



Approved Minutes
Board of Directors Meeting
Fort Worden Public Development Authority (FWPDA)
Wednesday, December 16th, 2020 | 9 a.m.
Via Zoom (Remote Meeting Per Governor Inslee’s Proclamation 20-28)

- ❖ **Action:** Motion to approve the November 25th, 2020 board meeting minutes. **Unanimously approved**
- ❖ **Action:** Motion to amend Resolution 20-21 (passed December 9, 2020), which approved the reorganization concept outlined in the FWPDA Recovery and Reorganization Plan and related actions, by changing and replacing references to a “not-for-profit limited liability corporation (LLC)” with a “nonprofit corporation”. **Unanimously approved**
- ❖ **Action:** Motion to approve Resolution 20-22 authorizing the Interim Executive Director to finalize the terms of a grant anticipation note in the principal amount of not to exceed \$214,000 for the purpose of paying costs of constructing the Makers Square Project pending the receipt of proceeds of a Washington State Local and Community Projects grant; fixing the form and terms of the note; providing for the sale of the note to Kitsap Bank; and amending certain terms of the Revenue Bond, 2019A. **Approved with 7 in favor and 2 abstentions**

Regular Board Meeting

I. Call to Order: 9:00 a.m.

The December 16th board meeting was a remote Internet- and phone-based meeting in accordance with the “Stay Home” emergency proclamation issued by Governor Jay Inslee on March 23, 2020 and subsequently extended. Access information to the meeting was published on the Fort Worden PDA website, in a meeting notice to the media, and in emails to the stakeholder mailing list.

The meeting recording and materials are available on the public documents page of the PDA website: www.fortworden.org/category/pda-documents/

II. Roll Call/Introductions of Board Members and Staff

Fort Worden PDA Board Members: Norm Tonina, Todd Hutton, Lela Hilton, Jane Kilburn, Jeff Jackson, Gee Heckscher, Terry Umbreit, Herb Cook, Cindy Finnie

Staff: David Timmons, Aislinn Diamanti, David Beckman, Joan Rutkowski

III. Changes to the Agenda/Announcements

There were no changes to the published agenda.

IV. Communications of Interest

Board co-chair Norm Tonina noted that the packet contains several articles intended to share the broad range of impacts COVID-19 is having on local and regional organizations. Tonina said that some of the articles are pertinent to what is happening at Fort Worden and noted in particular a Seattle Times article about the nationwide impact of COVID-19 on the hotel industry. The article states that the trend in occupancy losses means the industry will record 1 billion unsold rooms by around Christmas.

V. Public Comment

The PDA received two public comments in writing, which were read out loud during the meeting. [Please see the attachments to the minutes for the comments.]

VI. Consent Agenda

Action: Motion to approve the November 25th, 2020 board meeting minutes **Unanimously approved**

VII. Partner Operations Update: Copper Canyon Press

Joseph Bednarik, Co-Publisher of Copper Canyon Press, provided an update on the impact of COVID-19 on Copper Canyon’s operations. Bednarik said that Copper Canyon has been housed in building 313 at Fort Worden since 1975. He stated the mission: “Poetry is vital to language and living. Copper Canyon Press publishes extraordinary poetry from around the world to engage the imaginations and intellects of readers.” Bednarik summarized four impacts the pandemic has had on his organization’s operations:

- 1) In March, Copper Canyon was set to host their major annual conference and related events in El Paso, Texas. They cancelled, which led to a loss of nearly \$50,000 of expected revenue and sunk costs in preparation for the event..
- 2) The organization has closed its office building, and staff have been instructed to work at home. Safety protocols guide entrance into and use of the building.
- 3) Due to the impact of COVID-19 on bookstores across the country, Copper Canyon followed advice to reduce sales forecasts by at least 25 percent.
- 4) Their major spring fundraiser, which was to be an in-person event in Seattle, was cancelled. The revenue impact of that cancellation was approximately \$50,000, he said.

Bednarik noted that all organizations have some version of this story to share. He said that Copper Canyon’s counterbalance to those stressors involves several successes. These include receiving CARES Act funding that has allowed Copper Canyon to keep its staff fully intact, and The Union of Concerned Scientists buying nearly 2,000 copies of their anthology about climate change for their membership ([Here: Poems for the Planet](#)). One of the press’s books won the 2020 Pulitzer Prize in poetry ([The Tradition, by Jericho Brown](#)), and Bednarik said sales of the book following the prize have largely offset the projected deficit. He concluded with the idea that “art is the big yes”, an idea expressed by the poet Marvin Bell. Bell lived part-time in Port Townsend and died on December 14th. Copper Canyon believes in art and in “yes”, Bednarik said.

VIII. PDA Recovery and Reorganization Plan Update

A. Staff Report

Interim Executive Director David Timmons described a shift in what business structure will be used for the hospitality entity. In last week’s board meeting, the term LLC (limited liability company) was used as an umbrella term for a separate legal entity, Timmons said. He said that in further review with the PDA’s attorney and special counsel, it’s been determined that a general nonprofit corporation is the best entity structure to use for hospitality service. He said Washington State RCWs offer more and better guidance for nonprofits, which provides more protection. Timmons said this doesn’t change the plan’s intention, just the structure for what is being formed. Attorney John Watts added that because of this, the recommendation for the board is to correct the motion from last week’s meeting to substitute nonprofit corporation for LLC.

B. Board Discussion

Board and staff briefly discussed the change. Watts said the nonprofit formation happens through the Washington Secretary of State office, and then the entity can apply to the IRS for tax exempt charitable organization status. He said the rules allow for donations to the entity to qualify as tax deductible, so long as the charitable organization status is awarded within approximately 27 months from the time of donation. Timmons said the start-up of hospitality won't happen like a flip of a switch; it could take approximately six months. Recommendations will need to come before the board regarding agreements needed to handle aspects of the transition, such as the transfer of licenses, insurance, and employees, he said. The PDA is applying for investor backing for the nonprofit entity through the Local Investing Opportunities Network (LION), Timmons added. Jackson suggested that Timmons provide an overview of the LION and its investment structure.

Action: Motion to amend **Resolution 20-21** (passed December 9, 2020), which approved the reorganization concept outlined in the FWPDA Recovery and Reorganization Plan and related actions, by changing and replacing references to a “not-for-profit limited liability corporation (LLC)” with a “nonprofit corporation” **Unanimously approved**

IX. Financial Report

A. Staff Report

Timmons reported that he doesn't yet have a formal report because finance staff are struggling to close out many months of activity, back into 2019. He said the PDA is operating on a month to month basis, and a big priority is moving ahead to finalize Makers Square. Timmons said he also is working on a strategy for cleaning up accounts that are payable. A special meeting will be needed by the end of the year to adopt a 2021 budget.

B. Board and Staff Discussion

Tonina asked about cash flow. Timmons said that if he can develop a plan to address accounts payables, the PDA will be fine at least through February. Timmons added that staff are doing a tremendous job at containing costs and triaging. Bookings for the holidays and the second quarter of 2021 are helping, and the next few months in the gap are critical, Timmons said. Queries for group events later in 2021 also are coming through. Timmons added that a recent generous anonymous donation has made a major difference and is helping the PDA survive into 2021. Investors are needed to bridge the PDA to July, he said. Hutton expressed the board's collective gratitude for the donation.

Regarding an opinion shared during public comment, Hutton said that he disagrees with the belief that it was a mistake to reopen. He said that while not all information was known at the time about financial irregularities, the board did have an analysis of operations and expenditures and a healthy amount of bookings were in place. If the PDA had not opened up, additional expenses would have been incurred, such as the refund of deposits, that would have made the PDA's situation even more fragile, Hutton said. Board members also noted the large amount of staff time and board assistance that has been needed to manage the Makers Square project.

X. Resolution 20-22 Regarding a Grant Anticipation Note with Kitsap Bank

A. Staff Report

Timmons explained how a grant note is used as a loan to provide advance funds for a project when grant payments are only available in the form of expense reimbursements; the grant reimbursements pay off the loan as they come through. He said the \$214,000 from Kitsap Bank

will be used towards Makers Square construction costs; as funds from the \$543,000 Washington State Local and Community Projects grant come through they will be used to pay back a loan from the Fort Worden Foundation that was used for Makers Square costs as well as pay off the Kitsap Bank loan. Timmons said Kitsap Bank is very comfortable with the transaction. He said the amended terms include the extension of the line of credit by six-month intervals, up to two years, if COVID impacts continue to exist during that time.

B. Board Discussion

Board member Herb Cook said he would abstain from the vote because of his dual roles on the boards of the PDA and the Fort Worden Foundation. Cook noted that the funds from the grant would be sufficient to allow the Foundation to pay off its private lender, and said he wants to avoid any conflict of interest in case of the remote possibility that the plan doesn't move forward as intended. PDA board member Cindy Finnie, who also serves on the Foundation board, said she would abstain from the vote for the same reason.

Action: Motion to approve Resolution 20-22 authorizing the Interim Executive Director to finalize the terms of a grant anticipation note in the principal amount of not to exceed \$214,000 for the purpose of paying costs of constructing the Makers Square Project pending the receipt of proceeds of a Washington State Local and Community Projects grant; fixing the form and terms of the note; providing for the sale of the note to Kitsap Bank; and amending certain terms of the Revenue Bond, 2019A

The motion passed with 7 in favor and 2 abstentions

XI. Operations & Capital Projects Update

A. Staff Report

Interim Operations Director Aislinn Diamanti provided an update on bookings, operations, and maintenance work, which has included the winterization of the glamping sites. Diamanti said December is tracking close to the reopening plan budget. She is working with staff on 2021 forecasting and the transition plan. Bookings are picking up for March and later, and marketing work is underway, she said. Diamanti said cancellations related to COVID concerns have been light, likely because the PDA's accommodations are relatively safe because they are more like individual homes.

Capital Projects Director David Beckman said the bid for the State Parks project to upgrade the west gate power transformer has been received and accepted, and this means there will be a two-day shutdown of the entire Fort that could happen in May. He said the Parks infrastructure project for Officers Row had a pre-bid in December and potential start dates should soon be known, with completion expected in mid-April. Beckman also reported on Makers Square construction, stating that crews are pushing to get final inspections done by year-end. He noted that Clark Construction has submitted for an additional \$370,000 in payments, and he will be replying to their request for extended delays and extended overhead requests.

B. Board and Staff Discussion

Board and staff talked about the timeline for the certificate of occupancy and the closure and receipt of the historic tax credits (HTCs). Timmons said that with the executed HTC term sheet in place, the process for closing is moving forward. One document needs to be finessed and finalized, which involves State Parks agreeing to maintain the LLC status needed for the HTCs during the tax credit period if Parks has to step in, he said. Timmons said that after payments are made for Clark Construction and for HTC processes required by the National Park Service, he doesn't expect any funds left for PDA operations. He said there is some flexibility on timing

if the certificate of occupancy doesn't come through until 2021, and he anticipates the HTC transaction happening in late February or early March.

XII. KPTZ Lease Update

Board Report & Discussion

Tonina reported that the PDA's attorney, John Watts, worked with HTC attorneys to get a final draft of KPTZ lease, which includes terms for the HTC transaction. The draft is now under legal review by KPTZ's attorney and Tonina said he expects to hear back from them in a few days.

XIII. OPMA and PRA Training Materials and Best Practice Recommendations

A. Staff Report

The PDA's Public Records Officer, Joan Rutkowski, provided an overview of training materials on the Open Public Meetings Act (OPMA) and the Public Records Act (PRA) that were provided in the agenda packet. State law requires every member of a governing body to complete OPMA and PRA training at intervals of no more than four years. She noted that the review is especially timely because organizational challenges during the pandemic are requiring more Board activity than usual. Also, electronic communication use can create situations that have caused legal issues for some public entities. The training materials are readings from the Municipal Research and Services Center (MRSC) of Washington State. Rutkowski said the best practice recommendations that she drafted are based on key points from the MRSC readings, and she suggested that the board consider adopting the recommendations or a version of them at a later date, after board members have had time to review the material.

B. Board Discussion

Cook commented that the Zoom meetings are working well to ensure continued access and transparency. Tonina thanked Rutkowski for the materials.

XIV. Public Comment

No comments were shared during the public comment period.

XV. Next Scheduled Board Meetings

A board scheduling poll is in process to help identify potential dates for January board meetings.

XVI. Adjourn

The meeting adjourned at 10:13 a.m.

COMMENT FOR 12-16-20 FWPDA BOARD MEETING

To: FWPDA Board
From: David Goldman

16 Dec '20

In 2014 the FWPDA started up with very limited capital and no reserves.

It grew the business for 5 years, but without the financial burden of campus maintenance and without provision for financial reserves.

Maintenance costs in the 6th year became the responsibility of the FWPDA and the original hospitality business model couldn't sustain the enterprise even with \$7 million in revenue with that added burden.

The governor's emergency orders in 2020 shut FWPDA operations down just as the Board began to wrestle with maintenance financial crises and the need for reserves.

Because there were no reserves and as a result of the apparent failure of Board financial oversight, the August 2020 restart was, in hindsight, ill advised, over-optimistic and a financial disaster.

It will be a hard, if not an impossible proposition, to raise financing for the FWPDA from potential investors and debt guarantors because of the loss of Board credibility and the size of the debt now threatening to bankrupt the FWPDA.

C-19 hovers over everything for the foreseeable future.

I suggest the board follow David Timmons' reorganization outline as follows:

1. Organize the holding company LLC, adopt a budget and scare up enough capital sufficient to operate that LLC;
2. Staff only the holding company with the minimum staff possible and limit executive pay to 70% of "market" rates;
3. Proceed with planning, establish the other subordinate LLCs pursuant to plan;
4. Postpone the start-up of any other operations until, in addition to the funds needed to fund any operations, \$1 million in unencumbered reserves is in hand.

Without sufficient reserves in hand there is no margin for low occupancy, mechanical failure, inadequate planning, lack of management/Board oversight and circumstances impossible to anticipate.

Another round of failure will be the death knell of the FWPDA.

Devotion to the future of Fort Worden is essential. There is no lack of that on this Board. It took a lot of hard work to get here. Still, that won't be enough on the part of the Board (or the tenants/Partners). No one should get a "premium" ride. Restoration of management compensation should be contingent upon success.

To my knowledge, the FWPDA received no CARES Act or FEMA funding. Every entity that intends to have a major voice in Fort Worden's future should come to the table prepared to participate in funding this public asset.

Comment for the PDA board of directors meeting December 16, 2020

Bob Gray, Port Townsend

As you go forward, you should closely monitor what the State Auditors are finding in their accountability audit and correct the audit findings even if you decide to reorganize the management of Fort Worden.

All the public knows from news reports is that loan funds and credit cards may have been misused and that accurate financial reports were not submitted to the Board of Directors and to the public. Inaccurate financial information given to the Board of Directors and to the public is a major problem.

The accountability audit will determine if there are any other findings and if all laws and regulations were adhered to. The audit will determine the impact of the audit findings and if any future legal or administrative actions are warranted.

Since you are discussing a new organizational structure for Fort Worden, the public should understand that the auditors are auditing the current organization to determine if there were internal controls in place to protect public resources from misappropriation and misuse. Lack of internal controls have been a PDA finding since the 2014-2015 audit.

But even if you develop a new management approach, the basic internal controls of adequate documentation of transactions, separation of duties, and second-party review should be developed. Without internal controls, these findings will continue even within a new organization.

The auditors are going to require this and state parks, investors, guarantors, lenders, partners, and especially the public would want these assurances.