



Approved Minutes
Special Board of Directors Meeting
Fort Worden Public Development Authority (FWPDA)
Wednesday, December 9th, 2020 | 11 a.m.
Via Zoom (Remote Meeting Per Governor Inslee's Proclamation 20-28)

- ❖ **Action:** Motion to adopt Resolution 20-21 approving the reorganization concept outlined in the FWPDA Recovery and Reorganization Plan, subject to Board approval of implementing measures and actions presented in the future to the Board by the Interim Executive Director, and directing the Interim Executive Director to take initial steps to implement the reorganization as outlined in the plan. **Unanimously approved**

Special Board Meeting

I. Call to Order: 11 a.m.

The December 9th 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.

II. Roll Call/Introductions of Board Members and Staff

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

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

III. PDA Recovery and Reorganization Plan Presentation

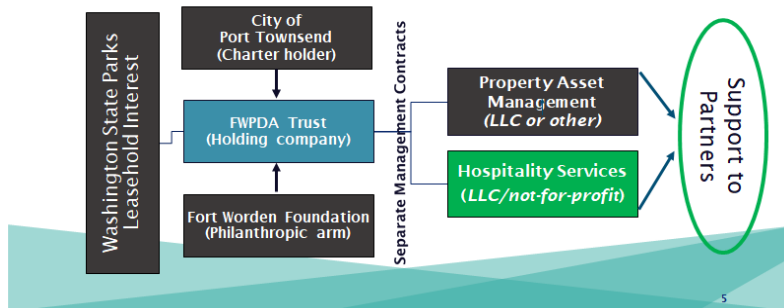
A. Staff Report

Interim Executive Director David Timmons provided an update on the PDA’s financial challenges and recovery/reorganization plan. He gave a PowerPoint presentation and described changes to a proposed reorganization plan that was presented at the last board meeting. During the presentation, Timmons said the PDA is on a critical timeline. He added that it’s difficult to accept that a different way forward is needed and said he is doing so with all due respect to all participants and parties. He summarized recent progress, which includes a \$200,000 private donation for operations, deferred payments on capital project loans that reduce the amount immediately needed from \$2 million to \$900,000 or less, and adjustments to operations to reduce expenses. Timmons also said he has submitted a request to State Parks for help with major maintenance items for a limited duration, and they are having internal discussions about the request. He said he has approached Centrum about a partnership in Makers Square, and discussions are in progress. Timmons said the PDA is going to run out of cash at year-end because there isn’t enough income to meet expenses. The donation is buying time, but the time is limited, he added. Timmons said a budget needs to be adopted by December 31st, and he doesn’t want to go into the next year with a cash deficit. Because the PDA is not credit-worthy, it isn’t in a position to take out a line of credit to avoid the deficit, he added.

Timmons reviewed the challenges of the current business plan, which is based on hospitality services that provide the PDA’s biggest source of income but are now greatly limited by the

pandemic. Timmons said he has looked at different ways forward and his suggested plan is that the PDA form an LLC/nonprofit corporation that operates under a long-term franchise agreement with the PDA to use the property. The Hospitality LLC/nonprofit would provide hospitality services for the benefit of the Fort Worden Lifelong Learning Center’s mission, focusing on providing accommodations, food services, venues that support group sales, and routine maintenance of hospitality facilities. Timmons described the advantages of the model and of implementing it now, which include having a better hospitality model in place for a post-COVID environment; limiting constraints that stem from having a municipality operate a hospitality business; separating routine maintenance from major capital needs, which have been more than the current model can bear; and helping diversify and build resilience in the organization. He noted that a separate asset management entity is needed to help with diversification, and this could help partners leverage resources and raise funds. The success of the new model is based upon securing private investment and loans to help with the start-up of Hospitality Services, Timmons said.

Proposed FWPDA Reorganization Diagram



Timmons described related changes to the PDA that could be made through a revised charter with the City of Port Townsend. The PDA could act as a trust/holding company that holds the lease for the benefit of the community, partners, and State, and administers the lease primarily by working with the two sub-partners (hospitality services and the property asset management group). He said charter changes could include reducing the size of the PDA board of directors and adding a prohibition on incurring debt without City consent. The PDA’s income would come from current leases, current fees, and fees from the franchises that form, and during the rebuilding period the PDA would pass through state and federal funding that it acquires, Timmons said.

Timmons said that the Hospitality Services component of the plan calls for investment partners, a business advisory council, and a board of directors. He said the Hospitality entity’s mission could be, as an example: “The provision of hospitality services that benefit the Fort Worden Lifelong Learning mission.” The overall reorganization process will involve identifying mechanisms for shared governance with stakeholders and allowing partners to have a stake in asset management, he said. The PDA trust and the collaborative can help pull it all together and make it work, Timmons added. He described first steps and early decisions for Hospitality during its first year, which include a consideration of whether the organization will have members who are shareholders, as well as assigning the LLC/entity at minimum a 25-year franchise agreement. Timmons said that liabilities held by the FWPDA for Hospitality would be transferred to the new entity, which would include glamping and some of the unpaid bills. He is suggesting that Hospitality Services leaders consider developing a hospitality-focused education and training program.

Timmons recommended that the PDA board approve the concept and authorize him to take initial steps to implement the reorganization as outlined in the plan. He said that action wouldn’t be the

final commitment, and it instead allows him to get the work done that helps the board make the final decision later in December. Initial steps include creating the not-for-profit LLC, working on amending the PDA's charter with the City, and seeking investment partners, Timmons said. He said that the reorganization plan is a stretch but is the only path forward that he can see. He sees no future in the status quo because the PDA can't attract the investors that it needs; people he has spoken to want to see changes, Timmons said. Timmons has shared the plan with the State audit team and the feedback was positive, he said. Special legal counsel Gerry Johnson said he saw no legal impediment to the model and that it addresses concerns that should be addressed, Timmons added. He noted that the plan is not set in stone and can be modified as the PDA moves ahead.

B. Board and Staff Discussion

Board members and Timmons discussed how maintenance needs and the lifelong learning mission would be handled under the new model. It was again noted that the proposed changes are part of an immediate survival plan that still requires collaborative participation and refinement. Timmons emphasized that under the new model the PDA still supports the education platform by providing space and resources. Specific points shared during the board discussion included:

- The Lifelong Learning Center mission needs to be the front and center of the plan and related communications.
- While the Hospitality entity would be an autonomous legal entity, it would still report to a board that would make sure it adheres to its mission. The franchise contract with the PDA can also set specific standards.
- The property has a track record of bringing in hospitality revenue; it was a \$7 million operation before COVID-19 hit. Maintenance costs have been high because of all the deferred needs from when the campus was managed by State Parks, and Timmons said hospitality couldn't carry that entire burden. The proposed model creates a separate structure for taking care of maintenance, which lowers the overhead for hospitality. Treasurer Jeff Jackson said the hospitality industry typically works with this separation. While the model is complex and "bankruptcy light" would be easier, this reorganization concept tries to involve everyone and maintain the mission while working towards sustainability, Jackson said.
- Timmons said he has not considered establishing a traditional concessionaire arrangement instead of a nonprofit entity because he wants management to be community-based and the revenue to remain local. The proposed model is for the transition and other options for the long-term could be explored, he said.
- Pitfalls of the model need to be identified and mitigated, and this includes clarifying which maintenance needs are handled by asset management and which are handled by Hospitality. Jackson said that in the industry, maintenance needs that directly impact service to customers are handled by the hospitality entity and anything longer-term that involves the real estate goes with the asset management group. Timmons said he sees the PDA as being the arbiter between the two groups.
- Jackson said a main reason why he likes the asset management model so well is that it can involve the constituents that benefit the most from the property in the long-term (the community, the City, and the State), while the hospitality business and the mission work well together to generate income for the short-term.
- Timmons said he is talking to legislators about establishing a formal income stream for asset management, possibly modeled after Public Facility Districts, which receive a portion of sales tax revenue. Board member Gee Heckscher noted that capital needs are a major consideration, involving more than \$1 million a year.
- Immediate funding needs were clarified. A \$900,000 bridge loan (and related loan guarantee) is needed for capital project needs, and a minimum of \$600,000 is needed to sustain minimal operations through June. Timmons said he doesn't know if the proposed model will make the City more likely to back the bridge loan; he has been briefing the City Manager on the plan.
- Board member Cindy Finnie said the start up budget needs to account for unknown major

maintenance needs that will arise following the lack of maintenance during the shutdown and reduced operations. Jackson said the \$600,000 needed through June doesn't include what will be needed to ramp up during the shoulder season.

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IV. Public Comment

Port Townsend Mayor Michelle Sandoval said that even though she isn't an official partner at the Fort, the City is involved and she wanted people to know that she was listening to the meeting and discussion.

Seth Rolland said that he appreciated hearing that conflicts between the LLC and asset management would be shepherded by the PDA. He said he thinks that similarly, there might be a difference in the goals of the LLC and the lifelong learning goal, and he is concerned that an LLC with a profit motive might not appreciate the affordable (campus) housing needs of the partners who are carrying out the mission. Rolland encouraged PDA leaders to talk to partners about the proposal to avoid missteps that have happened before. In response, Jackson stated that the LLC is not being set up to be a profit-oriented organization. Issues regarding how money is spent and how assets are used will continue to exist and the group will need to work through them, he said, adding that the narrative that the PDA is for profit and not sustainability is counterproductive. Jackson said the goal of hospitality is to generate cash flow so that it can sustain things that the mission-driven organizations need. Rolland said he understood that point and reiterated that he wanted to note that different needs related to the mission will need to be arbitrated. Timmons reiterated that the PDA can be the arbiter among parties, and that through the franchise agreement the lifelong learning mission passes through to the mission of the hospitality entity.

Alan Crain, from Kitsap Bank, commented on the PDA's outstanding debt. He said that while the aggregate amount is a large number, it should be serviceable given that previous revenue [prior to COVID-19] provided more than ample potential cash flow to service the debt over a 20-year amortization period. Crain said that Kitsap and banks all over the country are working with businesses that have been severely impacted by the pandemic, and hospitality has been the hardest hit industry.

V. Adjourn

The meeting adjourned at 12:36 p.m.