



PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF SPECIAL MEETING

May 8, 2017

COMMISSIONERS PRESENT

Fred Gouge, President
David Preston, Vice President
Steve Johnston, Secretary
Bruce Faires
Jim Orvis

STAFF PRESENT

Bob McChesney, Executive Director
Marla Kempf, Deputy Director
Tina Drennan, Finance Manager
Brittany Williams, Manager of Properties and Marketing

OTHERS PRESENT

Bradford Cattle, Port Attorney
Karin Noyes, Recorder

CALL TO ORDER

Commission President Gouge called the special meeting to order at 6:30 p.m.

EXECUTIVE SESSION

Commissioner Gouge announced that the Commission would recess into an Executive Session pursuant to RCW 42.30.110(1)(g) to evaluate the qualifications of an applicant or to review the performance of a public employee. However, subject to RCW 42.30.140(4), discussion by a governing body of salaries, wages, and other conditions of employment to be generally applied within the agency shall occur in a meeting open to the public and when a governing body elects to take final action hiring, setting the salary of an individual employee or class of employees, or discharging or disciplining an employee, that action shall be taken in a meeting open to the public. He advised that the Executive Session would last until 7 p.m., at which time the Commission would resume the public portion of the meeting. He further advised that no action would be taken after the Executive Session. The regular meeting was reconvened at 7:00 p.m.

PLEDGE OF ALLEGIANCE

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

CONSENT AGENDA

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

- A. APPROVAL OF AGENDA**
- B. APPROVAL OF APRIL 24, 2017 MEETING MINUTES**
- C. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$395,429.91**
- D. APPROVAL OF DRY STORAGE NORTH LAUNCHER REPAIRS**

COMMISSIONER ORVIS SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

PUBLIC COMMENTS

Darrell Haug, Edmonds, said he is a taxpayer in the Port District; and although he currently serves on the Edmonds Citizens Economic Development Commission (CEDC), he was present to speak to the Commission as a private citizen. He said the purpose of his comments is to share his thoughts about how the Port could help its taxpayers with economic development. He reviewed that a few weeks ago, Mr. McChesney and Commissioner Faires made a good presentation to the CEDC that helped them understand the roles and responsibilities of the Port in the community. The goal of the presentation was to learn more about how the Port and the City could work more closely together on economic development issues. He noted that the Port has duties, responsibilities and powers related to economic development that the City does not have. Its ability to tax and serve as a project leader allows for unique opportunities for development via special private/public partnerships.

Mr. Haug said that, currently, taxpayers are unclear as to what they get from their Port District taxes, and he suggested the Port could do a better job of helping the public understand the role of taxes in the Port's work. He reminded the Commission that they have the authority to increase taxes without a vote of the people, and the revenue could be used for economic development projects.

Mr. Haug observed that one of the Port's large holdings is Harbor Square, and recent action by the City Council has diminished its value. As a taxpayer, he asked if the Port is planning to go down the path that the restrictions presented by the City constitute a "taking" and deserves compensation under the law. He emphasized that the taxpayers of Edmonds have, in fact, taken away value for the taxpayers of the Port District, and the Port District taxpayers should be compensated for this "taking." While the Harbor Square redevelopment process did not produce results, he suggested the Port should not shy away from other economic development efforts. The Port should find a way to reward its taxpayers for their role in supporting the Port.

Mr. Haug reported that the CEDC will set up a committee to work with the Port to develop ideas for the communities. As the Port enhances its role in economic development they should consider opportunities to purchase sites around Edmonds or partner with owners to develop sites around Edmonds. Some are in the Port district and others are nearby and would require a joint effort with another port district. He urged the Port to do some creative thinking to come up with some new and creative ideas. He specifically suggested that the following be considered:

- The Union Oil property will go the Washington State Department of Transportation (WSDOT) when the cleanup is complete. These 22 acres will be the largest undeveloped site in the Port District, and the Port's expertise in cleanup of Harbor Square makes it uniquely qualified to develop the property.
- Firdale Village has been rezoned and is ripe for redevelopment. The Commission's skills can go a long way to help with its redevelopment and would help Edmonds create new upgraded space.
- There are underdeveloped sites in the Westgate area that could be considered, and rezoning has already been completed to make the task easier. One clear example is the vacant property east of the car wash.
- The City is planning to rezone the area around Five Corners to make it more attractive for development. Although outside of the Port District, the Port's partnering capabilities could work to its advantage.
- The Highway 99 Subarea Plan is well underway and will lead to rezoning by July. Highway 99 would serve as an ideal area for Port participation.
- With the Civic Field enhancements, the need to help the neighboring area will begin to emerge. The Boys and Girls Club can be rebuilt in a nearby location, freeing up that valuable space for Civic Field; and there are several locations near the field and near the Performing Arts Center that could be redeveloped.
- Edmonds has suggested it needs a new hotel, and the Port could play a role in finding a site and leading the development via a public/private partnership.

Mr. Haug summarized his thoughts by urging the Commission to engage with the CEDC, the City and the entire community to seek more ideas and opportunities for economic development. The Port has the skills, authority, expertise, and hopefully, the will to work with the public on new and exciting economic development opportunities.

NEW HIRE INTRODUCTION

Mr. McChesney introduced Brittany Williams, the Port's new Manager in charge of property management and marketing, including communications and tourism promotion. He said the Port staff is glad to have her join them, and she is already active in a number of different areas.

Ms. Williams said she is excited to be working for the Port. She said she has been working with Ms. Conner to learn about Harbor Square, and she has gotten her hands on other projects, as well. She said she is excited to get started working with the Communications Committee to implement the Communications Plan.

Commissioner Faires commented that the Commission is going to have a workshop relative to economic development later in the meeting, and the intent is to brainstorm what more the Port can do to bring value to the community via economic development. He said he anticipates that Ms. Williams will be heavily involved in whatever projects the Port Commission decides to move forward.

Mr. McChesney advised that the Communications Committee would meet in the near future to move forward with the Communications Plan. Commissioner Faires asked if Ms. Williams would attend the Washington Public Port Association (WPPA) Spring Conference. Mr. McChesney answered that she would not, but he anticipates there will be an opportunity for her to attend the fall meeting.

2016 ANNUAL REPORT

Ms. Drennan reviewed that Port staff presented the draft 2016 Year-End Financial Statements at the March 13th meeting. Since that time, the statements were prepared in the Budget, Accounting and Reporting System (BARS) format as required by the State of Washington and will be submitted to the State Auditor's Office this week. She reported that the Finance Committee reviewed and approved the financial statements last week. She advised that the report would be available on the Port's website in a few weeks. She noted that no changes were made to the statements since they were presented on March 13th. She provided a brief overview of the statements, specifically noting the following:

- The financial statements show the sources and uses of cash in 2016. Operating activities provided net cash of \$2,996,884. It is important that organizations regularly produce positive cash flow from operations, as this is the daily activity of the organization.
- Noncapital financing activities provided net cash of \$406,766, and these activities included proceeds from property tax income and operating grants.
- Capital and related financing activities used net cash of \$1,880,309, and cash flows included purchases and construction of capital assets, as well as principal and interest paid on debt.
- Investing activities used net cash of \$941,358, and cash flows from investing activities included the maturity and purchases of long-term investments and interest from the Port's investments.
- Total cash increased in 2016 by \$581,983. Without the purchase of the long-term investments, total cash would have increased by \$1,589,925. As per the Cash Flow Model, the amount of the increase in cash has been moved into the Capital Replacement Reserve to pay for future capital maintenance.

Commissioner Gouge asked if Ms. Drennan has any new information about the potential increase in the Port's contribution to the Public Employees Retirement System (PERS) or in the health insurance premiums. Ms. Drennan said she doesn't usually receive information about insurance rates until September or October. She reminded the Commission that, in the past, the Health Care Authority adjusted its insurance benefits so they did not reach the amount that would require the Port to pay the Cadillac Tax that was supposed to go into effect in 2018. However, proposed changes in the Affordable Care Act could eliminate the Cadillac Tax. Regarding the Port's PERS contribution, Ms. Drennan reminded the Commission that the rates in 2003 and 2004 were incredibly low and they were not increasing at a rate she would have expected. Now they are having to catch up, but she does not yet know how much the Port's contribution will increase.

Commissioner Gouge commented that the Port did well in 2016 from a financial standpoint, but he anticipates that fishing closures will have a significant impact on the 2017 Financial Statements. He noted that this past weekend was busy, as people were anxious to get out shrimping.

Ms. Drennan advised that the staff's intent is to maintain the same investment strategy in 2017, laddering the investments out and not trying to time the market. The Port's 2005 bonds will mature on June 1st, and the Port recently worked out a new payment schedule for its other bonds where they dramatically increased the payment and decreased the maturity date. This action resulted in a substantial increase in payments (from \$79,000 per months to about \$115,000 per month) and it will save the Port about \$620,000 and the bonds will be paid off in January of 2020.

Commissioner Faires asked if staff is on the lookout for legislative changes that would allow the Port to invest in ways that are not currently allowed. He stressed the need to continually consider opportunities to increase the return on investment with acceptable risk. Ms. Drennan referred to the Port's Investment Policy, and noted that its first criteria is "safety," followed by "liquidity" and "rate of return." She explained that staff looks for changes in legislation that pertain to investment opportunities, but none have occurred to date. She also works with the broker to stay up to date on changes. Commissioner Faires suggested that perhaps the criteria should be adjusted to allow other types of investment opportunities that are within an acceptable envelope of risk. Ms. Drennan reminded the Commission that there is a limited number of investments the Port is allowed to invest in. She noted that interest rates have started to increase.

Mr. McChesney reminded the Commission that the Investment Policy was updated a few years ago, and Ms. Drennan has done a great job. The earnings on the bonds has increased to approximately 1.5%. He suggested that perhaps it would be helpful for staff to provide a specific report to the Commission regarding investments. He summarized that the Port gets some gain from its passive investments, but they also have a fiduciary responsibility not to take on too much risk. Commissioner Faires agreed that the Port has been as aggressive as the culture allows it to be, but they should always be looking for opportunities. Commissioner Gouge pointed out that the WPPA Finance Seminar is very helpful in understanding this issue. He suggested that a Commissioner should attend the next seminar on June 12th.

Commissioner Orvis said the Commission and staff have been working for a number of years to improve the Year-End Financial Statements to make them more readable within the rules required by the State. From the information put together by Ms. Drennan, it is easy to figure out where every dollar came from and where each dollar was spent.

ECONOMIC DEVELOPMENT WORKSHOP

Mr. McChesney reminded the Commissioners that they requested a workshop on economic development at the April 24th meeting. Coincidentally, Frank Chmelik, legal counsel for the Washington Public Port Association (WPPA), put together a nice essay that was published in the last WPPA Newsletter on economic development and what ports are and are not authorized to do. He suggested that this article could provide framework for the Commission's workshop discussion.

Commissioner Faires said the workshop discussion is intended to give the Commission an opportunity to talk about what ports can do for their communities from an economic development standpoint given the current state law. For the past several years, the Port Commission has focused most of its attention on redevelopment at Harbor Square and running the marina. They have done an outstanding job with their fiduciary responsibilities, and the Port is on solid ground from a financial standpoint. In addition, the City Council has made it clear that its view of the future is different from that of the Port Commission. He felt it is now time to consider what else the Port could do to benefit the community. He suggested that the Commission discuss ideas and then form a committee to investigate the viable opportunities and report back to the Commission.

Commissioner Gouge thanked Mr. Haug for his work with the Edmonds Citizens Economic Development Commission (CEDC), and he agreed with his suggestion that opportunities to invest both inside and outside of the Port District boundaries should be discussed by the Commission. He reminded the Commission that they represent all residents within the Port district, which includes half of the City of Edmonds and all of the Town of Woodway.

He suggested that a great place to start would be to make a business case that all potential projects must meet in order to be considered viable. Whatever they do must result in a return to the Port and taxpayers.

Commissioner Faires reminded them that the Port cannot do projects outside of the Port District boundaries without partnering with another port. He suggested that the initial discussions could focus on opportunities within the Port District that will strengthen the Port's economic stability and benefit the economic future of the community.

Commissioner Gouge suggested that the list provided by Mr. Haug would be a good place for the Commissioners to start the discussion. The remainder of the Commission concurred and identified the following as potential opportunities to study further:

- While it might be viable for the Port to build out the infrastructure at Firdale Village and then ground lease it out to businesses, it may end up taking business away from the private sector. They agreed that the Port should not get involved in areas where the private sector is able and willing to do economic development. On the other hand, they would not be opposed to investigating opportunities such as Firdale Village to facilitate improvements that would allow private developers to move forward with redevelopment.
- Although the lower Union Oil property has the same restrictions as Harbor Square in terms of the 125-foot setback, it is a very large site and there would still be a significant amount of land available for redevelopment. The current zoning allows a building height of 35 feet. The ground floor must be commercial space, but the 2nd and 3rd floors can be residential. Perhaps it would be possible for the Port to partner with the WSDOT to revisit opportunities for this site. The Port knows more about how best to protect the marsh if development were to occur, and they also know how challenging it will be to redevelop the site. While the site was previously set aside as the future site of the ferry, WSDOT has advised that the ferry relocation is not part of any plans for at least the next 50 years, as other large projects are taking priority. Ms. Drennan pointed out that this property was a topic of discussion in 1998, and there are a number of Port records relative to the issue that the Commissioners may want to review. It was noted that the property is required to be cleaned up so it is suitable for the uses allowed under its current zoning designation, which includes residential. It was suggested that the property might be a good location for low-income housing via a public/private partnership.
- Regarding the idea of developing a boutique hotel in downtown Edmonds, a study was done several years ago that concluded that a hotel would not be viable in downtown Edmonds given the current height limits and the high cost of land. It was noted that the apartment units in the new development at the former post office site lease for between \$2,800 and \$4,000 per month. Land values in the downtown are high; and in order to be successful, a boutique hotel would need to be located close to the center of downtown. Mr. Haug commented that the CEDC has studied this concept more recently, and the information the Port Commission has is outdated. Most recent information indicates that a boutique hotel must have a minimum of 60 rooms and a brand name in order to be successful. A 60-room hotel would not require that the development occur in a vertical fashion.
- As far as partnering with the City, concern was expressed that the City Council may not be ready to consider opportunities to partner with the Port for redevelopment, and the current environment is difficult to work in. It was noted that the Port is limited by the Revised Code of Washington as to what it can and cannot do, and the challenges associated with developing various neighborhoods in the City are formidable.
- The Port has a master plan for its property, and the Commission should carefully consider all opportunities for more dense development within its own boundaries. The Port's current effort to develop property on the east side of Admiral Way is just one example of this concept. There have also been discussions in the past about developing a parking garage, but structure parking is very costly and it is nearly impossible to get a positive rate of return. The difficulty with developing a parking garage on Port property is that it is too far from downtown. The waterfront is essentially cut off from downtown and people are not inclined to walk from downtown to the waterfront. Another obstacle to further development on Port property is the need to maintain space for surge parking. Parking will be challenged when the parcel on the east side of Admiral Way is developed, and there could be some serious parking problems during the summer season if there is not adequate space for surge parking.

- Affordable housing might also be an option in the Westgate area. It was noted that the new apartments that are being built are all under 900 square feet in size, yet they are leasing for \$2.40 a square foot. Council Member Teitzel suggested that the Port could purchase the property on the east side of the existing car wash and hold it for speculation purposes, and the Commission agreed this option should be further exploration. It was discussed that Snohomish County owns one of the apartment buildings on SR-104 where approximately 80% of the units rent for market value and the remaining 20% are available for low-income families. Because of the high cost of land, it is difficult to imagine the possibility of an affordable housing project within the Port District boundaries. However, there may be an opportunity for the Port to partner with the Snohomish County Housing Authority to build facilities that have a certain portion of the units that are affordable.
- There is a vacant parcel at the corner of 6th and Main that is currently used as a parking lot. It might be possible for the Port to enter into a public/private partnership to develop this site.
- Council Member Teitzel pointed out that the demand for parking is expected to increase significantly as a result of the Community Center that will be developed at the existing Senior Center site. A parking structure near Arnies may pencil out. It was discussed that a better location would be the lot that is located across the street from the Port's vacant lot. Because this lot is owned jointly by the City and the Port, it would be a natural location for a partnership.
- For many years, there have been discussions about developing a public small craft launch at Marina Beach Park to provide access for kayakers and car-top boaters. This could be done via a public/private partnership with the City. The Port could provide the needed parking and help the City obtain the required permits. However, it was noted that there would be some liability associated with the activity.

The Commission formed a committee (Mr. McChesney, Ms. Williams, Commissioner Faires and Commissioner Johnston) to discuss and investigate opportunities for economic development and report back to the Commission.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney advised that they are entering the summer season with a number of events planned. He has been working with John Sherrer and Scott Barnes from the Edmonds School District on the 2017 Sea Jazz events, and he is also working with the Edmonds Arts Festival to put together the Artists in Action Program. He explained that the Artists in Action Program did not turn out to be as energetic as they had hoped. Rather than scheduling events each Sunday this summer, they are considering the idea of having one or two pleinaire events. Perhaps one could be incorporated into the Port's event that is scheduled for August. It is a great concept and a good idea, but the programs did not have the presence and energy that they would like it to have.

Mr. McChesney announced that the Waterfront Festival is scheduled for June 2nd through 4th, and the event organizers are doing a commendable job with the planning. However, success of the festival also depends on the weather.

Mr. McChesney said he is working with the Snohomish County Tourism Bureau to create a strategic plan, which is coming along nicely. He also announced that he would attend an After-Hours Networking event that is sponsored by the Economic Alliance of Snohomish County (EASC) and the Snohomish County Tourism Bureau on May 11th at the Snohomish County Tourism Bureau's office on 164th Street in Millcreek.

Mr. McChesney announced that Puget Sound Express will have a small open house for customers on H dock on May 12th from 4:00 to 7:00 p.m. The purpose of the event is to talk about issues and concerns and figure out how best to address them. The Commissioners are invited to attend, as well.

It was noted that the next Commission meeting will be on May 30th.

Ms. Kempf reported that there was a lot of activity at the marina last weekend as a result of shrimping. On the same Saturday in 2015 there were 56 launches. In 2016, there were 39 and this year they had 80. Guest moorage sales were up, as well. They usually have about 30 to 50 guests, and this year they had 65. Fuel sales were up by about

\$6,000, too. Commissioner Gouge commented that this illustrates the economic impact that shrimping and fishing have on the marina.

COMMISSIONER'S COMMENTS AND COMMITTEE REPORTS

Commissioner Preston announced that he would also attend the After-Hours Networking event that is sponsored by the EASC and the Snohomish County Tourism Bureau on May 11th. He said he would also like to have a discussion with staff about getting another web camera on the dock. He said he looks forward to the Communication Committee's meeting with Ms. Williams.

Commissioner Orvis said he would attend the EASC's annual meeting and awards ceremony on May 25th at the Tulalip Casino.

Commissioner Orvis reported that the Legislature is working to cleanup final items. The big issues before them now involve manufacturing credits and funding for schools. There is a lot of posturing and maneuvering going on as legislators try to put themselves in the most favorable position no matter what happens. There is no telling how long this spring's session will last. He also reported that there are still questions about how the Model Toxic Control Act (MTCA) funds will be spent. At this time, there are \$70 million in authorized projects and no money to fund them.

Commissioner Preston said he just received a reply from a representative of the Health Care Authority who indicated he does not expect any big change in the insurance premiums for 2018.

Commissioner Johnston announced that he would attend the Puget Sound Express open house on May 12th. He said he would also attend the May 25th EASC annual meeting and the WPPA Spring meeting.

Commissioner Gouge reported that the grand opening for the Veterans Memorial Plaza is scheduled for May 24th. Commissioner Johnston agreed to attend the event as a representative of the Port.

Commissioner Preston agreed to hand out the youth artist awards at the Edmonds Arts Festival in June.

Commissioner Gouge announced that he would attend the Edmonds School District Foundation's Breakfast on May 12th and would sit at Mayor Earling's table. Commissioner Orvis said he plans to attend, as well. Commissioner Gouge said he would also attend the Economic Impact of Arts Culture Advisory Group Meeting on May 11th. In addition, he plans to attend the WPPA Spring Conference.

ADJOURNMENT

The Commission meeting was adjourned at 8:22 p.m.

Respectfully submitted,



Steve Johnston
Port Commission Secretary