

PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF SPECIAL MEETING

January 8, 2013

COMMISSIONERS PRESENT

Jim Orvis, President
Mary Lou Block, Vice President
David Preston, Secretary
Bruce Faires
Fred Gouge

STAFF PRESENT

Bob McChesney, Executive Director
Marla Kempf, Deputy Director
Tina Drennan, Finance Manager
Brian Menard, Facilities Maintenance Mgr.
Susan Wade, Moorage Coordinator

OTHERS PRESENT

Karin Noyes, Recorder
Paul Sorensen, BST Associates
Ernie Collins, Edmonds Yacht
Club (EYC)
Mike Jones, EYC

CALL TO ORDER

Commission President Orvis called the special meeting to order at 9:00 a.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 DECEMBER 10, 2012 MEETING MINUTES**
- C. APPROVAL OF DECEMBER 28, 2012 MEETING MINUTES**
- D. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$143,558.63**

COMMISSIONER BLOCK SECONDED THE MOTION, AND THE MOTION CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

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

RESOLUTION 13-01 – RECONFIRMING SCHEDULE AND LOCATION OF COMMISSION MEETINGS

COMMISSIONER GOUGE MOVED THAT THE COMMISSION APPROVE RESOLUTION 13-01 – AFFIRMING THE SCHEDULE AND LOCATION OF PORT OF EDMONDS COMMISSION MEETINGS FOR 2013 PER ATTACHMENT A. COMMISSIONER FAIRES SECONDED THE MOTION, AND THE MOTION CARRIED UNANIMOUSLY.

2013 COMMISSION COMMITTEE ASSIGNMENTS

The Commission reviewed the 2013 Committee Assignments as presented by Commissioner Orvis. It was noted that the Enterprise Planning and Property Management Committee was combined with the Property Management Committee, and the Edmonds Citizens Transportation Committee no longer exists. The Commission agreed that the assignments should be updated to reflect these changes. They discussed the importance of evaluating each of the committee assignments throughout the year to determine if they are effective and should continue.

The Commission discussed that while not a voting member of the Puget Sound Regional Council (PSRC), it is important for a Port representative to attend the meetings to stay apprised of their activities. Commissioner Block noted that the annual meeting was particularly helpful and informative. Commissioner Orvis expressed his belief that the PSRC should focus less on glossy things and more on accomplishing actual goals.

Commissioner Orvis pointed out that Mr. Menard and Mr. Danberg would serve as the Port's representatives at Pacific Coast Congress (PCC) events. He explained these events are for people who run marinas and small ports. Commissioner Orvis also announced that Ms. Kempf has been appointed to serve as the chair of the Washington Public Ports Association's (WPPA) Marina Committee.

COMMISSIONER GOUGE MOVED THAT THE COMMISSION APPROVE THE 2013 COMMITTEE ASSIGNMENTS AS PRESENTED ON THE SPREADSHEET "PORT OF EDMONDS 2013 COMMITTEE ASSIGNMENTS" AND AS AMENDED BY THE COMMISSION. COMMISSIONER FAIRES SECONDED THE MOTION. THE MOTION CARRIED UNANIMOUSLY.

REVIEW OF TRAVEL RESOLUTION 09-03

Mr. McChesney referred the Commission to Resolution 09-03 related to the Commission's travel policy and noted that staff is not proposing any changes to the document. He said the purpose of the discussion is to make sure the staff and Commissioners have a clear understanding of the policies for travel. He noted that the Commissioners do not travel extensively.

Commissioner Block said it is important to monitor the overall expenditures for Commissioner travel on an ongoing basis. Commissioner Orvis referred to information provided by Ms. Drennan showing that the Commissioners all spent about the same amount on travel in 2012 and attended a similar number of meetings. He suggested that as a result of the Harbor Square Master Plan, the Port Commission has come under greater scrutiny. It is important for the Commissioners to carefully document and justify their travel and per-diem expenses. The Port's current policy allows each Commissioner to make this determination, although travel claims must be signed by another Commissioner to insure accuracy.

EMAIL POLICY

Commissioner Orvis reported that, at a recent WPPA Conference, he received a handout created by Foster Pepper outlining five issues elected officials should consider before deciding to use their own personal email or computer for official public business. He said that, although the Port does not currently have a policy for emails, Commissioners can now use the Port's server for all email correspondence related to Port business. He explained that all emails received by the Port are now stored on the Port's server and become part of the public record. Rather than spending a significant amount of time discussing this issue further, Mr. McChesney advised that materials were forwarded to the Port Attorney with a request that he draft a formal policy for the Commission's review and approval at a future meeting. The item was placed on the current agenda to remind the Commission about the general rules for emails.

WORKSHOP – MARINA SERVICES AND FACILITIES

Mr. McChesney introduced Mike Jones and Ernie Collins, representatives from the Edmonds Yacht Club, who were present to participate in the workshop discussion. He also introduced Paul Sorensen, BST Associates, who was invited to provide a presentation regarding marina market conditions and trends.

Introduction – Bob McChesney

Mr. McChesney advised that staff takes great pride in providing excellent customer service, and it has come to be expected by their Commission, public and customers. The Commission has also worked to cut expenses. However, there is a point where providing high-quality customer service conflicts with the notion of ratcheting down operating expenses. At some point, the Port will become something less than a full-service marina and he is not sure that is the direction the Port Commission wants to go. Rather than talking about how to further cut expenses, he suggested the Commission's discussion should focus on how to reinvest marina revenues to create value. He suggested there are four basic constraints the Commission should keep in mind:

- **Obsolescence.** The Port's facilities are aging and do not provide all of the amenities to meet market demand. For example, the Port's current electrical system cannot provide the 50-amp service that is required by many large boats.
- **Deferred maintenance.** Maintenance projects can be deferred for a time to reduce operating costs, but eventually the Port will need to catch up on these projects.
- **Cost escalators.** Many marina costs increase at a rate greater than the Consumer Price Index (CPI).
- **Market Uncertainty.**

Mr. McChesney summarized that although staff costs are a significant portion of the budget, they are pretty thin from staff's point of view. He reminded the Commission that two positions were cut a year ago, and the staff complement is right where it needs to be. If someone gets sick or hurt, the level of service can diminish for a time. He summarized that high-quality service and safety go hand-in-hand and it is important to have enough staff to make operations work effectively and efficiently. He suggested the question the Commission is trying to take measure of is the basic value proposition they are trying to deliver and understand. As a provider of marina services and facilities, the Commission should keep in mind that their basic value proposition may not be the same as what the customer perceives he/she is getting. What is not understood or agreed upon is moorage rates, including a component to maintain the existing marina and replace capital assets in the future. The question is how much will that be and where will it come from. He suggested this is where the Commission should begin their philosophical discussion.

Commissioner Faires said his definition of success for this meeting would be to define the tools needed to continue their work to consider various alternatives and find the right solution.

Marina Market Conditions – Paul Sorensen, BST Associates

Mr. Sorensen started his presentation by reviewing trends and issues in the regional marina market. He specifically noted the following:

- People are reselling used boats, and few new boats are being added to the market. This has resulted in more competition for existing customers.
- An average of 490 new boats were added per year in Washington State between 2003 through 2007. However, sales dropped each year from 2008 to 2012, for an average of just 150 new boats each year. Some of these boats went to Canada.
- The small boat market peaked at 65,000 boats in 2009, and then declined to 60,000. About 5,000 boats left the registered list because owners decided not to register them, boats were sold out of state, boats were demolished, etc.
- The market for large boat storage peaked at 7,000 boats in 2009 and then declined to 6,600 boats. About 485 large boats left the registered list.
- Data from the Department of Revenue indicates that gross business income for the State of Washington peaked at \$62.6 million in 2006 and 2007, but fell 44% by 2009. There was some gain in 2011 and 2012, but the numbers are still well below their peak. Private marinas are doing better than public marinas, but there is still room for improvement.
- An increasing share of Washington State recreation dollars were spent on fitness clubs and casinos. However, marinas experienced very little growth.

- There were four registered boats per 1,000 persons in Snohomish County in 1995 and only 3.2 per 1,000 persons in 2011. Other areas of Puget Sound performed slightly better.

Next Mr. Sorensen shared the following observations about marina occupancy and demand:

- A modest growth in moorage demand is predicted over the next five years, with only slow growth in new boat sales. The number of registered boaters is expected to increase slowly, and marinas should look for opportunities to attract boaters.
- From a long-term standpoint, the primary boater demographic is shrinking as a percentage of population. Generation Y and X groups are not as interested in boating as the baby boomers. There are opportunities to grow boating long term, but there are also many uncertainties. Marinas need to maintain flexibility to meet future opportunities while studying sustainable options to meet the needs of existing and future boaters.
- Many of the marinas in Puget Sound are worn out and most private and public marinas do not have the capital to do the necessary repairs and upgrades. This will result in a significant reduction in the number of slips available. Commissioner Faires pointed out that the Port of Edmonds has an advantage in that their facility is relatively new. The Port is in a good position to absorb tenants who are displaced when marinas go out of business. They should identify a strategy for capturing this customer base. Commissioner Gouge agreed, but also pointed out that the younger generations do not have a strong interest in boating.
- The Commission should focus on the internal factors they can control. Public marinas can hang on longer than private marinas because public resources are available. It is important for marinas to establish a rate structure that supports the level of service their customers are willing to pay for.
- The Port should consider how people use their boats and how often. The Port has a very attractive community and a great connection to the downtown area. They should capitalize on this asset when marketing the Port to potential customers.
- The Port of Edmonds' competition comes from the Port of Everett and Shilshole Bay Marina. The Port of Edmonds is very different from Shilshole Bay Marina, which caters to sailboats. Edmonds is also unique because it has characteristics for becoming a destination.
- He has a strong belief that marinas need to stand on their own rather than being subsidized.
- The number of dry storage spaces increased dramatically in King and Snohomish County between 2000 and 2012. There was only a slight increase in the number of wet moorage slips.
- It is well accepted that smaller boats are easier to handle in dry storage and customer needs can be better met.
- Some marinas are experiencing problems even in the large slip sizes. Many tenants used to have more than one slip in different locations, but that is no longer the case. In addition, people are using lower-cost dry storage facilities such as Dagmar's in Everett. The Pacific Marine Center in Anacortes offers dry land storage for boats up to 60 feet in length. The facility includes a huge refit building, private access to the water and a 350-foot service dock.
- At this time, demand for moorage space is weak and supply is strong. The elasticity of demand is greater and there is more capacity. Mr. McChesney added that boaters have the option of storing their boats on dry land, as well.
- Some marinas are offering concierge service such as picking customers up at the airport. Liveboards is another option the Port could consider for attracting a new and different customer base.

Commissioner Faires asked Mr. Sorensen to comment on the viability of Elliott Bay's financial model. Mr. Sorensen replied that Elliott Bay's financial model is very different from the Port's Cash Flow Model. A high turnover rate is not necessarily bad for their model type. The Port of Edmonds' model offers a more static approach that is particularly sensitive to the turnover rate. He cautioned that marinas can have 100% occupancy with a static market and still be worse off than having a dynamic market.

Mr. Sorensen pointed out the difference between owner and tenant perspectives on rates. Owners generally have no capital set aside for marina redevelopment, and they also want to be friends with tenants rather than fighting annually over rates. This approach works well until the marina falls apart and there is no funding to repair and/or replace it. Tenants generally feel as good about rates as they do about taxes unless they see value in improvements.

Mr. Sorensen described the following alternative rate methodologies:

- **CPI Increase.** CPI Assumes that rates are already at an appropriate level, which is not usually the case. In addition, annual operation and maintenance cost increases at marinas are usually higher than the CPI adjustment.
- **Cost Replacement.** It is helpful for tenants to see and understand the real costs of owning a marina. This approach is progressive in that the rate per lineal foot increases as the vessel becomes longer. It lays out a formula that is accepted when understood, but often results in rates escalating too quickly given current market conditions.
- **Market Rates.** This approach assumes that rates at competitive marinas are set properly and that annual changes cover the increased costs associated with maintenance and operations. Rates are based upon where the marina fits in with competitive marinas. Typically, this type of approach is phased in over a three to five-year period and annual increases should fall within certain limitations.

Mr. Sorensen summarized that most marinas did not raise rates in 2010 through 2012 due to low occupancy rates and competitive pricing from neighboring marinas. They have also offered one to three months of free moorage per year, but concern has been raised that this may be considered gifting, which is against State law. Marinas must also be concerned about the message this sends to existing tenants. It may encourage people to jump from marina to marina to get a deal. He said that while the Port of Edmonds has raised their rates and concern has been voiced that their rates are getting too far out of balance with other marinas, occupancy rates are still high, and tenants continue to expect high-quality services.

Mr. McChesney asked if it is better for marinas to have a predictable rate increase strategy or one that stair steps rates radically over the years. Mr. Sorensen expressed his belief that it is better to have a predictable rate structure. It is important to sell capital improvement projects so customers can clearly see how the improvements will benefit them. In his experience, it is helpful for customers to see where the moorage revenue is being reinvested to maintain and improve the marina. People get uncomfortable when moorage rates increase, but no visible changes occur.

Mr. Sorensen shared information regarding net revenues for the Port of Everett. He summarized that the marina is not generating sufficient net revenue to fund major capital repairs and it is not performing as well as peer marinas. He also shared information comparing 2010 revenues and expenses at the Shilshole Bay Marina and the Ports of Everett, Edmonds, Seattle, Skagit County and Oak Harbor. The cost of moorage at the Port of Everett is slightly more expensive than most of its peers on a lineal foot basis, and Edmonds and Shilshole Bay have much higher revenues and lower operating costs per lineal foot. The Port of Edmonds is actually near the top tier for revenues from permanent moorage relative to its peers in recent years, which is particularly interesting given that there are typically more expenses associated with covered moorage.

Mr. Sorensen agreed that the Port has an advantage in terms of having more net revenue to apply to capital improvements. However, private marinas have an advantage because they are not required to do competitive bidding and pay prevailing wages to contractors.

Mr. Sorensen advised that, according to a 2011 survey by Marina Dock Age, the best practices for competing today include renovating and upgrading facilities, changing target markets, advertising more, hosting more customer events, offering more products and services, and adjusting prices. He pointed out that marinas that offer more services have been very successful. Privatizing services is another potential option for the Port to consider. He summarized that changing demographics is a market reality, and marinas that can adapt to the changing needs of boaters and align themselves with current and future trends in the marketplace will succeed. It is also important to create an ambience that draws customers to the marina such as shoreline upgrades and renovations, maintenance of docks and upland facilities, and strong links between the docks and upland uses. The Port's priorities should include providing flexibility to meet future market conditions, identifying thresholds to trigger new investments, making sure the options are sustainable, and having its financial house in order.

Mr. Sorensen summarized that while the Port must be careful, they have good occupancy at this time. They should put measures in place to track what happens in the future and have a plan to respond to changing conditions. They must convince the tenants that they are using the funds to put back into the marina. The market is extremely competitive and most marinas are either not raising rates or extremely discounting them for a one-year term. There is no magic solution, but it is important to be consistent and show there is value for the expenditure. They must also do everything they can to make sure costs are as low as possible, recognizing that tradeoffs to further reduce costs

can have an impact on the value of the marina. He said he does not believe the Port's cost structure is out of line compared to other competing marinas.

The Commission took a break from 10:50 to 10:57 a.m.

Operations and Customer Service – Marla Kempf

Ms. Kempf explained that the Port is a full-service public marina in a great location with staff oversight and availability 24 hours a day, seven days a week, 365 days a year. It is unique in that 54% of its 665 water slips are covered. It has 232 dry stack storage spaces and one of the few remaining do-it-yourself boatyards where 80 vendors provide service. Last year, 3,100 boats enjoyed the guest moorage facility for a total of 5,300 nights, and the courtesy shuttle to downtown businesses was particularly popular and set the Port apart from other guest facilities. The public launch moved 6,852 boats, as well. The Port's fuel dock offers both high marine-grade gas and diesel. New this year is a 10-space recreational vehicle storage area in the gravel lot.

Ms. Kempf provided a current organizational chart to illustrate how the ten Port Operations staff work together to deliver the Port's product. She explained that there were some challenges in 2012, and at one time they were down three employees. When the Port Operations Lead retired, the position was replaced with a Port Operations Coordinator position, which is the central dispatch in the Marina Operations office and provides support to the Moorage Coordinator. The Port Operations Assistant position was recently filled as was the Port Operation's Utility Worker position, which is designed to work between the different areas and be trained to operate all equipment. She provided graphic illustration to show how the Marina Operations office serves as the central dispatch to direct staff to the various locations where they are needed. With only 10 employees, it is necessary to prioritize their work.

Ms. Kempf pointed out that the Marina Operations office is open 91 hours per week during the peak season. As a comparison, Shilshole Bay's office is only open 51 hours per week, and Everett's is open 63 hours per week. She summarized that the Port provides a much higher level of service because they do all their operations in house. Commissioner Faires noted that much of the staff time is spent at the public launch facility during the peak season.

Commissioner Faires observed that this flexibility offers the Port a competitive advantage to use staff where they are needed most. He emphasized the need to protect this flexibility. Employee costs would likely be greater without it, and the Port's ability to provide a variety of services would be diminished. Commissioner Orvis asked Ms. Kempf to provide the Commissioners with names and pictures of the new employees.

Ms. Kempf said the Port's philosophy for employees is that they perform their jobs in a safe and professional manner, remember that the customers deserve the highest level of service, do what they can to exceed customers' expectations and keep the facilities clean and in good repair. When new employees are hired, particularly seasonal staff, an orientation is provided to make sure they understand the Port's philosophy and what their role will be in the Port organization.

Ms. Kempf explained that the Port has a wide range of customers (year-round wet and dry storage tenants, guest moorage visitors, sail boaters, power boaters, fishermen, vendors, general public, etc), with an even wider range of needs. Good customer service can be subjective, depending on the customer. However, the Port currently defines good customer service as meeting and/or exceeding customer needs, acknowledging and expressing appreciation to customers, having friendly and respectful interactions with customers, providing a quality product and experience, providing quick response times, and giving undivided attention to their needs. She acknowledged that providing a quick response time and undivided attention can sometimes be a challenge at the current staffing level, and sometimes customers have to wait for service. She said things that trump a customer's good experience at the Port include slow response and wait times, distractions and overload, and unavailable resources. Individual perceptions can also trump a good experience. For example, a customer may feel that a product was not a good value, or they may get discouraged by the add-on charges. Overcrowding at the guest moorage area has also been an issue in the past.

Ms. Kempf reminded the Commission that market demand for the wet and dry storage spaces has been impacted by the recession that started in 2007. It is inherent that the Port will always have vacancies during the non-peak season because 60% of their slips are 32 feet and smaller. People can easily trailer their boats out during the winter months

and bring them back in the spring because there is no wait list for the slips. Although the wait list for the larger slips has decreased significantly, the spaces are still full. She summarized that occupancy at the Port has been good in recent months. Ms. Kempf also reminded the Commission that the Port has deferred some maintenance work in recent years, and there are some projects that need to be done now to prevent greater problems in the future. She advised that capital improvements are also needed. For example, there is an increased demand for 50 amp electrical service, particularly in the larger slips. If the Port wants to keep their larger slips full in the future, they will need to provide this higher level of service.

Ms. Kempf summarized that the highest level of customer service does not come without some cost. The need and desire to update and maintain facilities and improve customer service is in conflict with the need and desire to cut expenses and eliminate resources. The Port must address these conflicting messages by figuring out how to make investments in facilities and services in a way that adds value for the customers. She said staff believes the Port can continue to meet customer expectations into the future by:

- **Addressing the Changing Culture.** This can be done by cross training workers so that staff is flexible enough to serve in numerous capacities. The Port has redefined job responsibilities and targeted their hiring to find qualified employees to serve a wide variety of needs.
- **Developing New Business Philosophies.** The Port has instituted a customer rewards program at the public launch. They also instituted a variable rate program at the dry storage area to reward customers who lease the space year round. A recreational vehicle storage space has been designated in the gravel lot, and staff will begin to market the space next week. Targeted marketing promotions have been successful in recent years. In addition, the Port now offers Wi-Fi service to customers. The installation of the equipment necessary for this service did not cost the Port, and operating expenses will be recovered from subscribers to the service. The Port conducted tenant workshops regarding electrical wiring and corrosion, and another workshop is planned regarding alternatives to copper bottom paint and zincs. In March, the Port will offer a tenant's only special to reward tenants who lease their slips year round.
- **Addressing Deferred Maintenance.** It is extremely important to address deferred maintenance issues. Staff is fairly confident the Port will receive grant funding to upgrade the public launch. Additional maintenance needs include changing rub strips, replacing walers, conducting an electrical inspection, lighting upgrades, sealing the docks, and repairing rusted roof structures.

Ms. Kempf summarized that she is confident the Port can continue to meet customer expectations in the future; but they must add value, which requires resources. Mr. McChesney added that it also requires using the resources they have to their best capability. The staff and Commission have talked a lot about how to be more efficient on the margin, and they are working hard to allocate staff time as flexible as possible so people are working where they are needed. They have also obtained grant funding, ratcheted down landscaping costs, and started replacing all lighting with LED bulbs using PUD grant funding. He summarized that staffing is razor thin at this time, and it is a compliment to staff that they have been able to accomplish so much. They have a good complement of staff on an operating basis and operations have been fine-tuned, but they also need to address maintenance concerns and reinvest in the facility.

Commissioner Gouge expressed his belief that maintenance issues will be a major cost driver in future budgets, as the majority of the marina was constructed in 1996 and 1997. Commissioner Preston added that unexpected regulatory requirements, which the Port has no control over, will also continue to increase operating costs. Mr. McChesney agreed that the regulatory regime will continue to have an impact on marinas. Marinas may have to close, forcing boats into upland storage facilities.

Maintenance – Brian Menard

Mr. Menard started his presentation by asking the Commissioners to describe how they see the current condition of the marina. Commissioner Gouge said he sees a marina that is starting to age. Commissioner Orvis added that the Port neglected to do some maintenance that should have been done, and they have a backlog now. However, the Port appears to be in a better position than many other marinas in the area. Mr. Menard said maintaining Port facilities has been a challenge. While his initial goal when hired by the Port 16 months ago was to be proactive, he

has found that between 60% and 70% of the maintenance work has been reactive to prevent total failure of various components of the marina facility. He has found maintenance moving to a level of replacement because some things are beyond their serviceable life and needs to be replaced.

Mr. Menard recalled that the Port's previous approach was to subcontract maintenance work out. Over the last year, a lot more maintenance projects were done in house, which allows the Port more control over personnel and equipment dollars. He reported that the following projects were done entirely in house:

Dry Storage

- Serviced launcher hydraulic systems
- Installed new skirting around office trailer
- Repaired electrical system in wash down area
- Fabricated new bunk riser spacers
- Replaced wood bunks

Marina Operations/Docks/Parking Lots

- Rebuilt all dock carts
- Remodeled server room
- Repaired roof of pressure wash building
- Replaced pump in pressure wash building
- Repaired fuel system on travel lift
- Installed scales at the public launcher
- Inspected and replaced all structural hardware on public launcher
- Fabricated new transition plates for public launcher and V Docks
- Fabricated new dock ladders on M/N docks
- Repaired docks, replaced rub boards, repaired rust, replaced rub edges, and installed pile caps on docks
- Conducted a smoke test and fixed sewer gas issue in the Marina Operations building
- Constructed a new storage shed for Marina Operations
- Cleaned and maintained gravel parking areas
- Fabricated a new light pole in the Anthony's parking lot
- Replaced two, 4-inch backflow valves
- Constructed a new landscape area in the east parking lot
- Installed 165 tons of rock to expand the parking lot area
- Installed 60 yards of landscape material
- Constructed a new fence around the east lot drainage area

Commissioner Faires asked if the rust repairs on the docks would preclude future structure failure. Mr. Menard explained that the compound used to seal the metal portions of the docks is failing. Staff has a plan to address the issue marina-wide. At this point, the life of the structure has not been compromised. He noted that the gutter on C Dock will have to be replaced, but that is the worst scenario at this point.

Mr. McChesney said it is not only about doing work in house with people with the right skill set, the Port has had to upgrade their shop equipment and tools to be more efficient. Mr. Menard added that, at this time, staff is limited in their abilities because they do not have the equipment needed for projects. He said he plans to ask for more equipment this year to make jobs quicker and more efficient.

Mr. Menard advised that staff is looking forward to completing the following projects in 2013 and 2014:

- Repairs as identified in the final electrical evaluation.
- Review electrical pedestals and repair.
- Repair breakwater and upgrade lighting to LED.
- Upgrade fuel monitoring system for the underground tanks. The current system is obsolete and needs to be replaced. If the system fails, there is no way to repair it because they do not make the parts anymore. There are also issues with some fuel lines that are corroded and most be replaced. The dispensers are rusted and need to

be replaced, as well. A recent inspection by the Department of Ecology indicated that the work must be done as soon as possible.

- Remove old public launcher that is located in front of the pressure wash building.
- Rebuild weather center to provide a roof to keep equipment dry.
- Remodel or replace south restroom.
- Replace walers and repair rub boards on finger piers and I Dock.

Mr. McChesney advised that, from a cost point of view, addressing the electrical repairs will require manpower and material costs. Fortunately, staff has the ability to take care of most of the issues in house, but they cannot be put off. The Port must also resolve the issue of whether or not the current 30 amp service should be upgraded to 50 amp service in at least some locations. He reminded the Commission that most of the large boats now require 50 amp service. Mr. Menard said he estimates it will cost about \$150,000 per dock to install new transformers and conductors to enable the Port to provide 50 amp service. He suggested that perhaps the best approach would be to upgrade one dock at a time. Mr. Collins suggested that the power company should be consulted about any Port plan to upgrade to 50 amp service. Mr. Menard agreed that the power company would definitely be involved in any transformer upgrade.

The Commission adjourned the meeting for lunch at 12:17 p.m. They reconvened at about 12:32 p.m.

Commissioner Faires asked if the Port has the ability to hire additional workers for some projects without having to go out to bid. Ms. Drennan pointed out that this is definitely possible, but the Port would be required to pay prevailing wages. She also noted that while cities are not required to go out to bid for public works projects that are less than a certain amount, ports are required to go out to bid for all public works projects.

Mr. McChesney referred to the shed that was recently built in house to serve as storage for Marina Operations. He pointed out that the building is well constructed. He suggested that the Port may want to consider the option of using a similar type of modular structure to replace the laundry and restroom facilities currently located in the mid marina. This may be a less costly option than replacing the current restroom facility. He reminded the Commission that the current restroom facility is substandard for the type of facility the Port wants to represent, but the estimated cost for replacement is about \$750,000. Mr. Menard said the labor and material costs for constructing the Marina Operations shed was about \$8,000. Commissioner Preston pointed out that the Port of Anacortes rents similar buildings out to vendors.

Commissioner Gouge asked if the maintenance budget would need to be adjusted to provide sufficient funding for the projects identified by Mr. Menard as necessary in 2013. Mr. Menard said he has not made this determination yet. He expressed his belief that the electrical improvements should be a top priority and should not be put off any longer. Repairing the rust damage and making the necessary upgrades at the fuel dock should also be high priority projects.

Open Discussion

The Commission discussed the policy in the Port's Mission Statement that the marina should be self-sufficient. They recalled that, in recent months, questions have been raised about whether this goal is even possible. If the Commission retains this policy, they must identify strategies for reaching the goal. If they determine it is not possible, they must decide if it is appropriate to use tax dollars or other Port revenues to subsidize the marina. Commissioner Faires suggested that if it is determined the Port cannot maintain a high-quality facility independent of subsidy, they should seek input from owners of the Port (taxpayers) regarding what the new approach should be.

Commissioner Faires reminded the Commission that one reason the Port has worked so hard to define the actual costs associated with operating the marina is because boaters were suggesting that the marina revenues were being used to subsidize the rental property. The Cash Flow Model indicates that has not been the case. However, if it is determined that tax and/or other Port revenue is needed to subsidize the marina going forward, they need to acknowledge the need so the owners have clear understanding of the situation.

Mr. McChesney said the Commission must also have a philosophical policy discussion about whether or not they want the marina to provide the same level of service and array of assets and facilities, or if they want to go down a

different path and eliminate services such as the fuel dock and/or workyard. Another option would be to have a private operator run these facilities.

Mr. Collins said the data presented by Mr. Sorensen impressed him as coming from the port and marina operations segment of the industry, and it does not necessarily represent the user's side. While he is not saying the data is invalid, he cautioned that using historical data from a single viewpoint can be dangerous. He noted that the Port's recent tenant surveys have helped to bridge some of the gap, but there is still the perception that the Port is not doing anything more to address the issue other than maintaining the status quo. He said it is important for the Port to demonstrate that they are questioning everything contained in the Cash Flow Model, and the public should be invited to attend the meetings and provide comments. If the marina ceases to exist in 20 years, as the data provided by Mr. Sorensen suggests is a possibility, making the marina self sufficient would become a moot point. The Port must have a plan not only for retaining existing tenants and obtaining new tenants, they must also have a plan in place for increasing revenue from all available sources.

Mr. Collins said there is a perception amongst tenants that the occupancy rate for the marina has been overstated. He suggested the Port conduct an independent audit by someone other than a self-serving body that is perceived as wanting to maintain the status quo. The Port needs to demonstrate that they have collected all data possible and considered all options. He concluded by stating there is more to discover in this type of process. While he is not suggesting the Port throw out the Cash Flow Model, they need to question everything contained in the document. He suggested that the Port should alter the revenue figures to the worst case scenario and then down scale everything accordingly. Then they could start making decisions about maintenance programs and additional services.

Mr. McChesney explained how the current cash flow model was created. He noted that the earlier model started with asset replacement. The newest model takes asset replacement into account, but it did not start there.

Mr. Collins pointed out that many tenants rarely use the restroom in the mid marina. Mr. McChesney agreed that this facility is used primarily by smaller boaters and guest moorage customers.

Mr. Collins questioned whether the Port's policy to complete as much maintenance work and capital projects as possible in house actually results in a cost savings in all situations. Commissioner Preston observed that, as a public agency, the Port is required to go out to bid and pay prevailing wages for all projects. Mr. McChesney said staff is convinced that doing as much work as possible in house is the better way to go for most projects. However, he clarified that this is not an official Port policy. The objective is to do projects as cost effectively and timely as possible. They know they can usually get more work done if they plan, sequence and do the work in house. He noted that it takes a significant amount of time to bid projects.

Mr. Collins said that some tenants have the perception that the Port is more interested in Harbor Square than in the boaters. There are some who feel the Port should get out of Harbor Square and become solely a marina. The tenants appreciate that the Edmonds Marina is convenient, safe and clean, but they also want it to be affordable. People are leaving some marinas because they are no longer affordable, and the same will hold true for the Port of Edmonds if rates reach a tripping point. As per Mr. Sorensen's presentation, Mr. Collins suggested the Port should plan for the worst case scenario that includes a lot of turnover. This may help them come up with a formula that results in increased revenue and tenancy.

Mr. McChesney pointed out that in the past three years, rates were raised 1.5%, 4% and 5.25%, and the average increase was 3.3%. He recalled Mr. Sorensen's recommendation that a predictable approach to rates is best. Mr. Collins agreed and suggested that a base increase of 2% unless CPI is low would be appropriate and would allow people to budget for the increases each year. He expressed his belief that the cost of boating is getting out of hand, and not just moorage rates. Again, he recommended they look at the worst case scenario for the boating market and then consider opportunities to increase revenue.

The Commission discussed the changing demographics and how this could impact the Port in the future. It was acknowledged that the number of boaters may continue to decline. Commissioner Preston agreed with Mr. Collin's earlier suggestion that it is important for the Port to question every element of the Cash Flow Model and consider all opportunities for improvement. Commissioner Faires said he also supports Mr. Collin's comment that the Port needs to improve communications with the public. It is the Commission's obligation to try hard to provide

intelligible and transparent communication so that people have a better understanding of the issues the Port is facing. Mr. McChesney thanked Mr. Collins and Mr. Jones for their willingness to participate in the discussion. He summarized that there are no easy answers and there will likely be more than one right answer. The intent is to get a better understanding of the Cash Flow Model so they can find the best answers.

Finance/Cash Flow Model – Tina Drennan

Ms. Drennan reviewed that the Cash Flow Model includes revenues and expenses from the following marina cost centers: moorage, dry storage, electrical, environmental, fuel dock, guest moorage, travelift and boatyard, launcher, and Destination Port of Edmonds. She provided a flow chart to illustrate how the Cash Flow Model was created and the process for updating it each year using the following assumptions and policies:

- Marina facilities will be self-sufficient as per the Port's Mission Statement.
- The Port will provide the same level of quality marina services as in the past.
- Moorage and dry storage occupancies will remain at the current level
- The lives of assets and replacement costs are estimated.
- The Port will continue to invest in existing assets by extending their useful lives when economically reasonable. They will replace current assets when necessary.
- On average, operating expenses will continue to increase at the same rate they have over the past 10 years (average of 5.99%).
- The Port will continue to operate the public launcher and subsidize it with property taxes.
- The property tax levy will continue at \$400,000 annually.
- The Port will make the 1998 revenue bond and 2005 refunding bond principal and interest payment as per the bond schedules.
- Overhead will be allocated to the marina as a percentage of revenues. The allocation will be reduced by property taxes.

The Commission discussed that because State law requires banks to reserve 100% of invested public funds, the interests rates are very low and will likely stay low unless the law is changed. They discussed the importance of working with their local lobby groups such as the Washington Public Ports Association (WPPA) to encourage the legislature to address this issue. Mr. McChesney agreed to set up a time for him, Commissioner Orvis and Commissioner Faures to meet with Eric Johnson, WPPA Executive Director, to discuss moving this change forward.

Ms. Drennan summarized that the Commission's meeting packet included a copy of the most recent calculations of the Cash Flow Model, using the assumptions she outlined earlier. She said a copy of the 2013 budget was also included in the packet. The 5.25% moorage rate increase was based strictly on the Cash Flow Model numbers.

Mr. Collins suggested that the Port further refine the asset replacement schedule and then run the Cash Flow Model numbers again. Mr. McChesney pointed out that the asset replacement schedule was reviewed when the model was recently updated as part of the 2013 budget process.

The Commission agreed to adjourn the work shop and allow the Finance Committee to meet next week to talk about the sensitivity analysis, review the Cash Flow Model and figure out the next step in the process. It was noted that the meeting would be open to the public, and Mr. Collins was specifically invited to attend.

Mr. Collins said there is some perception that one-time users of the Port are treated better by staff than the permanent tenants. He commended Ms. Kempf for taking steps to improve this perception. Mr. McChesney suggested that perhaps he should attend an Edmonds Yacht Club meeting to answer questions for the members. Mr. Collins agreed that might be helpful, but he would have to have a thick skin. Commissioner Preston suggested that perhaps it would be appropriate to form a tenant advisory group made up of various tenants, including some yacht club members, to come up with good, viable ideas. Commissioner Orvis stressed the need for boaters to approach the legislature with a single voice to address issues that impact boating in Washington State

Mr. McChesney referred to Mr. Collin's earlier statement about the perception that the Port is self-serving. He commented that it is important to be self serving from an enterprise point of view in order to preserve an

organization. He agreed the Port is self serving to that extent, but it is not exclusively self serving. Its success relies on its service to others.

ADJOURNMENT

The Commission meeting was adjourned at 1:30 p.m.

Respectfully submitted,

David Preston
Port Commission Secretary