



PORT COMMISSION OF THE PORT OF EDMONDS

MINUTES OF SPECIAL MEETING

October 16, 2017

COMMISSIONERS PRESENT

Fred Gouge, President
David Preston, Vice President
Steve Johnston, Secretary (arrived at 7:05)
Bruce Faires (arrived at 7:05)
Jim Orvis

STAFF PRESENT

Bob McChesney, Executive Director
Marla Kempf, Deputy Director
Tina Drennan, Finance Manager
Chris Bailey, Staff III
Max Bennett, Operations Assistant
Carl Orsi, Operations Coordinator

OTHERS PRESENT

Bradford Cattle, Port Attorney
Karin Noyes, Recorder

CALL TO ORDER

Commission President Gouge called the special meeting to order at 7:00 p.m. Commissioner Gouge indicated that Commissioners Faires and Johnston were at a candidate's forum and would arrive at the meetings shortly.

PLEDGE OF ALLEGIANCE

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

CONSENT AGENDA

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

- A. APPROVAL OF AGENDA**
- B. APPROVAL OF SEPTEMBER 25, 2017 MEETING MINUTES**
- C. APPROVAL OF PAYMENTS IN THE AMOUNT OF \$730,003.41**
- D. AUTHORIZATION TO APPROVE EDMONDS YACHT CLUB TO CONDUCT HOLIDAY ON THE DOCKS IN GUEST MOORAGE STARTING DECEMBER 2, 2017 THROUGH JANUARY 3, 2018**
- E. AUTHORIZATION FOR THE EXECUTIVE DIRECTOR TO WRITE OFF \$5,002.49**

COMMISSIONER PRESTON SECONDED THE MOTION, WHICH CARRIED UNANIMOUSLY.

INTRODUCTION OF NEW STAFF

Ms. Kempf introduced Chris Bailey, Staff III; Max Bennett, Operations Assistant; and Carl Orsi, Operations Coordinator. Commissioner Gouge welcomed them to the Port on behalf of the Commission.

PUBLIC COMMENTS

Valerie Claypool, Edmonds Rotary Club, thanked Commissioner Orvis and Mr. McChesney for attending the opening ceremonies of the Waterfront Festival. As suggested the last time she addressed the Port Commission, the

Rotary Club is seeking a 3 to 5-year contract for future festivals. She provided them with a copy of the 2017 contract and advised that the Rotary Club will be seeking a similar contract going forward. She also provided a thank you letter from the Classic Yacht Club and a letter from the Rotary Club indicating the proceeds from the 2017 Festival. She noted that, last year, the Rotary Club reimbursed the Port \$2,000 for additional clean up the debris that was left following the festival. She apologized that this occurred and said she has taken steps to make sure it does not happen again. She concluded her remarks by saying that the Rotary Club received great reviews from the vendors, and some of them are already asking to sign up for next year.

Commissioner Gouge suggested that staff set up a meeting with representatives of the Rotary Club and representatives from the Port Commission to discuss a number of issues in preparation for considering a future contract. He also asked Mr. McChesney to schedule a time when Ms. Claypool could present a more thorough report on the 2017 festival.

Council Member Teitzel recalled that the Commission previously raised concern about safety issues at the Edmonds Marsh Boardwalk. Since that time, the Parks Department has repaired most of the problems, and \$70,000 has been set aside in the 2018 budget for structural repairs that will be done during the first quarter of 2018. He also noted that questions were raised at a previous meeting regarding a directional warning system at the Main Street and Dayton Street railroad crossings. He reported that the City has set aside \$300,000 to setup a directional warning system that will broadcast warning signals rather than having trains blow their horns. There have been some delays with Burlington Northern Santa Fe, but it is anticipated the work will be done in early 2018.

Commissioner Faires thanked Council Member Teitzel for his recent letter to the Editor of *MY EDMONDS NEWS* regarding Harbor Square and a vision for what might be possible 30 years from now. Perhaps if they can agree on a vision, they can agree on a process to get them there.

SEA JAZZ STIPEND

Mr. McChesney reviewed that SEA JAZZ was created in the summer of 2012 and it debuted in the Port of Edmonds public plaza on July 1, 2012. Each Sunday afternoon during the summer, from 1 p.m. to 3 p.m. and Wednesday evening from 5 p.m. to 7 p.m., award winning jazz musicians from local high schools jammed down memorable performances to the delight of the wandering public and other marina visitors. The 2017 season ran from June 4th through September 13th. The Port took on the role as the primary sponsor, providing the venue and promotional materials, and assistance was provided by the Edmonds Daybreakers Rotary and the Jazz Connection, which is connected with Seattle Teen Music, to schedule and produce each performance. Anthony's Homeport Restaurant provided a complimentary meal to each performer.

Mr. McChesney concluded that SEA JAZZ has become increasingly recognized by the public as another good reason to visit the Edmonds Marina, and it is a great opportunity for talented student musicians to perform in an open plaza. He thanked Scott Barnes, Manager of Visual and Performing Arts, Edmonds School District, for managing the program. He also thanked Jon Scherrer, Seattle Teen Music and School of Rock, for managing the weekly lineup and organizing the performance logistics. As in prior years, he advised that a stipend of \$1,000 would be paid to the Edmonds School District's Music Department in recognition of the 2017 SEA JAZZ performances.

Scott Barnes, Manager of Visual and Performing Arts, Edmonds School District, commented that SEA JAZZ has been a great collaboration for the students, the Port and the City. The program offers a chance for students to share the skills they have learned with the public. It is a great opportunity to build on the student's independence and music heritage.

Jon Scherrer, Seattle Teen Music and School of Rock, said he currently runs the non-profit Seattle Teen Music Program, which sponsors about 100 gigs each year. In addition, he and his wife recently opened the School of Rock in Lynnwood. He said that because the program has been so successful, it has experienced growing pains that had to be worked out. The Port's help has kept jazz and music going in the school district. Last year, two bands from the district went to Essentially Ellington in New York City, and the number of junior and senior high school students enrolled in music has increased. The SEA JAZZ program offers students an opportunity to play in an emotionally

secure environment. He thanked the Port for its support and said he looks forward to a successful 6th season next year. He commented that the program helps to lay the foundation for building good citizens.

Commissioner Gouge thanked the students, the school district, and the communities of Lynnwood and Edmonds for their support of the program. He also thanked Anthony's Homeport Restaurant for feeding the students.

Commissioner Preston said he first learned of the idea while attending a Washington Public Port Association (WPPA) meeting and hearing about a similar program at the Port of Anacortes. He brought the idea back to the Port Commission, and with the help of Port staff, Mr. Sherrer and Mr. Barnes, the program got started quickly five years ago. Commissioner Johnston encouraged members of the public to come enjoy the music and stick around after the performance to witness the camaraderie between the students. They truly are friends. Mr. Barnes said one cool thing about the program is that it allows students from a variety of schools to come together to perform for the community without a sense of competition. Commissioner Orvis recalled an afternoon when students who had attended Essentially Ellington were mixed with students who had not. There was great synergy and a good deal of sharing. The excitement was infectious.

APPROVAL OF DOCK FLOTATION REPAIR NUMBER 2017-271 AS COMPLETE

Mr. McChesney reviewed that following a competitive bid process, the Commission directed staff to enter into a contact with Neptune Marine LLC to repair five identified flotation buoyancy issues for \$60,000 plus tax. The work was completed on September 22nd for all five dock areas and approved by the maintenance manager. The project included the replacement of about 152 rods, as well as strategic placement of versafloat foam-filled float drums. He reported that the contractor performed well, and staff is pleased with the quality of work. He recommended the Commission accept the Dock Flotation Repair 2017-271 Contract with Neptune Marine LLC as complete.

COMMISSIONER JOHNSTON MOVED THAT THE COMMISSION ACCEPT THE DOCK FLOTATION REPAIR CONTRACT (#2017-271) AS COMPLETE. COMMISSIONER FAIRES SECONDED THE MOTION.

Commissioner Faires recalled that there was an issue with some of the bolts not being long enough. He asked if this resulted in a cost overrun. Mr. McChesney advised that this was a contractor problem, and there was no cost overrun.

THE MOTION CARRIED UNANIMOUSLY.

Commissioner Orvis asked how often staff anticipates that this type of work will be needed. Mr. McChesney answered that no other docks are approaching a level that requires repair. Staff is trying to catch problems as soon as possible, and the goal is to extend the useful life of the existing structures.

Commissioner Gouge asked if the contractor also found corrosion on the through rods. Mr. McChesney said there was some corrosion, and it took a fair amount of effort to free up and remove the old rods. However, there was no danger of failure. Commissioner Faires commented that the Port's intent is to get in front of any issues that might come up.

Gregg Baugh, Edmonds Yacht Club (EYC), thanked Port staff for working to accommodate the EYC guests while N dock boats were being shifted around.

PUGET SOUND EXPRESS (PSE) REPORT

Pete Hanke, Owner and Operator of Puget Sound Express (PSE), advised that the Chilkat Express started its 2017 season in March and the intent is to continue through December, with one trip per day on Wednesdays, Fridays, Saturdays and Sundays. He reported that PSE has run 298 departures so far in 2017, and about 700 total departures since starting operations in Edmonds. He commented on the great partnership between the Port and PSE. The Seattle area is becoming aware of the activity, and the community, the Port and PSE all benefit from the operation.

Mr. Hanke advised that, since 2015, the operation has generated about \$35,000 in passenger fees to the Port and about \$34,000 in parking fees. Previously, PSE worked with Tours Northwest, a small tour bus company, to bring tourists to the marina from hotels in the Puget Sound area. This year, they decided to go on their own. There were more cars parking at the Port and the number of passengers actually increased by about 24%. The Chilkat Express is reaching its capacity, and PSE is looking to increase capacity with a new vessel. He provided photographs and shared details about the new boat that is currently being built. The boat will be 73 feet long and 29 feet wide, and will have a cruising speed of about 35 knots. He anticipates the vessel will use between 1,100 and 1,300 gallons of fuel per day. Commissioner Preston asked if passenger comfort on the new vessel will be greater than the Chilkat Express, and Mr. Hanke answered yes. The new vessel will have an upper deck with a viewing platform.

Commissioner Gouge pointed out that PSE has a partnership with a downtown business to provide food for the excursions. Mr. Hanke said PSE has a successful partnership with The Cheese Monger, and \$26,000 in food products have been purchased in 2017.

Mr. McChesney asked when the new vessel will come on line. Mr. Hanke said the launch date is set for April 15, 2018. The Chilkat Express will run the gray whale tours in March and April, and will probably run the regular whale watching tours while PSE experiments with the new vessel. The intent is to kick off the new vessel on Memorial Day weekend.

Ms. Kempf asked where PSE would draw its crew for the new vessel from, and Mr. Hanke said it would mostly come from the Edmonds community. This year, PSE had 8 employees and 5 will continue working through December. They are looking to hire a coordination manager in Edmonds this winter, as well.

Commissioner Preston commented that this is a great example of what ports can do for economic development. Because Mr. Hanke is a Port Townsend Commissioner he had a clear understanding of what Ports can do when he presented his proposal to the Port of Edmonds. Commissioner Faires added that this is also a great example of a public/private partnership that works for everyone's advantage.

Mr. McChesney reminded the Commission that the Port is currently out to bid to replace the fuel dispensers on the fuel dock, and a lot of the project is driven by the requirements of the new vessel. The flow rate required for the larger vessel may be a little more than what the smaller vessels can handle. Port staff has been working with Mr. Hanke to come up with the right balance to accommodate the new vessel, but not cause problems for the smaller boats.

Gregg Baugh, EYC, asked if the intent is to provide a special pump that is dedicated for the higher speed dispenser. Mr. McChesney affirmed that is the plan. One pump would dispense at about 22 gallons per minute, and the other at about 36 gallons per minute. Mr. Baugh asked if the Port has considered the length of time that PSE's vessel will be occupying the fuel dock and how that might impact other tenants. Commissioner Gouge assured him that has been part of the discussion. He suggested that perhaps Mr. Hanke should provide an overview of the new vessel and its anticipated needs to the EYC.

2018 PRELIMINARY BUDGET

Ms. Drennan referred the Commissioners to the 2018 Preliminary Budget packet, noting that this is the first time the budget has been presented to the Commission and public, but the documents have been available on the Port's website since October 11th. She provided copies of the budget to members of the audience. She reviewed that the Commission and staff have been working on the 2018 budget since August, beginning with a discussion about the budget baseline conditions, the property tax levy and economic development expenses. The Cash Flow Model was used as the baseline for the budgeting process.

Ms. Drennan further reviewed that staff has calculated and compiled the marina budget, rental property budget, overhead budget, capital budget and projected cash flow schedule. Staff has also reviewed moorage rates, dry storage rates, and marina operations fees, and has recommended appropriate rate adjustments. The Finance Committee met on October 5th to discuss the 2018 Preliminary Budget, and their recommended changes were

incorporated into the document currently before the Commission. The Finance Committee's additional changes since the October 5th meeting are identified in bold.

Mr. Drennan advised that, following the workshop, the Commission may accept public comment about the budget. A formal public hearing is scheduled for October 30th. Updated budget packets will be available on the Port's website no later than October 27th. The final budget is scheduled for approval on November 13th.

Ms. Drennan referred to the Marina Operating Budget (Page 8), which shows the revenues and expenses for permanent water moorage, dry storage, electricity, environmental, fuel and oil products, guest moorage, workyard and launcher. Moorage and Dry Storage rates are budgeted with an increase of CPI + 1%, which is a 4% increase. She reviewed the following line items in the Marina Operating Budget:

- Electrical fees are based on 2017 projected year end numbers. The electrical base rate of \$5 covers reading the meters, depreciation on the purchase of the meters, repair and maintenance of the meters, insurance, business taxes and overhead.
- Fuel sales is based on the average of the last five years. The increase in 2015 was primarily due to the whale watching vessel (PSE). Fuel sales is a difficult item to budget because fuel prices and activity are so variable.
- Launcher revenue is very dependent on the fishing season and the weather. Revenue is budgeted as an average of the last two years, and lack of fish openings has decreased revenue. The marina budget includes a property tax allocation of \$50,000 for this public amenity.
- Guest moorage revenue is based on a three-year average. In 2014, the Port changed the guest moorage rate structure from a single rate to a seasonal rate. For 2018, the summer rate will be \$1.45 per foot, and the winter rate will be \$1.30 per foot. A seasonal rate structure matches that of the market.
- Permanent moorage is presented with a rate increase of CPI + 1%, with a 5% vacancy. CPI is 3.0%. This equates to a \$152,000 increase over 2017 projected revenue or an average increase of about \$19 per slip per month.
- Dry storage revenue is presented with a rate increase of CPI + 1%, with an 18% vacancy. CPI is 3.0%. This is a \$22,000 increase over 2017 projected revenue or an average increase of \$7.87 per slip per month.
- Cost of sales consists of credit card fees for moorage, dry storage, marina operations services and tarp and tape for the boatyard. Up to this point, the Port has not accepted credit cards for monthly rent payments, and it is estimated that about 75% of the tenants will take advantage of the opportunity once it is available. This will equate to fees of about \$100,938 in 2018.
- Fuel and oil expenses include fuel dock credit card fees.
- Employee benefits include a Public Employee Retirement System (PERS) increase from 11.21% to 12.7% and a medical insurance premium increase of 4 to 4.6%.
- Repair and maintenance covers the cost of repair and maintenance of Port facilities and equipment such as docks, dry storage space, buildings, parking lots, forklifts, vehicles, travelift, launchers, fuel dock equipment, etc. The costs are divided into recurring expenses and new expenses. The new expense in 2018 will be the C Dock west wall steel repair at a cost of \$50,000. Commissioner Gouge asked if permits will be needed for this work, and Mr. McChesney answered that he does not anticipate that permits will be required because the project is considered maintenance. However, he agreed to double check and report back.
- Salaries and wages were changed since the 2017 budget to add 1 Port operations staff. Some position pay rates were also adjusted as part of the staff addition and Personnel Policy approved on August 28th. In addition, holiday pay will be paid for employees required to work the holiday, and employees required to work the weekend will be paid a 10% premium for shifts started on Saturday or Sunday. A CPI increase of 3% was applied, as well as merit increases per the Port's policy. Commissioner Orvis explained that the Port operates 7 days a week, and employees do not get holidays and some have to work on weekends. In August, the Commission discussed that these employees need to be compensated. They approved a new pay schedule that recognizes the shifts people work as opposed to counting all days the same. Commissioner Faires expressed his belief that the changes are important in order for the Port to maximize employee retention. This has become more difficult in the past few years as job openings have increased. While it may cost more to pay the employees in an appropriate and fair amount, the savings in employee retention will be significant.
- Supplies expense includes a variety of things, some will be new in 2018 and others are recurring expenses.
- Interest expense for the marina will be zero in 2018 as the Port's LTGO bond matured in June of 2017. She reminded the Commission that the bond was used to replace the marina when it collapsed.

- Other post-employment benefits have to do with the Government Accounting Standard Board's requirement that government entities must record this liability starting in 2009. The liability is phased in over a 10-year period, and the 2016 marina liability was \$47,130. The liability is caused because the Port is a member of the Health Care Authority, which provides medical insurance to the Port's retirees. The state charges the Port higher premiums for active employees than the state charges retirees, so the Port is providing direct and indirect subsidies. She emphasized that while the Port must account for this liability, it does not actually have to pay out.
- Property tax carry includes a \$50,000 allocation to the public launch to cover launcher expenses that exceed revenues.
- Overhead allocation is based on the percentage of marina revenues to total revenues, which is 70%.

Commissioner Gouge noted that moorage and dry storage rates have been increased by CPI + 1% for the past six years. The Commission decided that rather than having to increase the rates by a large percentage, it would be better to gradually increase the rates based on CPI. This approach has worked well for the past several years, as CPI has been low.

Commissioner Faires agreed that the Port's policy of increasing rates by CPI + 1% has worked well for the past six years because CPI has remained low. However, it is time for the Commission to have a discussion about whether the policy should continue or if changes are needed. They want to be sure they are doing the right thing for tenants relative to the market, as well as for the budget. Mr. McChesney pointed out that the Commission has expressed a desire to have this discussion at their 2018 Spring Retreat.

Commissioner Orvis pointed out that it will not be possible to generate enough revenue from the marina, given the market rates, to create enough surplus revenue to pay for future replacement. On the other hand, given the properties that are subject to the Port tax and the Port's bonding capacity, it is not possible to issue a large number of bonds and leave it up to the taxpayers to rebuild the marina. The Port must build revenue and resources now to rebuild the marina into the future. There are a number of marinas in Puget Sound that are not being adequately maintained for these very reasons. Currently, it would not be possible to build a new marina because the cost and the permitting requirements are such that a marina could not charge boaters enough. The increase of CPI + 1% was something that boaters could live with and real estate revenues could be used to subsidize and keep the marina going into the future.

Commissioner Faires said the Cash Flow Model represents the Commission's best attempt to forecast the future needs and figure out how to pay for marina replacement without a subsidy from the taxpayers. However, no matter how much money the Port saves, the interest rates the Port earns on its investments do not keep up with the rising cost of construction. The Commission must find a way to solve this problem.

Gregg Baugh, EYC, asked what is causing corrosion at some docks and not others. Are the corrosion situations an indication of future problems on other docks? Mr. McChesney explained that the south end of the marina is more severely impacted by weather, which makes it more susceptible to corrosion. The Port tries to address problems as quickly as possible when they are found. Commissioner Gouge added that the marina is 20 years old. Although the Port has an erosion protection program in place and regular maintenance is done, the corrosive marine environment is definitely a factor. They are looking at a number of different solutions and staff is watching the situation carefully.

Doug Swartz, tenant, asked where the CPI number of 3% came from. He looked on line and found that the number is actually closer to 2.5%. Ms. Drennan advised that the number is based on CPI for urban consumers in the Bremerton, Seattle, Seattle, and Tacoma area.

Ms. Drennan referred the Commission to the proposed moorage and dry storage rates for 2018 (pages 28-30), which are calculated with an increase of CPI + 1% or a total of 4%. The documents show the dollar amount of the increases, and the Moorage Rate Survey on Page 31 shows the Port's rates compared to other marinas (Elliott Bay, Everett, Everett North, LaConner and Shilshole) as of September 2017. She noted that there are not very many covered moorage facilities in Puget Sound for comparison purposes (Everett and LaConner). In addition to increasing the moorage and dry storage fees, she advised that staff is proposing the following:

- Additional time over one hour (charged per minute) for the travelift will increase from \$3.00 to \$4.00.
- Guest moorage rates will increase (both peak and off peak) to recover the cost of the electrical improvements that were made to the guest moorage dock, as well as the new restroom facility. The daily charge for electricity will increase from \$4.50 to \$5.00 per day. The reservation fee would also increase from \$12.50 per day to \$15.00 per day.
- Loan-a-slip fees will increase to match the increases made to guest moorage fees.
- The public launch fees were adjusted to account for sales tax changes in April 2017. They were each rounded up to the next \$.25.
- The fee for Vehicle/Trailer Combination parking was increased from \$5.92 to \$6.12 to assist in paying for restroom and launch improvements.
- The liveaboard fee would increase from \$125.00 per month to \$150.00 per month to recover the cost of the restroom improvements.
- Trailer storage fees and RV parking fees would increase by CPI + 1%.
- Commuter parking is a popular program, with all 10 spaces full and 17 people on the waiting list. Port staff is working on a new layout for the parking lot that will provide more space for commuter parking. Commuter parking fees will also increase by CPI + 1%.
- Dinghy storage rates will increase by CPI + 1%.
- The rate for forklift to vendor's modified trailer was adjusted to account for the sales tax change.
- Staff is proposing an increase in the fuel markup per gallon from \$.72 to \$.78. The Port will continue to upgrade the fuel dock, with replacement of the dispensers in 2018. The intent of the program is to break even before overhead.

Next, Ms. Drennan reviewed the Rental Properties Operating Budget (Page 15), which shows the detailed revenues and expenses for the Harbor Square Property, Anthony's Restaurant, Edmonds Yacht Sales, Harbor Square Athletic Club land lease, the Landing, POE2/Jacobsen's, and the Yacht Club. She noted that rental property revenues are trending up and the space is effectively full. They cannot bring on any more tenants at Harbor Square because there is not enough space to meet the additional parking requirement. She specifically noted the following:

- Harbor Square revenues are projected to be nearly \$1,770,000, Harbor Square CAMS is projected to be \$175,000 and is based on current tenants and their lease terms.
- Anthony's revenue is based on minimum rent plus additional space plus percentage rent. Anthony's had a great year in 2015. However, the 2017 numbers are about the same as 2016, and that is what she expects in 2018, too.
- The Harbor Square Athletic Club land lease increases by CPI in mid-November, and the draft budget estimates a CPI increase of 2.% in 2017 and 2018. This covers the tennis court lease only. The lease for the athletic club building is included in Harbor Square property revenue. Commissioner Preston said he recently spoke with Jack Tawney, Harbor Square Athletic Club about the future of two, paved tennis courts. Because they are located near the marsh they cannot be converted to parking area. The area is located within the marsh buffer area. Because he cannot provide the needed parking, he is unable to expand his membership. Mr. McChesney explained that the limitation was imposed by the City's Critical Areas Ordinance. He and Mr. Tawney have had discussions with the City, and there is no way to finesse the requirement to allow the tennis courts to be converted to parking.
- The POE2 LLC (Jacobsen's) lease began in July of 2014, and rent increases by 2.5% annually beginning in year 2.
- The Landing rent is adjusted every five years based on fair market value. The last increase occurred on August 1, 2014 to \$106,834 per year plus parking. The next rate adjustment (August 1, 2019) will be based on CPI. The lease expires on July 31, 2029.
- The Edmonds Yacht Club (EYC) lease expires in 2039, with two 15-year options to extend. The lease is subject to annual CPI adjustments.
- Lease fee expense includes \$25,000 for marina vacant property development.
- Repairs and maintenance expense includes a new fire alarm and sprinkler system at Harbor Square at a cost of \$75,000. It also includes improvements to the roads and parking lots at a cost of \$50,000. Rather than doing small sections of cut outs, the Port took a different approach in 2017 of replacing the pavement a section at a time. Commissioner Johnston asked if the budget accounts for the conditions they found the last time around that advanced the cost of replacement. Mr. McChesney answered affirmatively.

- The repairs and maintenance expense also includes a sidewalk/curb replacement project at a cost of \$10,000. In addition, it includes carpet and tile replacement in entries. Mr. McChesney reminded the Commission of its commitment to maintain Harbor Square to the highest standard given the condition of the structures. There are some incidental requirements to upgrade foyers, etc. The Port has an obligation to its tenants to keep the facility looking as good as possible. Commissioner Faires added that they also have a responsibility to the taxpayers to keep the buildings occupied, which can only be done if they are well maintained.
- The interest expense is based on an estimated amortization schedule. The Harbor Square loan was refinanced in 2017, decreasing the interest rate from 5.38% to 2.59%. It is anticipated the loan will be paid off in three years rather than seven for a total cost savings of about \$622,000.
- The overhead allocation is based on the percentage of property revenues to total revenues, which is about 30%.
- The property tax allocation of \$180,000 is used to pay off the Harbor Square loan more quickly.

Ms. Drennan reviewed the Overhead Operating Budget (Page 19), which shows the revenues and expenses that cannot be specifically allocated to a cost center. Examples include, but are not limited to, Commission costs, attorney fees, vehicle costs, depreciation and maintenance of Administration Building, and computer maintenance. She specifically noted the following:

- Overhead operating expenses includes funding (\$26,000) for a State audit in 2018 for the years 2016-2017. Commissioner Faires recalled that a few years ago, State law was changed to allow government entities to hire someone other than the State Auditor to perform the audit. He asked if this option has been considered by staff as a less costly means of accomplishing the audit. Ms. Drennan said the State requires two different audits: an accountability audit and a financial statement audit. The financial statement audit can be contracted out to someone else, but the cost of doing so is about double the fee charged by the State Auditor.
- The budget shows \$18,000. to continue the Communications Plan.
- A budget of \$10,000 was allocated for marketing costs. 2018 will be the Port's 70th anniversary, and the Port would like to do something to celebrate.
- Office expenses include \$15,500 to replace 14 workstations that are five or six years old.
- The repair and maintenance expenses include \$50,000 for outside repairs to the Administration Building that will focus on the soffits and front porch area. It also includes ½ of the cost of providing a crosswalk on Admiral Way in conjunction with the City. Parking lot repairs will also be done on the marina side.
- Commissioner per diem and monthly pay will increase, effective July 2018.
- Supplies expense includes a few major purchases, primarily landscaping the SR-104 entrance, reconfiguring the north gravel parking lot, and replacing boards on the Portwalk. Mr. McChesney reported that the Washington State Department of Transportation requires the Port to obtain a landscaping permit before any work can be done.
- Interest rates have risen somewhat, but have remained low. In late 2013, the Port began investing in longer-term investments, and staff will continue to implement this policy. Interest income in 2013 was about \$25,000 and the projected interest income for 2017 is about \$103,000.
- A property tax allocation of \$150,000 was earmarked for Commission costs plus an additional \$20,000 for public records requests and training.

Susan Paine, Edmonds, asked if the Commission expenses remain static or if they change over time. Ms. Drennan answered that they have been increased over time. She referred to Page 19 of the report, where Commission costs are listed out. She noted that conference fees are covered under "education" and travel costs are covered under "travel."

Ms. Drennan briefly reviewed the Capital Budget (Page 26), which shows the projected capital improvements for 2018 to 2022, as well as the budget and actual capital improvements for 2017. She emphasized that the Commission approves the Capital Budget, but then Port staff returns to the Commission for final approval to proceed with the individual projects.

Commissioner Faires requested more information about the Administration Office Remodel Phase 2. Mr. McChesney said the intent is to start this project during the winter months. The project will include remodeling the Commission meeting room and adding another restroom.

Ms. Drennan noted that the Capital Budget identifies funding for Vehicle Replacement in 2018, and the money is earmarked for replacing an existing security vehicle. Commissioner Preston asked how many vehicles the Port has, and Ms. Drennan answered 8. The oldest vehicle was purchased in 2000. The intent is to purchase a new vehicle in early 2018. Commissioner Orvis observed that Ford has announced it will build hybrid trucks. However, it does not appear it will be feasible for the Port to use a hybrid vehicle given the high number of starts and stops required. Ms. Drennan said the last time the Port looked at hybrid vehicles, they were only making a small number of vehicles, and only selling them in California. They cost three to four times more than gasoline options.

Commissioner Preston requested more information about the “new restroom barrier,” and Ms. Drennan explained there is a sharp drop off when leaving the current restroom facility, and the intent was to provide a barrier to stop people falling.

Ms. Drennan pointed out that \$125,000 is allocated in 2018 for replacement of the fuel dock dispensers that were installed in 1998 or 1999. Commissioner Faires recalled that there have been problems with software and hardware compatibility for a number of years. Mr. McChesney said this is the last piece of the fuel dock upgrade, which has been done incrementally over several years. Last year, they spent a lot of time and effort installing a new transaction system.

Ms. Drennan advised that the 2018 Capital Budget also includes \$25,000 for replacement of the directional signs at the Port breakwater entrance. The signs on the existing breakwater are quite worn and not very visible. Mr. McChesney cautioned that it is useful to have good signage for boaters to know which way to go. Commissioner Orvis added that it is not a particularly easy entrance to find and signage is important.

Ms. Drennan advised that \$25,000 is also budgeted in 2018 for H Dock security gates. With Puget Sound Express moving to H Dock, staff felt it was important to provide gates to separate the tenant slips for additional security.

In addition, \$20,000 was budgeted in 2018 for A Dock improvements to add water and power to the dock. Currently, A dock is not used as frequently because there is no water or power. The goal is to make improvements so that both launcher docks will be used equally.

Ms. Drennan advised that \$160,000 has been allocated in 2018 to replace HVAC units at Harbor Square. To date, 47 of the 85 units have been replaced, and the intent is to replace 12 units per year through 2021. The existing units are original to when the buildings were constructed in 1983-1985.

Ms. Drennan referred to the Cash Flow Schedule (Page 27), which shows the estimated inflows and outflows of cash for 2017 to 2022. It includes the Operating Budget and Capital Budget items, as well as required bond payments and cash reserves. She noted that anything not spent over \$1 million gets put into the Capital Replacement Reserve for future marina replacement. Large maintenance upgrades are anticipated in 2023 to 2025, including repair and/or replacement of walers over a 4-year period at a cost of about \$1 million per year.

Ms. Drennan referred the Commission to the 2018 Pay Scale (Page 37), which incorporates a 3% increase. She also referred to the Economic Development and Tourism Expense (Page 38) for 2018 and the tax levy history (Page 39). She noted that the taxable assessed value changed based on actual numbers from the Snohomish County Assessor’s Office. Because assessed value increased (\$4,899,793,400 vs. \$5,379,414,664), the actual tax levy rate decreased (0.082 vs. 0.074) and the tax levy amount remains at \$400,000. She provided graphs to illustrate the Port District’s assessed value from 1989 to 2018, the Port’s tax levy amount from 1989 to 2018, and the Port’s tax levy rate from 1989 to 2018. She noted that the tax revenue is allocated as follows: \$50,000 to launcher subsidy, \$180,000 to Harbor Square debt service, \$150,000 to Commission costs, and \$20,000 to public records requests and training. She provided a graph to compare the Port’s actual tax levy amount to both CPI and 1% increases. She also provided a graph to illustrate the value of property taxes in 2008 dollars. The chart on Page 44 provides a sample of Port District resident taxes for the year 2017.

Commissioner Gouge invited members of the public to comment regarding the Preliminary 2018 Budget, but no one came forward.

Ms. Drennan reviewed that a public hearing is scheduled for October 30th, where the public will have a formal invitation to comment on the budget. Although the statute says the Commission will take the public comment and immediately approve the budget, the Commission does not like to do that. They want to reserve the right to make changes based on public comment. Therefore, final approval is scheduled for November 13th.

Commissioner Gouge encouraged Commissioners to forward their additional questions, comments and changes related to the budget to staff prior to the public hearing so staff can be prepared to react to the issues that are raised.

Commissioner Preston observed that tenants who pay their bills via a credit card will negate the rate increase for this year.

EXECUTIVE DIRECTOR'S REPORT

Mr. McChesney announced that the Port will go out to bid for the fuel dispenser replacement project. Staff will also submit a building permit application for the restroom remodel this week. The Shoreline Permit application for the vacant parcel was scheduled to go before the Edmonds Architectural Design Board on October 4th. However, there was not a quorum present, and the meeting was rescheduled to October 16th. The Hearing Examiner is still scheduled to hear the proposal on October 26th, and he is confident the Port will have the permit in hand by the end of the year. Staff is also working on a new parking lot layout for the north gravel lot.

COMMISSIONER'S COMMENTS AND COMMITTEE REPORTS

Commissioner Johnston advised that he would attend the Economic Alliance of Snohomish County (EASC) annual Public Officials Reception next week. Commissioner Gouge indicated he would attend, as well.

Commissioner Johnston announced that he would attend the annual Washington Public Port Association (WPPA) meeting on November 15th to 17th, and the WPPA Small Port's Conference on October 26th and 27th.

Commissioner Orvis reported on his attendance at the EASC Board Retreat last week, which was essentially a brainstorming session for the next five-year plan that will come out at the November meeting. There are a number of things the EASC is working on that have value to the community and to Edmonds. As the Port Commission suggested, transportation remains a high priority, particularly moving freight and people. Mayor Earling and he talked about the Highway 99 project and will continue to bring it up. Mayor Earling is trying to arrange a meeting with the Director of the EASC.

Commissioner Orvis announced that he would attend the WPPA Legislative Affairs Committee on Friday, and he and Mr. McChesney are also trying to schedule a meeting with Eric Johnston, WPPA Executive Director, to talk about Ms. Drennan's project related to on-call contracts. So far, the WPPA has not given the issue the attention it deserves. He said he plans to attend the WPPA Small Port's Conference and the WPPA Annual Conference, as well.

Ms. Drennan reported that she and Ms. Michaud attended the EASC's labor and industry presentation where they were surprised by the angry people who own small businesses and have to pay sick leave. Some had some convoluted plans they were trying to sort out. The Port will only need to make small changes to implement the sick leave requirement.

Commissioner Preston asked if Mr. Hanke has decided on a name for PSE's new vessel, and Mr. McChesney said he is still working on it.

Commissioner Preston reminded the Commission of the need to have a good conversation with the Rotary Club regarding future waterfront festivals. He particularly recalled that the Commission asked that the vendors be more water-related, but he did not see that much change. He would be interested in discussing this issue further. Mr. McChesney noted that there was not enough time on the agenda tonight for Ms. Claypool to present a thorough report on the 2017 Waterfront Festival. He agreed that it would be helpful for her to provide more detailed information at a future meeting.

Commissioner Preston said he likes the new layout for the Port's newsletter. He also announced that he would attend the Northwest Marine Trade Association's (NMTA) meeting and the WPPA's Small Ports Conference.

Commissioner Faires indicated he would attend the WPPA Annual meeting in November. He observed that while the cost of attending the conference is high, it is definitely worthwhile. Ports in the state are incredibly diverse, and the conference allows an opportunity for them all to share ideas and concerns. It allows the Commissioners to bring home useful information that can guide the Port into the future.

Commissioner Faires announced that he would attend the Edmonds Citizens Economic Development Commission meeting on October 18th.

ADJOURNMENT

The Commission meeting was adjourned at 9:00 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'SJ', with a long horizontal flourish extending to the right.

Steve Johnston
Port Commission Secretary