

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

October 25, 2004

CALL TO ORDER

President Telford called the meeting of October 25, 2004, to order at 5:30 p.m. at the LOTT Board Room in Olympia. Commissioners Pottle and Van Schoorl were also in attendance.

Staff in attendance were: Executive Director John Wolfe, Administrative Manager Jeri Sevier, Finance Director George Fox, Property Development Director Heber Kennedy, Airport Director Rudy Rudolph, Marketing Director Kari Qvigstad, Communications Manager Patti Grant, Marketing Program Assistant Maureen Malahovsky, Property Administrator Sally Alhadeff, Marine Terminal Director Jim Amador, and Harbormaster Bruce Marshall.

Public in attendance were as follows. Representing Goodstein Law Group was Bob Goodstein; Representing *The Olympian* was Jim Szymanski; and Representing KGY was Patrick Conrad. Others in attendance include: Earl Pearson, Jim Smego, Meta Heller, Kendra Hensley, Keith Bausch, and Sam Bradley.

APPROVAL OF AGENDA

The agenda was approved as presented.

PUBLIC COMMENT

Meta Heller, resident of Tumwater, indicated she was a proponent of the PFD process and presented a proposal. She indicated that last week the City of Olympia selected only one of the proposals and that was the Hand's on Children's Museum. Meta noted that Mr. Wolfe had said that who ever goes on the East Bay property will be paying market lease rates. She noted that the City said rent would not be a problem if the Hand's on Children's Museum owned their own building. She commented that the Port should set them straight. She noted that she is disappointed that her project was not chosen because her proposal was built on community needs.

Earl Pearson, tenant at the airport, he commented that he would like an answer. He noted that he bought the Gunther building and said he would move it. However, things have changed since 9/11. He noted that he asked a couple of years ago if he could move his operations into the Gunther Hangar Building, but the Port has him on a year-to-year lease basis, and he can not invest into a building on a year-to-year commitment. Mr. Pearson indicated that he has been out at the airport for 25 years and has never asked for anything, and it is time to do something for Pearson Air and allow him to use the Gunther Hangar. He asked why he keeps getting the run around and why does the entire airport hinge upon that one-acre? He asked for a 25-year lease on the Gunther Hangar Building so he could be able to get a loan from the bank. He said he would like an answer so he can figure out what his future is at the airport.

Commissioner Telford asked staff what the target date is for getting this issue resolved. Mr. John Wolfe indicated that Mr. Rudy Rudolph, Airport Director, has spent many hours on this issue and will be bringing options to the commission for consideration.

Mr. Rudolph commented that he emailed the Commissioners his proposal for the hangar development. He noted that he would like to either meet with the Commissioners if they have questions and for the commission to provide guidance on the proposal. He commented that he would like to bring this issue to

the Commission for approval at the next meeting.

COMMISSIONERS REPORTS

No Commission reports were given.

EXECUTIVE DIRECTOR REPORT

Mr. Wolfe reported that the Properties staff has had preliminary discussions with a group wanting to co-locate multiple credit unions on airport property. The 1.8 acre site is located on Tumwater Blvd, west of Quizno's.

At the Marina, Mr. Wolfe reported that on October 16, the Olympia Area Rowers held a groundbreaking event for the new boathouse to be located at Swantown Marina. In spite of the rain, the event was very well attended. Commissioner Van Schoorl, City of Olympia Mayor Mark Foutch, and Bill Cullen, OAR President, were the official groundbreakers.

Construction on the OARA building has begun. It is anticipated that the building will be operational by the first of the year.

Mr. Wolfe reported that the Marine Terminal is looking forward to a busy month with the Sun Suma discharging approx. 2500 metric tons of bagged garnet coming from Australia. The carrier was Gearbulk/IMTL. A Limestone barge discharged approx. 9,500 short tons of bulk limestone from Alaska. The barge company was Western Towboat. The Ivan Makarin Vessel will be discharging approx. 16,500 metric tons of aluminum ingots, billets, and t-bars from Russia on Tuesday. The carrier is FESCO. This is the 5th aluminum vessel call at the port this year. And additionally, the log vessel Cape Nelson is expected to arrive the first week of November.

Mr. Wolfe noted the Marketing sponsored the 2004 7th Annual "Tools for Trade" FTZ Seminar at the Phoenix Inn - on October 14th. Over 60 people attended the event with a mix of potential FTZ users, current FTZ users, international trade partners and the "international trade club" from Saint Martin's College. This year's event included a panel of guest speakers that focused on international trade and importing.

In addition, the Properties department sponsored a Real Estate Breakfast on October 20, 2004. The event was held at Indian Summer and was very well attended.

Consent Calendar

The Consent Calendar was approved as follows.

Minutes. The Commission unanimously approved the minutes from the September 27, 2004 and October 8, 2004 Commission Meetings.

Bills and Vouchers. The Commission unanimously approved the bills and vouchers in the amount of \$1,066,637.68. General Fund Checks Issued: 035181-035190, 035191, 035192-035244, 035245-033247, 035249-035285, 035286-035287, 035288-035289, 035290-035292, 035294-035348, 035349-035358, 035360-035402, 035403-035404, 035406-035416, 035417-035448, and 035449-035452. Voided Checks: 035201, 035248, 035273, 035293, 035359, 035375, and 035405.

Capital Expenditure. The capital expenditures were unanimously approved by the commission in the amount of \$260,809.08 to Bellingham Marine for the DEF Marina Expansion, and to Reid Middleton for the Airport Safety Project.

ACTION CALENDAR

Resolution 2004-06 – Tumwater Properties Rate Resolution

Mr. Heber Kennedy presented the Commission with Resolution 2004-06 establishing guidelines and procedures for the Port of Olympia lease policy at the New Market Industrial Campus and Olympia Regional Airport. He indicated that in accordance with Commission Policy, we periodically review the rate of return for all real estate leases within all Port operations. Mr. Kennedy noted that staff plans to review all business units and consequently, this resolution is the first of several that will come before the Port Commission over the next few months.

Mr. Kennedy presented a map of the area, which lies in both the NewMarket Industrial Campus and the Olympia Regional airport. There are approximately 18.3 acres of undeveloped land north of Tumwater Blvd. and approximately 30 acres of undeveloped land south of Tumwater Blvd.

Mr. Kennedy noted that this area has been the focus of redevelopment by the City of Tumwater with adoption of its new Town Center Plan and the expansion of Tumwater Blvd. next year. In conjunction with the City's effort, the Port has drafted for consideration later this year, a land use plan for this area for inclusion into the Port's Comprehensive Plan. He indicated that these planning efforts, coupled with a significant amount of development that is planned or occurring in the area (currently 1.2 million square feet of development is either in the planning, permitting, or construction stage in this area) make this a prime area for review of rates of return.

Mr. Kennedy reported that the current rate of return in this area is 9.5% of 60% of fair market value. The new proposal has two new components. The first is that we raise the initial rate of return for the first thirty-years (30) to 9.5% of 75% of fair market value. Secondly, we are increasing the rate of return to 9.5% of 100% of fair market value anytime after the initial thirty years of the lease. The increase in return after thirty years can be more easily absorbed by the tenant as any mortgage will likely be retired and tenant's cash flow should be able to sustain this additional expense. Each leased parcel will be subject to appraisal and we will continue to adjust rents every five years based on the change in land value.

Mr. Kennedy indicated that this rate was determined by considering land absorption in the area (approximately 5 acres per year), the relationship of land value to total project value in the area (10% - 12%), the amount of land available and any use restrictions/conditions associated with the land (requiring retail in Town Center area, limited freeway return access, etc.), and remaining competitive with for sale land. He noted that based on these factors, the proposed rate of return appears to be reasonable.

Commissioner Pottle asked if we have the option of charging different lease rates for different pieces of property. Mr. Kennedy noted that we could set different rates for targeted property. But within that targeted property, we must charge the same rate. Commissioner Pottle also indicated that locking us into a lease for 30 years seems like a long-term lease. Mr. Kennedy indicated that the tenant needs to know that they will be there for 30 years to invest a sizable portion of money to construct a building and be able to make a profit based on their return. Most of our leases are for 30 years with a 20-year option.

Commissioner Telford asked about the formula rate that is applied. Mr. Kennedy indicated that the formula is applied to the value of the land, that rate is put in check every five years. We need to provide the same rate to all tenants within that targeted property. He noted that the tenants appreciate the consistency. They know that their neighbor is not going to get a better deal than them.

Commissioner Pottle moved approval of Resolution 2004-06; Commissioner Van Schoorl seconded the motion. Commissioner Telford offered an amendment to the motion. He indicated that he would like for the rate not to change at the end of the 30 years of the lease as proposed. Mr. Kennedy indicated that after 30 years, the tenant has paid off their building and they can afford to pay a higher rate. Commissioner Telford indicated that raising the rates discourages a tenant to put improvements into the building because the rate is going up. Mr. Kennedy indicated that the improvement investment would not be as substantial as a start up cost. Commissioner Telford did not receive a second on his amendment.

Resolution 2004-06 passed with a 2-1 vote. Commissioner Telford voted against the motion as it stood.

ADVISORY CALENDAR

TRPC Membership for 2005

Commissioner Telford indicated that he has met with the Thurston Regional Planning Committee (TRPC) subcommittee on the dues the Port pays to TRPC. The subcommittee (with only Ken Jones and TJ Johnson attending) met on October 18th, he presented the Port's views on this issue. He said they acknowledged that there was no basis for the current dues the Port pays. Commissioner Telford indicated that he submitted to the subcommittee that the Port intended to reduce the rate. He suggested that based on the ratio of the Port's operating budget to that of Thurston County, Olympia, Tumwater, and Lacey the Port dues should be about \$10,000 instead of \$30,000. Commissioner Telford indicated that the TRPC subcommittee took the attitude that the dues rate was not subject to negotiation and that TRPC would determine the rate for the members. Ken Jones indicated and TJ Johnson concurred that the subcommittee would recommend to the full TRPC at the November 5 meeting that the Port's dues not be reduced. Commissioner Telford stated that he told the subcommittee that they should be aware that the Port may choose to drop its membership entirely if the TRPC took this hard line.

Commissioner Telford provided two charts that showed his assessment and comparisons of other members of the TRPC. One chart showed the distribution of the STP grants to members. The Port allocation for 2005 was for \$11,188, which the Port did not apply for.

Mr. Wolfe indicated that he reached out to Lon Wyrick, Executive Director at TRPC to get a list of the projects related to grants that they have helped with support to the Port, or could help the Port in the future. Mr. Wolfe indicated that he found that through our membership we are guaranteed STP grants. The position for other grants we might apply could be strengthened through the support of TRPC, but the membership is not required for these grants. Moving forward there will be opportunities that we would ask TRPC for support in acquiring those grants.

Commissioner Pottle indicated that we need to be looking at more things that TRPC can help us with. It appears that the Port has not done a good job coordinating with them; however, they have not also reached out to us either.

Mr. Wolfe indicated that in talking with Commissioners, we acknowledge that there has been a disconnect, and we do need to do a better job of coordinating efforts. We are trying to find a solution that better measure our value of the contribution for what we pay to TRPC and are continuing to explore different options.

Commissioner Telford indicated that he is very disappointed that TRPC did not take our letter from a year ago seriously when the Port gave one-year's notice to reduce dues if we could not identify the value of our dues, and if TRPC is saying "it is a all or none", then he would vote for none. Commissioner Telford indicated he has attended TPB and TRPC meetings for 2 ½ years and has been very frustrated with the cooperation of TRPC board and staff. They have not been receptive to suggested changes for Port transportation issues. They have not been cooperative when Port staff does reach out to them for support.

Commissioner Pottle said he would need an answer from TRPC as to whether it is an "all or none" option.

Ken Jones, Mayor of Tenino, chair of TRPC, indicated that the board wants the Port at the table, but are not in a position to negotiate fees. If they make a consideration for the Port, every other member will be asking for new rates. He noted that the board would consider the arguments; however, the subcommittee will make a recommendation that TRPC to not negotiate the rate. He encouraged Commissioner Telford to attend the meeting and make his arguments.

Commissioner Van Schoorl indicated, he is very supportive of the Port being a member, but this is not a new issue. Year after year, we continue to get the same message each year, but no improvements in the service. He asked how does the Port have an impact, except when it comes time to write a check.

Lon Wyrick, Executive Director of TRPC, noted that in August, the TRPC provided the Commission with a report on the issues they have worked with the Port on. He noted if there was a study that could be funded by TRPC, it is the member's responsibility to bring those issues to the board for consideration.

Commissioner Pottle indicated that the Port is a customer of TRPC; therefore TRPC should come to the Port with a list of what they can do for the Port. He noted that the Commissioners serves on the board and try to represent the Port in the best way they know how, however, the Commissioners need help from TRPC on what they can do for the Port.

Commissioner Van Schoorl asked Mr. Wyrick if the Council would entertain a contract with specific measurements. Mr. Wyrick responded that decision was not up to him, that decision would be up to the Council. However, he noted that he did not feel it would be unreasonable to set some measurements for the Port to assess throughout the year.

Commissioner Pottle declined Commissioner Telford's suggestion that Commissioner Pottle take his place at the next TRPC meeting.

2005 Operating and Capital Budget Advisory

Mr. George Fox provided the Commission with an advisory on the 2005 Operating and Capital budgets.

Mr. Fox indicated that this is the second public meeting where the budget has been presented. In addition, the staff will provide another public briefing on November 8 and will bring the budget to the Commission for adoption on November 22.

Public Comment:

Sam Bradley, resident of Olympia and former Port Commission, commented on the tax subsidy. He noted that he would like to urge the commission to take action as a part of the budget process to make a commitment to eliminate the tax subsidy. He commented that when he was a commissioner, there was a focus of the commission at that time to eliminate the tax subsidy. He commented that he would like to see each business activity become self-sufficient and would like the Port to no longer rely on tax subsidies. He suggested that the Port Commissioners consider revenue bonds over GO bonds for future business financing, recognizing that revenue bonds carry a higher interest rate than GO bonds.

Commissioner Telford indicated that he is in complete agreement of what Mr. Bradley is saying. He said that when the Port operates in the black, that should be allocated directly to pay down the debt.

Commissioner Telford commented on the budget presentation and indicated he had some issues that he would like to address.

- (1) He noted that he wanted the tax levy reduced by the 2004 projected cash flow surplus of \$400,000+.
- (2) He indicated that some of the capital projects have not been fully flushed out and should be moved to contingent projects until they are solid.
- (3) He indicated that he is concerned about trying to do two large construction projects at the airport, if it wouldn't be wise to push the paving project out one year.
- (4) He indicated that he also has questions in to staff about DEF and whether or not the DEF revenues are meeting the projected performa. He would like more information on that before we proceed with planning for MNO.
- (5) He has questions about why the West Bay rail ownership is in the budget if we are in

- negotiations with the City for a purchase of the property, why is staff spending time on this issue.
- (6) He does not understand why the pre-load for the office building is in the budget. He would like to see a plan for the entire area from East Bay all the way to NorthPoint before we plan for an office building.
 - (7) He does not understand why the staff has the demolition of the warehouse in the budget. We should not tear down a building until we have someone else ready to build another one.
 - (8) He indicated that we need to add a line item for the sale of the West Bay property.
 - (9) He noted that he is opposed to cash donations to the Children's Museum, he could swallow the in-kind contributions, but does not understand since this has been controversial for the last several years, why it is important to the Port and Children's Museum for a mere \$2500.
 - (10) He commented that there is a 100% increase in equipment rentals, a large increase for memberships and promotional hosting in the executive/governmental budgets. He would like an explanation of those increases.
 - (11) He noted that the Marketing budget has a large increase for promotional advertising and would like to know what that is for.
 - (12) And he would like to know what the large increase in landscaping and vehicle maintenance is under Public Works.

ADJOURNMENT

President Telford adjourned the meeting of October 25, 2004 at 7:45 p.m. The agenda announced the Commission would hold a work session with staff on November 4, 2004 from 9-12 at the Port offices to discuss NorthPoint planning.

PORT OF OLYMPIA COMMISSION

President

Vice President

Secretary-Treasurer