



**APPROVED Meeting Notes
Special Board of Directors Meeting
Fort Worden Public Development Authority (FWPDA)
Wednesday, January 27th, 2021 | 2 p.m.
Via Zoom (Remote Meeting Per Governor Inslee’s Proclamation 20-28)**

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

- ❖ **Action:** Motion to approve the December 9th, December 16th, and December 29th 2020 board meeting minutes. **Unanimously approved**
- ❖ **Action:** Motion to adopt **Resolution 21-01** amending Resolution 20-22 to provide for the adjustment of the interest rate and maturity date of the FWPDA’s Revenue Bond, 2019A, through Kitsap Bank. **Unanimously approved**
- ❖ **Action:** Motion to establish the recommended objectives for the transition of the PDA Board of Directors, with modifications to work the lifelong learning mission into the objectives. **Unanimously approved**
- ❖ **Action:** Motion to endorse the Executive Director’s recommended objectives for the PDA Trust Board of Directors, with amendment to include the work on the lifelong learning mission in the objectives, with modifications to work the lifelong learning mission into the objectives. **Unanimously approved**
- ❖ **Action:** Motion to amend **Resolution 20-04** as presented to incorporate supporting details for the Enterprise Services Fund budget for fiscal year 2021. **Unanimously approved**
- ❖ **Action:** Motion to adopt **Resolution 21-02** to adopt the schedule of regular board meetings for 2021. **Unanimously approved**

Special Board Meeting

- I. **Call to Order:** 2 p.m.
The January 27th 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 via email to the campus partner 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, Natalie Maitland, David Beckman, Joan Rutkowski, Hannah Burn (consultant)

- III. **Public Comment (special meeting topics)**
The PDA received public comments in writing that were read out loud during the meeting and are available in full with agenda materials on the PDA’s website.

- Phyllis Leah Speser called for a coherent set of goals, objectives, and metrics for realizing a clearer vision of the PDA through the reorganization process. She said the City should reconstitute the PDA board to realize the promise of Fort Worden.
- Steve Johnson wrote about his family’s upcoming family reunion at Fort Worden and encouraged the board to either postpone deposit due dates until there is more certainty about operations and/or guarantee the return of deposits for contracted services that cannot be delivered.
- Mark Blatter wrote that he thinks the PDA process thus far has not provided enough information about its issues and proposed solutions and has involved little opportunity for public input. He asked the board to develop a public process to review information, consider alternatives, and approve the final plan.
- Robert Gray asked the board to involve the public more, including holding public workshops for discussions only and establishing a public stakeholder working group for ongoing input.

In response to a point in Speser’s letter, board member Herb Cook, who also is president of the Fort Worden Foundation, countered that every member of the PDA board and Foundation board has contributed financially to support either the Foundation or the PDA, and in some cases both. He said that in some cases the support stretches well into five figures, and in one case the support has stretched well into six figures. Interim Executive Director David Timmons said that administrative staff will respond to the letter about the security deposit for a family reunion. Board Co-chair Todd Hutton thanked the letter writers and said they are taken under advisement. Information about public process thus far was provided later in the agenda during the reorganization update.

IV. Consent Agenda

A. Board Meeting Minutes

Action: Motion to approve the December 9th, December 16th, and December 29th 2020 board meeting minutes. **Unanimously approved**

V. Resolution 21-01 to adjust the interest rate of Kitsap Bank Revenue Bond 2019A

A. Staff Report

Timmons said Resolution 21-01 is presented to correct an error in the interest rate for the line of credit/bond and to update the maturity date. He said the other line of credit (grant anticipation note) has been paid and closed.

B. Board Discussion

Timmons and Board Secretary Jane Kilburn talked about the 2021 maturity date. Timmons said the terms are that it can be reviewed every six months for up to two years.

Action: Motion to adopt **Resolution 21-01** amending Resolution 20-22 to provide for the adjustment of the interest rate and maturity date of the FWPDA’s Revenue Bond, 2019A, through Kitsap Bank. **Unanimously approved**

VI. FWPDA Recovery and Reorganization Plan Update

A. Staff Report

[The presentation and meeting recording are on the PDA website:
www.fortworden.org/category/pda-documents/]

Timmons provided a detailed overview of the progress made since a reorganization concept for the

PDA was first presented to the board in October. Topics covered were the state audit, capital project financing, 2020 finances, 2021 budget, organizational restructuring, PDA leadership change, PDA/partner relations, and PDA/State Parks relations. For context, Timmons talked about the financial challenges arising from the transfer of campus maintenance responsibilities from Parks to the PDA in 2018 and the closure of operations for nearly five months in 2020 in response to statewide COVID-19 emergency guidelines. He noted that previous reports inflated 2020 contributed income by counting donations from board members and the public to cover employee healthcare costs during a staff furlough period. When adjusted to remove this contributed income, the PDA shows a 79% revenue decline from 2019.

Timmons said the framework that is guiding recovery actions involves the PDA's master lease with Washington State Parks, its charter with the City of Port Townsend, and the campus Lifelong Learning Center Plan. The Open Public Meetings Act and Public Records Act also have been followed to ensure proper notice and transparency about the plan and board actions. He said that all actions comply with legal terms and conditions set for the PDA, have been recorded and are accessible to the public, have been taken in public with allowance for public comment, and factor into account advancement of the Lifelong Learning goals.

Progress highlights from the presentation include:

- The State's "accountability audit" is underway and completion is anticipated soon with a report to be released in March. The financial audit is delayed while Makers Square accounting is adjusted to comply with the Historic Tax Credit structure, and the accrual to cash accounting conversion process is underway.
- Timmons said that in response to the financial impact of COVID, staff had (without informing the board) transferred funds from capital project reserves to operations with the hope that those funds could be restored from revenues. He said that left capital project debt liability in an awkward position, affecting glamping, Makers Square, and the energy efficiency project. As part of the reorganization, Timmons said, the \$2 million glamping loan will be assigned to the hospitality nonprofit (new terms to be negotiated), the now deferred \$1.5m Makers Square line of credit will be assigned to Makers Square; and the \$1.6 million energy efficiency project loan will be serviced by the asset management group.
- Makers Square Historic Tax Credits are secured, and closing is anticipated early next month.
- The PDA's leasehold interest in Makers Square has been clarified in accordance with Historic Tax Credit requirements and one of the project grants. Ultimately, the Fort Worden Foundation becomes, in effect, the landlord overseeing the implementation of Makers Square. The terms are being worked out with the Foundation, and Timmons is evaluating how to restore diverted funds from the project, he said.
- PDA staffing is downsized and building occupancy reduced. Timmons said the PDA is still operating month-to-month because it's still in a crisis. He said hospitality sales are stable and showing a strong comeback in the second half of the year and into 2022. Timmons noted that revenue is impacted by Officers Row housing being out of service until spring for State Parks capital improvement projects.
- Accounts payable is at \$200,000, half of which is for utility accounts. It's not growing but more progress at reducing outstanding balances is needed, Timmons said.
- Timmons said he is beginning to explore investment models to address the many capital maintenance needs on the campus. He said he does not think Fort Worden can operate successfully without an infusion of capital funds for the property.
- The restructuring plan has been adopted and is in progress, and Timmons said he thinks it is more in line with the intent for the PDA. The PDA will involve two divisions, with the administrative side serving as a "Trust" that manages real estate, and the operations side will focus on long-term maintenance and capital investment needs. Hospitality has been divested

as a new nonprofit partner entity. Timmons said he believes strongly that the PDA as a government entity has restrictions that limit its ability to run a successful hospitality business. 2021 will be the nonprofit's transition year, Timmons said, and it will operate under the terms of a concession agreement that is under development.

- Timmons said a new lease model approach is needed to address long-standing issues with campus partner organizations. He said this process should be undertaken alongside the development of a new asset management strategy.
- The Fort Worden Foundation is taking steps to amend its bylaws to separate from PDA as a "Type 1" Foundation instead of a component unit of the PDA. Steps are underway to make the Foundation the lease holder for Makers Square, and the PDA could give them 25-year assignable terms, by which they can choose to either manage the property or assign management, with terms and conditions set by the PDA.
- Timmons expressed his thanks to State Parks for contributing in-kind services to the PDA during the crisis and taking back the campground check-in process. He said State Parks has agreed to assist with maintenance matters as needed on a temporary basis and will be an active partner in the development of the asset management strategy.
- Timmons reviewed the Historic Tax Credit structure for Makers Square landlord and tenant relationships. The structure is required for IRS tax purposes. Tax credit income comes in at the end of the project, which has contributed to cash flow challenges during the project.

Timmons and Board Co-Chair Norm Tonina presented draft objectives for the current board during the transition period to new leadership and a separate set of draft objectives for the PDA Trust board that isn't in place yet. The transition objectives identify organizational, financial, and asset management needs currently before the PDA, and call for a full transition to a new board by no later than June 1, 2021. Timmons said he is recommending that the City lead the board member recruitment process for the PDA Trust board, as it did when the PDA was formed. Timmons summarized what he recommends for the Trust board as part of its role to serve as a property manager for the campus area and work collaboratively with campus partner organizations to sustain a Lifelong Learning Center at Fort Worden. He noted the pressing need to focus on the creation of an asset management strategy that addresses the extremely high costs of deferred maintenance and capital investment necessary for the partners to sustain their investments in the Fort. Timmons emphasized that the PDA Trust objectives are a draft recommendation to the City of Port Townsend, which may modify the objectives or come up with their own.

B. Board Discussion

During the presentation, Board Treasurer Jeff Jackson said it is important for people to understand that for a full year, the PDA has been working to stay alive so that it can rebuild when possible. He said the consequences of shutting down during a crisis make it more difficult for any entity to start back up after employees leave and assets deteriorate. Jackson said the best alternative the PDA has is to keep going at a minimum level until the business environment picks up and allows it to operate at a greater level.

Hutton noted that no public dollars have been accepted during the pandemic, and the PDA received a \$200,000 donation and a \$350,000 private loan to get through the end of 2020 (and the loan has been paid back). Timmons confirmed that the PDA didn't qualify for any local, federal, or state emergency funds. He said the Jefferson County PUD and the City provided significant credits towards outstanding balances via the CARES program.

Regarding the objective about completing the accountability audit, Hutton addressed what he said is misinformation in the community about an alleged misappropriation of PDA funds. He said the PDA hired an investigator to advise on the matter, and there isn't an active (criminal) investigation while

state auditors conduct their work. Timmons confirmed that the PDA reported its concerns to the local police, the Jefferson County prosecuting attorney's office, and the state auditor's office, as required by law. The concern is only an allegation at this point, based on evidence that hasn't been tested, Timmons said. He said that after its internal investigation, the PDA chose to have the state auditor's office continue the investigation and is waiting for the report to determine what action may be taken next, if needed. It is premature to jump to conclusions until all facts are in, Timmons added.

Board member Lela Hilton noted the need to identify the centrality of the PDA's commitment to the lifelong learning mission in the board objectives. Kilburn suggested that purpose language regarding the lifelong learning mission be included in the objectives list to highlight the fact that the PDA works with partners collaboratively on the lifelong learning center and not just the business aspects on the list. Hilton and Kilburn said they would draft an update to the objectives to better reflect this commitment. Timmons agreed that the edit should be made. He added that the PDA needs to be in a supportive foundational role to the partners, and a mechanism is needed to help partners be more empowered and self-govern.

Action: Motion to establish the recommended objectives for the transition of the PDA Board of Directors, with modifications to include the lifelong learning mission in the objectives.
Unanimously approved

Action: Motion to endorse the Executive Director's recommended objectives for the PDA Trust Board of Directors, with amendment to include the work on the lifelong learning mission in the objectives, with modifications to include the lifelong learning mission in the objectives.
Unanimously approved

VII. FWPDA Budget Update and Presentation

A. Staff Report

Interim Operations Director Aislinn Diamanti and Senior Sales and Marketing Manager Natalie Maitland presented the PDA's 2021 budget outlook. They were joined by Hannah Burn, a contractor working on the budget modeling. Palmer said the hospitality advisory team currently working with staff is David Rinn, Alan Crain (Kitsap Bank) and PDA board members Jackson and Cindy Finnie. Diamanti said the budget is based on a forecasting model that was built on 2019 actuals overlaid with current assumptions about 2021 leisure, group, and restaurant activity. She said that it's a conservative budget that assumes the higher end of costs and lower end of revenue assumptions, and shifts could happen as details are worked out. The scenario assumes no complete closure due to COVID-19.

Diamanti described plans for the hospitality nonprofit, which include operating with a smaller management team than when hospitality was run by the PDA, and phasing to a \$15-hour base wage and reducing the difference between top and bottom wages. She said the spending priorities involve the safety of guests, employees, and the community at large. Following the departure of the PDA's IT director, IT services will be contracted and how this will work to support partner needs is being developed, Diamanti said. She said hospitality activity is part of PDA numbers until July 1st; in reality the transition will be rolling and the hospitality nonprofit may operate some aspects sooner than July 1st.

Burn provided an overview of line items for the PDA's 2021 budget, which includes administration, hospitality, and asset management as divisions, with hospitality spinning off beginning in the 3rd quarter and no longer contributing revenue directly to the PDA. The outlook presented line item details not available when the budget was presented to the board in December. The beginning

operating fund balance is currently shown at zero, and the number will be revisited along with what the figures will be for the administrative debt service, Burn said. She called attention to a new revenue line item, inter-entity service fees, which reflects what the PDA will pay hospitality for support in the areas of IT and Human Resource services. The budget assumes that the hospitality entity will receive start-up funding (estimated \$818,770 from PDA) as bridge financing to cover operating losses at least for the first six months. Burn described how the budget adjusts for sales figures that were actually advance deposits from prior years. The PDA spent advanced deposits for 2021 bookings in 2020, she said.

The budget shows a \$95,536 operating deficit and a negative \$387,938 operating fund balance for the PDA, with the assumption that the PDA begins with a zero-fund balance. Burn said the budget doesn't yet show two pending transactions: \$600,000 from the PDA to the hospitality nonprofit to restore money diverted from glamping to cover operations (to be used by hospitality to complete construction) and \$450,000 from the PDA to hospitality to restore the advance deposit reserve to the level required by policy.

B. Board Discussion

Jackson noted that the advance deposit line is really a liability and it doesn't go away. Regarding providing IT support to the campus, he recommended that hospitality staff consider service satisfaction alongside a cost analysis, if they haven't already. Palmer said in addition to support from the IT contractor, other staff would cover some needs. Cook asked how the net operating fund figure was calculated, and Burn explained how advance deposit adjustments contribute to the number. Burn and board member Gee Heckscher talked about how utility activity for hospitality and the PDA is represented.

Jackson pointed out that ultimately the numbers show that at least \$400,000 to \$500,000 in the form of donations or equity is needed for the scenario to succeed, and a contingency fund for maintenance also needs to be developed for long-term sustainability. He said the upside is that hospitality generated almost \$7 million in revenue in 2019. Hutton added that the budget doesn't yet include debt service that needs to be added in the future.

Board and staff talked about the hospitality business assumptions. Maitland reiterated that because of COVID-19 the assumptions are for minimal activity but no complete closure. She added that the budget does include an assumption of hospitality receiving some bridge financing. Jackson said it's appropriate to be cautious, and there is support to also build an upside case that investors can consider. He said the type of product that the Fort offers is rebounding well relative to the rest of the hospitality world. Maitland said hospitality is already outpacing January estimates.

Timmons said the budget will naturally adjust and be monitored. Tonina asked if what will be approved today will be modified again and shared with the board. Timmons said yes, beginning with when financial restatement work is done and the beginning balance and liability numbers are clarified.

[Tonina left the meeting.]

Hutton said he thinks budget work should eventually show the PDA or hospitality entity incurring costs related to lifelong learning programming and/or coordination of programming. Diamanti said people will see more work in this area than before through the hospitality nonprofit given the entity's commitment to lifelong learning in its mission.

Action: Motion to amend **Resolution 20-04** as presented to incorporate supporting details for the

Enterprise Services Fund budget for fiscal year 2021. **Unanimously approved**

VIII. Resolution 21-02 to adopt the 2021 FWPDA Regular Board Meeting Schedule

Action: Motion to adopt **Resolution 21-02** to adopt the schedule of regular board meetings for 2021.
Unanimously approved

IX. Public Comment

No public comments were shared.

X. Adjourn

The board adjourned its meeting at 5:05 p.m.