



PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF REGULAR MEETING

March 12, 2018

COMMISSIONERS PRESENT

David Preston, President
Bruce Faires

COMMISSIONERS PARTICIPATING BY PHONE

Steve Johnston, Vice President

COMMISSIONERS ABSENT

Jim Orvis, Secretary
Angela Harris

STAFF PRESENT

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

OTHERS PRESENT

Bradford Cattle, Port Attorney
Karin Noyes, Recorder

CALL TO ORDER

Commissioner Preston called the regular meeting to order at 7:00 p.m.

PLEDGE OF ALLEGIANCE

All those in attendance participated in the Pledge of Allegiance to the American Flag.

CONSENT AGENDA

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

- A. APPROVAL OF AGENDA**
- B. APPROVAL OF FEBRUARY 26, 2018 MEETING MINUTES**
- C. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$248,684.**
- D. AUTHORIZATION FOR EXECUTIVE DIRECTOR TO WRITE OFF \$6,919.91 AND SEND ACCOUNT TO COLLECTIONS**

COMMISSIONER JOHNSTON SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

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

PERSONNEL POLICY MANUAL CHANGES

Mr. McChesney reviewed that this is a continued discussion of the proposed changes to the Personnel Policy Manual, most of which were approved earlier. However, the Commission requested that staff consider changes that would provide for pregnancy and parental leave. Staff took this request under advisement and reviewed the concept with the Port's legal counsel.

Ms. Michaud reported that legal counsel has advised against offering pregnancy leave because it would create a gender bias. While the Port could offer parental leave, it is important to consider that the "paid leave" currently offered is fairly generous. Also, if the Port were to offer parental leave, it would only apply to a small group of employees. She said staff is recommending that neither provision be added to the Personnel Policy Manual. She noted that staff's recommendation is consistent with the feedback provided by legal counsel.

Mr. McChesney summarized that staff is resubmitting the draft Personnel Policy Manual changes that were presented at the last meeting and recommending against changes that would provide for 3 weeks of parental and 3 weeks of pregnancy leave. He asked the Commission to approve the draft changes as presented in the Staff Report.

Commissioner Preston asked how the Port would inform employees that they are not eligible for Family and Medical Leave of Absence (FMLA). Ms. Michaud answered that employees who request FMLA leave would receive notice that they are not eligible.

COMMISSIONER FAIRES MOVED THAT THE COMMISSION APPROVE THE UPDATED PERSONNEL POLICY MANUAL AS PER THE ATTACHED DOCUMENTS. COMMISSIONER JOHNSTON SECONDED THE MOTION.

Commissioner Faires observed that the draft changes are exactly the same as those presented at the last meeting. At the last meeting the Commission presented some ideas and trusted in the staff and legal team to tell them what works. He said he supported Commissioner Orvis' statement at the last meeting that the Port should be progressive with regard to personnel policies. In fact, it is an unwritten policy that the Port wants to offer wages that are commensurate with the market and have a benefit package that is even better. The goal is to retain as many employees as possible because it costs a lot to replace them. He said he supports the proposed changes as recommended by staff and legal counsel. Commissioner Johnston concurred. Having reviewed and compared the Port's benefit package with others, he believes the Port is in an excellent position and provides a high-quality benefit package. Commissioner Preston agreed, as well.

THE MOTION CARRIED UNANIMOUSLY.

PRELIMINARY 2017 YEAR END FINANCIAL STATEMENTS

Ms. Drennan presented the preliminary 2017 Year End Financial Statements, noting that all major transactions that staff is aware of have been recorded. Over the next few months, staff will prepare the final 2017 Year End Financial Statements in the Budgeting, Accounting and Reporting System (BARS) format. Occasionally during this process, staff finds other transactions that need to be recorded. Staff will notify the Commission of any changes when the final statements are presented.

Ms. Drennan advised that revenues are trending upwards, and expenses appear to be relatively stable. Net income has also trended upwards over the past years from \$983,661 in 2013 to \$1,972,016 in 2017. Actual revenues exceeded the budgeted revenues and actual expenses were slightly higher than budget, as well. Gross profit for the 12-month period ending December 31st was \$7,588,758, which is \$341,058 or 4.7% greater than budget. Net income for the same period was \$1,972,016. She specifically noted the following:

Marina Operations Revenue

- Net fuel sales was \$210,427, which was \$94,427 or about 81% greater than budget.
- Launcher revenue was \$101,570, which was \$14,570 greater than budget.
- Net guest moorage revenue was \$178,463, which was \$31,463 or about 21% greater than budget.
- Permanent moorage revenue was \$3,276,586, which was \$29,586 or 0.9% greater than budget.

- Dry storage revenue was \$651,808 which was \$8,808 or about 1.3% greater than budget.
- Parking revenue was \$67,454, which was \$25,454 or about 61% greater than budget.
- Travelift revenue was \$111,563, which was \$15,563 or about 16% greater than budget.
- Workyard revenue was \$96,347, which was \$27,347 or about 40% greater than budget.

Ms. Drennan explained that, although the variances in permanent moorage and dry storage are small, they are significant because these two categories make up a major portion of the Port's budget. She advised that permanent moorage occupancy was 97% compared to a budget of 96%. Dry storage occupancy was 87% compared to a budget of 90%.

Rental Properties Revenue

- Harbor Square Property revenue was \$1,933,076, which was \$77,376 or about 4% greater than budget.
- Anthony's revenue was \$272,757, which was \$13,243 or about 5% less than budget.

Ms. Drennan advised that operating expenses before depreciation for the 12-month period were \$5,829,499, which was approximately \$43,301 or 0.7% less than budget.

Operating Expenses

- Economic Development and Tourism expenses were \$23,357, which was \$32,643 or 58% less than budget. The Commission had budgeted some extra funds in 2017, anticipating some programs that never took place.
- Employee benefit expenses were \$534,903, which was \$141,097 or about 21% less than budget.
- Payroll taxes were \$177,603, which was \$18,397 or about 9% less than budget.
- Professional fee expenses were \$198,253, which was \$58,747 or about 23% less than budget.
- Repair and maintenance expenses were \$358,326, which was \$124,326 or about 53% greater than budget.
- Salaries and wage expenses were \$1,775,580, which was \$83,580 or about 5% greater than budget.

Non-Operating Items

- Interest expense was \$127,707, which was \$88,293 or about 41% less than budget. This is primarily due to the Port refinancing the Harbor Square loan.
- Interest Income was \$125,964, which was about \$62,964 or about 100% greater than budget because interest rates are going up.
- Election expense was \$5,898, which was \$602 or about 9% less than budget.
- There was a net loss on fixed assets of \$168,985 due to some additional assets that needed to be written off.
- The net loss on investments was \$25,890 due to rising interest rates.

Ms. Drennan advised that net income for the 12-months ending December 31st was \$1,972,016, which was \$356,616 greater than budget. The primary reasons for this difference is:

1. Marina gross profit exceeded budget by about \$248,000.
2. Rental property revenues exceeded budget by about \$66,000.
3. Operating expenses were about \$43,000 less than budget.

Ms. Drennan advised that marina to budget actuals are similar to the overall revenues and expenses, with both revenues and expenses exceeding budget. Highlights include:

- Operating revenues were at \$5,907,128, which was \$386,128 or about 7% greater than budget.
- Operating expenses before depreciation and overhead were \$3,990,402, which was \$19,402 or about 0.5% greater than budget.
- Net income was \$991,176, which was \$204,176 or about 26% greater than budget.

When comparing rental property actual to budget, Ms. Drennan advised that revenues are trending upwards. Net income has continued to grow as the Port completes activities and the spaces remain fully occupied. Some select figures include:

- Operating revenues were at \$2,553,572, which was \$64,572 or about 2.5% greater than budget.
- Operating expenses before depreciation and overhead were \$1,531,910 or about 89% less than budget.
- Net income was \$980,842, which was \$152,442 or about 18% greater than budget.

Ms. Drennan referred to the Balance Sheet, reminding the Commission that the Port has been required since 2015 to report “Net Pension Liability,” which is supposed to show the amount of pension plan that is unfunded. The intent of the new requirement is to make things more transparent, but she does not believe it does. She also advised that the Port’s 2017 Capital Budget was \$307,000 and actual purchases were \$297,138.

Ms. Drennan reviewed that the Port has 15 long-term investments, with the first maturing in January 2018. The Port earned interest of \$125,964, which is 100% greater than the 2017 budgeted interest income. The capital replacement reserve is currently at \$6,724,259, with a part of the reserve in Opus Bank and part invested long-term. The Port has \$2,811,307 remaining in outstanding debt, and \$1,330,247 of that is due within one year.

Commissioner Faires requested an explanation about why the repair and maintenance expenses were \$124,000 over budget. Mr. McChesney said a big project in 2017 was the removal of Bud’s Bait, which was labor intensive. They also replaced the whalers and rub boards in 2017. Ms. Drennan added that the gutters were also replaced. These were originally in the Capital Budget, but upon review, they should have been in the Operating Budget.

Commissioner Faires observed that the numbers in the report are nice. However, as far as he can draw any conclusions across the board, it looks like the operating budget was too conservative. With just one exception, revenues exceeded expectations. He said he would feel more comfortable making management decisions if actuals were closer to budget. He noted that the magnitude of the profits the Port is making will be a topic of discussion at the retreat.

Commissioner Johnson summarized that it appears that expenses are holding stable for rental properties and revenues are going up. However, it is likely that repair and maintenance costs at the marina will continue to rise and they are nearing capacity. He asked if staff foresees any difficulties with these trends. Mr. McChesney answered no. In general, there are always things that happen that are unforeseen, but the Port has an aggressive maintenance program so the direct costs for maintenance do not suddenly go up by a large order of magnitude. He said he feels that the numbers are very reflective of where the marina is at, and he does not anticipate a big change.

Commissioner Preston pointed that expenses at Harbor Square are fairly fixed and revenues are up again because the spaces are at near capacity. This is good, but they should keep in mind that the situation could change based on the economy. He complimented Mr. Menard for doing a fantastic job of inventorying what needs to be done and then getting after it. This enables the Commission to have a better idea of what is coming up.

Mr. McChesney announced that the Port will replace 13 rooftop HVAC units at Harbor Square in 2018. One of the units recently failed and needs to be replaced right away. They will go out to bid for the remaining 12 units. He anticipates that the total project will cost more than \$100,000, and the project is identified in the 2018 Capital Budget.

RETREAT AGENDA

Mr. McChesney reminded the Commission that a retreat has been scheduled for April 16th in the Commission Meeting Room from 9 a.m. to 2 p.m. He referred them to a draft agenda, which focuses on three main topics: finance, environmental policies and economic development. He reviewed the draft agenda as follows:

- **Finance.** His plan is to invite a guest speaker to talk about the Port’s current investment program and the Port’s financial outlook over the next period. The guest speaker will segway into a discussion about the Cash Flow Model, which has been used for the past 5 to 6 years to guide the budget and planning for future improvements and major maintenance items. The intent is to review the assumptions that were made and discuss future strategies, bearing in mind that the Port will be debt free in 2020. This will be an opportunity for the Commissioners to discuss how well the Cash Flow Model works to inform the budget process. He reminded them that when the current Cash Flow Model was created, it was marina-centric

because there was not enough information about Harbor Square. The Commission should discuss how Harbor Square could be factored into the equation.

- **Environmental Policies.** Of late, the Port's use of certain chemicals in maintaining its landscaping has been a topic of conversation. At the retreat, the Commission and staff can vet this issue with a measure of detail. He intends to invite a guest speaker to help frame this discussion, as well. In addition, stormwater has also been a big topic in recent months. The Commission can spend some time learning about how the current system works and what the Port could do better. This discussion should involve the marina side, Harbor Square and the marsh.
- **Economic Development.** To the extent that time remains, the Commission could have a discussion about various issues pertaining to economic development. For example, they have a vacant parcel on the marina side that the Port has received a shoreline permit for. The Commission can talk about how to bring this property on line in the future. Economic opportunities at Harbor Square, as well as tourism and marketing, will also be topics of discussion.

Mr. McChesney said he intends to wrap up the retreat with a summary of what they learned and a list of potential policies, ideas and initiatives going forward.

Commissioner Faires asked if the preliminary 2017 Financial Statements would be available for the retreat discussion, and Ms. Drennan answered affirmatively. Commissioner Faires commented that this information is vital to their discussion about the Cash Flow Model.

The Commissioners voiced support for the draft agenda, and Commissioner Preston asked that it also include a discussion about long-range planning, which would be an opportunity for them to talk about new ideas that could be implemented over time.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney announced that the Legislature approved SB-6329, which is two bills put forth by the Washington Public Port Association regarding unit pricing (on-call contacting) and establishing a bid threshold limit of \$40,000 beneath which they do not have to go through the rigorous bid process. The bill is expected to be signed by Governor Inslee, as well. He acknowledged the efforts of Ms. Drennan, who did the work to get the Washington Public Port Association (WPPA) focused on the need for change. He also thanked Commissioner Orvis for getting the WPPA Legislative Committee on track to marshal the proposed legislation through the process. He stressed that the new legislation will be a significant benefit to the Port going forward. Commissioner Preston added that other ports will likely realize benefits, as well. Mr. McChesney also recognized the efforts of Representative Strom Peterson who sponsored the bill and Senator Marko Liias who made sure it got to the floor for a vote. Commissioner Preston noted that the WPPA has also publicly recognized the efforts of Ms. Drennan.

Mr. McChesney announced that the restroom project would be completed by the end of the week. He also reported that the Port has a signed agreement with Puget Sound Express (PSE) for them to operate out of the Port of Edmonds in 2018. However, to accommodate PSE's new vessel, the Saratoga, it will need to be positioned on J Dock in the middle of guest moorage. This change requires that the Port reconfigure the dock by moving guest moorage to the previous location of Bud's Bait. He, Ms. Kempf and Mr. Menard met with H Dock customers to hear their concerns. While there is no perfect solution, it is important for the Port to recognize the customers' legitimate concerns and try to address them as best they can. He summarized that the agreement is a 1-year deal, and the Port's intent is to give PSE the best service possible to make sure they continue to operate from the Port of Edmonds into the future.

COMMISSIONER'S COMMENTS AND COMMITTEE REPORTS

Commissioner Johnston said he is currently working with Mr. McChesney to setup an Environmental Committee meeting to talk about potential retreat agenda topics, as well as lay out a game plan for keeping the Port current.

Commissioner Faires referred to feedback he received from Mike Shaw, calling attention to some chemicals the Port purchased through 2017. He commended Mr. Shaw for calling this issue to the Commission's attention and suggested that the Commission needs to provide policy level guidance for future use of chemicals to stay in front of this important environmental issue.

Commissioner Faires announced that he would attend the March 21st Edmonds Economic Development Commission meeting. He also observed that passage of SB6329 finally gives the Port the authority it needs to do a cost-effective job of managing its assets. As has been observed, Ms. Drennan worked diligently with the WPPA Finance Committee and deserves accolades. He also commended the Commission and the Executive Director for helping move the legislation forward. The Port took a leadership role in the Port community to make the change happen on a state-wide level.

Commissioner Preston requested an update on the salmon pens. Ms. Kempf said the salmon pens started in the guest moorage area where they were loaded with fingerlings and then moved to the City's fishing pier. However, some of the brackets were damaged during a storm, and the pens had to be hauled back to guest moorage for repairs. They are now back at the fishing pier again.

Commissioner Preston asked if staff has received any feedback about the new "pay per move" program. Ms. Kempf answered no but noted that the program was just advertised today.

Commissioner Preston reported that he has had several meetings with the Sea Scouts, and the new leaders now have control of the program's finances. Some new members have joined, and they intend to continue forward with recruitment. The program also has new leadership that is working to put together a crew to provide general help at the Waterfront Festival, as well as man a Sea Scout booth. He reminded the Commission of the current agreement with the Sea Scouts, which requires them to provide service to the Port in exchange for moorage space. He acknowledged that the Sea Scouts have failed to provide the reciprocal service to the Port over the past few years. He asked that the Commission consider forgiving this work deficit and move forward with a new agreement with the Sea Scouts that reflects the changed conditions and new commitments. He advised that the new leadership is currently working to have the two existing boats removed from the water in anticipation of bringing in a new vessel.

Mr. Cattle reviewed that the current agreement specifies that there will be a tradeoff of service in exchange for the moorage. He reminded the Commissioners that the Port cannot offer the moorage free, and any agreement must include a some type of reciprocal offering. Commissioner Faires asked if the Commission has the ability to write off the Sea Scout's past debt to the Port. Mr. Cattle agreed to study the matter further and report back to the Commission.

Commissioner Preston reported that he and Commissioner Harris met with Ms. Kempf, Ms. Williams and Mr. McChesney to talk about the Port's website and communications program. They talked about the Port's Facebook page and the possibility of using LinkedIn with some Google capabilities to get better ratings on searches. They do not anticipate any significant changes to the website.

ADJOURNMENT

The Commission meeting was adjourned at 7:55 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Jim Orvis". The signature is written in a cursive style with a large, looping initial "J".

Jim Orvis
Port Commission Secretary