April 24, 2013

DTB Parks re: Fort Worden PDA

WFSE Proposal

Responses to the WFSE proposal by the Fort Worden PDA (FWPDA) are in bold italic text below.

Summary

In the months after the Commission assured the public that Fort Worden would not be transferred and would remain a state park there were discussions and presentations about the potential options to the FWPDA's proposal. Those options were limited to

- Transfer the park to the PDA
- Continue to operate the park without a partner
- Operate the park with a partner other than the PDA
- Authorize staff to negotiate a co-management agreement with the PDA

The WFSE urged the commission to consider a partnership agreement with the PDA that provides for capital development, marketing of the Life Long Learning Center and new tenant development functions that retains the operation functions of the main campus with the Washington State Parks and Recreation Commission (WSPRC).

The FWPDA's business plan was finalized in mid-September. There was not ample time for the WFSE to fully develop an alternative plan. We do not believe that the commission has had an opportunity to fully consider our proposal as an option. We believe our proposal is the most promising for the benefit of Fort Worden, the park system as a whole and honors more fully the commitment made to the public.

The WFSE's original proposal was presented to the Commission in October 2012. That same month, the WFSE sent a detailed letter to the FWPDA outlining many of the same points and concerns that were presented at the May 15, 2013 Parks meeting. The WSFE has had over seven months to fully develop its alternative plan. In comparison, the FWPDA met with State Parks on May 2 and 3, 2012 to determine the scope of a business plan. The Plan was completed in four months and, included many opportunities for the public to comment on the draft plan's scope and content.

In short, the FWPDA's plan calls for the agency to give up current and future revenues continue some operational costs and maintain responsibility for the repairs and maintenance of the park's infrastructure and buildings. This is a most unusual requirement as most other local municipalities are more than happy to partner with the state agency in a more supportive role. There are multiple examples around the state of "Friends" groups and local governments that have been able to raise funds and partner with the agency without requiring the state give up its' assets. There are many examples around the country of PDA partnerships for capital development only.

In 2008, the Commission acted on a four-year extensive public process that determined Fort Worden should not be managed as a traditional state park. Multiple similar sites across the country have evolved their management approach to a partnership model to achieve more sustainable operations of accommodations and facilities and management of a park's assets, Fort Baker and Fort Mason in California, Jekyll Island in Georgia, and Fort Vancouver here in Washington. It is critical to acknowledge that the overall goal of the FWPDA is to implement the Lifelong Learning Center vision adopted by the Commission by expanding programs and attracting new tenants to generate increased revenues through increased use of accommodations and meeting rooms in the shoulder seasons.

Under the present conditions at Fort Worden, tenant businesses enjoy substantial subsidies from the state. Approximately \$45 million per year in gross revenue is generated at the park yet the state agency receives less than \$2 million a year and is operating at a \$1 million per year deficit.

This \$45 million per year in gross revenue figure is inaccurate, and we do not understand its source. At best, the Park only generates about \$10 million annually and much of the revenue is generated by the Partner organizations. For example, Centrum generates about \$2 million at the park through it tickets sales, programs, memberships and donations, and renting of accommodations and meeting rooms.

The FWPDA plan does not provide for sharing of costs or revenue as was anticipated in the 2008 Long Range Plan adopted by the commission. It in fact calls for the agency to relinquish even more of its revenue and assets, and offers in exchange fundraising for capital development that remains to be substantiated. We know the FWPDA can take advantage of a variety of tax credits. Beyond that, all that remains is fundraising, loans or increasing local taxes.

This is misleading and, given recent discussions, inaccurate. The FWPDA's business plan assumes \$2.3 million in operational costs, or 68% of the total as outlined in our proforma. In addition, as part of discussions of negotiating a management agreement and lease, the FWPDA is agreeing to impose an additional surcharge on accommodation and meeting rooms to share revenue with State Parks. We have also proposed sharing surplus revenues generated by the FWPDA with State Parks. The FWPDA will take on substantial financial responsibility now borne by the State. Lastly, contrary to what WFSE suggests, and which has been repeated at numerous public meetings, the FWPDA has no authority to raise local taxes to support its operations.

Conversely our proposals reduce costs, more equitably distribute fiscal costs and benefits, are consistent with the 2008 Long Range Plan and Agency Transformation Strategy and results in fulfilling the objectives of the agency, the legislature and the public interest.

It makes sense to enter a partnership carefully and in a way that includes performance measures that requires the FWPDA to prove their abilities in the areas of marketing, capital and tenant development and fundraising in

order to minimize the liability of any potential failure before any consideration to expand the role of the FWPDA at Fort Worden.

The draft transition agreement sets out specific milestones and performance measure that must be accomplished by the FWPDA before it takes over operations of the Campus. In addition, the lease will include specific performance stands and milestones for both State Parks and the FWPDA.

Concerns with FWPDA Plan

The WFSE agrees that a partnership with the city of Port Townsend's FWPDA has the potential to be highly beneficial and agrees with the agency's assessment that the necessary renovations to the park's structures can only be achieved with a combination of state funds and external funding mechanisms.

While the FWPDA's plan regarding capital development and fundraising has merit, the WFSE has some concerns:

• In 2008 Peninsula College released their detailed analysis of the Building 202 project. Very clearly indicated in this document is the commitment by the City of Port Townsend for the remaining \$2.4 million needed for the project after the state agency and the college committed \$4.3 million. To date neither the City nor the FWPDA have come close to meeting that obligation with the city's commitment of \$500,000. With five years to have initiated a fundraising campaign one would have expected the FWPDA to be farther along than they are.

This is inaccurate. The City has never made a commitment for \$2.4 million. Rather, the City has invested \$500,000 towards the construction of Building 202. In addition, City and FWPDA officials were instrumental in securing the \$2.3 million state capital appropriation that was directed and included in State Park's 2011-2013 capital budget, which was part of the state's \$4.3 million allocated to the project. Peninsula College is serving as the lead on the fundraising campaign. The FWPDA has agreed to assist in the College's fundraising efforts and to also seek historic tax credits for the project. In order to begin the historic tax credit process, the FWPDA needs standing at Fort Worden—that is, a management agreement and lease.

• The FWPDA has testified before the House General Government Appropriations sub-committee that they are pursuing bank loans in order to come up with their start-up funds. The FWPDA represented to the commission in December that they had "soft commitments" for those funds yet when the WFSE met with the FWPDA and Parks management on November 8th, the FWPDA indicated very clearly that they were only beginning to develop their fundraising strategy. When you consider the need for \$90 million in renovations, it is troubling to be presented with conflicting information and that so early in the fundraising process the FWPDA is already taking out loans.

As part of the FWPDA's start-up obligations to take on Campus operations, the FWPDA has committed to raising \$300,000 in mobilization funds (for marketing, integrated website, new reservation system and other costs) <u>AND</u> a \$250,000 reserve fund or line of

credit to cover cash flow expenses during the first three years of operations. The testimony made to the House Appropriations sub-committee was that we have received soft commitments for funding some of the mobilization costs <u>and</u> we have received verbal approval of an operating line of credit from a local financial institution. In addition, the FWPDA received \$50,000 in April towards its on-going operational costs. In the statement above, WFSE is confusing capital projects needs (\$90 million) with start up/operating funds. Again, the FWPDA cannot begin to raise funds for capital projects (other than assist Peninsula College in 202 funding) until there is an agreement and lease between FWPDA and Parks. Many prospective funders are waiting to review the final terms of the agreement and lease before considering making a further investment in the FWPDA's efforts.

Given these concerns, we urge the WSPRC to require some form of written documentation to support any further assertions of financial funding streams to the FWPDA.

We agree and this is required in the draft transition agreement between Parks and the FWPDA.

The FWPDA's proposal to take over the operations of the main campus is most concerning to the WFSE, not simply for the loss of jobs at Fort Worden but for its statewide impact. Implementing the FWPDA's plan as presented significantly reduces revenues to the state. Further, the FWPDA plan doesn't result in enough of a reduction in costs to offset the reduction in revenue and actually increases the deficit to the WSPRC. The WSPRC has invested in the renovation and ongoing maintenance of the lease and rental properties and is entitled to a return on the investment.

The FWPDA doesn't just "reduce revenues to the state". It also reduces costs which ultimately reduces the long-term subsidy of the state to Fort Worden by some 24% based on our 2011 financial analysis. The FWPDA is committed to working with WSPRC, in a partnership, so it can realize eventual cost reduction to the State.

The result of implementing the FWPDA's plan is an ongoing operating deficit to the agency that must be carried by the rest of the park system. According to management's 10/2012 draft estimates and the FWPDA 10/2012 business plan, revenue is distributed as follows:

Revenue	PDA Revenue per PDA plan – 1 st yr	Parks Revenue per PDA plan – 1 st yr	Total Revenue per PDA plan – 1 st yr	Parks Current Revenue	Difference between current revenue & FWPDA plan
Conference Housing	\$1,348,000*	0	\$1,348,000	\$1,233,581	- 1,233,581
Meeting Rooms	0*	0	0	0	0
Vacation Housing	0*	0	0	0	0
Reservation	\$250,000	- \$250,000	\$250,000	0	- \$250,000
Administration					
Camping	0	\$359,772	\$359,772	\$354,772	+ \$5,500
Leases	\$110,000	0	\$110,000	\$108,615	- 108,615
Lodging Tax Rebate	\$43,000	3	\$43,000	0	?
Partner Shared Services	\$50,000	0	\$50,000	0	0
Reimbursement					
Other	\$29,000	\$38,770	\$67,770	\$38,010	- \$38,770
Discover Pass	0	\$240,000	\$240,000	\$240,000	0
Total Revenue	\$1,739,000	\$388,542	\$2,377,542	\$1,974,978	- 1,625,466
					(- 80%)

^{*}Note: The FWPDA included \$747,000 in "pass through" revenue from the tenants in "Conference Housing", "Meeting Rooms" and "Vacation Housing". This is not reflected in management's figures. For the purposes of comparison, the \$747k was removed from the FWPDA figures.

We do not understand these numbers or the context. Fort Worden Partners do not keep \$747,000 in revenues by over-charging their clients and under-paying the state.

Another concern about the FWPDA taking over the operations of the main campus is that they would be responsible for negotiating lease renewals with the existing tenants. This is problematic because the FWPDA board is comprised of several executives or governing board members of the tenant organizations. Concerns over the apparent conflict of interest in this regard have been raised. Technically we understand the compilation of tenant organizations on the FWPDA board may be legal. We also understand the tenant representatives on the FWPDA board do not reflect a majority of the board. However, from a practical standpoint it is difficult to understand how having tenants on the board influencing and approving lease negotiations will be done in a way that serves the best interests of the park rather than the tenant.

Leases would be negotiated by staff based on specific criteria. Lease approval would be done at arm's length and board members would recuse themselves in the event of a perception of a conflict of interest or appearance of fairness. The FWPDA, like State Parks, has a high interest in securing market rate leases, but also realizes that in order to fulfill the Lifelong Learning Center vision, lease rates may be discounted (as per existing Park policies) in order to promote overnight programming, which generates significantly more revenues to the Campus in accommodation and meeting room rental fees.

WFSE Proposal

In the scenario where the FWPDA takes over operations at Fort Worden, the state loses a substantial amount of revenue. Conversely, without implementing any of the WFSE's proposals but adopting FWPDA assumptions, the agency's revenue increases as follows:

Revenue If Parks	Parks Current	Projected	Total	Difference
retains operations	Revenue	Revenue If	Revenue per	Between Current
		WFSE proposal	PDA plan – 1 st	revenue &
		accepted	yr	projected
Conference Housing	\$1,233,581	\$1,348,000	\$1,348,000	+ \$114,419
Reservation	0	0	\$250,000	0
Administration				
Camping	\$354,272	\$359,772	\$359 <mark>,772</mark>	+ \$5,500
Leases	\$108,615	\$110,000	\$110,000	+ \$1,385
Lodging Tax Rebate	0	?*	\$43,000	? *
Partner Shared	0	\$50,000	\$50,000	+ \$50,000
Services				
Reimbursement				
Other	\$38,010	\$38,770	\$67,770	0
Discover Pass	\$240,000	\$240,000	\$240,000	0
Total Revenue	\$1,974,478	\$2,146,542	\$3,124,542	+ \$172,064

^{*}Note: The lodging tax rebate the agency has historically received from the city is not included in the agency's revenue figures. We are not clear on what the annual amount to the state agency has historically been for comparison purposes.

Historically, the Fort has not received any lodging tax funds from the City, other than funds that were earmarked for the renovation and capital construction of McCurdy Pavilion in 1989.

Again, this table is problematic and we cannot confirm the numbers. Some of the figures in the columns do not total correctly. In the Column describing total revenue per PDA plan, it shows camping revenues of \$359,772 (highlighted in red) going to the FWPDA, which is incorrect.

We understand that there are counter arguments to our position in support of the FWPDA, we appreciate the opportunity to provide our position on the counter-arguments that have been brought to our attention:

Challenge: Fort Worden is operating in the largest deficit of any park in the system - \$1 million per year WFSE response: In order to evaluate what the WFSE would pursue in negotiations or a potential alternative proposal it was necessary to understand why Fort Worden is operating in a deficit in order to identify potential remedies. What we have learned is a number of things:

- 1. Leases: Existing leases are well below 2009 appraised values and current local market rates
 - a. Appraised value for annual lease rates simply took the market value of the building and divided by
 30 years not a real estate industry practice.
 - Lease rates established in the Peninsula College lease reflect real estate industry practice of charging a commercial lease rate by square foot. Peninsula's lease reflects \$.46 per sq ft consistent with WFSE research.

Current annual revenue from leases: \$108,615
Revised lease revenue within 4 years: \$500,000
(Actual market value exceeds \$1 million per year)
-----Net increase in revenue: \$391,385

Fort Worden's operating deficit is not due to below-market rate leases. It is due to not enough "heads in beds" and "butts in seats". The projections in our business plan demonstrate that. Our pro forma only increased lease revenue using accelerators not wholesale rent increases. In fact as a percentage of gross revenue lease income is approximately 4% of gross revenues for the entire 10 year term of the pro forma. This is not an economic model based on lease revenue. The bottom line is if rents were to increase as proposed by WFSE, it would force many of the tenants to relocate outside of Fort Worden. The WFSE proposal is to quadruple rents over a four-year period. The result would be a greater loss of revenues to the Park through a loss in accommodations and meeting room rentals generated by the tenants programs and activities.

- Increased lease revenue is a conservative estimate as it is not the full market value of the leased buildings. The projected increase reflects continued discounted lease schedules for tenants that contribute to increased visitors that generate other revenue for Parks.
- Centrum currently leases 11 buildings but only 1 houses Centrum operations. Our proposal is to continue the lease on Centrum's operation location and direct the lease of other buildings directly to Parks.

Ten of these buildings are critical to Centrum's operations and mission. Specifics details on their use could be provided if desired.

2. <u>Utilities:</u> Not all tenants are paying their utility bills as required in their lease. Parks' current utility expenditure is \$528,000 in 2012. Unpaid tenant utility charges were approximately \$200,000. Compelling tenants to pay their utility bills is necessary.

Current annual utility cost to Parks: \$528,000
Revised annual utility cost: \$328,000
----Net increase in revenue: \$200,000

The FWPDA is not aware of any tenants are not paying their utility bills as required in their lease. There is one tenant/concession, Bon Appetite, whose lease stipulates that they are not responsible for paying for utilities. One of the priority objectives of the FWPDA is to initiate an energy audit and energy efficiency program, which includes installation of metering in all Campus facilities to insure we know who is using what. In any event, utility costs/payments should not be described as a way to increase revenue.

3. Reservations: Most tenant businesses bring in overnight guests for their programs. Historically the tenants are permitted to reserve the accommodations needed for their programs more than the 12 months allotted to the public and receive substantial discounts from the published rates. The tenants then book the reservation with their clients at the full market rate and keep the difference. This results in Parks not being able to reserve accommodations at full market rate for their customers while they continue to incur costs for operations, repairs and renovations.

It is incorrect to describe this reservation policy as if it only benefits tenant businesses. Advance booking options are dictated by the Master Facility Use Plan (MFUP), are a function of group size and legacy status, and available to any group that qualifies. In this respect the MFUP necessarily aligns Fort Worden reservation policy with conference center industry standards to make the Campus a viable option for large and recurring events. Discounts received by partner organizations are in lieu of State Park's lack of marketing budget to advertise on their own behalf. In 2012 Centrum alone spent more than \$95,000 for various marketing campaigns to bring people to the Park.

The assertion that partner organizations book reservations at approved partner rates and then charge participants "full market rate and keep the difference" is unfounded. For example, Centrum participants' lodging is booked by estimating program attendance, and pricing structures need to accommodate less than full occupancy of dorm wings, participant cancellations, complimentary housing of chaperones and faculty, and fees for housekeeping and linen changes. The fees are designed to cover these costs, not to create a profit margin.

WSPRC has invested in all renovations and repairs of the "artist in residence" structures yet is deprived of opportunities to generate revenue from them because they are controlled by Centrum. We propose returning these structures to the agency's inventory so the agency may rent them out when not in use by Centrum.

The assertion that the WSPRC has invested in all renovations of the "artist in residence" structures is inaccurate. These five cottages and one "fourplex" apartment building were slated for demolition by WSPRC. Centrum was granted permission to invest in their refurbishment in exchange for leasing the buildings to house artists in residence and program faculty. In the early 1990s the five cottages were re-roofed by Centrum using grant monies received from the Murdoch foundation. In 2007 all of these dwellings were refurbished by Centrum staff and volunteers who received an award from Washington State for their work. Fort Worden tenants are no longer permitted to paint, make structural, plumbing, electrical, or exterior repairs, or to mow lawns surrounding leased premises. Centrum's most recent offer to assist with one or more of these maintenance items with regard to the artist in residence buildings was refused by Dave Pardy (WFSE) who cited union job infringement.

Under the current business model, as tenant businesses expand and their need for accommodations increase, Parks has fewer opportunities to generate revenue from conferences, events, legacy groups and the general public.

Under the current business model conferences, events, legacy groups, and general public usage booked directly through the Fort Worden reservation system are decreasing, not increasing. Considering this trend, replacing successful partner programming with the "opportunity" for more direct reservations seems counterintuitive. The WSPRC has always recognized the importance of attracting and retaining programming partners to the Fort who will invest their organizational resources in creating and marketing events and opportunities at Fort Worden.

There have also been issues with timely payments from the tenants for their events. In the case of Centrum there have been tens of thousands of dollars outstanding for many months to the detriment of the state agency. We suggest this model be revised so that all reservations are booked directly to Parks. This centralizes the reservations so that all guests are treated the same, revenue owed to Parks is made timely and ensures that Parks receives a more equitable distribution of the proceeds.

We agree that timely payments are needed from all tenants/partners. The FWPDA will not be able to carry late payments. It is one reason why we are spending a significant amount on installing a new reservation system as part of our mobilization costs. The other reason is it is important to provide for a seamless reservation process for the visitor—whether they want to reserve a meeting room, accommodation, campground site, or sign up for a specific program or event.

In response to the WFSE's August 2012 "Case Study", tenant businesses identified actual revenue figures generated from the current model, more than \$650,000 per year. Our proposal, less a 20% commission to the tenant for bringing in the business, results in increased revenue for Parks.

Annual reservation revenue increase to Parks: \$650,000
Less 20% commission to tenants: \$130,000
----Net increase in revenue to Parks: \$520,000

Implementing these changes alone completely eliminates the operating deficit at Fort Worden and results in a net profit of \$111,385 per year.

Based on earlier comments, the FWPDA does not agree with this analysis.

4. Other tenant improvements: The WFSE noted in our case study that the current contracts for custodial services and food service are disadvantageous to the agency and that revenues can be increased by bringing linen service in-house and finding a new way to deliver food services that better serves the needs of guests.

Bring custodial in-house: \$400,000 (Includes staffing, equipment and supplies)

Currently, PT Hospitality shoulders the responsibility of having each and every lodging space ready for incoming guests on a very tight turnaround schedule. During the summer this means being able to clean and reset every house, bedroom, and dorm wing in the park in three and a half hours. In the winter this means being able to survive on little work, and at the same time be prepared to handle last minute bookings and cancellations. The skills and flexibility needed to successfully negotiate these challenges seems far beyond the scope of the WFSE both in terms of scheduling and compensation. Hospitality service and immediate customer service response is the lifeline of any successful residential conferencing and programming endeavor.

RFP to replace Bon Appétit with pre-approved list of multiple local businesses, replace concession for the Canteen into year-round convenience market, add convenience food and beverage sales to Guard House, and make picnic baskets/hiking packs available to guests with 10% of sales going to Parks:

\$100,000

We do not believe these functions could be done economically in house based on union costs, the customer service demands caused by hospitality requirements and fluctuations in seasonality, use, etc. Again, we challenge a \$100,000 revenue figure to replace Bon Appetite concession contract and by selling picnic baskets as a reliable revenue generator to State Parks.

5. Other recommendations: The FWPDA plan calls for continued capital investment on the part of the state agency. Because the park remains a state park this is not an unreasonable request. That said, when the state agency partners with the FWPDA for the renovation of an unused building, they should have the opportunity to proportionately share in the revenue generated by having a new tenant. For example:

Total cost of proposed renovation: \$10 million

Parks contribution = 80%

FWPDA contribution = 20%

Lease revenue generated per year: \$50,000

Agency share of lease revenue @ 80%: \$40,000

It is the WFSE's position that if state funds are being used for maintenance, repairs and renovations that the work needs to continue to be performed by Park's employees. This is a provision in statute negotiated with the legislature regarding fish hatcheries; we hope to maintain this concept throughout state agencies.

As discussed previously, the FWPDA is proposing revenue sharing with State Parks. However, it is important to highlight that the FWPDA requires earned revenue to support itself and its operations. Lease revenue is part of that earned revenue. Moreover, any surplus revenues generated by the FWPDA will be used solely to tackle deferred maintenance costs and to undertake new major capital improvements. The Park's total valuation increases with all renovations and improvements and all renovated assets are owned by State Parks and return to the State at the end of the FWPDA lease.

Challenge: We don't have the skills necessary to successfully operate a Life Long Learning Center; we need to stick with what we are good at.

WFSE response: Over the last year in particular, WSPRC has come to the conclusion that agency transformation to an enterprise model is necessary "to align everything we do with the appropriate sources of funding" as stated in the draft Transformation Strategy. We agree. Continuing to manage the operations at Fort Worden and transforming the business model there presents a great opportunity to begin immediately.

- The agency does reservations at Cama Beach and historically at Fort Worden.
- The agency does negotiate all leases and other agreements within the state park system (Current focus is on improving skills in this area. Department of Enterprise Systems also has training resources available)
- The agency does event planning, large and small, at numerous parks around the state collaborating with local and statewide community groups, weddings and other events.

These are core agency functions and are necessary to implement the transformation strategy. While improvements to practices and implementing consistency in their application across the state would be beneficial, to forego such a large revenue potential really cannot be an option.

In 2006, Parks itself concluded that it does not have the enterprise skill needed to successfully operate the hospitality services needed at Fort Worden. Most importantly, the FWPDA Business Plan has set out a model of operation that can succeed. But, it is entirely based on the FWPDA taking on the operation of the hospitality services. At present, the Park's current hospitality business model is failing. While the WFSE's proposal may help to improve some of the operations in the campus area, it simply cannot offer the same level of hospitality and marketing services and expertise as being contemplated by the FWPDA. Nor does it hold the promise of large scale investment in the rehabilitation and long-term maintenance of the historic buildings in the Campus.

The WFSE has proposed an exploration into bringing the statewide reservation system in-house. Camis received nearly \$1.3 million last year from WSPRC reservations booking 178,278 reservations, 90% of which were booked online with no personal contact. Camis call-in reservations average 49 calls per day but peak season fluctuations must be considered. The WFSE believes the call volume could be absorbed into the call center at Parks headquarters with the addition of 1 FTE.

If the agency were to double the \$250,000 quoted by the Fort Worden Public Development Authority (FWPDA) for a new, state of the art reservation system and implement it statewide, the first year costs would more than pay for themselves and increase revenue potential for the agency.

Total 2012 reservation fees collected by Camis:	\$1	1,286,703
Cost of 1 FTE (including benefits):	\$	80,000
Technology investment:	\$	500,000
Net new revenue – 1 st year	\$	706,703

FWPDA Note: This reservation system is an agency wide proposal and not specific to Fort Worden operations. FWPDA has always maintained that it would present a "seamless" reservation experience for the end user at Fort Worden.

- Moving in this direction allows increased opportunities for Parks staff to cross-sell when one park is booked but another park nearby has availability.
- Allows for more nimble implementation of new marketing programs as reservation staff would be more closely connected to marketing staff.
- Gives the agency greater access to reservation data and market trends.
- Allows for statewide consistency in promoting events and directly connecting with Parks staff in the field to send referral inquiries for the planning and scheduling of events.
- Allows the agency to bring ALL parks online with the reservation system.

• Fracturing Fort Worden from the rest of the parks isolates Fort Worden and disrupts the network of collaboration and referrals that are exchanged between the parks on the Olympic Peninsula.

Fort Worden Partners have recent experience with this type of direct booking model, having utilized it for two years at the urging of Fort Worden management. The program was called "CMP", and represented the Parks efforts to replicate the full service conference packaging successfully employed in the private sector. This program is no longer available at Fort Worden due to internal issues within WSPRC. Information regarding the shutting down of this program can be requested from the Fort Worden finance department or the agency auditors responsible for oversight of Fort Worden operations. It should be noted that participants were dissatisfied with their booking experience under the CMP system. State policies regulating staff breaks and vacations are counter-productive to an organization trying to provide hospitality industry services. Vacations were scheduled during booking deadlines with no alternative contact person provided for customers. Reservations were "closed" due to minor technical issues without consulting tenant organizations. Calls were not returned in a timely manner. The State Parks' website was not flexible enough to perform all of the functions generally expected in a robust hospitality reservation system.

Challenge: The PDA offers immediate investment into capital improvements

WFSE response: This should not change under the WFSE's proposals. If the FWPDA leases the vacant buildings for the purposes of capital and tenant development, we see this as the most beneficial aspect of partnering with the FWPDA. It has been said that the benefit of the FWPDA taking over management of the operations allows the revenue to be reinvested exclusively in Fort Worden. This raises the concern that the FWPDA's plan calls for the agency to maintain a financial deficit.

The agency is certainly free to maintain the current proposed level of deficit and reinvest those same dollars into capital improvements at Fort Worden now. In fact, with the increase in revenue resulting from the WFSE's proposals, more funds could be dedicated to Fort Worden while reducing the deficit or even contributing to the needs of the statewide park system. We offer the following as an example of the type of commitment that could be made to Fort Worden:

- Commit to a level of deficit acceptable to the agency that is time limited: \$ 500,000
 (Less than the current deficit and less than the resulting deficit from the FWPDA proposal)
- Commit to the FWPDA reinvestment of revenues into Fort Worden
 above that deficit level: \$611,385
 (From the reforms in the current business model above)
- Cap the maximum contribution of 100% revenue improvement from the acceptable deficit baseline: \$ 750,000 max
- Commit to a percentage reinvestment of revenues over the cap: 40% of new revenue over cap
 (ie. Parks maintains \$500k deficit for four years and commits to invest 100% of increased revenue over
 that deficit amount to a maximum of \$750k. If additional revenue increases are achieved, Parks
 commits to a minimum reinvestment of 40% of that increase leaving the rest to the agency's discretion
 to either invest more at Ft Worden or supplement the needs of other parks.)

The 2008 Long Range Plan was specific in setting minimum capital investments by the tenants in order to qualify for longer term leases. Engaging the tenants as partners in the capital plans is critical to Fort Worden's long term future. We agree with this concept and urge its implementation as outlined in the 2008 Long Range Plan as follows:

Fees	Investment	Term
Base rent, rate for additional facility	Equivalent of \$1,000 - \$25,000	2 – 5 years
use for programs, % of gross over	over period of up to 3 years	
agreed threshold		
Base rent, rate for additional facility	Equivalent of \$26,000 -	5 – 8 years
use for programs, % of gross over	\$50,000 over period of every 3	
agreed threshold	years	
Base rent, rate for additional facility	Equivalent of \$51,000 -	8 – 12 years
use for programs, % of gross over	\$100,000 over period of every	
agreed threshold	3 years	
Base rent, rate for additional facility	Equivalent of \$101,000 -	12 – 20 years
use for programs, % of gross over	\$500,000 over period of every	
agreed threshold	3 years	
Base rent, rate for additional facility	Equivalent of \$501,000 -	20 – 50 years
use for programs, % of gross over	\$1,000,000+ over period of	
agreed threshold	every 3 years	

We agree in concept with the above table. We will work with the WSPRC and FWPDA Board in determining a base rent based on market rates, which also reflects a minimum level of capital investments/tenant improvements to be provided by a lessee, and a process for determining a predictable and equitable lease rate that may be discounted (using existing Park policies as guidelines) in order to promote overnight programming and meeting room uses.

Challenge: The PDA is not willing to enter an agreement that does not include taking over operations

WFSE response: This is a not a rational position for the FWPDA to take. As has been pointed out, Fort Worden is contained within the city limits of Port Townsend - the city and the park are inextricably linked. The city is in serious need of the tourism and other financial benefits that exist from the opportunities at Fort Worden. To think that the city would not be interested in partnering with the WSPRC to renovate unused buildings, market the Life Long Learning Center and work to attract new businesses to operate at the park makes little sense. This type of supporting role is exactly what the city and the FWPDA have indicated was the original charter of the FWPDA when Centrum was in negotiations to enter into a co-management agreement with the agency.

The key to making Fort Worden sustainable and successful in implementing the Lifelong Learning Center is employing an integrated marketing strategy, providing better customer service with a 24/7 presence, and providing improvements in the hospitality amenities and services. The City recently hired an internationally respected hospitality marketing firm to evaluate the City's potential to attract and retain corporate meetings

and organized groups to serve as a city-wide conference meeting destination. Several of the findings in the draft report (Market Study—Competitive Meeting and Group Demand Analysis, May 2013) pertain to the future of Fort Worden serving as a conference center:

"The condition and quality of accommodations at Fort Worden range from poor to fair. Many of the buildings and guestrooms are in need of significant renovations and updates. In addition to the lack of quality guestrooms, the park has suffered from service issues because it has historically operated as a state park as opposed to a hospitality focused business: a traditional check-in, check-out front desk model is not available...."

"In its current state (Fort Worden), the condition of the lodging supply will continue to have a negative effect on meeting retention, which has been evident in historical performance. The majority of the facility's revenue is derived from the conference facilities and lodging..."

"Both the Fort and the City of Port Townsend are currently losing market share in meeting and group related-demand due to the lack of investment in this product... It is noted that significant capital would be required to improve accommodations facilities to a level expected by today's meeting and event planners."

(HVS, Draft Market Study, May 2013, p. 34)

Further, the Governor, the Legislature and the Commission have assured the public that Fort Worden will not be transferred and will remain a state park. A 50-year lease that includes the entire main campus, essentially all of the state's revenue and potentially even the reservations for the campgrounds is, for all intents and purposes, a transfer of the park. We question whether the public would notice a difference between a transfer of ownership and the FWPDA's vision for a long term lease. The agency should not yield to a demand for what amounts to be the functional equivalent of a full transfer of the park in order to be interested in the further development of Fort Worden.

A 50-year lease term is the minimum needed to begin to attract the level of private investment (e.g., hotel operator and associated improvements) needed to address the deferred maintenance needs and capital improvement priorities in the Campus.

Challenge: The PDA needs to be in control of the entire campus area to inspire the trust in potential investors WFSE response: If the concern is that bifurcating the management of the tenant population is problematic, the WFSE would be willing to consider the transfer of lease management functions to the FWPDA as long as there is a provision requiring the FWPDA to:

- 1. Pay the agency the current negotiated lease revenues less a 10% management fee.
- 2. Require the FWPDA to negotiate lease renewals so that the 2009 appraised value of the space is achieved within 5 years and that any discounting be applied according to agency policy and approved by the agency before the renewal is signed.

While the FWPDA has not formally taken a position on this management proposal, it is extremely unlikely that there is an economic scenario in which the FWPDA performs this limited, building-by-building role and be financially sustainable. In addition, it would likely delay the FWPDA's ability to recruit new tenants and begin to address other outstanding deferred maintenance issues in the Campus.

Requested action

The WFSE proposes:

- The Washington State Parks and Recreation Commission (WSPRC) enter into a partnership agreement with the FWPDA for the purposes of marketing, capital development and tenant development only
- The WSPRC retain the operations and all existing revenue streams historically generated from its' activities at Fort Worden
- Share proportionately with the FWPDA and tenant businesses the costs and revenues generated from new activities developed in collaboration.
- Include WSPRC employees, and their exclusive representatives, in ongoing collaborations for the future of Fort Worden

For the reasons stated here and in order for the agency to achieve a maximum participation in the generation of revenue at Fort Worden in accordance with the 2008 Long Range Plan and consistent with the agency transformation strategy, the WFSE stands firm in the position that the operation functions at Fort Worden should remain with the state agency.

We appreciate that the WFSE proposal gives credit to the FWPDA as an appropriate organization to tackle narrow elements of a Fort Worden business plan, such as fundraising for buildings on a case-by-case approach, undertaking marketing and recruiting new tenants. While these are very important tasks they do not provide a comprehensive strategy to implement the Lifelong Learning Center and to improve the hospitality functions necessary for future success at the Park. Moreover, if the FWPDA were to only take on this narrow range of services, it does not appear the FWPDA could become financially supportable by providing these narrow tasks alone. The WFSE proposal is not a business plan. The FWPDA business plan uses the revenue streams from leases, accommodations and facility rentals to cover all the operational costs in the Campus, which is necessary to grow the Campus's revenues over time. All surplus revenues would be earmarked for investment in deferred maintenance and capital improvement needs in the Campus.