



APPROVED Meeting Minutes
Board of Directors Meeting
Fort Worden Public Development Authority (FWPDA)
Wednesday, March 24th, 2021 | 9 a.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 February 24th, 2021 board meeting minutes. **Unanimously approved**
- ❖ **Action:** Motion to authorize the Board Co-Chairs, Interim Executive Director, and FWPDA attorney to incorporate the draft terms as presented into a Fort Worden Hospitality concessionaire agreement and provide a final draft with a minimum 7-day public notice of a special board meeting to consider final adoption by the FWPDA board. **Unanimously Approved**

Regular Board Meeting

- I. Call to Order:** 9:00 a.m.
The March 24th 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 and other stakeholders.
- II. Roll Call/Introductions of Board Members and Staff**
Fort Worden PDA Board Members: Norm Tonina, Todd Hutton, Jane Kilburn, Jeff Jackson, Herb Cook, Lela Hilton, Terry Umbreit, Gee Heckscher, Cindy Finnie
Staff: David Timmons, Aislinn Diamanti, David Opp-Beckman, Natalie Maitland, Becky Wagner, Carolyn Zipeto, Joan Rutkowski, Hannah Burn (staff consultant)
- III. Board Chair Update**
Board co-chairs Norm Tonina and Todd Hutton read a statement acknowledging media coverage of the challenges confronting the FWPDA, including financial irregularities that staff uncovered as well as \$6 million in revenue loss due to COVID. They said their statement is intended to help people understand the FWPDA’s complex financial issues, offer clarifying facts, and underscore the actions that the FWPDA board and staff have taken to address the various issues. (Please see the FWPDA public documents webpage for the complete statement.)
- IV. Public Comment**
 - Joan Rutkowski read into the record questions submitted in advance by Mark Blatter questioning the structure and purpose of Fort Worden Hospitality and calling for more public input in the reorganization plan.
 - Rutkowski read into the record comments submitted in advance by Owen Rowe about the purpose of the Fort Worden Advisory Committee.

(Please see the FWPDA public documents webpage for the written comments.)

V. Consent Agenda

A. Board Meeting Minutes

Action: Motion to approve the February 24th, 2021 board meeting minutes. **Unanimously approved**

VI. FWPDA Recovery and Reorganization Plan Update

A. Proposed Code Changes - Staff Report and Board Discussion

Interim Executive Director David Timmons reviewed a memo to the City of Port Townsend summarizing concerns expressed by individual board members about the city's proposed changes to the code that governs the PDA (see agenda packet for memo.) The comments note that several proposed changes seem acceptable, while some proposed amendments and additions seem to overreach. Concerns include proposed changes to the processes for vetting potential board members and removing board members. Timmons said the creation of a Financial Oversight Committee (with more City representatives than FWPDA representatives) seems to overreach; he said this oversight is not customary for a public development authority that is financially independent from the entity that created it. One of the biggest concerns is the proposed transfer of the power to approve or disapprove the FWPDA's budget from the FWPDA board to the proposed Financial Oversight Committee, which Timmons said might cause issues with the FWPDA's contractual relationships and ability to secure financing. He said submitting a budget to the City for comment is appropriate, but transferring the authority for the budget away from the FWPDA board to the City committee is an overreach. Timmons noted that this also raises concerns about how it affects the FWPDA's ability to carry out its responsibilities per the master lease with WA State Parks, which the City is not a party to. Timmons added that he is drafting suggested triggers, such as an adverse opinion in an audit report, for the proposed trusteeship provision.

Hutton suggested caution in identifying specific triggers that demand oversight. He said the New York Board of Regents may have a good model for what triggers its oversight of public or private universities. Board member Lela Hilton asked about the response to Blatter's public comment questions. Timmons said he will be providing a response after the meeting.

B. Fort Worden Hospitality and FWPDA Pro Forma Statements - Staff Report and Board Discussion

Timmons discussed projections for the FWPDA and Fort Worden Hospitality (see packet for documents). He said the advisory team has been analyzing history, trends, and projections and has concluded that Fort Worden Hospitality's business model is viable and sustainable. Timmons said the advisory team involves people with extensive hospitality and/or financial management experience: David Rinn, Jeff Jackson, Cindy Finnie, and Alan Crain. Timmons said the other two parts of the FWPDA's current configuration -- administration and asset management -- have the defects that interfere with sustainability. Board Treasurer Jeff Jackson said the advisory team's approach has involved the goals of sustainability and being true to the mission. He said this holistic view does not involve dumping asset management responsibilities; asset management is being separated to find the constituents, tax benefits, and investment parties that best support it. Jackson said this allows Fort Worden Hospitality to serve partners and the community most effectively and thus benefits the lifelong learning mission.

Timmons said the five-year cash flow projections show that if the status quo is maintained, there will be a continuous deficit (over \$2.5 million in year five). Regarding deferred maintenance, Jackson said the only years the FWPPDA didn't break even are the years following acquisition of campus maintenance responsibilities. Timmons said the hospitality pro forma is conservative, and includes a \$1 million startup loan that (if secured) would be paid off over a seven-year period, debt service for the glamping project, grounds maintenance, a reserve for modest capital improvements, and an operating reserve. Timmons and Jackson reviewed specific line items in the pro forma. Hutton said there are questions about the reliability of numbers used in the past for glamping, and he recommended that the projected return on investment figures be reviewed. Timmons said the numbers will be revisited. Interim Operations Director Aislinn Diamanti said some of those assumptions have already been revisited, and the glamping projections aren't based entirely on the old plan's concept. Timmons noted that the staff team has created detailed projections for each month of the five-year pro forma, and feedback from banks has been positive. Timmons said the key takeaways are that with financing, hospitality shows a positive cash flow in 2021, years 2022-2025 demonstrate potential for sustained positive cash flow, and reserves are partially funded in years 2021-2025.

Timmons said the separation of hospitality and related analysis suggest that FWPPDA administration and asset management should stay together, and he is wondering if a public facilities district model would provide better tools for managing assets and administration and may allow for an allocation of state sales tax revenue. Hutton reiterated that Fort Worden Hospitality's commitment to lifelong learning is reflected in its mission statement. Timmons added that Fort Worden Hospitality will be self-governed and the FWPPDA has oversight through its contractual relationship with the nonprofit. Timmons said his present goals are to get hospitality up and running under a concessionaire agreement and to focus on stabilizing the FWPPDA and asset management in particular.

C. Initial Hospitality Board Appointments Status Report - Staff Report and Board Discussion

As the incorporator of Fort Worden Hospitality, Timmons makes the initial board appointments and the organization's bylaws will guide board membership after that. He said Jackson, Finnie, and Terry Umbreit will leave the FWPPDA board and be appointed to the hospitality board based on their expertise in the hospitality industry. Diamanti said she has a commitment from Matt Gurney, who is on the leadership team with FareStart, a Seattle nonprofit that teaches people skills that are needed to succeed in the food service industry and in life. Timmons said he will initially appoint seven board members, and is reaching out into the community to fill the remaining three seats. Jackson said that based on his experience with start-ups over the last ten years, he can say with confidence that the approach the hospitality team has taken with the data has yielded one of the most sophisticated models he has seen in any startup. He also said the optimism should be balanced with the awareness that the endeavor is still a start-up with things that need to be worked out, but the plan presents the best chance for the asset.

D. FW Hospitality Draft Concession Agreement Terms and Contract - Staff Report and Board Discussion

The template for the draft contract is a concessionaire contract used by State Parks, which Timmons said should help State Parks have confidence that the contract protects its long-term interest in sustaining hospitality services at Fort Worden. (See the board packet for draft terms and agreement.) Work and additional vetting are needed to finalize the agreement, and changes may be needed after hospitality leadership is in place, he said. Timmons suggested that prior to taking final action, seven-day public notice be given when the contract is ready to be reviewed. Timmons said this reflects a desire to be open and invite feedback from the public. He wants to

make sure the contract has language that allows for changes up until December 31 for evolving details such as financing conditions, insurance, licenses or other matters that might require modification of the terms. Timmons noted that the terms include a requirement that three percent of gross operating revenue be paid to the FWPA, which he said is common in concession contracts. This fee is instead of a lease.

Based on a chat submission, Hutton asked if the rollup report assumes asset management by the FWPCA for all buildings at the Fort and if \$1.5 million may be a low figure for managing the historic campus. Timmons confirmed that the entire enterprise would be helped by partners stepping up to take on deferred maintenance for select buildings. Timmons said he is trying to make something like this work. Jackson said multiple financial inputs are needed. The mix also could include private investment capital and historic tax credits, Timmons said.

Board and staff members discussed the lifelong learning mission and partner needs. Hilton asked how staff will ensure that hospitality pricing supports the Fort's mission and partners' needs; she also suggested that the new entity take collaborative marketing into consideration. Jackson said the term sheet includes specific language about discounts for partners. Hilton wondered if the FWPCA reorganization could include a body or entity focused on supporting the lifelong learning mission, so that the mission is at the table in all conversations. Timmons said he thinks the mission can get lost in the matrix of multiple committees and groups involved in the campus and that changes may help. Board member Jane Kilburn said the FWPCA board should be the one to hold responsibility for the mission, as it does today when it considers who becomes a partner. Hutton noted that lifelong learning needs to show up in the budget, and someone with responsibility at the FWPCA needs to be involved in driving that agenda through programming or coordination with partners. Diamanti noted that Fort Worden Hospitality has budgeted an education/programming role for someone beginning in 2023. Hilton suggested that a group that includes partners and community members is needed to hold the mission campus-wide. Hutton, Hilton, and Kilburn agreed that FWPCA staff leadership is needed in this area given how easy it is for crises to overwhelm the effort.

Kilburn asked about recent meetings between hospitality staff and partners. Diamanti said the feedback has been helpful and individual follow-up meetings are in process. Senior Sales and Marketing Manager Natalie Maitland said the plan is to have a yearly meeting in the first quarter to discuss partner programming plans and an end-of-year meeting to review how the year went and plan for the future. Changes in meetings between FWPCA staff and partners were discussed; partners are now meeting without FWPCA staff. Timmons said relationships have broken down and trust needs to be repaired. Diamanti and Maitland talked about hospitality's commitment to supporting partners. Tonina asked Timmons to develop ideas for the April board meeting about how the FWPCA board can play a leadership role in partner relations.

The transition of some FWPCA board members to the Fort Worden Hospitality board was discussed. Board member Herb Cook said that with the provision that individuals can't serve on both boards, he wondered whether those who will eventually be on the hospitality board should vote for the proposed motion. Timmons said he doesn't see any legal prohibition because board members would not gain financially from the tasking motion. They may want to recuse themselves from the final vote, he said. Cook said that with this assurance, he does not object to prospective hospitality board members voting on the motion.

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Approved

VII. Financial Reports - *Staff Report and Board Discussion*

A. Audit Update

Timmons clarified that the State's accountability audit is underway, and the financial audit is a separate audit and it is delayed because of Makers Square accounting adjustments that need to be made. He said Makers Square financials need to be restated to remove Maker Square from the FWPDA to the Makers Square LLC. He noted that the finance department is understaffed, and extensive and detailed work is needed for both audits. Timmons said he is in constant contact with the State Auditor's Office about the process. Timmons said that when the audit team is ready with the accountability audit report, the FWPDA will receive a draft and be able to provide a response before it becomes a public document. He added that no new issues have been seen beyond what he has already reported. Tonina and Timmons talked about the restatement of financials to the Budgeting, Accounting and Reporting System (BARS).

B. Internal Financial Controls Update

Bookkeeper Carolyn Zipeto summarized the FWPDA's internal financial controls, which include a return to a three-touch system with additional staff help. All transfer requests go before Timmons for his consideration, Zipeto said. Timmons said all but one credit card has been closed, and it is primarily used for food and beverage expenses. Diamanti noted that several food, beverage, and technology vendors require payment by credit cards; the card also is needed to purchase gas for campus vehicles.

C. Profit & Loss, Cash Flow, and Makers Square Financial Reconciliation

Finance Department staff Becky Wagner reviewed the 2020 Profit & Loss statement (see agenda packet). She noted an error in which \$113,000 shows up under "insurance" and it should instead fall under "contracts". The loss of approximately \$1,800,000 involves \$1,054,000 for loans and notes, Wagner said. With financing draws, cash at the end of 2020 was close to \$160,000. Timmons said additional work is needed to secure the second of three income installments from the Historic Tax Credits. The project is near completion, and HTC income will pay off all liabilities to contractors, he said. As standard operating procedure, an independent audit of eligible expenses will be conducted and submitted to the National Park Service and it will help secure the final HTC installment. Wagner is working on finalizing all Makers Square grant needs to secure final payments. Zipeto said accounts receivable are caught up, and payables for operations only (not capital) will be down to below \$200,000 following a pending payment. The payables total includes a reserve for April payroll and benefits. Timmons is exploring whether the FWPDA can qualify for the latest round in federal and state stimulus and recovery funds.

D. Hospitality Business on the Books Update

- Maitland reviewed business activity and projections (see report in board packet). She said there has been a big increase in queries and reservations for group business, even since the March report was published for the board packet. Leisure business in March has grown by 50 percent over the numbers presented in the February board report, she said. Maitland said Hospitality hosted its first group since the shutdown a year ago and it went well. She said the 24-rest period is still being utilized between guests due to COVID; that practice will likely no longer be in effect as of June 1st, which will open up accommodations and opportunities for more revenue. State Parks is on track with Officers Row work and those accommodations are expected to come back online May 1st, she said. Maitland said business is outpacing the hospitality pro forma projections, with revenue for the first quarter coming in \$40,000 over what was projected and \$20,000 over projections for the

second quarter thus far. Reville has added weekend hours and is surpassing revenue projections, she said. Cancellations are still happening, but the rate is declining and most people want to reschedule, Maitland added.

- Regarding recent news stories about financial and personnel challenges that happened in 2020, Maitland said she received a few calls from people concerned that operations might be closed in the future. Maitland said she reassured callers about operations and has received positive and supportive comments.
- Only a few new hospitality staff members have been hired, but hiring will increase as hospitality business increases. Maitland said staffing will overall remain limited for a while given revenue to expense margins. Finnie and Jackson noted the impact of COVID on advance bookings and how that affects the ability to plan for staffing.

E. Finance Request Updates

Timmons provided an update on efforts to address the FWPDA's debt. He is working on a refinancing package with Kitsap Bank for a \$1.3 million line of credit that would allow the FWPDA to restore funds that were transferred from capital projects to operations. The remaining debt for glamping would be transferred with the project to Fort Worden Hospitality, and the outstanding Makers Square line of credit would remain with the FWPDA. Timmons also is seeking a \$1 million start-up loan for Fort Worden Hospitality; an application for the loan has been submitted to Craft3 (see application in board packet). Board approval would be needed for any loan agreements, he said.

[Jackson left the meeting.]

VIII. Public Comment – see website for written public comments

- Mayor Michelle Sandoval noted examples of the City's financial support for the FWPDA. She asked if State Parks has approved the strikeouts in the proposed concessionaire agreement. She said the FWPDA's existence is about the lifelong learning mission, and it is the board's responsibility. Sandoval said her concern with the restructuring is that it's a different animal from what was first created by a six-year public process, and she also noted that the restructuring may be necessary for sustainability. She encouraged leadership to have more public process and would like a public viewing of Fort Worden Hospitality's bylaws out of interest in what would guide the nonprofit as leadership changes. Sandoval said the City looks forward to continuing to work with the FWPDA and for more transparency and clarity.
- Lisa Werner, Director of Operations at Centrum, provided a written public comment that was read into the record to clarify the reason for the current configuration of partner meetings.

Diamanti said bylaws are being drafted, and Fort Worden Hospitality's board first needs to be seated in order for those bylaws to be approved. She said she will share the draft document when it is ready. The term sheet has been carefully developed with elements from the FWPDA's master lease with State Parks regarding lifelong learning and public benefits, she added. A commitment to lifelong learning is required by the term sheet and will carry into the contract. The term sheet is a work in progress and will be shared with Parks for feedback before it's finalized; Diamanti said the strikeouts mostly reflect areas where the agreement needs to be different from what is used for smaller concessionaires.

IX. Adjourn

The board adjourned its meeting at 11:55 a.m.