

Fort Worden PDA Board Meeting
August 29, 2012, 8:30 a.m. to 1 p.m.
DRAFT MEETING NOTES
Cotton Building

PDA Board members attending: Cindy Finnie, Gee Hecksher, Scott Wilson, Anne Murphy, Bill Brown, Lela Hilton.

Also attending: Rodger Schmitt of State Parks Commission, Larry Fairleigh of State Parks, Brian Trusty of PROS, Dave Robison, PDA Executive Director, Allison Alderman, Fort Worden Manager

Abbreviations: SP = State Parks, FW = Fort Worden, PC = Peninsula College, PDA = Fort Worden Public Development Authority

Introduction

Cindy Finnie, PDA Chairperson, opens meeting. Announces that Ted Springstead has resigned from the PDA board immediately because he is moving to Colorado. She will initiate a process toward recruiting a replacement board member.

First public comment session:

Bob Grey: As a Councilmember, I get a lot of questions about Building 202. Is the estimated remodel date fall of 2014? Is State Parks still firm on its financial share? Is Peninsula College (PC) still firm on its share?

Dave Robison: The Business Plan we are discussing today doesn't really address Building 202. PC has engaged architect and design team and has completed schematic design in July. There is a new PC president on board; currently, they are working out details with SP on their 50-year tenure agreement; my understanding is that it has not yet been signed with SP. What is the future relationship between SP, PC and PDA still needs to be resolved. In terms of funding: The \$4 million from Legislature is solid; \$2 million from State Parks and \$2 million from the Community College capital fund. The \$500,000 from City is solid and is sitting in a reserve fund to be transferred to PC when construction begins. However, there is a funding gap of at least \$500,000 for the renovation. I expect a meeting in early September to meet with PC president. The 2014 opening date may be ambitious.

Larry Fairleigh: Agree with Dave-the Legislature appropriated from the same bond fund \$2 million to PC; \$2.3 million to SP. We are negotiating a lease agreement with PC.

Staff presentation by Brian Trusty

Brian reviews the executive summary. Co-management is not a new concept for Fort Worden (FW). There has been a long-term planning process that began in 2004. FW is important economic engine to the city and county. The Fort brings in almost \$12 million/year and provides 200 jobs. The Fort is one of 3 major economic engines in this area along with paper mill and tourism.

Section by Section review of the Working Draft, 9.23.12

Executive Summary: Suggest changing the executive summary to begin with the actual recommendation; should be rewritten to be as concise as possible.

Rodger Schmitt: The Executive Summary should truly summarize the key findings and recommendations of the report.

Capital Improvements:

Scott Wilson: Wants clarification on the \$50 million, \$85 million figures, and what portion of the responsibility belongs to the PDA?

Brian Trusty: Facility needs of \$50 million were identified by State Parks; included within the \$85 million of this study. This additional \$35 million includes additional items, including the redevelopment of current facilities not in use. Most projects in State capital facilities plan are in use.

Larry Fairleigh: State must submit 10-year capital plan. We did capital budget through that lens. PDA is doing its own plan above and beyond that \$50 million, which would include capital development on structures that go beyond the state's plan.

Brian Trusty: State would engage partner organizations to support costs, not to divest self of its costs. State is still the owner of the

facilities, and recipient of capital projects. State seeks partner to help with the renovation/capital improvement costs.

Dave Robison: Good example of how this could work is Building 202. Some state money from both PC and SP, some PDA money, some outside philanthropic money.

Brian Trusty: We can't lay out proportional cost-sharing at this time. It must be negotiated in a subsequent management agreement. At will almost be negotiated on project by project basis.

Larry Fairleigh: After the Business Plan is approved, then we enter into more detailed discussions with PDA. State will always need to support capital projects at Fort Worden.

Review of Plan Overview Sections

Brian Trusty: Fort Worden is unique in that it does NOT yet have a full partnership model; it works in many other parks like FW.

Overall Findings of Public Input:

Scott Wilson: Need to add interest in regional representation on PDA (No. 4)

Larry Fairleigh: More than SP Commission wants to keep FW public; also Legislature and Governor (No. 1)

Market analysis: (Review by Brian Trusty)

Priorities based on evaluation of market data:

- 1 Recover visitation rates enjoyed in 2002-03, get back to where we were 10 years ago
- 2 Importance of day use; don't put all eggs in overnight accommodations; increase day use visitors
- 3 Biggest impact is through improving accommodations and support of conference attendees for overnight guests.
- 4 Add one more day to the length of stays

Discussion of the above:

Lela Hilton: What is the day use impact?

Brian Trusty: They may be day-users of FW, but they may be staying overnight in PT.

Anne Murphy: Most of our summer visitors are out-of-town day use, but we don't know where they stay.

Scott Wilson: I think we should add a statement about need to add additional programming; guests in the shoulder seasons (cold months). Also, this tells us what success looks like, but not how to get there.

Brian Trusty: There is a lot of that in the 2008 Business Plan; has to do with marketing and coordination.

Scott Wilson: I would like to draw from the 2008 plan and incorporate the other conclusions as to how we would get to the point of success:

- Marketing
- Better conference coordination
- Add new entities that will fill in the cold months with programming, people
- Make it possible for all partners to add days to their events; add new events

Brian Trusty: I will add performance improvement recommendations as an appendix to the plan.

Anne Murphy: On p. 22, it says Partner organizations with day-use programs supply \$2 per vehicle to Commission -- Anne suggests this \$2 go to PDA instead. Brian will make change.

Leases

Brian Trusty: Lease rates should take condition of buildings into account. Most partners feel they are on 30-day leases.

Larry Fairleigh: Current lease appraisal based on highest and best use. We take into account the condition of the building; also other financial contributions to the FW total ("heads in beds")

Brian Trusty: FW should not be business incubator. Partners should pay full market lease rates.

Rodger Schmitt: Don't you want partners to be successful?

Brian Trusty: You want them to be successful, but not role of SP to subsidize businesses. They need to stand on their own two feet.

Rodger Schmitt: If you charge market rates, you could put them out of business.

Brian Trusty: At what point does a market-rate lease become cost-prohibitive. There is a process for adjusting tenants rents based on how they contribute to the Lifelong Learning Center. We have heard public concern that the state is subsidizing these partners. We want it clear that partners support the financial stability of the Fort by the programs that they bring that fill the accommodations and meeting rooms.

Desired Outcomes, p. 26

Bullet No. 2: Reduce State's current subsidy levels of FW operations to 50 percent or less of current subsidy levels within 7 years.

Larry Fairleigh: Should say Commission wants subsidy to be reduced without a specific number.

Rodger Schmitt: I agree. Trying to come up with specific percentage reduction doesn't seem useful. Could be a challenge otherwise.

Brian Trusty: We can take the percentage out.

Scott Wilson: Would like some kind of percentage, in order to know what kind of phased-out support there is for PDA

Rodger Schmitt: That number relates to SP portion of FW; they still need to do their own financial analysis.

Larry Fairleigh: We have started that analysis.

P. 26

Brian Trusty: Phased-in approach is not feasible.

Dave Robison: I think that the Consultant's recommendation for not recommending the phased-in approach should be explicit in the plan.

Brian Trusty: Ok, we can explain why the phased approach might have worked with Centrum, but not with PDA.

PDA Recommended Services and Functions, p. 30

Scott Wilson: I find the troubling area on this chart are those with three Xs at the bottom of the page-public information, volunteer and concession management.

Larry Fairleigh: I am passionate about true co-management. They need to be worked out together.

Scott Wilson: Concessions management ought to be a lead role for the PDA.

After further discussion Brian makes changes to chart:

- Commercial film goes to SP
- Property management to PDA
- Add Capital improvements under SP
- Interagency relations to Shared role
- Volunteer management to PDA
- Concessions management to PDA

It was acknowledged that p. 30 will need a structure and methodology to work out the coordination on lead roles for services and functions.

Budget projections, p. 32

Brian Trusty: How PDA can break-even in first year? It is because this is not a startup business; this is business with 40 years history. Further the PDA will also avoid costly services that the state retains; law

enforcement, capital improvements, historic stewardship, etc.

Gee Hecksher: Would like additional column added prior to Year 1, that shows the base of expenses and revenues for 2011.

Brian Trusty: We used those figures as baseline (shows expanded spread sheet)

What is "Other?"

- Merchandise
- Alcohol: \$168,000 for year.
- Event fees
- Interest income
- Misc revenue

Rodger Schmitt: Could you explain salaries line?

Brian Trusty: Salaries are the same as now for existing FW employees, but benefits are different. Most benefit packages are about 25 percent. With State civil service, it's on average 40 percent and some have 50 percent benefit packages, so there is major reduction in cost with reduction in benefits. PDA can operate more in line with private sector. Salaries/rates don't change; benefit costs do.

Rick Zajicek: Revenue growth factored into 2011-2012 'budget' is 3 percent for the first five years. May be aggressive but we think you will be able to do more business through better marketing and promotion.

Dave Robison: Alcohol revenue is \$168,000 first year, which may be way too aggressive.

Scott Wilson: That is more than our first-year 'profit'.

Anne Murphy: Given the fluctuations in monthly revenue and the projection for a loss in the first month, should PDA start in April?

Dave Robison: Actually the best time to start from a cash-flow perspective is June; just before the busy season. The timing of a

transfer of management responsibilities will be an ongoing conversation with State Parks and part of the management agreement.

Bill Brown: This pro forma suggests that the PDA needs \$250,000 to start. I don't think you should depend on a reserve when you start. Also the pro form should be rounded to the nearest \$1,000.

Cindy Finnie: We will need funds for a more detailed business/hospitality plan. We have to do that development work ahead of time. Also development of marketing plan. We need to come up with our startup costs; where do we come up with startup funds and how to subsidize our operations.

Rodger Schmitt: The Commission will ask where you are going to come up with \$250,000.

Brian Trusty: Keep in mind: Potential of new revenue from accommodations is significant. The vacation housing can make \$7 million a year (theoretically). Right now targets between 1-4 percent occupancy. All this assumes consistent pricing - may need to go to demand-based pricing.

Dave Robison: Partners say they need to have demand-based rates in the shoulder seasons to attract more users.

Scott Wilson: Is PDA executive director included in the operational staffing?

Brian Trusty: No. The funded administrative position is an operating manager.

Capital Plan, p.38

Suggestion was to remove the "Replacement Cost" category as these are protected historic buildings that cannot be demolished and replaced; instead all need to be renovated.

Funding Strategies, p.46

Dave Robison: This section lacks a few additional funding sources that we should consider. In addition, the Fort Worden Conservancy is gearing up to become a major fundraising component for the PDA; The relationship between the Conservancy and the PDA will be added into the next draft.

I also suggest removing the language on "Internal Revenue Loans" that has City stepping in to add revenue in case of shortfall. The city in this example is a generic city and not the City of Port Townsend.

Implementation Recommendations, p.50

Brian Trusty: Our recommendation is that the phase-in approach won't work; the PDA must enter into an agreement including all the facilities. The agreement should have performance standards. If PDA can't uphold its end of the bargain, State can step in and take over. But this protects ability of PDA to be a success.

Rodger Schmitt: What kind of assurance will Parks have this will not be dumped on Parks in short order and without resources.

Dave Robison: The ultimate management agreement will need to include performance standards and a way of monitoring compliance with the conditions of the agreement. One of the things that will help this is for us to add a "next steps" section in the next version of the plan.

Larry Fairleigh: We all recognize that PDA needs to do something you can actually do; SP needs to do something it can actually defend. This will be a big component of expectation management. Need to work from this draft to increasing specificity, to Commission asking staff to negotiate a specific agreement. Bones of what that looks like should be included in the final draft. Then probably a couple of months of hard negotiations will follow between SP and the PDA.

Appendix D: Proposed Governance Model, p. 72

Dave Robison: The new governance model would include a new

Co-Management Board: The focus is on the Policy level, which includes larger political and budget issues. The draft governance chart includes an Operations Committee which would report to the Co-Mgt Board. The Operations Committee would focus on the day-to-day implementation issues of co-managing the Fort. At some level, this governance structure would require that the SP Commission would give up some authority to Co-Mgt Board; also the PDA Board would give up some authority. We are still working out the details for a proposal to share for public review and input.

Rodger Schmitt: FWAC now reports to State Parks director. Would it have to change their charter to report to Co-Mgt Board? Also Conservancy would also provide fundraising services to SP side.

Larry Fairleigh: Passionate about need for Co-Mgt Board. Both the Commission and PDA would have to empower the Co-Mgt Board under clear charter and boundaries. I don't believe this can be successful absent the Co-Mgt Board being able to make policy and budget decisions. Park can't operate if 'if this yours and this is mine.' We need as individuals of good will, set up governance structure that can work over time. The structure should compel parties to talk to each other.

Scott Wilson: The current lines of accountability are unclear. Need simple structure to be effective.

Dave Robison: We will work on drafting new charts and roles and responsibilities.

Gee Hecksher: Currently the PDA Executive Director is unfunded. Is it possible for the Facility Manager to become the ED?

Brian Trusty: That's possible.

Public Comment-noon

John MacElwee: This looks like a good job; Centrum has been invested in this for a long time. Base plan financial numbers need to be

clarified. We touched on some numbers but needs more work. On the housing grid, Ranger housing and Centrum housing is included. That sort of assumes Centrum might abandon the artists-in-residence program. We were given those cabins on the assumption that otherwise they would be torn down. It is critical component for our programming and to provide revenue for Centrum. Centrum would not support that.

Dave Robison: We are not proposing taking those artist-in-residence housing out of Centrum's mix. We will clarify those schedules in the plan

David Goldman: Pass on public comment.

Ron Kubec: Good job; this clears up many issues. But I am really concerned about Year 1. There was very low revenue growth in the last few years. You can get to 3 percent growth but it will take some time. Alcohol sales get to \$168,000 starting with \$5,000 the very first month? Very ambitious. It should be phased in-nothing wrong with showing a bit of a loss in the beginning. There are risks and opportunities: Make a chart of those. Governance: Biggest thing is to remember what Cindy said -- management must operate quickly, take more risks than larger organization can take.

Rodger Schmitt: Low figures for marketing puts credibility on this. You are depending on more marketing but not putting enough money in there.

Brian Trusty: Also we should detail the cultural change expectations in terms of how staff will approach marketing. Most important thing is a change in how marketing happens.

Alfred Chisholm: Can we have an area in the upper campus to have camp host or museum host?

Pete McCracken: On p.5: It states FW is to be operated as a conference center? But my notes from Washington State Arts Commission say it was to be operated as a Cultural Center, not a

Conference Center. On p. 32: Because of high cost of Pavilion, and its seasonal use, it may skew these revenue figures. In the Capital section, it looks like the Schoolhouse is to be converted into accommodations. That is 50 percent of the meeting room space at the Fort and is essential for our festival programs.

John McElwee: It is in fact the driver of what we can do at the Fort.

Peter McCracken: In terms of accommodations: Would it be possible to build a facility from the ground up?

Dave Robison: SP's policy is, renovation first- then construction. We could make an approach to State Parks. New construction is possible.

Anne Murphy: In our case it had to do with buildings that once had a footprint there.

John McAlwee: With the addition of Building 202, we would only get half of the classrooms that the Schoolhouse currently has.

Allison Alderman: Concerned about Ranger housing that is on the list. We would like to retain ranger housing on the main campus; that will need to be negotiated. I raised other issues with Dave yesterday

Dave Robison: Allison and I discussed the following issues:

- Process of transition.
- Employee issues.
- Timing of transition for employees.
- Reservation system -- would PDA use new reservation system?
- Governance model, based on consensus.
- Maintenance issues; Brian will meet with Mike Sternback today on who does what.
- Equipment, tools, coordination, sharing.
- Law enforcement issues within the campus area
- Park rangers housing.
- Historic standards compliance

- How to demonstrate that PDA is more flexible than SP in how the campus area is run.

Carla Vanderven: If concessions are now managed by PDA, as concessionaire do I slide over to PDA or do I have to re-bid and go through process again.

Brian Trusty: I think it would be an assignment of existing contracts. Your concession revenue falls in leases.

Kevin Alexander: Utilities: Is included in current expenses.

Carla Main: Thanks to PDA. I think the public process needs more than one page. You should document the meetings. The draft is clear with concerns presented; you could list -- this is where we started; this is what we did in response; this is where it is now. Show how it has changed your focus and direction. Great opportunities for marketing collaboration. When will next revision of the draft be out?

Brian Trusty: Don't quite know yet, but will get back to you soon. Have a lot of work to do.

Rodger Schmitt: Will you have revised version before public meeting?

Dave Robison: I think we need to use this Working Draft for our public forum meeting next week, on Sept. 6, at 7 p.m. We can't make all the revisions by then.

Brian Trusty: I can do a summary of the refinements that we've discussed.

Joyce Francis: How long will Brian be involved in this process?

Brian Trusty: My duty is to refine the product until the final product is handed off to Commission on Sept. 17. Also intend to be on hand on Oct. 25 when it is formally presented to the Commission.

Rodger Schmitt: You presenting it to the Commission would be very positive.

Aletia Alvarez: Glad you put in the plan that there is positive support. But the negative input has helped shape and define the current business plan. If there has been any question about this -- PDA has hired Brian, and made incredible and positive impact, and shows PDA has ability to partner and take public concerns into account.

Tim Lawson: I am impressed with the plan; very deep and exceeded my expectations. Good plan; looking forward to how it moves us forward.

Kevin Alexander: Are there a lot of operating agreements out there already?

Brian Trusty: Yes. There are many models to reflect upon.

Rodger Schmitt: You might provide some.

Brian Trusty: I will.

Adjourn: 12:50 p.m.