

**PORT OF OLYMPIA COMMISSION
MINUTES OF REGULAR MEETING**

July 25, 2005

CALL TO ORDER

President Van Schoorl called the meeting of July 25, 2005, to order at 5:30 p.m. at the LOTT Board Room in Olympia. Commissioners Telford and Pottle were also in attendance.

Staff in attendance were: Marketing Director Kari Qvigstad, Administrative Manager Jeri Sevier, Property Development Director Heber Kennedy, Communications Manager Patti Grant, Marine Terminal Director Jim Amador, Harbor Director Bruce Marshall, Property Business Development Sally Alhadeff, Program Assistant Lorie Watson, Public Works Project Manager Ted Tolle, and Marketing Program Assistant Maureen Malahovsky. Also in attendance was the Port's Legal Counsel, Bob Goodstein.

Public in attendance were as follows. Representing KGY was Ian Fox. Others in attendance included Tom Howdeshell, Keith Bausch, Jerry Holbrook, Harold Clark, Patty Belmonte, Yvonne Conway, Phil Conway, Drew Hendricks, and Jon Lind.

APPROVAL OF AGENDA

The agenda was approved as presented with modifications. Commissioners Telford and Pottle indicated they had issues they would like to discuss under "Other Business." President Van Schoorl also suggested moving the two advisories – Sand in the City and Intercity Transit Shuttle Service to follow the consent calendar.

PUBLIC COMMENT

Tom Howdeshell, resident of Olympia, indicated he felt the recognition of PAC members at the last meeting was admirable, but he also thinks the commission should recognize staff on a monthly or quarterly basis. President Van Schoorl indicated we do have an annual recognition event, and we try to give recognition when possible.

Drew Hendricks, resident of Olympia, representing the Olympia Movement for Justice and Peace (OMJP) has been speaking with the Commissioners about the illegality of the Iraq War because the Port supports military shipments in and out of the Port. He continued to try and convince the Commissioners that this war is illegal quoting violations of our constitution.

Jerry Holbrook, resident of Olympia, tenant of the Port, indicated he recently learned that the on-dock rail proposed for approval tonight would eliminate the easy lift from current operations. President Van Schoorl indicated staff would be looking at all the issues.

Jon Lind, resident of Olympia, employee of Holbrook, commented on the same issue of eliminating the easy lift. The commission commented that we have been talking about the on dock rail for over a year and they didn't understand why this issue is coming up at the time of the bid award. Mr. Holbrook indicated staff has been working with him on the relocation of the debarker, but he did know about the impact on the easy lift until Friday.

COMMISSIONERS REPORTS

Commissioner Pottle indicated that he attended the CEO magazine reception at Budd Bay Café, featuring

the article on the South Sound in CEO magazine.

EXECUTIVE DIRECTOR REPORT

Ms. Kari Qvigstad, acting Interim Executive Director, indicated that at the Airport, the South end paving for the runway shift project is complete. The south end of the runway is operational. Construction has shifted to the north end taxiways.

She noted that the marine terminal continues to ship out aluminum and garnet. Two log vessels are on the board to call at the terminal sometime around the mid to end of August.

Ms. Qvigstad reported that the North Peninsula Redevelopment Committee met Thursday and reached preliminary agreement for a recommended master/land use plan for the North Peninsula. The plan will be refined over the next month and the group anticipates making a presentation on the recommendation to the Commission in September.

Ms. Qvigstad noted that staff gave the first presentation to I.A.C. on Thursday as part of the grant application for funding for the Cascade Pole site launch ramp parking area. The final presentation is set for September. Twenty-three projects totaling almost \$8,000,000 have been proposed by various agencies. There is about \$2,100,000 in funding available.

She reported the Public Works Department has been busy, they recently closed the contract on the Swantown Seaplane Dock Assembly, the Olympia Regional Airport Hangars Painting contract was awarded to W. E. Davis Co., the On Dock Rail Extension contract bids were opened on July 21st, staff is recommending awarding the contract to Coast Rail, Inc. tonight, and Rognlin's, Inc. is on site to begin asbestos abatement for the NorthPoint Restaurant Site Improvements contract.

Ms. Qvigstad reported that the destination boater ads are running through the summer in several boating publications. We are working on a new display for the Breakbulk Conference in September. She noted that the FTZ Policy Group held the 3rd quarter meeting. Discussion surrounded the 2006 budget, as well as marketing and promotion strategies for our Foreign-Trade Zone #216. We will not be holding our fall seminar but conduct speakers bureau presentations in each community.

In addition, Ms. Qvigstad reported that the Port would host an exhibit sponsored by the Washington Public Ports Association during the month of August. The interactive exhibit provides information about activities and economic impact of the 76 ports in the state of Washington and also includes photos of the Port of Olympia. It will be at the Thurston County Fair Aug. 3-7 and at the Olympia Center from Aug. 22-26.

Ms. Qvigstad reported that the Reclaimed Water operating agreement signed and forwarded to City of Olympia.

She noted that the PAC meeting was held Thursday evening. All but two PAC members were in attendance; there was good discussion and plan of action developed. The next meeting is August 11th.

Ms. Qvigstad announced that Steve Davis hired as new Finance director and will commence August 8, 2005. He owns Davis Accounting Tax of Audit Services and has extensive public accounting experience.

Consent Calendar

The Consent Calendar was approved as follows.

Minutes. The Commission unanimously approved the minutes from the July 11, 2005 meeting. Commissioner Pottle abstained from voting since he was not in attendance at that meeting.

Bills and Vouchers. The Bills and Vouchers were unanimously approved in the amount of \$1,192,070.71. General Fund Checks Issued: 037390-037402, 037403-037439, 037440-037445, 037446-037512, 037513-037525, 037526-037527, 037528-037530, 037531-037554, 037555-037565, 037566-037621, 037622-037627, 037628, 037629-037630, 037631-037642, 037643-037690, and 037691-037700. Voided Checks: 037396, 037402, and 037166.

Capital Expenditure Approval. The Capital expenditures were unanimously approved in the amount of \$101,285.75 to Federal Aviation Administration for the 2005 Airport Improvement project.

Lease Amendment: Washington Travel Agency

The Commission unanimously ratified the lease amendment with the tenant Washington Travel Agency in the Airport Terminal building extending the term and rate for an additional year. The tenant occupies approximately 200 sq. feet in the building operating as a travel agency. The new term will expire April 30, 2006.

Sand In The City Event Advisory

Patty Belmonte from the Hands On Children's Museum discussed the plans for the 2005 Sand in the City event to be held on Port Plaza Aug. 26 – 28th. She noted that this is the fifth sand event to be held in Olympia, which has grown to become one of the largest community events and the largest sand-sculpting event in Washington State drawing visitors to from the Puget Sound region.

Ms. Belmonte indicated that their flagship sponsor, KAYO was sold and MIX 96 will be replacing KAYO for the advertising and promotion as a sponsor. She indicated that they also renewed the sponsorship with KING TV and Comcast, in addition the event was recently featured in the Alaska Airlines magazine. She commented that they have 11 teams competing this year and they plan to put all of the sculptures on to Corky Street and the master sculpture would be placed on the Port Plaza.

The Port is the host sponsor providing a cash sponsorship at \$2500 and in-kind sponsorship of \$5,700.00 which includes includes staff assistance and facilities to support the success of this year's event. One of four "signature" events, Sand in the City provides the Port significant exposure through Port logo recognition in event advertising and promotional opportunities including print and broadcast media, Sand in the City website, promotional materials and on-site banners and T-shirts.

Intercity Transit Shuttle Service Advisory

Mr. Michael Harbour briefed the Commission on the downtown shuttle – DASH – Downtown Capital Campus Shuttle service that will begin on January 9, 2006. He noted that it would connect the Farmers Market to the Capital Campus. He commented that there will be three vehicles, operating every 12 minutes and the service will be free.

Mr. Harbour indicated that they are trying to address the downtown vehicle problems and have movement between the Capitol Campus to the Farmers Market. He noted that this shuttle utilizes the open parking at the Farmers Market. Since the Farmer's Market is not open during legislative session, this seems to be a good fit. He asked for the Port's help to make this a success. Mr. Harbour commented that this would be a year round service.

Commissioner Pottle indicated this is a great idea, however he wondered if this is going to create a parking issue for the market during the on-season. Mr. Harbour commented that they are hoping to use the parking on campus as overflow parking for the Market during legislative off-season. Commissioner Pottle mentioned that the Port might be looking at building a parking garage and wanted to know if IT was interested in being a partner.

Commissioner Telford also indicated he was under the impression that this was a legislative session service

and would not conflict with the Market, but now understands that this is a year round service. He commented that we will see how your theory works during the busy Market season if the parking becomes an issue, then we would need to talk again.

ACTION CALENDAR

Option Agreement: Catellus

Ms. Sally Alhadeff reported to the Commission that in accordance with the Letter of Intent signed by the Catellus on May 17, 2005 and by the Port on May 23, 2005, the two parties have negotiated an Option Agreement for 126 acres of Industrial and Commercial Property in the NewMarket Industrial Campus. The Option Agreement is for an initial term of 28 months and can be extended if minimum leasing requirements are met.

Ms. Alhadeff indicated that there is a due diligence period of 120 days during which time optionee will undertake marketing and master planning efforts as well as conduct feasibility studies. The option payment of \$148,230 is refundable if the agreement is cancelled during this period.

She noted if the option is exercised, the initial term is for 40 years with one 35-year option to renew. Rent is based on standard formula, with scheduled rent increases of one and one-quarter percent increase year after year.

Ms. Alhadeff commented that the lease requirement for the Industrial Property is 32 acres within the initial 28-month option period; 20 acres within the subsequent next 24 months and 20 acres every year thereafter until absorbed. The lease requirement for the Commercial Property is 7 acres during the initial 28-month period; 5 acres within the subsequent next 24 months and 5 acres every year thereafter until absorbed.

Ms. Alhadeff indicated that the City of Tumwater proposed their Aquatics Center on part of this property, staff has talked with the City and they indicated they would be willing to talk about alternate locations with in the Airdustrial Campus.

Commissioner Pottle moved approval; Commissioner Telford seconded the motion for discussion. Commissioner Pottle asked if we would have option for any of the commercial development. Sally indicated we do have an option. Under this agreement they have an option for the full property defined. We will work together with Catellus for business fits. Commissioner Van Schoorl and Pottle asked about family wage jobs and what that means to Catellus? Ms. Alhadeff responded that the requirements are that they met our guidelines in comprehensive plan and the City of Tumwater's comp plan, which may not address family wage jobs. She indicated she would research their track record (history) in bringing family wage jobs and provide that information to the Commission. She indicated that we have 30 days from July 15th to do our due diligence.

Commissioner Telford asked if the option agreement more than what is in the packet. Ms. Alhadeff responded that a summary was provided in the packet, the option agreement is much larger. Commissioner Telford indicated that this is a major deal, 75 years ties up most of the developable land in the Airdustrial area, and he indicated that he thinks the letter of intent that staff prepared oversteps staff authority. He commented that he would like more analysis on rates proposed. Ms. Alhadeff responded that one of the priority projects is to look at the way we value property. Ms. Alhadeff also noted that there is still several hundred acres in Tumwater surrounding the airport. Commissioner Telford commented that he does not count the east side of the airport and inside the fence as the same developable property.

President Van Schoorl noted that we set the rates annually. Commissioner Telford was questioning whether or not this is the right rate, since it will be from now through 40 years. He commented that he was uncomfortable with fixed increases on the annual rent of one and one quarter percent and wanted to

know how this deal differs from other leases. Commissioner Telford asked for historical data over the last 30 years to see what the annual increase is and commented that we have an obligation to protect the public's pocket book. He commented that he also has a problem with at the end of 40 years the Port has to buy their (Catellus) buildings if they want to abandon them. He noted that his should be our option of whether or not we buy the assets or not at the time of abandonment and they should restore the land if we want them to. Commissioner Telford asked what is the Port's obligation. Ms. Alhadeff responded, none. She indicated that she does expect they will find issues with the storm water and will be asking the Port for help with that.

Harold Clark, resident of Tumwater, warned that the airport does not need more water issues. Ms. Alhadeff commented that current technology puts the water underneath in galleries.

Commissioner Pottle indicated that he understands some of Commissioner Telford's issues; he also understands the problems with leasing. He commented that he felt staff owes the commission an explanation on how you arrived at the one and one-quarter percent per year. Ms. Alhadeff indicated the original proposal we said we would entertain a fixed increase on 1 to 1 ½ percent per year based on advice from our finance officer, our legal counsel, who deals with long term land leases. Commissioner Pottle asked Ms. Alhadeff is she went outside to for advice from someone that is not on the payroll. She indicated that she did not.

Ms. Alhadeff indicated that Catellus is a sophisticated business that is about making deals that make sense that they can sell and market. Commissioner Pottle he understands, but we need to make sure that we are calculating this correctly. He also commented that we are going nowhere with this industrial park and now we have someone who is willing to come in and market and develop it; he thought we have a reasonably good deal.

Commissioner Telford commented that he did not like that we are locked in to a 40-year lease. Every five years the lease rate is adjusted based on fair market value for all other leases. Ms. Alhadeff commented that historically values have remained flat, industrial land is a function of competition and over a decade the rates have only changed a couple of cents per square foot.

Ms. Alhadeff indicated that Catellus needs predictability in order to move forward with this deal. In order to enter into a long-term lease, they need to know what the rates will be going forward to be able to lease out their facilities.

President Van Schoorl indicated that we have been unsuccessful in bringing this property to market and Catellus can do this. We take risks and have been successful in the past and are willing to take this risk. The president called for a vote. The Commission ratified the lease option with Catellus with a 2-1 vote. Commissioner Telford voted against it.

On Dock Rail – Award Bid, Contract #295

Mr. Jim Amador presented the Commission information on the on-dock rail project, for which the budget of \$1.4 Million which was approved at the May 23, 2005 Commission meeting. This project has been awarded a \$375,000 WSDOT Essential Rail Grant.

He indicated that five bids were opened on July 21, 2005. Based on the bid tabulations, staff is recommending awarding the bid to the low bidder Coast Rail, Inc. in the amount of \$1,331,840.34, including WSST. The Engineer's Estimate for the construction portion of this project is \$1,436,598.10.

Mr. Amador noted that we recommended bidding a base bid and two additive alternates. We ultimately bid a base bid for the on dock rail and one additive alternate for the construction of the North Loop track. Based on our early estimates we were unsure whether we could accomplish all of this work within the \$1,400,000 budget.

Mr. Amador indicated that since the bids came in so competitive, staff is recommend awarding both the base and additive alternate #1, and an adjustment of the overall project budget from \$1.4 Million to \$1,470,000. This adjustment reflects the engineering and project management costs as well as a small contingency. Combined with the WSDOT Essential Rail Grant, the Port's estimated cost for this project is \$1,095,000.

Mr. Amador recommended the Commission award the On-Dock Rail Contract # 295 for the base bid of \$1,027,821.70 and additive alternative #1 for the north loop in the amount of \$304,018.64 to Coast Rail, Inc. for a total contract amount of \$1,331,840.34. In addition, staff needs approval of \$70,000 additional budget for this project to cover engineering, project management, and contingency.

Mr. Amador addressed some of the concerns Mr. Holbrook had. He indicated the easy lift is located in the area of the north loop. Mr. Amador indicated that in negotiations of the Holbrook lease, we included compensation for the debarker if we needed to move it. At that time we did not realize the north loop would interfere with the easy lift. The amount of operation of the easy lift was very minimal to none prior to Holbrook owning it. Over the last couple of months since Holbrook obtained it, the usage has increased. Mr. Amador noted that we negotiated compensation for the easy lift if it were to go away. Since Friday Mr. Holbrook notified us that there is interest in using the easy lift. We have had discussions with Mr. Holbrook about moving it to another location. The easy lift is a ramp that goes into the water; the logs are loaded on the ramp and pulls up the logs to surface for a log loader to pull them off.

President Van Schoorl asked what steps staff is looking at for other alternatives. Mr. Amador indicated we are looking at relocating the easy lift and the feasibility of relocating it. President Van Schoorl indicated that staff would work with Mr. Holbrook to develop a solution.

Commissioner Telford asked if the ROI is still valid. Mr. Amador indicated it was.

The Commission unanimously awarded the On-Dock Rail Contract # 295 for the base bid of \$1,027,821.70 and additive alternative #1 for the north loop in the amount of \$304,018.64 to Coast Rail, Inc. for a total contract amount of \$1,331,840.34. In addition, approval of \$70,000 additional budget for this project to cover engineering, project management, and contingency. With the caveat that staff will work with Mr. Holbrook for a solution.

Lease Amendment: Airport Golf Center

Ms. Sally Alhadeff indicated that this lease amendment allows the tenant to perform certain improvements to the golf course and driving range in exchange for a limited credit for the cost of these improvements against percentage rents for 2004.

This amendment changes the option to renew from one ten year term to two five year terms and revises the gross sales multiplier for percentages rents and limits the application of percentage rent to the batting cages and driving range and golf course use only.

Commissioner Telford commented that we keep putting money into a lemon. He commented that he asked for a complete summary to be included in the Commission packet and staff did not. He commented that he still wants data on where were are and where we are going. He noted that the structure of the rents provides for a disincentive again to make anything above the minimum, there should be a straight rent not counting on percentage rents. Commissioner Telford noted that Mr. Rowe is behind on his rent and you are asking for additional improvements and he hasn't been able to make payments, this deal makes matters worse by forgiving \$18,000 in rent; he commented we need to stop the bleeding. Ms. Alhadeff indicated that no matter what we get a base rent, the percentage rent is structured that if your tenant succeeds, then we succeed. She noted that we have tried to take away the disincentive, we made some improvements, and the tenant made some improvements, we have not done badly on our return on this investment.

Commissioner Telford indicated he was appalled when he read the terms of the lease that was made a few years ago.

Yvonne Conway, resident of Olympia, asked how are we now just finding out that he is \$18,000 in arrears, almost 2 years behind. How do you let a tenant get this far behind?

Commissioner Pottle indicated that this land is used as a storm water retention pond. There is nothing else to do with the property. We have a tenant that entered into a lease that was unfair to him and now we are looking to make things right with him.

The Commission ratified the lease amendment changing the existing lease with Rowe Management for operation of the Airport Golf Center in NewMarket Industrial Campus with a 2-1 vote. Commissioner Telford opposed.

ADVISORY CALENDAR

Office Building Advisory

Ms. Kari Qvigstad provided the Commission with some background on this project. She noted that this is a Priority Project for 2005. She indicated that Sally Alhadeff and herself have analyzed alternatives for development of a 45,000 square foot office building on the corner of Market and Franklin Streets in the Market District. The team evaluated three options: 1) Port builds and manages facility, 2) Developer builds and leases, and 3) Private developer builds with joint ownership, pre-leasing and marketing of facility.

She noted that the project meets the vision identified in the Comp Plan adopted in 1995. It completes the link between the Market and Swantown Districts, while serving as a gateway to other business districts including the Marine Terminal and NorthPoint. In addition, Ms. Qvigstad reported that the timing fits the Port's strategic and business plan for continued build out of the Market District/Central Peninsula and allows consolidation of all Port offices into one building.

She noted that the Staff's presentation will highlight recommendations for the joint project model, where a 45,000 s.f. office building would be built and owned by a private/public partnership with the majority owned by a private developer. Both LOTT and the Port together would have minority ownership interest.

Ms. Qvigstad indicated that this project also provides an opportunity to partner with a local developer to continue to develop in the greater market district. The private developer would contribute development expertise. The Port will contribute occupancy of approximately 15,000 s.f. of the building as well as its ability to lease additional square footage to other tenants.

Ms. Sally Alhadeff walked the Commission through a PowerPoint presentation providing a project overview, project analysis, and next steps. She noted that this project would provide an opportunity to partner with a private/public developer, completes the link between the Market District and Swantown District, a gateway location to the Marine Terminal and NorthPoint district, potential partnership with LOTT, and creates space for the Port office and Marine Terminal tenants.

She noted that staff has discussed alternatives for a location and a larger building. She indicated that although this is not LOTT's preferred site, this project could provide an opportunity for the Port and LOTT to accommodate their respective office space needs and allow LOTT and Port to share certain administrative functions and facilities. LOTT requires 12,000 – 14,000 s.f. of space in the building. The estimated project completion is February 2008, which meets their timeline.

Because of the Port's Comp Plan and the Army Corps of Engineers 404 permit envision marine-related uses and activities on the site, a Port administration building fulfills the vision.

She commented that under staff's joint model, the Port enters into a ground lease of 2 acres to developer generating \$59,000 per year. The developer bears 100% of the cost, generating revenues on the lease at market rents of \$23.00 per square foot. The Port could either receive discounted lease rate, share revenues with future developer or consider other alternatives for its investment in pre-lease and marketing activities.

Ms. Alhadeff commented that this presentation tonight is to gather input from the Port Commission, prepare the Commission for a joint meeting with LOTT to confirm a business fit with LOTT, and next steps are to issue a RFP for a development partner and include the project facilitation in the 2006 budget.

Ms. Alhadeff indicated staff was recommending that the Port issue an RFP to the private development community to partner with the Port to construct a 45,000 vs. office building in the Market District by early 2008.

President Van Schoorl indicated that staff is providing a recommendation for one alternative, he asked for information on all three alternatives. He indicated that there are some roadblocks with LOTT and it doesn't seem to make sense for the two boards to meet if we are not seeing eye to eye. Commissioner Telford indicated he looks forward to talking with Lott and would love to make this work. There are some timing and location issues that will need to be worked through.

Commissioner Pottle would we have more opportunity in one location versus another, however, he is looking forward to that discussion on Wednesday night with LOTT. Commissioner Pottle noted that we need the additional three acres for the Marine Terminal where the Port office building currently is. He felt that working with LOTT on this is good government, if we can share facilities and staff, which is a plus for everyone. Commissioner Pottle indicated that he is absolutely opposed to any surface parking for any future project in the Market district. We need a parking solution and we need to build a parking garage. Structured parking is the solution.

President Van Schoorl asked staff for an agenda for the meeting on Wednesday.

Commissioner Telford indicated he would like more information on space needs for the Port. He commented that he believes that if we are going to develop a building; you develop it out to the max to especially if we are looking at structured parking.

Executive Director Recruitment Process

President Van Schoorl indicated that the deadline for the executive director position is tomorrow, July 26th. He distributed a defined proposal for the process for discussion. The Commission asked Jeri Sevier to send them a list of criteria that Waldron & Company would be using to screen the applicants and to finalize the process and distribute to the Commission.

Other Business

Work Session: President Van Schoorl indicated he thinks the commission needs more time to work together as a commission in a work session to work through the issues prior to these issues coming to the Commission for approval. He commented that he is recommending that over the next months we use one meeting a month as a work session.

Commissioner Pottle agreed that it is hard for staff to work on these projects when they do not have a full understanding of the commission position on the various projects.

Airport Project: Commissioner Pottle indicated that he received a letter from Brian Reynolds about displacement of historical artifacts at the airport in one of the port proposed projects. Commissioner Pottle asked staff to review his request and get back to Mr. Reynolds on this issue and to advise the Commission

on the progress.

West Bay Property: Commissioner Pottle indicated that months ago the Port gave the City an option on the West Bay property contingent on the bond passage, the bond passed and he is disappointed in the City for dragging this out. He asked for the Commission to give the City a deadline and demand an answer. Mr. Kennedy indicated that the city sent us a draft agreement for the sale; we responded that we wanted the negotiations sped up with a deadline of December 31st for payment. Commission asked for an update preceding the city counsel discussion by the end of the week.

Cascade Pole: Commissioner Pottle asked for Cascade Pole to be discussed at our next work session. He asked where are we going with this project, we need an exit strategy to reduce costs.

State Street: Commissioner Pottle indicated he had a meeting with some folks asking for the Port to improve the frontage of State Street. He asked the Commission if they are interested in investing some funding to improve the frontage of State Street. Commissioner Pottle asked staff to provide the Commission with some ideas.

Sports and Events Center: Commissioner Telford asked for status of the Sports and Events Center. He commented that he would like resolution to the proposal, whether or not we entertain his proposal or whether we make a decision and move on. However, he noted that he is not interested in the Sports and Events Center, it is not consistent with the public input and not a good fit for the location, based on financials, this is not self-supporting.

President Van Schoorl indicated that he agreed to meet with Mr. Tuckman to answer a few questions. He commented that he would like to make a decision at the August 22nd meeting.

ADJOURNMENT

President Van Schoorl adjourned the meeting at 8:10 p.m. on July 25, 2005 to executive session to discuss employee performance issues. The executive session adjourned at 9:30 p.m. with no action taken.

President Van Schoorl announced the Port Commission would be meeting with LOTT on July 27th at 5:30 p.m. In addition, he noted that the next Port Commission meeting would not be until August 22, 2005.

PORT OF OLYMPIA COMMISSION

President

Vice President

Secretary-Treasurer