

PORT COMMISSION REGULAR MEETING– April 11, 2018

The Port of Port Townsend Commission met in regular session at the Commission Building, 333 Benedict Street, Port Townsend, WA

Present: Commissioners – Tucker, Hanke and Putney
Executive Director Gibboney
Auditor Berg
Director of Operations & Business Development Englin
Director of Planning, In-house Counsel Toews
Communications Coordinator Matej
Attorney Lake
Minutes – Nelson

I. CALL TO ORDER/PLEDGE OF ALLEGIANCE:

Commissioner Tucker called the meeting to order at 1:00 p.m.

II. APPROVAL OF AGENDA:

Commissioner Hanke proposed an addition to Regular Business: 2018 Capital Improvement Plan-Discussion (presented at March 28, 2018 Workshop). This will become item A, and the remaining Items will drop down in order.

Commissioner Putney moved to approve the Agenda as amended.

Commissioner Hanke seconded the motion.

Motion carried by unanimous vote.

III. PUBLIC COMMENTS (00:02:16)

David King spoke in favor of the NWMC Point Hudson lease proposal.

Carol Hasse compared the (Point Hudson south jetty) engineer's "rock box" jetty design with the selected steel jetty design and urged the commission to do further research.

Melinda Bryden spoke about the Port's historical financial data related to Point Hudson, NWMC financial data and lease proposal.

Chris Hanson expressed his beliefs on why he believes the current design is flawed.

NWMC Director, Jake Beattie agrees the relationship between the Port and the NWMC should be a collaborative one. Spoke about the amount of experience put forth in developing the Point Hudson proposal. Sees discrepancies in the two financial analyses presented today.

Ron Hayes thanked Ms. Berg for redoing the financial statements. Spoke in favor of NWMC proposal and partnership with the Port. Discussed debt, revenue, profit, and the Port's similarity to a business.

Ted Shoulberg, discussed effects of wave deflection to rowers, a major issue. Hopes the rock jetty design is selected.

IV. CONSENT AGENDA (00:21:00):

A. Approval of Public Workshop Minutes – March 28, 2018

Approval of Regular Meeting Minutes – March 28, 2018

B. Approval of Warrants

Warrant #058953 through #058963 in the amount of \$60,670.10 for Payroll & Benefits

Electronic Payment in the amount of \$105,546.17 for Payroll & Benefits

Warrant #058964 through #059006 in the amount of \$45,522.70 for Accounts Payable

Commissioner Hanke moved to approve the Consent Agenda as presented.

Commissioner Putney seconded the motion.

Motion carried by unanimous vote.

V. SECOND READING (Action Items):

VI. FIRST READING (Discussion Only):

VII. REGULAR BUSINESS:

A. 2018 Capital Improvement Plan (00:22:00):

Commissioner Hanke wanted to clarify that the operating revenue of \$130K for Capital Improvements discussed at the last Workshop, was not approved at the November 21,

2018 budget meeting. These projects were only discussed at the last workshop and the Commission has not agreed to fund those projects.

B. Cash Flow Effects on Bonding for Jetty – Two Scenarios (00:22:30):

Ms. Berg pointed to a correction needed on page 8 of the packet, under “Background”, third paragraph, last sentence – \$3,820,205 is an incorrect amount. Correct to \$4,070,205.

Scenarios are related to Capital Plan presented at previous workshop. Ten-year cash flow projection to show where we might be if these projects are moved forward.

In summary, Ms. Berg stated both scenarios are unrealistic. Scenario 1 would leave us at end of year with total of \$1.2M, with only less than \$300K in unreserved cash. Scenario 2 – many changes in jetty cost – estimate, steel tariff, donations, many moving parts. Staff asked for updated estimate from Mott MacDonald who came back with a figure of \$3.7M, adding to that an estimated \$150K for steel tariff and another \$150K for construction management, plus the remaining balance on engineer’s contract of \$70,205, total project cost estimate \$4,070,205.

Ms. Berg stated when budget was in development in Oct/Nov last year; we were looking at a \$3.2M bond, \$2.7M for project, \$500K to replenish cash used for stormwater project. If we move forward with \$3.2M bond and \$882K left in grant money, that would leave the Port with \$12K in cash, with no replenishment of stormwater cash. She repeated this is an unrealistic situation. Would not allow for any emergencies.

Scenario 2 figures come from Capital Budget, \$75K bond issuance cost not in budget. \$4,070,205 variance-this figure not in budget. If the Coast Seafood roof and WDFWL heat and creosote projects occur, that would leave the Port with \$770K in unreserved cash. She is not comfortable with this scenario either. Discussed revenues, expenses, and debt service principal numbers. Ms. Berg sees the bare minimum amount of unreserved cash needed is \$1M to cover repair projects, grant matches, etc.

Ms. Berg stated the bonding resolution would be presented as a first touch at the next commission meeting.

Commissioner Hanke asked if the runway project could be delayed. Mr. Toews answered this is a question for the FAA.

Commissioner Putney asked about the WSDOT 5% match grant possibility. Discussion ensued on runway project funding.

Commissioner Tucker asked for confirmation that reserves, needed for the bond, are not accessible.

Director Gibboney explained that third quarter, staff will look at development of financial policies including cash reserves and debt. She said this is the beginning of a formation of a “robust” capital improvement plan, and emphasized the plan is always in flux. Three to five year planning provides more stability in budget planning. Commissioner Hanke stated there is zero money and asked how this can be the “beginning” of a capital plan.

C. Resolution No. 677-18 – Establishing the Point Hudson Jetty (South) Donation Fund (00:46:07):

Director Gibboney explained the resolution would allow the creation of a reserve fund to receive donations for use towards south jetty construction only. She stated if funds are collected by a third party, such as the Jefferson Community Foundation, they would then transfer funds into this account. She was informed that donations should be tax deductible, but advised any donors to verify with their tax advisor.

Mr. Toews discussed the Jefferson Community Foundation, who would act as a pass-through. He stressed the fund is established so that the Port will know, with certitude, what funds are available prior to the issuance of the Notice of Intent to the apparent low bidder. Funds include \$2.7M in bond proceeds, plus \$780K remaining in the RCO grant, and any donations made to the reserve fund. Bid opening is 10 am May 7, 2018; Notice of Intent to Award (NOIA) contract, May 15, 2018. Prior to the NOIA Port staff will know if the project is a go or no-go based on available funding, including donations, which need to be received by May 14, 2018. Mr. Toews added that if funding is not sufficient, donations would be returned to the donors.

Ms. Berg clarified this is a “restricted” fund, not a reserve fund and cannot be used for any other purpose.

Commissioner Hanke abstained from a vote.

Commissioner Putney moved to adopt Resolution No. 677-18, establishing the Point Hudson Jetty (South) Donation Fund.

Commissioner Tucker seconded the motion.

Motion carried with two votes for and one abstained.

D. Northwest Maritime Center (NWMC) Lease Proposal (00:56:15):

(Attorney Lake advised the Commission to allow for Public Comment after discussion.)

Commissioner Tucker listed the factors that would be discussed in open session, prior to Executive Session, where the Commission will discuss how these factors will impact the bottom-line price, without making those factors the focus of discussion. He informed that the final decision regarding the leasing of this public property must be taken in a session open to the public.

Ms. Gibboney stated the underlying question that must be considered is, why would the Port proceed with an offer only from the NWMC? The Commission will need to come up with findings to justify a sole-source process at some point.

Commissioner Hanke pointed out that there is no other offer from an entity that is a neighbor of Point Hudson and is sitting on a \$15M asset, with a good pay-off record.

Commissioner Tucker stated there might be other operators interested in taking on the Point Hudson lease, so the question needs answering as to why we would only consider the NWMC proposal.

Commissioner Hanke asked the attorney for an explanation on sole sourcing.

Commissioner began with the factors list:

“Background” of the NWMC’s proposal to lease Point Hudson, which was received by the Port on January 26, 2018. On March 20, 2018, staff was directed by the commission to develop a counter-proposal. Commissioner Tucker made mention of the two Financial Assessments of the proposal, included in the meeting packet.

Ms. Gibboney explained this Memo is to provide a framework of what is hoped to be a set of comprehensive issues.

Discussion ensued amongst the Commission and staff on a punch list and the proposed 50-year lease term.

“Debt Service” - should the NWMC cover Point Hudson’s debt obligations?

Following discussion, the commissioners agreed that the debt service needs to be paid for (included in the deal).

“North Jetty Cost” - Commissioner Tucker, reading from the Memo asked, should the NWMC provide a sufficient capital contribution to cover construction of the North Jetty? If, so what is a reasonable timeframe for the contribution?

Commissioner Hanke asked the “fundamental” question of who is responsible for the cost of the jetty repair. He compared the NWMC paying for the jetty with a renter paying for repairs to a house.

Director Gibboney clarified that both scenarios in the proposal from the NWMC, include provisions for the Port to pay both jetty costs. She asked the question, is it reasonable that the monetary value of the lease be able to cover both south and north jetties?

Commissioner Hanke added the Port is the one to benefit from the repaired breakwaters.

Commissioner Putney stated, the question is, can the Port do a better job of managing this asset.

Mr. Englin commented on this conversation.

“Capital Contribution(s)” - Commissioner Tucker asked, is the contribution subject to leasehold tax. Would the Port be in a better financial position under terms of the NWMC proposal?

“Annual Lease Payment” - Commissioner Tucker suggested quarterly payments instead of annual. Director Gibboney stated the proposals do not account for inflation. She added best practices would include an annual CPI increase or CPI + 1.

Director Gibboney suggested consideration of setting a lower initial lease payment during the “break-in period”.

“Net Income Sharing” – Commissioner Tucker provided an explanation on the difference between “gross” and “net”.

Director Gibboney stated the proposal is based on a share of net income, where a more common real estate practice is to base on a share of percentage of gross receipts. Commissioner Putney suggested the counter proposal establish an expectation of profit sharing as part of the lease payment schedule.

“Term” – what is a reasonable lease term?

Mr. Englin answered that with a longer-term lease, control of the property is basically being “handed over”. He asks the commission to consider, what is the actual investment? Total life cycle costs of asset. Keep in mind economic conditions in the market change over time. He added that it is common in leases to allow for re-negotiations every 5-10 years.

Commissioner Hanke asked why a long-term lease increases the risk. Discussion ensued. Commissioner Putney stated that with a 50-year lease, the NWMC would have control of tenant leases and asked who would be responsible for the leases in case the lease terminated early for some reason, such as a disaster. Mr. Englin answered these terms would need to be included in the master lease. Ms. Gibboney puts this in the context of “market”, to address the emerging market conditions and to “tweak” (review and adjust) the agreement on a regular basis.

Commissioner Hanke talked about a long-term lease with the NWMC. He asked if a lease with option to purchase was ever considered. Discussion ensued.

“Security” –Attorney Lake stated the commission, by statute, is granted the authority to waive or decrease the security requirement. Responding to a question from Commissioner Tucker, Attorney Lake added security is not limited to finite item of payment, can fashion to full performance.

“Lease Option Payment” – Discussion ensued on the loss of lease agreements for the two vacant buildings at Point Hudson and whether some type of arrangement should be incorporated in the lease to compensate for this. Further discussion was held.

“Building Repair” factor was read by Commissioner Tucker.

“Infrastructure Management and Maintenance” – Commissioner Tucker suggested creating a punchlist.

“Compatibility of Proposed Uses with Zoning, Shoreline and Other Regulations” – Commissioner Tucker asked, is the City amenable to proposed changes presented by the NWMC? Does the NWMC have experience – Commissioner Putney believes this will be up to the City to decide.

“Experience and Credit Worthiness” – Commissioner Putney stated to contractually protect the People’s asset and income. Does not feel like he has the expertise to make this judgment. Commissioner Tucker wondered how much assistance the NWMC would need to manage this asset and how much Port staff time would be consumed and the cost of it all.

Commissioner Hanke discussed the NWMC and their position in the community as opposed to a private entity. Commissioner Putney stated the NWMC has a value to the community and there needs to be a partnership along with the contract. He recommends a punchlist. Further discussion ensued, including security, experience, a NWMC org chart for Point Hudson operations.

PUBLIC COMMENT ON NWMC LEASE PROPOSAL:

Carol Hasse spoke as an advocate for the NWMC lease. She questioned the Maul Foster study of Point Hudson, commented on collaboration, and expressed her thoughts on Point Hudson’s possibilities if the NWMC leases the property.

Liz Hoenig Kanieski spoke to the Commission about “the context of their decision”, the Kanieski’s project, the “5-step, 5-year plan”, focusing on four of the steps, the budget, revenue.

Ted Shoulberg congratulated attorney for allowing for the second comment period. Commented on a punch list, executive session and the minimum price, the long-term lease, the Fort Worden PDA, and performance.

NWMC Director, Jake Beattie thanked the commission for the “open and deliberative” conversation and they look forward to going over the punch list with the Port.

Melinda Bryden asked the commission to consider doing what is best for the entire county, an equitable deal for the Port, cash flow & income difference.

NWMC Board President, Steve Oliver referred to a 1-1/2 year old newspaper article suggesting the Port is in "dire straits and needs help from the community", adding the NWMC is the only one who has put energy into trying to resolve this for the past 1-1/2 years. Need a Letter of Intent, necessary to put the deal together. Negotiate in good faith.

Team Jefferson Director, Brian Kuh appreciates the info shared and is ready to assist – facilitate discussion, etc.

Ron Hayes thanked the NWMC for their energy spent on proposal development. Wants to see the deal happen, doesn't want to see deal go down in flames and looks forward to a partnership.

XI. EXECUTIVE SESSION:

- A. The regular session recessed into Executive Session at 3:31 pm to consider the minimum price at which real estate will be offered for sale or lease when public knowledge regarding such consideration would cause a likelihood of decreased price. However, final action selling or leasing public property shall be taken in a meeting open to the public, pursuant to RCW 42.30.110 (c).

The session began at 3:37 pm, as soon as the public cleared the room.

At 3:38 pm, Ms. Nelson informed those waiting the session was extended twenty minutes.

At 4:58 pm, Ms. Nelson informed the public of a five-minute extension.

RECONVENING OF REGULAR SESSION (00:00:03 – 2nd audio recording):

The meeting reconvened at 5:03 pm. (00:00:03)

Commissioner Hanke moved to direct staff to negotiate a counter offer to the current proposal with the Northwest Maritime Center.

Commissioner Putney seconded the motion.

Motion carried by unanimous vote.

VIII. STAFF COMMENTS (00:00:55):

None

IX. COMMISSIONER COMMENTS (00:01:04):

Commissioner Putney asked the date of completion of the Kidder Mathews study. Director Gibboney answered the target date is April 25, 2018. Commissioner Putney reported he met recently with County Commissioner Kate Dean and City Mayor Deb Stinson, where they discussed jetty funding and a restroom summit. He reported he attended the recent Saturday meeting with the pilots on the runway rehab project. Last, he reported he attended a 3.5 hour County Commissioner meeting on Pleasant Harbor.

Commissioner Hanke requested a white board in the admin office, accessible to all commissioners, for meeting preparation.

X. NEXT PUBLIC WORKSHOP AND REGULAR MEETING:

Wednesday, April 25, 2018. Workshop at 1:00 pm and meeting at 5:30 pm in the Port Commission Building, 333 Benedict St, Port Townsend.

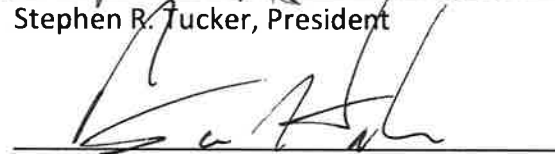
XII. ADJOURNMENT:

The meeting adjourned at 5:07 pm there being no further business to come before the Commission.

ATTEST:



William W. Putney, III, Secretary


Stephen R. Tucker, President
Peter W. Hanke, Vice President

