalled that he has been comparing Port of Edmonds rates with those of the Port of Everett for years. Last year, Edmonds rates were 10% above those of Everett, and if the proposed rate increase is implemented, they will be 15% higher. Commissioner Orvis recalled his earlier statement that the Port of Edmonds should be compared to marinas such as Shilshole and the Everett 12th Street Marina, not the older part of the Everett Marina. He explained that there is a lot of difference between an older marina that is paid for and a newer marina that requires bond payments. Everett 12th Street, Shilshole, and Elliott Bay all cost more because they have current debt. Mr. Anderson pointed out that no survey has been done to identify how the Port's rates compare to those of Elliott Bay.

Commissioner Faires took exception to Mr. Anderson's comment that with the new proposed rate increase, the Port's rates would be 15% higher than those of the Port of Everett. He reminded the Commission that Everett is planning to raise their moorage rates by 2% in 2010, and they raised their rates by 5% last year. Commissioner Orvis added that the new 12th Street Marina does not offer covered moorage, and there will be no new covered moorage constructed in the Puget Sound area.

THE PUBLIC HEARING WAS CLOSED.

Commissioner Faires summarized that the Commission would review the draft budget one more time on November 9th, and an additional public hearing would be conducted, as well. He said he anticipates the Commission would take formal action to adopt the budget on November 9th.

HARBOR SQUARE QUARTERLY REPORT

Jan Conner, Northwest Property Management, briefly reviewed the Harbor Square Quarterly Report. She advised that some tenants are getting behind in their payment of rent, and she issued 11 late notices during the 3rd quarter. Included in the accrued notices are the late fees that have been approved against Clear Cover. While Clear Cover had agreed to a payoff plan, they have failed to meet the terms of the plan and have not paid their October rent. They have been placed on notice via certified mail. She also called the guarantor, but received no response. She noted that the lease agreement includes a 30-day cure period. If they fail to cure in that period, the Port will be cleared to issue a pay or vacate notice. A letter will go out tomorrow defining the situation. The tenant is not only in default of the lease, but in default of the payment plan, as well. Mr. McChesney pointed out that the guarantor is on the hook for the entire amount of rent owed.

Ms. Conner reported that Colliers terminated their agreement with the Port in September. In the interim, they have updated Costar and looked at options for participating in Coop Net. They are currently gathering a data base of commercial real estate vendors and updating their existing vacancy list to email out. Commissioner Burkhart inquired if all of the vacant spaces are presentable. Ms. Conner answered that there are still a few spaces that need to be painted, but from a prospective tenant basis, the spaces are presentable.

Ms. Conner advised that they signed up a tenant on a month-to-month basis in Suite B-6. She noted that all tenants in this area are renting on a month-to-month basis with the idea that they can be relocated if a permanent tenant wants the space. A new tenant signed a 5-year lease for space in Building 2. Tenant improvements were \$2,000.

Ms. Conner announced that she would meet with three tenants over the next few weeks whose leases are coming up for renewal at the end of 2009. She said she anticipates they will sign up again as tenants. She summarized that they have been able to keep occupancy stable over the past year despite the current trends. However, the market is still very soft and additional commercial building foreclosures are anticipated, which could result in a positive situation for the Port.

Ms. Conner reported that she would meet with the Edmonds Fire Marshall on October 28th to discuss a solution for the fire alarm system in Building 2. Mr. McChesney recalled that he previously mentioned to the Commission that this could result in a capital expenditure in the near future. He noted that some elements of the fire alarm system are original equipment and need to be replaced.

Jack Bevan asked about the current occupancy at Harbor Square. Ms. Conner answered that the current occupancy is 67.19% based on Buildings 1-5. If the Harbor Square Athletic Club and Harbor Inn are included, they are at 80% occupancy. Commissioner Burkhart commented that although they would like to see better numbers, Harbor Square has fared well through the economic down turn.

PORT QUARTERLY REPORT

Ms. Kempf reported that marina operations during the 3rd Quarter of 2009 showed impressive increases compared to the same time period in 2008. She specifically highlighted the following:

- Launch activity was the highest it has been in the past five years, with 2204 round trip launches sold. This equates to an increase of 54% over 3rd quarter 2008. Good fishing, good weather and lower fuel prices all contributed to this positive number.
- Guest moorage also showed the highest numbers of boats during 3rd quarter for the past five years. The reservation program continues to be very popular, and the number of reservations increased by 19%. The number of nights reserved increased by 43%.
- Work yard usage was down due to fewer long-term vessel stays.
- Moorage vacancies were the lowest in five years at .9%. Many vacant slips less than 30 feet were filled by temporary subleases and Craig's List advertising. Ms. Wade did a good job of talking people who normally sublease space or use guest moorage into leasing some of the under 30-foot spaces. However, this would likely result in more terminations during the winter months. She noted that 15 of the 49 terminations in the 3rd quarter were by tenants who sublease on an annual basis. Many tenants felt the benefit of having a fuel card discount would more than pay for the deposit they would have to forfeit if they decided to terminate the lease.
- Dry Storage occupancy is at 94.29%, which is slightly higher than last year. Terminations have been higher than in the previous five years, as well. Many of the terminations are pending and will not affect occupancy until the 4th quarter. Because of the large number of boats that came to A and B Docks during the evening, many dry storage tenants decided to lease water moorage space so they would have a place to go when they came back to the marina.
- The waitlist continues to decline, with most of the decline happening in the 30-foot and under categories. In 2006 there were 207 names on the wait list, and now there are only 133. About 50 names on the wait list are current tenants who want to trade space, and the remaining 80 names are non-tenants. They have some statistics as to the number of people who have passed up space, but the numbers are different for each category. She would put together the information and identify trends as part of her 4th quarter report.

THIRD QUARTER FINANCIAL REPORT

Ms. Drennan reviewed the 3rd Quarter Financial Report and particularly noted the following:

- For the first time in 10 years, the launcher cost center had a positive net income after depreciation, overhead and interest allocation. Revenue increased by \$24,000 over 2008, and staff expenses decreased by \$20,000. This is due to a combination of things. They have had discussions with staff to make sure they are allocating their time to the correct cost center. They also added an additional permanent staff person who could operate the launcher instead of two seasonal staff people. In addition, because there were so many launches, the seasonal staff were able to be trained to operate the equipment on their own.
- Gross profit for the nine-month period ending September 30, 2009 was \$4,555,602, which was \$32,198 or 1% less than budget. Net income for the same period was \$302,079.

- Net fuel sales were \$104,453 or 21% less than budget. It is very difficult to keep the price range the same so they are using a different approach that bases the cost on the market rate as identified on a weekly basis. This allows the Port to keep prices closer to market.
- Launcher revenue was \$73,857 or 25% greater than budget.
- Net guest moorage revenue was \$117,077 or 14% greater than budget.
- Permanent moorage revenue was \$1,988,083, which is approximately the revenue budgeted.
- Dry storage revenue was \$470,747 or 2% less than budget.
- Workyard revenue was \$91,722 or 15% greater than budget.
- Harbor Square property revenue was \$1,117,816, which was \$53,159 or 4.5% less than budget.
- As of August 1st, the Landing's lease agreement was adjusted by the CPI increase over the past five years. The next adjustment will take place in five years and will be a market adjustment.
- As of June 15th, the Port began billing the Edmonds Yacht Club for its ground lease for the building north of the Administration Building.
- Operating expenses without depreciation for the nine-month period were \$2,586,037, which was \$101,263 or 4% less than budget.
- Employee benefits were \$319,176 or 5% less than budget. Staff expects to increase employee benefits by approximately \$100,000 before the end of the year to record the 2009 accrual for other post-employment benefits.
- Repair and Maintenance was \$198,986 or 34% less than budget. The changes from budget include the following:
 - Guest moorage waler replacement was budgeted at \$75,000 and was completed at \$56,000.
 - Staff expected the travelif lane would need to be resurfaced at a cost of \$20,000 to meet Department of Ecology standards, but it appears that treating all pressure washer pad runoff enables the Port to meet the permit standards.
 - Staff expected that many of the Port's fire extinguishers would need replacing in 2009. While servicing the extinguishers, the contractor found that very few needed to be replaced.
 - Staff budgeted \$54,000 for asphalt repairs and striping at Harbor Square, and this work was not required.
 - Staff budgeted \$72,000 for repair and replacement of HVAC units at Harbor Square. Thus far, it appears that \$40,000 or more will not be needed this year.
- Interest income was \$65,017 or 60% less than budget. In addition to low interest rates, the State now requires banks to keep 100% in insurance collateral for all public moneys. That means banks can no longer use public money. While she feels this is an important requirement, it has had a significant impact on the amount of interest the Port is able to earn from their deposits.

Ms. Drennan referred to the Cost Center Report and noted that electrical service charges are at \$29,234, and that is why staff is requesting a \$5 monthly charge for tenants to recover these costs. While the workyard and lease cost centers did well, no other costs center generated revenue above its costs.

Next, Ms. Drennan referred to the 3rd Quarter Investing Report and noted the highest interest rate the Port has been currently able to obtain is 1.75% from Evergreen Bank, but they will not take additional funds into the account. At this time, they are getting between 1% and 1.25%, but they are ahead of the treasury Report, which is at .04%. A Certificate of Deposit matured in late September and they were able to reinvest at a rate of 1.73%.

Commissioner Gouge suggested the Finance Committee meet to review the cash flow statement and consider options for paying down the Harbor Square loan. He suggested that because interest rates are so low, it would be more cost effective to pay extra money on the Harbor Square loan, which has a much higher interest. Ms. Drennan advised that as per the loan agreement, the Port can pay an additional 1% of principle per year. Commissioner Faires reminded the Commission that they made the maximum payment allowed earlier in 2009, and it might not be possible to pay more until the 12-month period has expired. Ms. Drennan agreed to research options for making early payments and discuss her ideas with the Finance Committee. She suggested that an extra payment of \$10,000 per month would be an option worth considering. The Commission agreed to discuss the idea again after the operating budget has been approved.

COMMISSION MEETING SCHEDULE

Mr. McChesney advised that the November 9th Commission Meeting agenda includes a public hearing and additional discussion regarding the 2010 Draft Operating Budget. He said he anticipates the Commission would take formal action to approve the budget after the public hearing and discussion.

Mr. McChesney announced that a special meeting has been scheduled for November 16th at 7 p.m. at which LMN Architects and Berk Associates would be present to discuss Harbor Square Master Plan concepts. Commissioner Gouge suggested that the Commission meeting room might not be large enough to accommodate the public. The Commission directed Mr. McChesney to reserve space at the Yacht Club or Harbor Square for the public meeting.

EXECUTIVE DIRECTOR COMMENTS

Mr. McChesney reported that due to some miscalculations on the part of the architect who prepared the specifications, there is a proposed change order for the Anthony's Roof Project for \$126,200. The base bid was \$216,983. The problem has to do with the slope of the roof and drainage. He pointed out that if this situation would have been incorporated into the specifications to begin with, the Port would have had to pay for it anyway. The architect made a faulty assumption or guess that the slope of the roof was ¼ pitch. He said he has complained that the roof did not drain properly for several months, and he met with the architect and supplier to discuss the situation. Both assured him that the warranty would be in effect. However, because the roof requires a 1/8 inch slope, which is not present currently, the warranty would be nullified. While it is easy enough to correct the problem, it is costly.

Mr. McChesney summarized that the architect measured wrong and did not do his field measurements. The good news is that they have a good roofer and Anthony's has been apprised of the situation. He recommended the Commission authorize the contractor to move forward with the project because it must be done. The Port would be responsible for 50% of the additional cost. He cautioned that shutting the job down would result in some huge penalties with the contractor. He said he has never experienced a situation where a job became less costly by delay. He advised that once the negotiations are finalized and the architect approves the change order, he would bring it back to the Commission for final approval.

Commissioner Orvis expressed his belief that the architect took money to do a job that he failed to do properly. Mr. McChesney agreed and explained that Anthony's was responsible for preparing the specifications, and they are not happy with the way it was done. However, it is important to keep in mind that the proposal should have included the additional work.

Mr. McChesney reported that the sanitary service to the Administration Building was disrupted last week as a result of work done by the contractor for the Edmonds Yacht Club Building. Port staff intends to submit a claim for lost time and incidentals the Port experienced as a result of the disruption. They had to hire a plumber and an engineer to resolve the situation. The project contractor has been put on notice of the Port's intent to file a claim.

Mr. McChesney announced that he has been invited by Stephen Clifton, Edmonds Community Services/Economic Development Director, to attend the joint Planning Board/Citizens Economic Development Commission Meeting on October 28th to provide a presentation on the role the Port plays in economic development in the City. The Port's economic development effort focuses on the Harbor Square Business Complex, but he does not plan to get into detail regarding the particular concepts being considered.

Lastly, Mr. McChesney reminded the Commission of the WPPA Fall Meeting that is scheduled for November 18th through 20th in Seattle. He invited interested Commissioners to contact staff.

COMMISSIONER COMMENTS AND COMMITTEE REPORTS

Commissioner Burkhart announced that she would attend the Citizens Economic Development Commission meeting on October 28th. She further reported that she attended the Commission's last meeting on October 21st. They have formed three subcommittees to meet on separate schedules.

Commissioner Burkhart provided materials outlining what has been done so far by the Ferry Partnership Group and would put them in her box for interested Commissioners to review. She particularly noted the document titled Vehicle Preservation Pre-Design Study and Emerging Program Rules, which talks about different customers, what the group is coming to a consensus on and what points they will protest.

Commissioner Burkhart reported on her attendance at the Woodway Town Council Meeting on October 19th where they discussed Point Wells. Apparently, the property owner has identified an architect and is in the process of negotiating a contract. They are looking at constructing buildings of up to 180 feet in height for the lower bluff only. Both Shoreline and Woodway have provided information about the property on their websites. A representative from a citizens group in Shoreline indicated that some citizens are beginning to support the concept that taller buildings would be better because they would not take up as much ground space and there is a bluff behind.

Commissioner Orvis reported on his attendance at the WPPA Legislative Committee meeting on October 16th. He also reported that he and Commissioner Faires attended the WPPA Small Ports Conference, which was especially well done. He noted that there is now a requirement that anyone who supervises or signs contracts must attend a training session by the end of 2009. Both Eric Johnson, WPPA Executive Director and Ginger Eagle, WPPA Assistant Director, strongly recommend that Commissioners attend the training sessions, as well, since they are ultimately responsible for the contracts. Comprehensive plans were another topic of discussion, and it was noted that port's are required to update their comprehensive plans every five years. This is particularly important if a port wants to obtain grant funding. Mr. McChesney explained that while the Port is required to have a comprehensive plan on file, the requirement is decidedly different than what is required of municipalities. Commissioner Orvis pointed out that the Port is not required to obtain City approval of their master plan. Commissioner Faires added that the Port's Comprehensive Plan can be done in many different forms, as long as they can show a series of documents that talk to the Port's strategic future.

Commissioner Block said she read through the Port's response to the Department of Ecology's (DOE) Small Business Impact Study related to the NPDES Permit. She asked Ms. Kempf if the Port has received a response from the DOE. Ms. Kempf said she was notified that the DOE received the Port's response, and they are hoping to issue a final report within a week or two. They also extended their deadline date for feedback beyond the original three days. She further reported that she received an email from the consultant at Landau Associates stating that the new proposed numbers for industrial permits identify 14 parts per billion, which is reflective of what the Port has been saying all along that the NPDES permit would set a precedent for other permits.

Commissioner Block recalled that she reported at the last meeting that she got the attention of Eric Johnson, WPPA Executive Director, who agreed to help with the NPDES Permit issue. He further agreed to work with the DOE to get a response on the economic study.

Commissioner Gouge reported that he and Mr. McChesney attended the South Snohomish County Chamber of Commerce Dinner where awards were given to many of the organization's hard working people. He observed that it is important for the Port to stay involved with the Chamber. They are doing great things to keep small business alive in the community.

Commissioner Gouge reported on his attendance at the October 20th Edmonds City Council Meeting at which they discussed the Fire District 1 contract. Councilmember Orvis encouraged the Council to move forward by choosing one of the presented options. The preferred option appears to be keeping the stations and land and selling off the rolling stock and equipment. The Fire Department staff would go to the Fire District, and the Fire District would pay rent to the City for the buildings. Council Member Wambolt pointed out that there would be more savings to the City during the first year of the agreement because of the income provided by the sale of depreciated assets.

Commissioner Gouge noted that a levy would still be necessary, but the citizens would get a better trained fire department than what the City's current program can provide. Some City Council Members wanted to put the decision off, but the majority agreed they should move forward by narrowing down the options and making a decision in the near future.

Commissioner Faires reported on his attendance at the Chamber of Commerce Economic Development Committee meeting on October 14th where the discussion focused on serving the Chamber Members adequately. He also reported that he and Commissioner Burkhart attended the October 21st Edmonds Citizens Economic Development Commission meeting.

Commissioner Faires reported that he attended the WPPA Legislative Committee Meeting on October 16th where he made an impassioned plea for help in addressing the NPDES permit requirements for boat yards. The WPPA indicated they believe the new regulations are a precursor for new requirements for other local entities and jurisdictions who drain water into Puget Sound. While this is not a direct legislative issue, the Legislature does provide funding for the DOE's program. He received a commitment from Eric Johnson, WPPA Executive Director, and Ginger Eagle, WPPA Assistant Director, that they would entertain a contingent from the Port of Edmonds to talk about how the WPPA could help boat yards mitigate the costs and energy level required to fight the issue. Mr. Johnson suggested that because this is a very large problem, it might be helpful to start with a smaller, near-term goal of getting the DOE to agree that workyards could postpone their Level 3 responses until after the new permit is issued in 2010. Ms. Kempf said boat yards have delayed their Level 3 Responses because they don't want to invest a lot of money when they don't yet know what the new numbers will be. Commissioner Faires suggested that Commissioner Orvis and Ms. Kempf meet with WPPA representatives to discuss the issue further.

ADJOURNMENT

The meeting was adjourned at 9:55 p.m.

Respectfully submitted,

Marianne Burkhart
Port Commission Secretary