



PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF REGULAR MEETING

August 8, 2016

COMMISSIONERS PRESENT

Fred Gouge, Vice President
Jim Orvis, Secretary
David Preston

STAFF PRESENT

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

OTHERS PRESENT

Bradford Cattle, Port Attorney
Karin Noyes, Recorder

COMMISSIONERS ABSENT

Bruce Faires, President
Steve Johnston

CALL TO ORDER

Commission Vice President Gouge 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 ORVIS MOVED THAT THE CONSENT AGENDA BE APPROVED TO INCLUDE THE FOLLOWING ITEMS:

- A. APPROVAL OF AGENDA
- B. APPROVAL OF JULY 25, 2016 MEETING MINUTES
- C. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$906,250.35

COMMISSIONER PRESTON SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

Edmonds City Council Member Teitzel informed the Commission that the City Council's continued discussion relative to the Shoreline Master Program (SMP) will take place on August 16th rather than August 9th.

2ND QUARTER HARBOR SQUARE REPORT

Jan Conner, Northwest Country Management, presented the 2nd Quarter Harbor Square Report. She referred first to the April to June revenue report, which shows nearly a 10% improvement over the same quarter in 2015. She specifically noted the following:

- Five late fees were assessed during the quarter in an amount of \$1,524.59. At this time, all but one tenant is up to date on payments.

- The common area reconciliation took place in April, and there were some increases due to landscaping costs that were captured.
- A new 5-year lease was signed in Building 1 for a total of \$251,202, and a new 3-year lease was signed in Building 4 for a total of \$50,773.
- There were a number of miscellaneous inquiries, but not a lot of follow up was required.
- A 3-month lease extension in Building 2 was signed, as was a 1-year lease extension in Building 3, a 3-year lease extension in Building 5 and a short-term storage lease extension in Building 5.
- Tenant improvements during the quarter included paint and carpet cleaning in Building 5 and paint, carpet cleaning, carpet replacement and wall damage repair in Building 4. The HVAC units in Building 4 were also replaced during the quarter.
- Conference room rentals were up slightly and no set up was required for any of the rental periods.

Ms. Conner summarized that both revenue and occupancy were up, and she anticipates the increase will continue due to the new lease in Building 4.

Mr. McChesney reported that Ms. Conner has been doing an excellent job getting the spaces leased. Because a number of leases are up for renewal in 2016, he suggested that it would be good to benchmark the rates to see how they match up with the general market.

2ND QUARTER MARINA REPORT

Ms. Kempf presented the 2nd Quarter Marina Report, specifically noted the following:

- Although one-way launches were down 20%, round trips were up 11% compared to the same period in 2016.
- In guest moorage, the number of boats increased by 6% compared to 2nd quarter 2015. The number of nights also increased by 8%. Although the number of groups utilizing guest moorage stayed consistent during the 2nd quarter, the number of vessels that were part of the groups decreased by 26% and the number of nights by 31%.
- At the fuel dock, the total number of gallons sold increased from 72,995 in 2015 to 75,796 in 2016.
- Boatyard stall usage was up by 49% compared to 2nd quarter 2015. Some of this can be attributed to the March special that offered tenants half off the Travelift. Many of the boats that were hauled to the boatyard ended up staying into April. In addition, staff has been working with 16 tenants to address compliance issues related to seaworthiness. About 6 to 8 of the tenants took advantage of the March special to address their problems. Of the 16 boats, only three have not been able to prove seaworthiness. Staff will continue to work with these remaining tenants. Mr. McChesney advised that the Port offers tenants who purchase 150 gallons of fuel a free day in the workyard, and many boaters took advantage of this special opportunity. Ms. Kempf agreed that both of the specials helped bring down the cost of pulling a boat out of the water and into the boatyard. Anything the Port can do to bring down the cost encourages people to maintain their boats, as well. Commissioner Gouge asked if people in the boatyard used vendors or did the work themselves. Ms. Kempf answered that although the Port allows do-it-yourself work in the boatyard, the work was done primarily by vendors on the Port's list. Those who do the work themselves typically leave their boats in the boatyard longer.
- Round trip hauls were down 7%, sling time/pressure wash was down 18% and sling time/no pressure wash was down by 29%.
- Water moorage financial occupancy according to revenues was 96% at the end of 2nd quarter compared to 95% during the same time period in 2015. Dry storage financial occupancy was at 89% at the end of 2nd quarter compared to 88% in 2015.
- 2nd quarter terminations increased by 1% in both water moorage and dry storage. Commissioner Gouge asked if people on the waiting list are turning down slips and if there is a particular slip size that is more difficult to fill. Ms. Kempf said that, typically, the available slips are in the smaller categories, with the 30-foot covered slips being the most difficult to fill. Commissioner Gouge voiced concern about the 5% turnover rate. Ms. Kempf responded that, even with the higher turnover rate, the financial occupancy for both dry storage and water moorage was up 1%. That means staff is filling the slots quickly.

- The wait list increased over second quarter. Of the 21 names that were added to the list, 13 were because the length-over-all measurement of the boat required the tenant to move to a larger slip.
- Insurance compliance was at 90% at the end of the 2nd quarter. However, registration compliance was only at 51%. Registrations typically expire in June, and many tenants have not brought in their updated copies yet.
- Net revenue from the 2016 Waterfront Festival was \$37,533, which is less than in 2015.
- Calls to 911 were significantly higher than in 2015. At the request of the Commission, Ms. Kempf reviewed each of the incidents.

It was noted that a number of security incidents occurred when security personnel asked people to leave the parking areas after dark. Mr. McChesney pointed out that there are currently some ambiguities in the signage that is provided at the parking lots to advise the public when lots are closed or when a parking permit is required. Edmonds Police Chief Compaan suggested that the Port should update its signs to include a definitive statement that the parking lots are closed after dark.

The Commission discussed that a large number of people are visiting the waterfront in the late evening and into the early morning to play Pokémon Go. In some cases, people have jumped the gate at Marina Beach Park, which is monitored by the Port's security staff during the evening hours. While there have not been any incidents associated with this activity, there are a lot of cars and people (sometimes up to 200 and 300) on Port property until early morning hours. The Commissioners agreed that the parking lot signs should make it clear that only permit parking is allowed after dark.

2ND QUARTER FINANCIAL STATEMENTS

Ms. Drennan presented the 2nd Quarter Financial Statements, specifically noting the following:

- When comparing 2016 revenues and expenses with the previous four years, revenues increased slightly each year, and expenses fluctuated up and down.
- Net income increased over the past five years.
- Gross profit for the six-month period ending June 30th was \$3,453,180, which is \$54,404 or 1.6% greater than budget. Net income for the same period was \$852,409.
- Net fuel sales were \$18,950 (44%) greater than budget.
- Guest moorage net revenue was \$12,548 (23%) greater than budget.
- Permanent moorage was \$23,234 (1.5%) less than budget.
- Dry storage revenue was \$35,660 (10.5%) less than budget.
- Travelift revenue was \$11,795 (23%) greater than budget.
- Workyard revenue was \$20,307 (69%) greater than budget.
- Due to the increase in the late fee charge that was implemented in January, late fee revenue increased significantly. Commissioner Gouge asked if the tenants who pay late fees are the same from month to month. Ms. Drennan said that is primarily the case, but sometimes other tenants miss payments for various reasons. If the tenant contacts the Port to ask for a late fee credit, the Port will typically offer a once-a-year credit. The late fee increase is intended to address habitual late payers, and it has raised awareness.
- Harbor Square revenues were \$28,732 (3.5%) greater than budget.
- Operating expenses without depreciation for the six-month period were \$1,936,600, which is \$88,982 (4.6%) less than budget.
- Net income for the six months ending June 30th was \$852,409, which is \$202,483 greater than budget.
- Employee benefits were \$20,133 (7%) greater than budget due to a timing difference.
- Master business plan expenses were \$21,661 (866%) greater than budget.
- Payroll taxes were \$13,910 (14%) less than budget.
- Repair and maintenance expenses were \$34,257 (29%) less than budget.
- Salaries and wage were \$44,141 (5%) less than budget.
- Depreciation expenses were 4.87% less than budget.
- Interest income was 51% greater than budget.

- Actual revenues and expenses in marina operations were both slightly below budget. Marina operating revenues were \$63,891 (2.5%) less than budget and marina operating expenses were \$160,377 (11.5%) less than budget. Net income in marina operations was \$160,950 (49%) greater than budget.
- Rental property operating revenues were \$27,549 (2.5%) greater than budget. Operating expenses were \$16,817 (5.43%) less than budget. Net income was \$61,033 (20%) greater than budget.

Ms. Drennan reviewed the investing summary, reminding the Commission that the Port began investing funds for longer term in December of 2013. The Port currently has 10 long-term investments, with the first maturing in October of 2016. During the quarter, the Federal Home Loan Bank bond of \$500,000 with a coupon rate of 0.625% was called. The Port purchased the bond on December 10, 2013. Over the life of the bond, the Port earned interest of \$7,621.52 and realized a gain of \$1,810. To replace the called bond, the Port purchased a Federal Farm Credit Bank bond of \$500,000 with a coupon rate of 1.69% that matures on June 2, 2021.

Ms. Drennan summarized that the Port earned interest of \$30,569 for the year to date, which is double the 2015 interest income. The Capital Replacement Reserve is currently \$5,024, 404, with a part of the reserve in Opus Bank and part invested long term. The Port also has \$5,155,146 remaining in outstanding debt, and \$967,660 of that is due within one year.

Ms. Drennan referred to the investment report, which lists all of the Port's investments and identifies when they mature. She noted that the Opus Bank Money Market consists of an environmental reserve of \$608,764, a capital replacement reserve of \$1,774,404, and an operating reserve of \$1,874,156. The current Harbor Square loan balance is \$4,390,146, and per the loan agreement, the Port is required to leave a balance of \$2,634,088 in Opus Bank.

Commissioner Gouge said he spoke previously with Mr. McChesney about the idea of going out to rebid the Opus Bank loan to get rid of the reserve requirement and obtain a lower interest rate. He noted that the penalty period will expire on August 17th, so it is time to research other options. The discussion continued about conditions concerning what new lenders might want, and the Commissioners agreed it would be appropriate to pursue a Request for Proposals (RFP).

Commissioner Preston said there was some discussion at the recent Washington Public Port Association (WPPA) meeting about ports getting together to become their own banking system. Ms. Drennan said she does not believe this is would be viable, as the concept is to get a higher rate of return on money invested, as well as a lower interest rate on money borrowed.

The Commissioners expressed interest in having detailed numbers as part of the next Quarterly Marina Report to help illustrate the impact of changing the fuel product to clear gasoline. There was also some discussion about whether or not the Port should allow people to fill small containers at the fuel dock. Mr. McChesney advised that staff is not enthusiastic about allowing small containers to be filled, but he acknowledged there have not been any problems to date. He reminded the Commission that the Port allows tenants to dispense their own fuel, and there will be more opportunities for spillage to occur if people are allowed to fill small containers. Commissioner Orvis voiced concern about utilizing staff time for this purpose.

MARINA VACANT PROPERTY DEVELOPMENT

Mr. McChesney reviewed that the Commission previously authorized staff to initiate the shoreline permit process for the vacant property just south of the boatyard on the east side of Admiral Way, and he and Mr. Johnson from Reid Middleton met with City staff in a pre-development meeting to ascertain what the City requirements might be. He explained that the original intent was to submit a Shoreline Substantial Development Permit application to receive approval for a speculative development of the site for a boat sales and repair business. However, after discussing the project with City staff, they learned that there would be no real project to approve if the Port just submits a site plan and nothing is to be built. City staff suggested that the Port could propose development of site improvements for the shoreline package, and just show the building pad for future development. However, a building application would still be required, including design review via a public hearing process. It was decided that the alternate approach would not save the Port any time in developing the property.

Mr. McChesney advised that a third scenario was also discussed in which the Port would retain the services of an architect to design a building shell to be included in the shoreline permit application package. The application would then go to both the Hearing Examiner and the Architectural Design Board in one process for approval. The downside of this approach is that the Port would have to commit to a building size and design that would be marketed to a prospective business. While this approach would accomplish the Port's original intent of relieving a prospective businesses of the time and expense of the shoreline permit and design review process, any major changes to the building shell would require the application to go through the permit and design review processes again.

Mr. McChesney recommended the Port proceed with the third scenario and design a building shell that has a footprint of approximately 5,000 square feet. The design could be similar to the Jacobsen's Marine Building, but on a smaller scale. None of the interior finishes would be designed as part of the initial project. He emphasized that he does not contemplate that the Port would actually construct the building. The intent is to obtain the entitlements so that a prospective tenant would simply need to obtain a building permit and be in business in six months.

Commissioner Preston asked if the City would allow for slight design alterations without requiring a new permit and design review, as long as the design stays within a certain range of what was approved. Mr. McChesney answered that the process is rigidly structured, and even small changes could trigger a new review and permit process. Commissioner Preston voiced concern that the City's current process is archaic, and there should be ways to speed up the process and encourage development. Mr. McChesney agreed that cities have different ways of processing development applications, and some have implemented strategies to streamline the process to promote economic development. However, the City of Edmonds has not reached that level yet. The Shoreline Substantial Development Permit process is fraught with a number of technicalities and requirements. He is confident that City staff will work with the Port, but there is only so much they can do. They must follow the process outlined by law.

Commissioner Orvis pointed out that it has been 40 years since Edmonds has made any pretense of being enthusiastic about economic development. The only way to get anything done is to go through the process that has been in place for a number of years. There is no point in getting frustrated. They need to simply acknowledge the current culture in the City relative to economic development and plan accordingly.

The Commissioners raised questions about the cost of designing the building shell and obtaining the necessary shoreline permit. Mr. McChesney said he anticipates it will be at least \$25,000, but he will provide more detailed cost estimates at a future meeting.

Commissioner Gouge voiced support for moving forward with the building shell design, recognizing that time is of the essence as more and more regulations come into play. The Commission directed staff to prepare a scope of work and cost estimate for their consideration at the next meeting. They discussed the size of the building shell and asked staff to solicit feedback from the architect about the size needed to accommodate a variety of marine-related uses. Commissioner Preston also suggested that staff talk with business owners who might be interested in the space to get a better idea of what their needs might be.

2017 BUDGET MEETING SCHEDULE

Ms. Drennan reviewed the proposed 2017 Budget Schedule as follows:

- A management staff meeting was held on August 1st to discuss the 2017 Operating and Capital Budgets.
- A Finance Committee meeting will be scheduled the week of August 15th to discuss baseline conditions, property taxes and economic development.
- Staff's list of recommended operating and capital items will be due on August 31st.
- The Commission will conduct a workshop discussion on September 12th, specifically focusing on the 2017 baseline conditions, property taxes and economic development.
- The Finance Committee meeting will be scheduled for the week of September 26th to discuss the 2017 Preliminary Operating and Capital Budgets.
- Staff will prepare ads for the public hearing the week of September 26th.

- The Commission will conduct a workshop discussion on October 10th to review the 2017 Preliminary Operating and Capital Budgets for the first time and solicit public comments.
- The first notice of public hearing will be published in *THE EVERETT HERALD* and *MY EDMONDS NEWS* on October 12th, followed by a second notice on October 19th.
- On October 31st, the Commission will continue its discussion of the preliminary budgets and conduct a formal public hearing.
- At their November 14th meeting, the Commission will approve the 2017 Operating Budget, as well as 2017 moorage rates, dry storage rates and marina operations fees. They will also approve the budget resolution and 2017 tax levy, as well as bank excess levy capacity and approve the 2017 Capital Budget.
- The tax levy resolution is due to Snohomish County by November 30th.

Commissioner Gouge asked about the condition of the boardwalk, and Mr. McChesney said it is structurally sound, but staff has an ongoing program in place to replace the boards and railings.

Commissioner Gouge said he would like the budget discussion to include consideration of adding one full or part-time employee in Marina Operations. He noted that there have been staff changes throughout the year, and he would like to avoid significant overtime and improve the safety of the marina.

Commissioner Orvis suggested the Commission also review the amount of money the Port can pay towards the Harbor Square loan. He also voiced concern that a large number of people are hanging out at the waterfront during the evening and early morning hours. He questioned how this might impact the safety of the marina, as well as the ability of the security staff to patrol the Port's property. Ms. Kempf reported that, up to this point, there haven't been any problems associated with the increased use. The crowds are mostly family friendly, but they need to keep an eye on the people who are at the waterfront late at night. If people start to jump the gates and go onto the docks, the issue will have to be addressed. She reminded the Commission that the Port has hired a company to check in with security staff at regular intervals throughout the night. She explained that the Port's security officers are an integral part of the Port's team. Although they do spend time checking on boats at the marina and monitoring the docks, they also assist in directing guest moorage traffic, locking up Harbor Square, monitoring the parking areas, etc.

Commissioner Gouge suggested that the budget process also include a discussion about employee compensation. It is important to make sure that salaries are sufficient to attract and retain good employees. Mr. McChesney stressed the need to strike a balance, since increasing employee compensation can significantly impact the cost structure. He reminded the Port that staff has been trying to be very cost conscious.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney reported that June and July have been busy months at the Port with a number of summer maintenance projects, as well as increased activity.

Mr. McChesney reported that the landscaping project at the corner of SR-104 and Dayton Street has not been completed due to staff vacations. The plan is to create something that is attractive and low maintenance. The buoys that are currently used by Compass Courses will be repositioned to be in front or on either side of the existing Harbor Square monument sign. "The Port of Edmonds" could be stenciled onto the buoys, which would compliment what was done across the street at Salish Crossing with the archway. He said he does not anticipate that permits will be required for the project, since it is considered maintenance and landscaping. The basic intent is to give attention to an area that has not been well tended for a number of years. He said it is not likely the project will be completed until September, but the concrete beds to sit the buoys on have been constructed, and a landscape plan has been created.

Mr. McChesney announced that the Harbor Square paving project will be completed later in the week. He also announced that staff has spent a lot of time on the Edmonds Shoreline Master Program, and a new administrative assistant has been hired and will start on Wednesday.

COMMISSIONER'S COMMENTS AND COMMITTEE REPORTS

Commissioner Preston reported that he met with Council Member Nelson last month to discuss issues important to both the Port and the City Council. He also reported on his attendance at the WPPA Commissioners Meeting where he learned that Skagit County Commissioners often ask the Port of Skagit County Commissioners what they need. He said he would like to improve the Port Commission's relationship with the Edmonds City Council. Also at the meeting, Troy McClelland, WPPA President, commented that the job of port commissioner is getting more difficult and complex every year. For example, issues have been raised by the auditor about whether or not the Port is allowed to support the Sea Scouts and other youth in boating programs. He believes there are several provisions in the Revised Code of Washington that would allow the Port to justify their support of youth programs under the auspice of education and job creation.

Commissioner Preston inquired if there are opportunities for Eagle Scout projects on Port property. For example, the bench in front of the Sea Jazz event location could be refurbished or replaced. Mr. McChesney agreed that the bench needs some attention and it is on the Port's maintenance list. He also agreed to work with interested scouts on projects of this type.

Commissioner Preston announced that he would attend the Do-It-Yourself Event at Edmonds Community College on August 15th. The intent of the event is to make equipment available for the students and public to use, such as laser printers, 3D printers, etc.

Commissioner Orvis announced that the Mayor's Advisory Committee for the At-Grade Crossing Alternatives Analysis has narrowed the alternatives down to just nine options ranging from pedestrian crossings up and over the tracks to emergency access only. Three major alternatives are still being considered, as well. The preliminary cost estimates range from \$5 million to \$350 million, and the committee is now looking at potential funding sources. The committee will have to make some strong recommendations that will involve discussions with the Washington State Department of Transportation, Washington State Ferries, City of Edmonds, etc. Progress is being made, and the consultant is moving the project forward on schedule.

Commissioner Orvis announced that he would attend the Economic Alliance of Snohomish County's summer meeting at the Museum of Flight, which will be a networking event.

Commissioner Gouge also reported on his attendance at the WPPA Commissioners Meeting and brought back information related to the State's Open Public Meetings Act for the Commission to review. The legislature has decided that Port Commissioners can each be fined \$500 for a first violation and \$1,000 for each additional violation of the act. He commented that the Port's attorney is always present at Commission meetings to help them avoid violations.

Commissioner Gouge said there was some discussion at the WPPA Meeting about the large number of environmental groups that are fighting nearly every project that is proposed. One group that is becoming quite vocal about any project that is proposed around the waterfront is called RedLine Tacoma, but is based out of Pennsylvania. It was suggested that Port's take their plans out to public vote rather than letting groups from outside their jurisdiction have such a great influence on the outcome of proposed projects.

Commissioner Gouge said it was announced at the WPPA Meeting that there has been a 50% turnover in port commissioners, executive directors, and WPPA Staff over the last few years. He said he plans to attend the WPPA's fall meeting. He will also attend the Pacific Coast congress meeting, and he encouraged staff members to attend, as well.

Commissioner Gouge suggested that the Port Attorney provide training relative to executive sessions, and Mr. Cattle agreed it is a good idea to have training on the rules and regulations every so often. Ms. Drennan reported that new Commissioner Johnston recently participated in an on-line training course. Commissioner Gouge suggested it would be helpful for the Port Attorney to review the RCW and provide training to Commissioners over a period of several months to help clear up confusion about what port commissions can and cannot do.

Commissioner Gouge said there was some discussion about banking levy capacity at the WPPA Meeting, and the Finance Director from the Port of Tacoma indicated that ports can only utilize 1% of their banked capacity each year. Ms. Drennan said that is contrary to her understanding based on information she has received from the Snohomish County Treasurer. If that were the case, there would be no point in banking the excess levy capacity. Ms. Drennan agreed to research the rules further and report back to the Commission.

Commissioner Preston reported that Edmonds Woodway High School's Students Saving Salmon Group recently spoke to the Salmon Recovery Council and the Water Resource Inventory (WRIA) 8 Council. He pointed out that the WRIA 8 Committee includes representatives from 27 cities in Snohomish and King County, yet the Port of Edmonds has not been invited to participate. Commissioner Orvis clarified that Council Member Buckshnis is the City's representative on the WRIA 8 Council. Commissioner Preston suggested that the Port Commission should meet with the Edmonds City Council on an annual basis to discuss issues related to the marsh. Commissioner Orvis said he is only interested in a joint meeting with the City Council if it can result in an intelligent, rational, respectful meeting, and he does not believe that is possible with the existing makeup of the City Council. Mr. McChesney agreed that a joint meeting is a good thought, but there may be some dynamics that make it difficult to bring the two groups together. He suggested there might be a different way to accomplish the same goal.


EXECUTIVE SESSION

Vice President Gouge announced that the Commission would adjourn to an executive session at 8:32 p.m., pursuant to RCW 42.30.110(i), to discuss potential litigation. The executive session would last for no more than 15 minutes, and no action would be taken after the executive session.

ADJOURNMENT

The regular business meeting was reconvened at 8:47 p.m. and subsequently adjourned.

Respectfully submitted,



James Orvis
Port Commission Secretary