

The Port
OF PORT TOWNSEND
SERVING ALL OF JEFFERSON COUNTY

**Port of Port Townsend
1st Monthly Meeting Agenda
Wednesday, April 11, 2018, 1:00 p.m.
Port Commission Building
333 Benedict Street
Port Townsend, WA**

- I. Call to Order / Pledge of Allegiance
- II. Approval of Agenda
- III. Public Comments (related to/not related to the agenda)
- IV. Consent Agenda
 - A. Approval of Public Workshop Minutes – March 28, 2018.....1-2
 - Approval of Regular Meeting Minutes – March 28, 2018.....3-6
 - B. Approval of Warrants
- V. Second Reading
- VI. First Reading
- VII. Regular Business
 - A. Cashflow Effects on Bonding for Jetty – Two Scenarios.....7-11
 - B. Resolution No. 677-18 – Establishing the Point Hudson Jetty (South)
Donation Fund.....12-16
 - C. NWMC Lease Proposal.....17-35
- VIII. Staff Comments
- IX. Commissioner Comments
- X. Next Public Workshop / Regular Meeting:
Wednesday, April 25, 2018: Workshop at 1:00 pm, Meeting at 5:30 pm
Port Commission Building, 333 Benedict Street, Port Townsend, WA
- XI. Executive Session
 - A. 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)
- XII. Adjournment

PORT COMMISSION PUBLIC WORKSHOP – March 28, 2018

The Port of Port Townsend Commission met for a Public Workshop in the Port Commission Building, 333 Benedict Street, Port Townsend, WA

Present: Commissioners Tucker & Putney
Executive Director Gibboney
Auditor Berg
Director of Operations & Business Development Englin
Director of Planning/In-house Counsel Toews
Communications Coordinator Matej
Consultant Marc Horton
Recorder Nelson

Excused: Commissioner Hanke

I. CALL TO ORDER:

Commissioner Tucker called the Workshop to order at 1:00 p.m.
Commissioner Tucker first read a letter of apology related to a comment he made at the March 20, 2018 Special Meeting.

II. AGENDA:

Refer to attached workshop agenda for items discussed.

IV. ADJOURNMENT:

The Workshop adjourned at 3:11 p.m.

ATTEST:

Stephen R. Tucker, President

William W. Putney III, Secretary

Peter W. Hanke, Vice President

**Port of Port Townsend
Public Workshop
Wednesday, March 28, 2018, 1:00 pm
Port Commission Building
333 Benedict Street
Port Townsend, WA**

AGENDA

- **2018 Capital Plan**

Note: This is a Public Port Commission Workshop. Workshops are for information sharing only and no decisions will be made during the session. Public input may be taken at the Commissions' discretion.

PORT COMMISSION REGULAR MEETING– March 28, 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
Communications Coordinator Matej
Attorney Lake
Minutes – Nelson

I. CALL TO ORDER/PLEDGE OF ALLEGIANCE:

Commissioner Tucker called the meeting to order at 5:30 p.m.

Commissioner Tucker read a letter of apology related to a comment he made at the March 20, 2018 Special Meeting.

II. APPROVAL OF AGENDA:

Commissioner Putney moved to approve the Agenda as presented.

Commissioner Hanke seconded the motion.

Motion carried by unanimous vote.

III. PUBLIC COMMENTS:

Commissioner Tucker stated a decision has not been made on the NWMC proposal and that staff is expected to make a recommendation at the April 11 meeting. He stated the NWMC proposal will not be discussed in this evening's Executive Session. He announced that public comments, under Item III, may be made on any matter, with the exception of Regular Business, Item C – Process & Timeline for Northwest Maritime Center. Comment period for this item will take place immediately following Item C and the Commission encourages public comment on the lease.

00:03:53:

Liz Hoenig Kanieski read her letter to the Commission on two primary issues: Open Public Meetings Act compliance with regard to the (proposed) NWMC lease and feedback on the "key factors" being considered in the evaluation process.

Carol Hasse read from a jointly prepared sheet, titled "A Condensed Overview of Proposed Point Hudson Breakwater Concerns", mainly expressing concerns with the steel breakwater.

George Yount announced an economic/job forum occurring at the Port Ludlow Bay Club on April 17 with speakers from the City and County and hopes for Port participation.

Chris Hanson, local diver, discussed the "huge resource in the rocks", a well-known octopus habitat, referring to the current Point Hudson jetty.

Jeff Kelety commented on the Port's bonding capacity, jetty repair costs vs. rebuild costs, and consistency with Port Townsend standards.

Commissioner Tucker informed that back in 2014, he was a proponent of the rubble mound but after many meeting with the engineers, he learned there is no room for a

rubble mound in the channel, a repair is not an option, so the only option is the steel jetty. He spoke about the WA Scuba Alliance who made a presentation some years back, who was interested in relocating the rock from the current jetty to create a dive park nearby. He was told the Alliance had permits to do this.

Carol Hasse commented that, per the engineer, a replacement or major rehab of the jetty would be at a lesser cost.

Melinda Bryden encouraged the Commission to formally recognize the donations that were pledged at the March 20 special meeting and to discuss at this evening's meeting.

IV. CONSENT AGENDA (00:25:15):

Commissioner Hanke requested a change to his comments in the March 20, 2018 minutes, section IV. Change to read "...if delayed a year there could be a 20% chance of losing the \$901K grant."

A. Approval of Regular Meeting Minutes – March 14, 2018

Approval of Special Meeting Minutes – March 20, 2018

B. Approval of Warrants

Commissioner Hanke moved to approve the Consent Agenda with the change to the March 20, 2018 minutes as described.

Commissioner Putney seconded the motion.

Motion carried by unanimous vote.

V. SECOND READING (Action Items):

VI. FIRST READING (Discussion Only):

VII. REGULAR BUSINESS:

A. February Financials (00:26:47):

Ms. Berg reported February revenues were strong, up 12% over 2017, and ahead of budget. She stated marina, RV and shipyard revenues have increased compared to last year. Workyard hoist revenues have increased but workyard revenues are down. However, staff is working to increase business in the workyard. Property Leases are down, mainly due to the Cupola House and Armory Building vacancies at Point Hudson. She briefed on expenses, increased over 2017, but under budget. She added most of the budget variance is due to personnel, facilities and operations. She discussed Net Operating Income, Non-operating Revenues. Ms. Berg informed FSM (new marina software) should be in use by Port staff May 1. She briefed on cash balances, the new Cash Flow Management Report and the various 4-year trend analyses.

B. Occupancy/Operations Report (00:35:07):

Mr. Englin stated staff has more work to do in the workyard and staff continues to focus on controlling expenses in order to move closer to our goal. Staff has been working on bringing more business to the yard. He added once the Kidder Mathews study is complete, that will help in moving things (leases) forward. Commissioner Hanke asked what programs are being implemented in the yard to bring in more business. Mr. Englin reported on the 10% discount offered to customers, customer outreach by staff, and

working on increasing yard business during the "shoulder season". Mr. Englin reported the workyard is beginning to fill up. He stated he and staff has been working with some tenants and others on a shared understanding of how to set rates going forward, how rates are formulated and how we are going to position ourselves collectively in the market. Mr. Englin feels that in the end this will help to generate more business for the Port.

Ms. Matej added the 10% yard discount was extended from March 31 to April 30, 2018. Mr. Englin added that when a special is rolled out, staff would focus on communicating that out.

C. Process and Timeline for Northwest Maritime Center (00:39:56):

Director Gibboney stated this is a repeat from the last meeting. She read over the issues and factors the Commission may seek to consider in an Executive Session that may affect an acceptable minimum price for the lease of real estate, in accordance with RCW 42.30.110(c), in regards to the NWMC lease proposal.

Commissioner Tucker opened the floor for public comment on this topic. He reminded that in this evening's executive session, the NWMC lease proposal would not be discussed.

Charley Kanieski suggested additional items be added to the "list" (Issues to Consider May Affect the Minimum Price of Real Estate (relating to the NWMC lease proposal, March 20 & 28, 2018 packets).

Carol Hasse discussed potential opportunities if the NWMC were to run Point Hudson, and urged Commission to let the NWMC take over PH.

Melinda Bryden discussed PH revenue and the cash flow it generates, and said she believes the NWMC could pay for the jetty.

Ron Hayes stated he believes there would be benefits from NWMC payments for a Point Hudson lease for the first ten years, but after that, it's not such a good deal. He would however, like to see a lease worked out with NWMC.

Liz Hoenig Kanieski recommended items to be added to the "list" (Issues to Consider May Affect the Minimum Price of Real Estate (relating to the NWMC lease proposal, March 20 & 28, 2018 packets), and expressed appreciation for the discussions on the lease issue in open session, as per her interpretation of the State Supreme Court decision.

Bertram Levy supports the NWMC deal and the benefit of their payments.

VIII. STAFF COMMENTS (00:56:31):

None

IX. COMMISSIONER COMMENTS (00:56:53):

Commissioner Putney reported he had some great meetings this month with constituents, including Chris Jones of Coast Seafood. Has a meeting with PT Marine Trades Association. He took a long-awaited tour of Haven Boatworks. Commented on dive park at Point Hudson.

Commissioner Hanke stated the Commission and staff have covered so much ground on the Point Hudson Jetty. He added it is a great dive site. However, he added, it is very

hard to be so far in the process and "ratchet back". He is excited about the conciliatory tone regarding the project. He said we have to be very careful not to give away public money by making last minute changes to the project. Although, he will still consider options. He added the Commission does have the right to refuse all bids.

Commissioner Hanke commented on Commissioner Tucker's comment at the March 20 meeting and said it is not easy being a public official. He added he is not necessarily defending Commissioner Tucker but he appreciates his willingness to be genuine in his comments, and we all know he is not a man who would intentionally belittle anyone. He asked for patience from the audience.

Commissioner Tucker was busy all week researching minutes and records on Jetty project history.

X. NEXT PUBLIC WORKSHOPS AND REGULAR MEETING:

Wednesday, April 11, 2018. Public Workshop at 9:30 and the Regular Meeting at 1:00 pm in the Port Commission Building, 333 Benedict St, Port Townsend.

XI. EXECUTIVE SESSION:

The regular session recessed into Executive Session at 6:33 pm (actual start time - 6:37 pm, once all audience members cleared the room) to discuss a Potential Litigation, pursuant to RCW 42.30.110(i), duration of ten minutes with no action.

XII. ADJOURNMENT:

The meeting reconvened and adjourned at 6:47 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

PORT OF PORT TOWNSEND

AGENDA COVER SHEET

MEETING DATE	April 11, 2018
AGENDA ITEM	<input type="checkbox"/> First Reading <input type="checkbox"/> Second Reading <input checked="" type="checkbox"/> Regular Business
AGENDA TITLE	VII. A) Cashflow Effects on Bonding for Jetty – Two Scenarios
STAFF LEAD	Abigail Berg
REQUESTED	<input type="checkbox"/> Motion <input type="checkbox"/> Action <input checked="" type="checkbox"/> Discussion
ATTACHMENTS	A. Info Memo B. Cashflow Scenario 1 C. Cashflow Scenario 2

PORT OF PORT TOWNSEND

INFORMATIONAL MEMO

DATE: 4/6/2018
TO: Commission
FROM: Abigail Berg, Director of Finance & Administration
CC: Directors
SUBJECT: Cashflow effects on Bonding for Jetty – Two Scenarios

ISSUE

There have been recent changes in the Point Hudson South Jetty project, specifically, the funding of the project. Bond options were reviewed at the January 24 Commission meeting, however with the advent of more recent project cost changes, it was determined a 10-year projection of Port cashflow should be presented to the Commission regarding the potential ramifications if the Port bonds for and completes this project.

BACKGROUND

The Point Hudson South Jetty project has been in the planning process since 2014. Permits have been obtained and design and engineering is complete for both the north and south jetties; the south jetty is Phase I of the overall project. A BIG Tier 2 grant was awarded in the amount of \$1,059,173 to the Port in 2015. Grant funds spent to date are \$176,562 leaving a balance of \$882,611.

In March, events occurred that are likely to affect the cost of this project, including a foreign steel tariff, and the Commission's decision to delay the project start date to mid-September. With the latter event, there is a higher risk of weather-related delays affecting work crew mobilization, demobilization, and timely and on budget project completion. The Commission decision was made at a special meeting held on March 20th. At that time, it was recognized that this choice could increase the cost of the project by at least \$370,000.

Since the March 20th special meeting, the Port has requested and received a revised estimate from the engineer of record, Mott MacDonald. The revised project estimate is \$3,700,000. This number includes estimated adjustments for a construction access easement granted by the Northwest Maritime Center as well as adjustments to an in-channel work window to provide the contractor with greater flexibility. Add to the \$3,700,000 an estimated \$150,000 for effects of the steel tariff and \$150,000 for construction management (both are optimistic) and the remaining balance on the engineer's contract of \$70,205 for a total project cost of \$3,820,205.

The Port had planned to bond for \$3,200,000, and with \$882,611 remaining in grant funds, this would leave \$12,406 to increase Port cash, as per the Resolution 669-17 passed in October 2017. This replenishment of Port cash was originally anticipated to be closer to \$500,000.

DISCUSSION

The attachments present two 10-year cashflow projection scenarios based on historical averages, currently known capital projects, awarded grants, and as of 2020 onwards, annual available capital project funding driven by the cash balance targets that are being recommended by staff. The first scenario includes ALL the capital projects included in the 2018 budget, as well as the projects presented at the March 28 Commission meeting. The only difference in the second scenario is that it spreads out the capital expenses that were presented at the March 28 Commission meeting over several years.

FISCAL IMPACT

Dependent on scenario selection, as detailed in attachments.

RECOMMENDATIONS

This memo is provided for information only. Staff does not recommend any Commission action at this time.

SCENARIO 1

10 year Estimated Operating and Non-Operating Port Wide Cash Flow											
years 2018 - 2027											
as of April 6, 2018											
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	note	budget	estimated	estimated	estimated	estimated	estimated	estimated	estimated	estimated	estimated
Revenues - Operating	1, 2	5,929,075	6,166,238	6,412,888	6,669,403	6,936,179	7,213,626	7,502,171	7,802,258	8,114,349	8,438,922
Revenues - Prop Tax Levy	3	986,000	995,860	1,005,819	1,015,877	1,026,036	1,036,296	1,046,659	1,057,125	1,067,697	1,078,374
Revenues - Other Non Op	4	1,318,727	170,266	175,374	180,635	186,054	191,636	197,385	203,307	209,406	215,688
Total INFLOW		8,233,802	7,332,364	7,594,080	7,865,915	8,148,269	8,441,558	8,746,215	9,062,690	9,391,451	9,732,984
Expenses - Operating	5	5,260,645	5,471,071	5,689,914	5,917,510	6,154,211	6,400,379	6,656,394	6,922,650	7,199,556	7,487,538
Expenses - Bond Interest	6	445,807	439,619	415,519	389,919	361,719	332,619	302,544	271,344	238,869	209,438
Expenses - Other Non Op	7	1,500	28,107	28,669	29,243	29,827	30,424	31,032	31,653	32,286	32,932
Total OUTFLOW		5,707,952	5,938,797	6,134,102	6,336,672	6,545,757	6,763,422	6,989,971	7,225,647	7,470,711	7,729,908
Net Op/NonOp Inflow/Outflow		2,525,850	1,393,567	1,459,978	1,529,243	1,602,512	1,678,136	1,756,245	1,837,043	1,920,740	2,003,076
Debt Service Principal		(1,074,504)	(715,000)	(755,000)	(785,000)	(810,000)	(835,000)	(865,000)	(900,000)	(515,000)	(535,000)
Net Capital Project Estimates	8, 9	(2,017,594)	(437,202)	(30,000)	(578,000)	(570,000)	(623,000)	(671,000)	(717,000)	(1,186,000)	(1,248,000)
Change in Cash balance		(566,248)	241,365	674,978	166,243	222,512	220,136	220,245	220,043	219,740	220,076
Beginning Cash		1,825,582	1,259,334	1,500,699	2,175,677	2,341,921	2,564,433	2,784,569	3,004,813	3,224,857	3,444,597
Total Ending Cash & Investments		1,259,334	1,500,699	2,175,677	2,341,921	2,564,433	2,784,569	3,004,813	3,224,857	3,444,597	3,664,673
Reserves		979,134	1,000,152	1,120,152	1,240,152	1,360,152	1,480,152	1,600,152	1,720,152	1,840,152	1,960,152
Unreserved	8	280,200	500,547	1,055,525	1,101,769	1,204,281	1,304,417	1,404,661	1,504,705	1,604,445	1,704,521

Notes:

1. Total Inflow and Outflow above is from the budget, however, Operating Revenues at Point Hudson were conservatively increased by \$54,000 with a late start to south jetty project.
2. Revenues - Operating were increased annually by averaging 8 year historical results calculated at 4.0%.
3. Revenues - Prop Tax Levy were increased annually by 1.0% as allowed by statute.
4. Revenues - Other Non Op were set after 2018 budget, at an 8 year historical average calculated for 2019 and subsequently increased annually at 3%. Currently known grant funding is included in the "Net Capital Project Estimates".
5. Expenses - Operating were increased annually as calculated from averaging 8 year historical results at 4.0%.
6. Expenses - Bond Interest is based on \$3.2 million bond issue in 2018 wrapping current debt with new bond issue for 25 years with principal payments on the new 2018 debt starting in 2026.
7. Expenses - Other Non Op were set after the 2018 budget at an 8 year historical average calculated for 2019 and subsequently increased annually at 2%.
8. For 2018, this includes \$633,500 in capital projects as presented at the March 28th Commission Meeting. Without these expenses, estimated Unreserved Cash for 2018 would increase to \$913,700.
9. Starting in 2021, this line item spreadsout the capital project costs, as presented at the March 28 Commission meeting, over several years, and starting in 2020 we have additional capital project costs that are driven by staff's recommended cash balance targets, increasing annually.

SCENARIO 2

10 year Estimated Operating and Non-Operating Port Wide Cash Flow											
years 2018 - 2027											
as of April 6, 2018											
		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	note	budget	estimated	estimated	estimated	estimated	estimated	estimated	estimated	estimated	estimated
Revenues - Operating	1, 2	5,929,075	6,166,238	6,412,888	6,669,403	6,936,179	7,213,626	7,502,171	7,802,258	8,114,349	8,438,922
Revenues - Prop Tax Levy	3	986,000	995,860	1,005,819	1,015,877	1,026,036	1,036,296	1,046,659	1,057,125	1,067,697	1,078,374
Revenues - Other Non Op	4	1,318,727	170,266	175,374	180,635	186,054	191,636	197,385	203,307	209,406	215,688
Total INFLOW		8,233,802	7,332,364	7,594,080	7,865,915	8,148,269	8,441,558	8,746,215	9,062,690	9,391,451	9,732,984
Expenses - Operating	5	5,260,645	5,471,071	5,689,914	5,917,510	6,154,211	6,400,379	6,656,394	6,922,650	7,199,556	7,487,538
Expenses - Bond Interest	6	445,807	439,619	415,519	389,919	361,719	332,619	302,544	271,344	238,869	209,438
Expenses - Other Non Op	7	1,500	28,107	28,669	29,243	29,827	30,424	31,032	31,653	32,286	32,932
Total OUTFLOW		5,707,952	5,938,797	6,134,102	6,336,672	6,545,757	6,763,422	6,989,971	7,225,647	7,470,711	7,729,908
Net Op/NonOp Inflow/Outflow		2,525,850	1,393,567	1,459,978	1,529,243	1,602,512	1,678,136	1,756,245	1,837,043	1,920,740	2,003,076
Debt Service Principal		(1,074,504)	(715,000)	(755,000)	(785,000)	(810,000)	(835,000)	(865,000)	(900,000)	(515,000)	(535,000)
Net Capital Project Estimates	8	(1,527,094)	(742,202)	(182,000)	(544,500)	(592,000)	(644,000)	(691,000)	(737,000)	(1,200,000)	(1,270,000)
Change in Cash balance		(75,748)	(63,635)	522,978	199,743	200,512	199,136	200,245	200,043	205,740	198,076
Beginning Cash		1,825,582	1,749,834	1,686,199	2,209,177	2,408,921	2,609,433	2,808,569	3,008,813	3,208,857	3,414,597
Total Ending Cash & Investments		1,749,834	1,686,199	2,209,177	2,408,921	2,609,433	2,808,569	3,008,813	3,208,857	3,414,597	3,612,673
Reserves		979,134	1,000,152	1,120,152	1,240,152	1,360,152	1,480,152	1,600,152	1,720,152	1,840,152	1,960,152
Unreserved	8	770,700	686,047	1,089,025	1,168,769	1,249,281	1,328,417	1,408,661	1,488,705	1,574,445	1,652,521

Notes:

1. Total Inflow and Outflow above is from the budget, however, Operating Revenues at Point Hudson were conservatively increased by \$54,000 with a late start to south jetty project.
2. Revenues - Operating were increased annually by averaging 8 year historical results calculated at 4.0%.
3. Revenues - Prop Tax Levy were increased annually by 1.0% as allowed by statute.
4. Revenues - Other Non Op were set after 2018 budget, at an 8 year historical average calculated for 2019 and subsequently increased annually at 3%. Currently known grant funding is included in the "Net Capital Project Estimates" in 2018 and 2019.
5. Expenses - Operating were increased annually as calculated from averaging 8 year historical results at 4.0%.
6. Expenses - Bond Interest is based on \$3.2 million bond issue in 2018 wrapping current debt with new bond issue for 25 years with principal payments on the new 2018 debt starting in 2026.
7. Expenses - Other Non Op were set after the 2018 budget at an 8 year historical average calculated for 2019 and subsequently increased annually at 2%.
8. This line item spreads out the capital project costs, as presented at the March 28 Commission meeting, over several years, and starting in 2020 we have additional capital project costs that are driven by staff's recommended cash balance targets, increasing annually.

PORT OF PORT TOWNSEND

AGENDA COVER SHEET

MEETING DATE	April 11, 2018
AGENDA ITEM	<input type="checkbox"/> First Reading <input type="checkbox"/> Second Reading <input checked="" type="checkbox"/> Regular Business
AGENDA TITLE	VII. B) Resolution No. 677-18 – Establishing the Point Hudson Jetty (South) Donation Fund
STAFF LEAD	Sam Gibboney
REQUESTED	<input type="checkbox"/> Motion <input checked="" type="checkbox"/> Action <input type="checkbox"/> Discussion
ATTACHMENTS	A. Info Memo B. Resolution NO. 677-18

PORT OF PORT TOWNSEND

INFORMATIONAL MEMO

DATE: 4/6/2018
TO: Commission
FROM: Sam Gibboney, Executive Director
SUBJECT: Fund to Receive Donations for South Jetty

ISSUE

The Port seeks to establish a specific fund to receive donations that would be used for the construction of the Point Hudson South Jetty.

BACKGROUND

On March 20, 2018 at a regular business meeting of the Port, several local businesses, non-profits and individuals generously stepped forward to offer financial support for construction of the south jetty at Point Hudson.

The Commission decided at that same meeting to advertise a call for bids with a start date after September 11, 2018; following the Wooden Boat Festival. The Port Commission and staff were (and remain) concerned that the late construction start-date, which is outside the most favorable work-window for marine construction, coupled with the recent and unanticipated tariff on foreign steel, may increase costs beyond the Port's ability to carry out the project.

The Port now seeks to establish a fund to receive donations that would be specifically reserved and used only towards costs associated with the construction of the Point Hudson South jetty.

DISCUSSION

The parameters of the "Point Hudson Jetty (South) Fund" are detailed in the attached resolution. In summary, a restricted fund would be established with proceeds to be used only towards the construction of the jetty.

Bids will be opened on May 7, 2018. If sufficient funds are available through the combination of grant monies, anticipated bond proceeds and the donation fund, the Port will proceed towards award of the construction contract. If sufficient funds are not available, the Port will not award the contract and donations will be refunded.

Donors will receive a receipt for any donation. Port staff has been advised that donations made to the Port are considered a charitable donation and would be tax deductible for the donor. The Port would advise each donor to independently verify with their own tax advisor.

Jefferson Community Foundation (JCF) has been contacted about assisting with donations as well. Donors not wishing to contribute directly to the Port would be able to make a donation to

the JCF. JCF could then aggregate any such donations received prior to the award of the contract and forward them to the Port.

FISCAL IMPACT

Verbal intentions or "pledges" offered at the March 20th meeting totaled between \$155,000 to \$175,000.

RECOMMENDATIONS

We recommend that the Commission adopt the attached resolution establishing the "Point Hudson Jetty (South) Fund."

RESOLUTION NO. 677-18

A Resolution of the Commission of the Port of Port Townsend

**RESOLUTION ESTABLISHING THE
POINT HUDSON JETTY (SOUTH) DONATION FUND**

WHEREAS: the Port Commission of the Port of Port Townsend has authorized staff to proceed to bid on the Point Hudson Jetty (South) demolition and replacement project, with a bid opening scheduled for May 7, 2018, bid award anticipated by as early as May 23, 2018, and construction to commence no earlier than September 11, 2018 (i.e., following the Wooden Boat Festival); and

WHEREAS: the Port Commission is concerned that the late construction start-date (i.e., outside the most favorable work-window for marine construction), coupled with the recent and unanticipated tariff on foreign steel, may increase costs beyond the Port's ability to carry out the project; and

WHEREAS: the Port may accept monies donated to it and carry out the terms of the donation within the powers granted by law; and

WHEREAS: the Port Commission desires to establish and encourage donations to a dedicated Point Hudson Jetty (South) Fund to support this critically important infrastructure project and to assure that the Port has sufficient funding available to award the construction contract later this spring; and

WHEREAS: a number of prospective donors have been identified who wish to make donations to a restricted fund that would be used exclusively for the Point Hudson Jetty (South) project; and

WHEREAS: the Port Commission desires to restrict the use of any citizen contributions made to this new Point Hudson Jetty (South) Donation Fund for final project engineering and permitting, construction and construction management associated with the project; and

WHEREAS: the Port Commission desires to maintain these restricted funds in a new Point Hudson Jetty (South) Donation Fund, within the General Fund of the Port of Port Townsend;

NOW, THEREFORE, BE IT RESOLVED by the Port Commission of the Port of Port Townsend, as follows:

1. Establishment of Point Hudson Jetty (South) Donation Fund. A separate and dedicated fund to be known as the Point Hudson Jetty (South) Donation Fund is hereby created within the General Fund of the Port of Port Townsend.
2. Restricted Purposes. The fund shall be used solely for expenditures for the following purposes directly related to the South Jetty demolition and replacement project:
 - a. Demolition and reconstruction;
 - b. Engineering support during the bid and construction phase of the project;
 - c. Professional construction management services; and
 - d. Permitting support services related to replacement of the pedestrian walkway.
3. When Expenditures May Commence. Until the Port Commission has awarded the contract for demolition and reconstruction of the South Jetty, no portion of the fund may be expended. Once a

contractor has been selected and the Commission has formally awarded the construction contract, expenditures may begin for the uses and purposes outlined in Paragraph #2, above. In the event the Port Commission determines that it is not in the best interests of the Port and citizens of Jefferson County to award the contract and execute the South Jetty project, donations shall be refunded in full to their respective donors.

4. No Borrowing. No portion of the Point Hudson Jetty (South) Donation Fund shall be borrowed, including any temporary use for any need of the Port.

5. No Use for Operating Expenses of the Port. No portion of the Point Hudson Jetty (South) Donation Fund shall be used to defray annual operating expenses of the Port.

6. Separate Account. The Director of Finance/Auditor of the Port of Port Townsend is hereby authorized to immediately establish a separate account for the Point Hudson Jetty (South) Donation Fund, restricted as specified in this resolution.

7. Interest. In the event the Commission awards the contract for demolition and replacement project, any interest accrued on monies within the Point Hudson Jetty (South) Donation Fund shall be expended upon the project. If, however, the Commission elects not to award the contract and proceed with the project as set forth in Paragraph #3, above, any interest accrued on monies within the Donation Fund shall be retained and transferred to the Port's General Fund.

ADOPTED this 11th day of April 2018, by the Commission of the Port of Port Townsend and duly authenticated in open session by the signatures of the Commissioners voting in favor thereof and the Seal of the Commission duly affixed.

ATTEST:

Stephen R. Tucker, President

Peter W. Hanke, Vice President

William W. Putney, Secretary

APPROVED AS TO FORM:

Port Attorney

PORT OF PORT TOWNSEND

AGENDA COVER SHEET

MEETING DATE	April 11, 2018		
AGENDA ITEM	<input type="checkbox"/> First Reading	<input type="checkbox"/> Second Reading	<input checked="" type="checkbox"/> Regular Business
AGENDA TITLE	VII. C) Northwest Maritime Center Point Hudson Proposal Analysis		
STAFF LEAD	Sam Gibboney		
REQUESTED	<input type="checkbox"/> Motion	<input checked="" type="checkbox"/> Possible Action	<input type="checkbox"/> Discussion
ATTACHMENTS	A. ECONorthwest Point Hudson Analysis B. RedFern Consultants		

Details to be presented.

DATE: March 19, 2018
TO: Sam Gibbone, Executive Director, Port of Port of Townsend
FROM: Morgan Shook and Bob Whelan
SUBJECT: REVISED FINANCIAL ASSESSMENT OF PORT HUDSON PROPOSAL

Project Understanding

The Port of Port Townsend has been engaged in land use and economic planning for its Port Hudson property. The planning effort has elevated impacts to the Port's financial sustainability as a key planning element. During the planning process, the Port of Port Townsend (Port) recently received "A Proposal for Point Hudson 2018" from the Northwest Maritime Center (NWMC).

The NWMC proposes leasing and managing Point Hudson for 50 years (2019 – 2069). The Port engaged ECONorthwest to compare their projected cash flows of Point Hudson with those of the NWMC. The purpose of the comparison is to assess how the NWMC proposal would impact the financial position of the Port via the terms of their proposal.

Basis for the Analysis – Cash flows from the Port and NWMC

At issue is whether projected cash flows to the Port under the proposed NWMC lease are greater or less than the Port's baseline forecast. The Port provided ECONorthwest with their cash flow statement forecast for Point Hudson and the cash flow statement from the NWMC proposal. **ECONorthwest was not asked for any independent verification of those previous works and our analysis is limited to interpreting the information and putting the financial figures on comparative footing.**

The Port's baseline forecast 2018-2039 is in a workbook entitled "PHBaseline for NWMC offer analysis 2-9-18." A visual copy of this excel workbook is include as Exhibit 1 in the Attachment section at the end of this memorandum. We consulted Ms. Berg, Director of Finance for the Port, regarding document and analysis. She offered the following set of key clarifications regarding the baseline for Port Hudson:

- Row 20 of the Port's workbook labeled "Net Operating" is essentially cash from operations for Point Hudson, so it excludes overhead, debt service, and capital expenditures.
- Row 48, which is labeled "Capital Improvements (Buildings, etc.)," shows CAPEX (*i.e.*, capital expenditures) excluding the jetty replacements.
- The baseline forecast does not include leasing Point Hudson to the NWMC.

The NWMC proposal projects Point Hudson cash flows for 2019-2024 (pages 34 and 35). The data are used in this side-by-side analysis (shown in Exhibit 2).

Defining Terms

Before starting the analysis, ECONorthwest's initial task was defining which cash flows are material to the question at hand and what exactly is the proposal. The term "cash flow," by itself, is vague. There are several types of cash flows and they differ markedly from one another. For this analysis, ECONorthwest determined that the appropriate measure is net cash from operations after investing activities. That is because, if agreed upon, the proposal would affect two sources of cash to the Port. They are lease payments (cash from operating activities), and contributions towards capital improvements and upfront payments to the Port (cash from investing activities). All present value calculations are discounted at a rate of 5%.

Baseline Forecast (Scenario 1)

The proposal from NWMC proposal is, in parts, ambiguous and some of the points are contradictory. For example, their "five-year *pro forma*" is actually a six-year *pro forma*. It states, on page 9, that the annual lease would adjust for five years of inflation. Neither the *pro forma* nor the financial considerations (page 27) show an adjustment. As correcting the financials presented to us is outside of our purview, we used the rents and other data as shown in their *pro forma* (Exhibit 2).

The NWMC proposal is indeed two proposals. The first is a two-phase approach. The second is a comprehensive (not phased) approach. NWMC only offered a financial projection for the first phase of the first proposal, which is described on page 29. Thus, ECONorthwest was compelled to limit its analysis to the six-year cash flow projection of the first phase of the two-phase approach.

Extended Forecasts (Scenario 2 and 3)

Because of the deficiencies in the NWMC proposal, the Port asked ECONorthwest to extend this analysis four years to 2028, so to capture at least ten forecast years. Further, the Port asked that the analysis include the phase-two proposal terms as a scenario. The Port also asked for the "comprehensive approach" (page 30 of the NWMC proposal) be included as well. These two scenarios, along with the original scenario from the proposal's *pro forma*, are presented here.

Scenario 1: An Analysis Using the NWMC Proposal *Pro Forma*

The NWMC proposal's *pro forma* calls for phase-one being implemented only and presents a forecast that covers six years. Under the first phase, NWMC would manage the first four of six revenue sources shown in the well laid out baseline forecast produced by Ms. Berg (e.g. marina, historic building, maritime corridor, Seamarine). NWMC would also take responsibility for the expenses of those four sources. The Port would be left with the other two, which are labeled RVs and balance in their workbook. We calculated the net operating income of those two elements that would remain with the Port.

For investing activities, at issue is how much would the Port's CAPEX be if the property is leased. Ms. Berg calculated this and provided it to ECONorthwest by email on March 15. The baseline shows that, without the lease, the Port would spend \$2,736,783 on CAPEX excluding the jetties between 2019 and 2024. Under the terms of the proposal in this scenario, the Port would spend \$1,923,867 according to a forecast by Ms. Berg. This reduces the Port's use of cash by \$812,916 over six years; however, it improves cash flow.

The proposal states the NWMC will do "\$1 million in improvements and upgrades" to Point Hudson. This is not a source of cash to the Port except to the extent the NWMC's investment spending lowers the Port's CAPEX, which Ms. Berg determined and incorporated into her forecast.

The Port will receive other forms of compensation under the lease. The Port will get 15 percent of revenues over and above the 2020 baseline actual. We included this to the cash flow analysis. NWMC also will pay annual rent of \$100,000 from 2019-2021 and \$150,000 from 2022-2024, according to their *pro forma*. NWMC will pay the Port \$2,500,000 no later than 2021. Although the payment is not shown in the *pro forma*, it nonetheless is described on page 9 of their proposal. The analysis includes this as a positive source of cash flow in 2021 to the Port.

We asked Ms. Berg whether the Port's general and administrative (G&A) costs would fall should NWMC lease Point Hudson. She said, "G&A is solely for costs related to the running of the port overall and are not likely to be able to be reduced at all if the lease were to occur." **Therefore, this analysis does not include effects on Port overhead costs (e.g. G&A).**

Scenario 1 Comparison

The following table shows our comparison. Net cash from operations after investing activities would be \$455,909 higher in 2019 under phase one of the NWMC proposal and \$167,451 lower in 2020. A \$2,500,000 payment makes 2021 cash flow positive. Without it the Port would be worse off. After 2021, the comparison turns negative.

Table 1: Scenario One Comparison

The Port's Cash Flows from Point Hudson	2019	2020	2021	2022	2023	2024
Baseline Forecast						
Cash from operations	\$562,394	\$573,642	\$585,115	\$596,817	\$608,754	\$620,929
Minus CAPEX, excluding jetties	(1,241,339)	(823,361)	(25,000)	(455,000)	(25,000)	(167,083)
net cash from operations after investing activities	(\$678,945)	(\$249,719)	\$560,115	\$141,817	\$583,754	\$453,846
Under Phase One						
Cash from operations	\$207,217	\$211,362	\$215,589	\$219,901	\$224,299	\$228,785
Plus rent from NWMC	100,000	100,000	100,000	150,000	150,000	150,000
Plus one-time cash payment to Port	-	-	2,500,000	-	-	-
Plus 15% cash over base	-	-	1,092	2,217	3,375	4,569
Minus CAPEX responsibilities left to Port, excluding jetties	(530,253)	(728,531)	(25,000)	(448,000)	(25,000)	(167,083)
net cash from operations after investing activities	(\$223,036)	(\$417,169)	\$2,791,681	(\$75,882)	\$352,674	\$216,271
Effect of leasing on cash flows	\$455,909	(\$167,451)	\$2,231,566	(\$217,700)	(\$231,080)	(\$237,575)

The analysis, using the data provided by the NWMC proposal and the Port's financial projection, shows net negative cash flows to the Port after the large one-time payment in 2021 from the NWMC. In 2024, cash from operations would be \$228,785 —down from \$620,929 without leasing to NWMC. With the lease, the Port would get \$150,000 in rent and \$4,569 in revenue sharing, but still be responsible for \$167,083 in CAPEX. The net effect, in that year, for leasing is negative \$237,575.

Having only six of fifty years of forecasts limits the analysis to opining about those first six years. Discounting those first six years at 5 percent yields a net present value of the lease of \$1,672,585. However, if one were to assume the negative \$166,578 cash flow incurred in 2024 continues for the length of the 50-year lease with the proposal's assumed 2 percent inflation rate, **the net present value of the lease deal to the port becomes negative \$2,671,474.**

Scenario 2: Extended Forecast with Two-Phases

The Port provided ECONorthwest with the following assumptions for their second scenario. It extends the *pro forma* out four additional years (ten in total) and assumed phase-two of the NWMC proposal is implemented in 2025. ECONorthwest uses the same data from scenario one, but with changes using the following assumptions:

- NWMC pays the Port \$1 million over four years (\$250,000 annually) from 2025 – 2029.
- Additional lease payment of \$200,000 a year begins in 2025
- NWMC takes over all operations at Point Hudson from the Port in 2025
- Include two percent annual inflation starting in 2025
- Starting 2025 lease payments include a once every five-year inflation adjustment

Scenario 2 Comparison

Table 2 shows our comparison of the two-phase proposal over the first ten years. Results for the first six years are identical to scenario one. The addition of higher rent and a \$1 million payment spread over from 2025 through 2028 have a positive impact on cash flows to the Port. However, annual net cash flows are negative to the Port. Under the lease to NWMC, the Port avoids having to invest over \$3.7 million in CAPEX in 2028—an amount the Port shows in its baseline forecast. It would not have this CAPEX projection assuming a lease is agreed to (based on communication from the March 15 email with the Port).

In seven of the ten forecast years the net effect on cash flows to the Port are negative. The first year is one exception because the Port's CAPEX responsibility is considerably less than in the baseline. Similarly, in 2029, the Port is relieved of a large capital expenditure. In 2021, the Port receives a one-time payment of \$2.5 million from NWMC. In the remaining seven years the Port is worse off by an average of \$125,858 a year.

Table 2: Scenario Two Comparison

The Port's Cash Flows from Point Hudson	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline Forecast										
Cash from operations	\$562,394	\$573,642	\$585,115	\$596,817	\$608,754	\$620,929	\$633,347	\$646,014	\$658,935	\$672,113
Minus CAPEX, excluding jetties	(1,241,339)	(823,361)	(25,000)	(455,000)	(25,000)	(167,083)	(688,000)	(25,000)	(25,000)	(3,733,273)
net cash, operations after investing activities	(\$678,945)	(\$249,719)	\$560,115	\$141,817	\$583,754	\$453,846	(\$54,653)	\$621,014	\$633,935	(\$3,061,160)
Under Phase One/Phase Two										
Cash from operations	\$207,217	\$211,362	\$215,589	\$219,901	\$224,299	\$228,785	\$0	\$0	\$0	\$0
Plus rent from NWMC	100,000	100,000	100,000	150,000	150,000	150,000	365,612	365,612	365,612	365,612
Plus one-time cash payment to Port	-	-	2,500,000	-	-	-	-	-	-	-
Plus additional site control payment to Port	-	-	-	-	-	-	250,000	250,000	250,000	250,000
Plus 15% cash over base	-	-	1,092	2,217	3,375	4,569	4,660	4,754	4,849	4,946
Minus CAPEX responsibilities left to Port	(530,253)	(728,531)	(25,000)	(448,000)	(25,000)	(167,083)	(688,000)	0	0	0
net cash, operations after investing activities	(\$223,036)	(\$417,169)	\$2,791,681	(\$75,882)	\$352,674	\$216,271	(\$67,727)	\$620,366	\$620,461	\$620,558
Effect of leasing on cash flows	\$455,909	(\$167,451)	\$2,231,566	(\$217,700)	(\$231,080)	(\$237,575)	(\$13,075)	(\$649)	(\$13,474)	\$3,681,717

Because of the three exceptional years, the net present value of net cash flow is positive \$3,914,424. Note that over those ten years the Port would collect \$3.5 million. Thus, without those non-continuing payments, the net present value would be less (approximately \$1,093,319) albeit positive. Again, a high degree of caution is warranted because this comparison covers only 10 years of the contemplated 50-year lease.

Scenario 3: Extended Forecast of the Comprehensive Approach

This scenario adds the following assumptions to the analysis. The comprehensive approach is the preferred lease arrangement of the NWMC. ECONorthwest uses the same data from scenario two, but with changes using the following assumptions:

- NWMC pays the Port \$3.5 million in thirds between 2019 and 2021
- The annual lease payment from 2019 through 2021 is \$200,000
- After 2021, lease payments rise to \$350,000

Scenario 3 Comparison

The comparison for the comprehensive approach appears in Table 3. Higher rents and reduced CAPEX improve cash flows to the Port. Acceleration in the timing of cash payments from NWMC improves the discounted value of cash flow. However, the loss of income from all operations starting now in 2019 (as opposed to 2025 in scenario two) hurts cash flow. These partly offset one another. As under the other scenarios, in most years the net cash flow is lower than the baseline. It is the years when non-continuing cash payments are made that have the greatest effect raising the net present value to positive \$3,965,662. Again, a high degree of caution is warranted because this comparison covers only 10 years of the contemplated 50-year lease.

Table 3: Scenario Three Comparison

The Port's Cash Flows from Point Hudson	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Baseline Forecast										
Cash from operations	\$562,394	\$573,642	\$585,115	\$596,817	\$608,754	\$620,929	\$633,347	\$646,014	\$658,935	\$672,113
Minus CAPEX, excluding jetties	(1,241,339)	(823,361)	(25,000)	(455,000)	(25,000)	(167,083)	(688,000)	(25,000)	(25,000)	(3,733,273)
net cash, operations after investing activities	(\$678,945)	(\$249,719)	\$560,115	\$141,817	\$583,754	\$453,846	(\$54,653)	\$621,014	\$633,935	(\$3,061,160)
Under Phase One/Phase Two										
Cash from operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Plus rent from NWMC	200,000	200,000	200,000	350,000	350,000	350,000	386,428	386,428	386,428	386,428
Plus \$3.5 MN cash payments to Port	1,166,667	1,166,667	1,166,667	-	-	-	-	-	-	-
Plus 15% cash over base	-	-	1,092	2,217	3,375	4,569	4,660	4,754	4,849	4,946
Minus CAPEX responsibilities left to Port	(530,253)	(728,531)	(25,000)	(448,000)	(25,000)	(167,083)	(688,000)	0	0	0
net cash, operations after investing activities	\$836,414	\$638,136	\$1,342,759	(\$95,783)	\$328,375	\$187,486	(\$296,911)	\$391,182	\$391,277	\$391,374
Effect of leasing on cash flows	\$1,515,358	\$887,854	\$782,844	(\$237,600)	(\$255,379)	(\$266,360)	(\$242,259)	(\$229,832)	(\$242,658)	\$3,452,534

Conclusion

ECONorthwest cannot conclude whether the proposal is a good financial deal for the Port because the NWMC proposal only forecasts the first six of a fifty-year lease. Further, NWMC's proposal contains contradictory and incomplete financial information making detailed comparisons that extend to the term of the contemplated 50-year lease difficult.

The Port provided a 30-year baseline forecast and a 10-forecast of their CAPEX responsibility under the proposal. Using that and the Port's assumptions, which come from the proposal, this analysis found positive net present values under three scenarios but were measured only for the early years of the 50-year lease and those early years are the ones with large one-time payments. In all three scenarios, most years the Port would be worse off compared to their baseline forecast (e.g. the absence of one-time cash payments).

Attachments

Exhibit 1: Port of Port Townsend Baseline for Port Hudson Property

Port Ownership and Operation	2018	2019	2020	2021	2022	2023
Forecasted Revenues						
Marina	\$422,897	\$431,355	\$439,982	\$448,782	\$457,757	\$466,912
Historic Buildings East Side	\$296,500	\$302,430	\$308,479	\$314,648	\$320,941	\$327,360
Maritime Corridor W/Cupola	\$82,422	\$84,070	\$85,752	\$87,467	\$89,216	\$91,001
Sea Marine	\$21,031	\$21,452	\$21,881	\$22,318	\$22,765	\$23,220
RV's	\$449,240	\$458,225	\$467,389	\$476,737	\$486,272	\$495,997
Balance (remaining bldgs)	\$30,827	\$31,444	\$32,072	\$32,714	\$33,368	\$34,035
Total Revenue:	\$1,302,917	\$1,328,975	\$1,355,555	\$1,382,666	\$1,410,319	\$1,438,526
Forecasted Expenses**						
Marina	\$243,936	\$248,815	\$253,791	\$258,867	\$264,044	\$269,325
Historic Buildings East Side	\$171,027	\$174,448	\$177,937	\$181,496	\$185,126	\$188,828
Maritime Corridor W/Cupola	\$47,543	\$48,494	\$49,463	\$50,453	\$51,462	\$52,491
Sea Marine	\$12,131	\$12,374	\$12,621	\$12,874	\$13,131	\$13,394
RV's	\$259,131	\$264,314	\$269,600	\$274,992	\$280,492	\$286,102
Balance	\$17,782	\$18,137	\$18,500	\$18,870	\$19,247	\$19,632
Total Expenses:	\$751,550	\$766,581	\$781,913	\$797,551	\$813,502	\$829,772
Net Operating	\$551,367	\$562,394	\$573,642	\$585,115	\$596,817	\$608,754
Annual Debt						
Marina	\$436,520	\$442,200	\$439,400	\$440,360	\$440,960	\$437,200
South Betty	\$0	\$122,917	\$147,500	\$147,500	\$147,500	\$147,500
Historic Buildings East Side	\$109,130	\$110,550	\$109,850	\$110,090	\$110,240	\$109,300
Maritime Corridor W/Cupola	\$0	\$0	\$0	\$0	\$0	\$0
Sea Marine	\$0	\$0	\$0	\$0	\$0	\$0
RV's	\$0	\$0	\$0	\$0	\$0	\$0
Balance	\$0	\$0	\$0	\$0	\$0	\$0
Total Debt	\$545,650	\$675,667	\$696,750	\$697,950	\$698,700	\$694,000
GR&PA Allocation						
Marina	\$136,437	\$139,165	\$141,949	\$144,788	\$147,683	\$150,637
Historic Buildings East Side	\$95,658	\$97,571	\$99,523	\$101,513	\$103,543	\$105,614
Maritime Corridor W/Cupola	\$26,591	\$27,123	\$27,666	\$28,219	\$28,783	\$29,359
Sea Marine	\$6,785	\$6,921	\$7,059	\$7,200	\$7,344	\$7,491
RV's	\$144,936	\$147,834	\$150,791	\$153,807	\$156,883	\$160,021
Balance	\$9,946	\$10,144	\$10,347	\$10,554	\$10,765	\$10,981
Total GR&PA	\$420,352	\$428,759	\$437,334	\$446,081	\$455,003	\$464,103
Net Net	-\$414,635	-\$542,032	-\$560,442	-\$558,916	-\$556,885	-\$549,349

Exhibit 2: NWMC Proposal for Port Hudson Property

	2019	2020	2021	2022	2023	2024
Income						
Building Leases	105,579	108,746	112,008	115,369	118,830	122,394
New Leases	32,329	94,658	97,498	100,423	103,435	106,538
Utility Property	11,674	11,674	12,024	12,385	12,756	13,139
Perm Moorage	126,228	126,228	130,015	133,915	137,933	142,071
Livesboard Fee	3,920	3,920	4,038	4,159	4,283	4,412
Monthly Guest	99,773	99,773	102,766	105,849	109,025	112,295
Wharf garbage Reimb	25,891	25,891	26,668	27,468	28,292	29,141
Nightly guest	239,353	239,353	246,534	253,930	261,547	269,394
Wharf Usage	0	0	0	0	0	0
Monthly RV	0	0	0	0	0	0
Nightly RV	0	0	0	0	0	0
Kayak Racks	10,959	10,959	11,288	11,626	11,975	12,334
Reservation Fee	15,649	15,649	16,118	16,602	17,100	17,613
Showers	0	0	0	0	0	0
Laundry	0	0	0	0	0	0
Passenger Fee	4,019	4,019	4,140	4,264	4,392	4,523
Electric	15,102	15,102	15,555	16,022	16,502	16,997
Misc.	0	0	0	0	0	0
Event Facility	0	0	0	0	0	0
Total Income	690,476	755,972	778,651	802,011	826,071	850,853

Expense						
8020 - Dues/Subscriptions/Training	1,500	1,500	1,545	1,591	1,639	1,688
8060 - Permits and Licenses	0	0	0	0	0	0
8070 - Printing/Copying	1,054	1,054	1,086	1,118	1,152	1,186
8023 - Equipment	3,000	3,000	3,090	3,183	3,278	3,377
8270 - Software	2,628	2,628	2,707	2,788	2,872	2,958
8023 - Computers & Accessories	300	300	309	318	328	338

6041 - Web Site	600	600	618	637	656	675
6035 - Insurance	54,000	54,000	55,620	57,289	59,007	60,777
6040 - Bank Fees & Charges	19,019	18,019	18,560	19,117	19,690	20,281
6048-3 - Maint & Repair Facility	12,001	12,001	12,361	12,732	13,114	13,507
6048-4 - Maint & Repair Equipment	3,900	3,900	4,017	4,138	4,262	4,389
6053 - Marketing Outside Services	7,280	7,280	7,498	7,723	7,965	8,194
6055 - Marketing Web Site	0	0	0	0	0	0
6066 - Postage	240	240	247	255	262	270
6100 -1 - Supplies Office	5,200	5,200	5,356	5,517	5,682	5,853
6100 -1 - Janitorial Supplies	0	0	0	0	0	0
6100-3 - Operating Supplies	1,000	1,000	1,030	1,061	1,093	1,126
6200 - Taxes (Excise B&O)	10,357	11,340	11,680	12,030	12,391	12,763
6200 - Taxes (leasehold)	12,840	12,840	13,225	13,622	14,031	14,452
6400 - Travel & Meals	1,600	1,600	1,648	1,697	1,748	1,801
6850 - Bad Debt	0	0	0	0	0	0
6850 - Utilities	79,250	79,250	81,628	84,076	86,599	89,197
7205 - Contracted Svc	12,582	12,582	12,959	13,348	13,748	14,161
7105 - Salary / Wages	238,247	238,247	245,394	252,756	260,339	268,149
7155 - Payroll Taxes	22,789	22,789	23,473	24,177	24,902	25,649
7160 - Employee Benefits	23,927	23,927	24,645	25,384	26,146	26,930
Total Expense	512,314	513,297	528,695	544,556	560,893	577,720
Net Ordinary Income	178,161	242,675	249,956	257,454	265,178	273,133
Other Expenses						
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
	0	0	0	0	0	0
Rent	100,000	100,000	100,000	150,000	150,000	150,000
add'l rent 15% over base year	0		1,092	2,217	3,375	4,569
Total other expenses	100,000	100,000	101,092	152,217	153,375	154,569
Cash flow	78,161	115,989	148,864	105,237	111,802	118,565
Cumulative Cash flow						
UBIT	16,414	24,358	31,261	22,100	23,479	24,899
Net Income After Tax	61,748	91,631	117,602	83,138	88,324	93,666

Point Hudson

NWMC Master Lease with The Port of Port Townsend

An analysis of the various outcomes of a lease between the Port of Port Townsend and NWMC.

Statements of fact regarding Point Hudson and the Port

- The Port of Port Townsend has been profitable for the last 15 years.
- Yet, it has also been in a cash flow decline over that period.
- That cash flow decline has put the Port in a financial bind and is forcing the use of ever-increasing, but finite, debt.
- **"Cash is king"** is an expression sometimes used in analyzing businesses or investment portfolios. It refers to the importance of cash flow in the overall fiscal health of a business.
- Therefore this analysis is concentrated only on cash flow.

Point Hudson – Key Financial Considerations

2017 Actual Revenue

Pt Hudson Operating Revenues:

• Marina	458,258
• R.V.'s	441,114
• Leases	405,013
• Utilities	68,391
• Total Operating Revenue	1,372,776

Pt Hudson – 2017 Cash from Operations

Pt Hudson Operating Expenses:

• Salaries & Wages	(122,552)
• Wages- maintenance	(108,567)
• Payroll Tax & Benefits	(108,344)
• Utilities	(184,839)
• Other expenses	<u>(137,891)</u>
• Total Operating Expenses	(662,193)
 • Cash from Operations	 710,583

Point Hudson – Cash is KING

- Point Hudson currently throws off cash of \$700K every year to pay for debt and other Port expenses not related to Point Hudson.
- In order for the Port to just break-even on any Master Lease, it must receive the equivalent of \$700K per year. The Port will need this just to pay the \$9.5M in debt service and the \$2.5M to replace the No. Jetty.
- The Port would be contractually obligated to replace the jetties, but will receive no revenue for the \$6M spent.
- NWMC annual Lease = \$350K and a \$3.5M additional payment

10 Year Cash Flow Analysis – with no Lease

	10 Years (2018-2027)	2nd 10 Years (2028-2037)
Cash from Operations	7,655,040	10,808,000
Capital Expenditures		
So. Jetty	(3,657,653)	-
No. Jetty	(2,478,000)	-
	<u>(6,135,653)</u>	<u>-</u>
Pt Hudson Grants - So. Jetty	901,826	-
Debt Service on Pt Hudson Bonds		
Pt Hudson docks, etc	(4,393,350)	-
New 2018 Bond for So. Jetty	(1,723,860)	(3,375,825)
	<u>(6,117,210)</u>	<u>(3,375,825)</u>
Issuance of New 2018 Bond Debt	3,200,000	-
Net Cash Flow	<u>(495,997)</u>	<u>7,432,175</u>

10 Year Cash Flow Analysis – with NWMC Lease

	10 Years (2018-2027)	2nd 10 Years (2028-2037)
Cash from Lease (\$350K/yr + \$3.5M)	7,580,040	5,241,000
Capital Expenditures		
So. Jetty	(3,657,653)	-
No. Jetty	(2,478,000)	-
Building roof, etc	-	-
	<u>(6,135,653)</u>	<u>-</u>
Pt Hudson Grants - So. Jetty	901,826	-
Debt Service on Pt Hudson Bonds		
Pt Hudson docks, etc	(4,393,350)	-
New 2018 Bond for So. Jetty	(1,723,860)	(3,375,825)
	<u>(6,117,210)</u>	<u>(3,375,825)</u>
Issuance of New 2018 Bond Debt	3,200,000	
Net Cash Flow	<u>(570,997)</u>	<u>1,865,175</u>

SUMMARY

- Over the first 10 year period, the Port reaches the all-important cash flow breakeven if it gives the Northwest Maritime Center a master lease for Point Hudson under the \$3.5M upfront plus \$350K per year.
- Note that this excludes any capital improvements that might be done by either party. To include them would require a separate analysis of what the improvements would do to increase revenues. The assumption is that the increased revenues accrue to the party that makes the improvements.
- Without an additional infusion of upfront cash by NWMC at year 1 or year 10, or increased annual payments; the Port is negatively impacted after year 10.

CONCLUSION

- Accept the NWMC proposal as is but with an initial 10 year lease term and 1 to 2 renewal periods.
- At each renewal period, renegotiate the annual payment such that a break-even cash flow is maintained.
- We believe this is not only realistic for NWMC but that they should also positively benefit from any improvements made. The Port would be the willing partner assisting in obtaining grants for improvements for the greater good.
- In conclusion, a 10 year NWMC Lease makes the most sense for the community and the Port