

MINUTES OF EVERETT PORT COMMISSION  
REGULAR MEETING  
October 4, 2016

PRESENT:                   Glen Bachman                   President  
                              Tom Stiger                    Vice President  
                              Troy McClelland            Secretary  
                              Les Reardanz                Executive Director  
                              John Carter                 Chief Finance Officer  
                              Brad Cattle                 Port Attorney

TELEPHONE PARTICIPATION: Commissioner Troy McClelland participated in the meeting via teleconference.

CALL TO ORDER:       Commission President Glen Bachman called the meeting to order at 5:07 p.m.

1.     **CEO/EXECUTIVE DIRECTOR'S REPORT**

**November Commission Meetings**

In addition to the regularly scheduled meetings of November 1 and November 8, Executive Director Les Reardanz asked the Commission to block November 15, 22 and 29 as tentative Commission meetings in case those dates are needed for budget purposes. The Commission concurred.

**FY2016 Port Security Grant – Surveillance System Sustainment and Enhancement**

Les Reardanz reported that the Port received a Port Security Grant award from the Department of Homeland Security (DHS) for surveillance and security system. Part of the award is for surveillance system sustainment to fund ongoing maintenance repair and modernization of the Port's security surveillance and access control systems over the next three years. The other part of the project award is adding five cameras to the existing closed caption TV system to be mounted on poles to cover gaps.

The total amount of the project is \$204,000, with \$154,000 coming from DHS.

**Commission Meeting Dates**

Les Reardanz said that Staff is currently assessing the need to have two meetings in December and will be back with a recommendation for the Commission in November. Additionally, in January 2017, the first Tuesday in January is right after the Port holiday on January 2<sup>nd</sup> which may be problematic for Staff in pulling things together for the meeting. Staff is proposing that the meetings be moved to January 10 and 17, 2017.

**Maritime Security Conference**

Director of Security Ed Madura was heavily involved in the Maritime Security West conference that was hosted here in Everett at the Xfinity Arena which had well over 250 attendees that were involved in law enforcement units that were here from all over the United States. The Port of Everett hosted a water demonstration on one day as a security exercise. Les Reardanz recognized Ed Madura for his role in the conference.

**Nina O'Neil**

Former Commissioner Nina O'Neil, who served on the Commission from 1988 – 1993, recently passed away. Nina was involved in the authorization to start the North Marina project, she was involved in the purchase of the Craftsman District from the Hulberts in 1991, and also was involved in the authorization of Jetty Island dock and habitat project.

## **2017 Port/State Legislative Agenda**

### **Priorities**

Chief of Strategic Communications & Policy Lisa Lefeber reported that in terms of the State Agenda, the Port remains focused on its Seaport Modernization effort at the Marine Terminals. The Port has a narrow legislative agenda going into the 2017 session. Resources are going to be very limited, and the focus is going to be on fixing some of the educational issues with McCleary funding shortfalls. One of the things that the Port is focused on is the Seaport Modernization effort.

The Port received a \$10 million TIGER grant to move forward with some projects at the terminals as part of the Seaport Modernization. We had submitted a couple of grant applications to the federal government, and Staff is working with the State to try to backfill some of those grant dollars to help offset the Port's match which is very significant towards this project of regional significance. The Port has a \$10 million capital budget request that was submitted to the Governor's office recently, and we also have a \$5 million Rail Bank Loan application for the project that was submitted the last week of August which totals \$15 million. The Governor's budget should be out in the October timeframe, and Staff hopes to know more about where the Port stands as it relates to those two priorities.

The second item is the Model Toxics Control Act (MTCA) which is how the Port's environmental cleanups are funded. Going into the next biennium, the Port is requesting an additional \$5 million to keep our projects moving forward. As of now, there probably is no money in the MTCA account as of now, but that will change based on the budget forecast and gas prices. Staff had a meeting with Director Bellan on September 19 to talk with her about the long-term funding plan as it relates to the Port's Mill A cleanup.

On October 5, Staff is involved in a legislative joint tour with the Department of Ecology with key members of the legislative staff and legislative delegation to take them on some of the cleanup projects and really show them the importance of our environmental cleanups and how it allows the Port to restore economic growth and jobs for our community.

### **Support**

The aerospace industry tax incentive package passed in 2013 is working for Washington, creating jobs across the state. Today, more than 135,000 workers from nearly every county are employed in aerospace. Direct and indirect jobs supported by the industry, including trade, totals more than 267,000. We oppose any effort to reopen and change the 2013 legislation.

Other regional priorities, including the Washington Public Ports priorities and the Maritime Federation priorities are still in development. When those are available, Staff will bring them back to the Commission.

Commissioner Bachman asked for the joint legislative tour if there was a confirmed attendee list. Lisa Lefeber said 16 people RSVP'd and there was a good cross section of legislative staffers as well as Snohomish County representatives.

Commissioners Bachman and Stiger raised the issue about Port expansion and if it was a strategic initiative for EASC. Les Reardanz said he would raise the issue with Patrick Pierce at EASC.

### **Foreign Travel Report**

Chief Operating Officer Carl Wollebek reported that in mid-September he visited Russia, Japan and Korea. In Russia, a lot of money has been spent on roads, bridges and the airport. In terms of the sanctions, Carl said he really didn't notice the impact. Unfortunately, the trade that the Port used to do with Russia is now

being done with the Chinese. The mining operation that the Port works on is in the arctic region of Russia and the ship will be here in two weeks. The Russians are looking to buy another gold mine so that would help the Port with increased business.

In Japan, Carl Wollebek said he met with the Port's aerospace suppliers, ECL, Westwood. The main purpose was to start discussions about the transition of the 777 and the 777X. MHI is in the process of moving their production from Nagoya down to Hiroshima. The business with Westwood and ECL is stable and steady. Korea has been having problems getting their products to market due to the Hanjin bankruptcy.

Carl Wollebek added that last week, he was in Houston with Paul Hagglund and Walter Seidl for the Break Bulk Conference. Attendance was up this year and it appears that things are picking up.

**United Way Resolution No. 1058 (2016)**

Les Reardanz presented Resolution No. 1058 to the Commission which provides authority to Staff to participate in the annual United Way Campaign and authorizing the Port to spend up to \$500.00 for incidentals for the Campaign.

Commissioner Tom Stiger moved that the Port Commission adopt Resolution No. 1058 (2016) as presented which authorizes Port Staff to participate in the United Way Campaign. A vote was called for:

Vote:	3-0
Yes:	Stiger, McClelland, Bachman
No:	None
Abstained:	None

Motion carried.

2. **CHIEF FINANCE OFFICER'S REPORT**

**Budget Update**

John Carter provided an overview of the 2017 budget. The Commission previously approved a one-year operating budget with a five-year forecast, and a five-year capital plan by initiative. Many of the capital projects are timed for funding, staffing and permitting. Staff developed a three-year funding commitment for 2017 – 2019, and 2020 – 2021 are years that are a "planned for funding" category.

Operating budget guidance from the Commission included increasing revenues by at least inflation numbers, keep operating expenses at or below 2016 budget both in total and by division, with the target of increasing operating income before depreciation to \$7.6 million.

When comparing the 2017 preliminary operating budget to the 2016 budget, the operating revenues are up \$1.1 million. The Marine Terminals will have a modest increase of 1 percent, for the Marina it is anticipated that revenues will increase by 10 percent over the 2016 budget, and in Properties revenues will increase by 3 percent.

From the expense side, comparing the 2016 budget to the 2017 budget, Staff was able to reduce operating expenses down \$600,000 from the 2016 budget which is a 2.3 percent decrease. The Marine Terminal is down 3 percent, the Marina is up 2 percent, the Properties operating expenses are down over 20 percent, and for Administration, the operating expenses are up 0.3 percent. All of the departments include salary increases per our labor contracts and increases in medical benefit costs.

The Port's operating income is \$8.9 million compared to last year of just over \$7 million. The increase is close to matching the record year we had in 2015 where the Port was at \$9.1 million. Overall, operating income is up \$1.7 million, budget to budget, which is a 25 percent increase – Marina Terminal is up 6 percent, Marina is up 29 percent and the Properties division is in a neutral position. There is a non-operating income of \$1.6 million.

The Port was able to increase revenues by at least inflation; operating expenses are at or below the 2016 budget in total and by division; and the Port reached its target of \$7.6 million in operating income before depreciation.

For the capital project summary, the Port has 125 projects for 8 initiatives and will be building a funding plan from grants, third party payments, property sales, debt issuance, operating and non-operating income, cash reserves and the IDD levy. The 2017 – 2019 capital budget totals \$125 million. The funding plan will continue to be a challenge because of the magnitude of the size of the initiatives and the size of the projects that the Port is undertaking.

On the non-operating side of the budget, the Port is assuming that the property taxes will be increased by 1 percent, plus new construction. The Port just received from the Assessor the new construction for 2016 that is coming onto the tax role and it was very high at \$224 million. Property taxes are used to pay for non-revenue generating capital investments, and in the current budget, all of it is being allocated to environmental cleanups and/or public access projects, but we do have enough in environmental cleanup projects, that it will be likely that the entire tax levy will be supporting the Port's efforts in that regard.

In the five year forecast, the Port is expecting modest growth in the Marine Terminal business, we are not forecasting any significant new business opportunities that may arise. Staff has not anticipated any major global economic shocks. The Port is expecting that the Marinas will maintain its current occupancy, and Marina rates will need to be competitive with the local market place. With regard to the Port's existing leases portfolio, we assume that our occupancy and the existing leases will stay near 100 percent occupied. The Port has not budgeted significant revenues for Waterfront Place; we anticipate in 2019 and 2020, we should start to see lease revenues and we have included some land sales in our budget anticipating some sales here at Waterfront Place.

On the operating side, Staff is anticipating that we can manage our budget to growth of inflation or less, budget to budget. The Staffing costs are likely to grow at a 3.5 to 4 percent rate due to new labor contracts and benefit premium increases. Utility costs are rising at rates above inflation. The Port will continue to supplement our Staff capacity by the use of outside consultants and contract labor. Current Staffing resources are not enough to get the many projects through that the Port would like to see, so it is anticipated that outside consultants will be needed to supplement the work load capacity.

On the non-operating side, John Carter said he was forecasting the property taxes to be levied for each year, as Port Staff feels that grant programs will be less available to the Port particularly with regard to environmental grants through MTCA. Port Staff does expect some level of grant revenues to be budgeted for us for environmental cleanups. The yield on long-term investments and borrowings are expected to remain at historic low levels. Costs to maintain public access facilities will grow as more facilities are built.

John Carter said that at the October 11<sup>th</sup> meeting, he would provide an overview of the Operating Budget and Financing Plan for the Commission. Preliminary Budget process includes the following:

- Oct. 11: Review Operating Budget and Financing Plan with Commission
  - Oct. 24: Staff finishes any proposed budget modification
  - Oct. 28: Preliminary Budget and citizen budget guide available and posted to website
  - Oct 28: 1<sup>st</sup> of 2 published notices of Public Hearing regarding budget
- Budget Adoption Process includes the following:
- Nov 1: Preliminary Budget deliberations/public comment
  - Nov 1: Deadline for proposed budget amendments
  - Nov 4: Publish 2<sup>nd</sup> notice of Public Hearing
  - Nov 8: Introduce Budget and Property Tax resolutions and take public comment
  - Nov 15: Special meeting: Hold public hearing and consider budget resolutions
  - Nov 22/29: Additional Commission meetings if necessary to adopt budget

### **Port-2-Business**

Contracts & Procurement Administrator Maija Lampinen reported that Port Staff held an outreach event for the contracting community in the Blue Heron Room. There were 166 consultants, contractors and suppliers registered for the event, but due to weather related circumstances and traffic, attendance was more in the 150 range. Commissioner Bachman provided the opening remarks, with Lisa Lefebber providing an overview of the Port and our strategic initiatives and then talked about our upcoming projects. Staff received a lot of good feedback from the attendees who were very appreciative about the event and the fact that they got to meet Port Staff, but also had the opportunity to network with each other.

Port Staff from all divisions attended which was valuable for the event.

### **Interagency Agreement with Department of Enterprise Services**

Maija Lampinen reported that the Energy Savings Performance Contracting Interlocal Agreement allows the Port to utilize performance based contracting for energy projects through the Department of Enterprise Services' (DES) energy program. The Port would select an Energy Services Contractor (ESCO) from a prequalified registry, and DES would assign the Port a project manager to advocate for the Port with the selected ESCO and to establish cost effectiveness criteria for the proposed energy conservation measures.

The ESCO would perform a preliminary audit to identify potential energy conservation projects and provide a preliminary projection of cost savings. The Port and DES project manager would analyze the ESCO's audit report. If the proposed projects meet the Port's criteria as to the payback, the ESCO would be authorized to conduct a detailed investment grade audit which would provide details as to the potential savings and the guaranteed returns. From the audit report, the Port can decide to move forward and contract with ESCO to complete the projects that have met the Port's investment criteria.

The Port does not have a financial commitment to the ESCO until we reach the investment grade audit. If the Port does not move forward with projects that meet the investment criteria there may be a charge from DES for their project management services as well as a fee from the ESCO.

Maija Lampinen asked the Commission to approve the Interagency Agreement with the DES and authorize the Executive Director to sign the agreement.

Upon discussion, Commissioner Tom Stiger moved to approve the Interagency Agreement with the Department of Enterprise Services and authorized the Executive Director to sign the agreement. A vote was called for:

Vote:	3-0
Yes:	Stiger, McClelland, Bachman
No:	None
Abstained:	None

Motion carried.

3. CHIEF OF LEGAL AFFAIRS

**2016 – 2017 Liability Insurance Renewal**

Chief of Legal Affairs Paul Brachvogel reported that the Port purchases insurance through an eight port consortium managed by the Port's broker, Alliant Insurance Services. Upon Commission approval, the liability portion of the insurance program renews on October 1<sup>st</sup> of each year. Total premiums for 2016/2017 are \$135,206.08 plus taxes. The amount has been shown in the operating budget and is in line with the previous years' expenditure of \$133,703 for the same coverage. However, the Port is recommending a change in carrier for the Public Officials Liability coverage from Allied World to ACE-CHUBB, as the recommendation was suggested by Alliant Insurance Services and is attributed to a denial of coverage for a recent claim that both Staff and Alliant believe was improperly denied.

Paul Brachvogel asked the Commission to approve the binding of the liability insurance policies as presented by Staff.

Upon discussion, Troy McClelland moved that the Commission approve the insurance policies as presented by the Staff and as outlined in Exhibit A attached hereto. A vote was called for:

Vote:	3-0
Yes:	Stiger, McClelland, Bachman
No:	None
Abstained:	None

Motion carried.

4. INITIATIVE ONE: SEAPORT MODERNIZATION

Lisa Lefeber provided a progress update on the Seaport Modernization project. In addition to the contractor outreach event held in September, Staff also had the opportunity to take the Tulalip Tribes environmental team out for a tour of the Port facilities and show them what the projects were, where they were situated in our facilities and Staff is working on scheduling a similar type meeting with the Tulalip Tribes Board during December. Staff also had a meeting with Weyerhaeuser's new leadership team and walked them through our projects as to what our goals were for the Mill-A cleanup project.

The Port issued its SEPA addendum on September 23 which allows us to move into the federal environmental review process. On October 5, the Port is involved in the Ecology and legislative tour of the cleanup projects, and then Staff will be submitting the state, local and federal permit applications for the South Terminal Wharf Strengthening project. Related to the TIGER grant, Representatives from the U.S. Department of Transportation are coming out for a site visit on October 18. The representatives will be spending time with Port Staff in the morning and then will be taking a tour of the Boeing plant in the afternoon.

For grants, the Port applied for a \$10 million state capital budget request and a \$5 million rail bank loan. The Port is preparing to apply for a federal rail loan called the Rail Rehabilitation Innovation Act. The federal environmental determination needs to be submitted and approved before the Port can start construction.

Another critical path item is the TIGER grant agreement which takes 6 months to put in place. Staff started immediately, and this week the Port will be submitting input to that process, and on October 18, Staff will be asking the U.S. DOT folks to work with us to try to hit that 6 to 8-month timeframe to ensure that when our rail project starts construction in the March timeframe, that all of those agreements are in place so they count towards the Port's match.

In terms of contracts and construction, the Mill-A Interim Action is going really well. The contaminated cleanup is done and now work efforts are with the clean dredging which is scheduled to be complete by November. Next week, Staff will be requesting authorization to bid the Phase 2 Terminal Rail Upgrades with construction to begin in March. Construction on the South Terminal Wharf is planned to begin in January 2017. Due to the timing of the fish windows, the majority of the South Terminal Wharf work done in the 2018-2019 fish window for the wharf strengthening, so there is about 4 – 6 months of work that is required before the in-water work starts, so Staff is working on timing that out. The Operations team has a very active terminal, so the team is trying to plan the major capital investments in a way that allows for the Terminal to continue operations.

**Commission President's Report**

Glen Bachman commented that the Port received an "excellent" for economic development of work from the International Economic Development Council.

**Commission Discussion**

Commissioner Stiger commented that each year at this time the Port recognizes the seasonal employees and interns. This past summer, 17 young people from different schools worked with Port Staff in Administration, Marina Operations, Marina Terminal Maintenance, Marina office and the fuel dock. An ORCA student who worked at the counter in the Marina office will be attending the University of Washington this coming year.

**Citizen Comments**

There were no Citizen comments.

THE REGULAR MEETING WAS RECESSED into Executive Session at 6:22 pm – to conclude by 7:30 pm – to discuss with legal counsel two pending litigation matters, a potential litigation matter, and consider the negotiations concerning two pieces of real property which may be leased or sold when public discussions would disadvantage the Port.

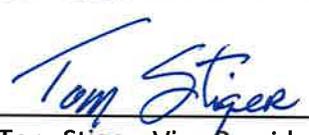
At the conclusion of the meeting, no action was taken and there were no announcements made.

THE REGULAR MEETING WAS ADJOURNED at 7:30 p.m.

APPROVED this 8<sup>th</sup> day of November, 2016.

By: \_\_\_\_\_

  
Glen Bachman, President

  
Tom Stiger, Vice President

  
Troy McClelland, Secretary