

More Questions about Fort Worden Hospitality and PDA – ***FWPDA/David Timmons Responses***

*****Copies of documents referenced in this response have been provided (Concession Agreement, FWPDA Charter, FWPDA Master Lease-Amendment 3, FWH Articles of Incorporation, and FWH Bylaws).***

Mark Blatter responses to David Timmons

1. Will the PDA review **and approve** the annual FWH operating budget?

The FWPDA will review but not approve FWH's budget. This was discussed during development, and it was determined that it was not required. The basis for this was not to politically interfere in the business of hospitality as well as the fact that the concern about FWH serving the mission is addressed in the formation of FWH and its Articles of Incorporation. As the agreement was developed, the belief formed that Section 3 of the Concession Agreement with FWH adequately addresses and provides full transparency over FWH rate setting.

FWH and the reorganization structure were created by David Timmons and FWPDA, the Concession Agreement was drafted by the PDA, FWH is staffed by the PDA, overseen by a board of directors hand-picked by the PDA and an advisory group including former PDA board members, but your concern now is not to politically interfere in the business of hospitality? My concern, beyond rate setting, is how FWH budgets for admin and marketing costs, see next question.

2. The FWH Business Plan includes budget projections that show that the combined admin and marketing expenses for the organization in year 5 at 24% of gross income, nearly \$2M. Is that typical for hospitality operations and does that represent a "lean" operation?

I cannot offer any comment on this. This is more of a question for FWH. I am not familiar with industry standards. FWH is developing performance measures that will accurately reflect allocations of cost as a percentage of the total. Also, Section 3 of the Concession Agreement allows for full disclosure of expenditures and allocations.

The FWH Hospitality Plan, like FWH, was created by the PDA. It provides the financial assumptions underlying refinancing and new debt taken on by the PDA. Please comment on the projected admin and marketing expenses and whether they are in line with the "lean operation" promoted in the Hospitality Business Plan.

3. Gross income of hospitality operations is projected to be over \$8M. The operator FWH is a nonprofit corporation. Is the proposed FWH 3.5% contract fee to the PDA appropriate in this case?

What is appropriate in this case is relative. Part of its direct expense will be a campus-wide maintenance program under development, and FWH has projected reserve requirements to maintain and support as a part of this income. Section 4.2 of the Concession Agreement addresses any excess operating revenues.

4. Why isn't the nonprofit contract manager FWH being paid a management fee (a percentage of operations) with the remaining surplus going to the PDA – as would be typical in a facility management contract?

We used the standard concession contract used by State Parks. It would appear appropriate to have a fee for management services if there was a sub-agreement to utilize. It has generally been held by the

State Auditor's Office that flat rates are not permissible and rates need to reflect recovery of actual costs. While that standard is not required by FWH, it was felt that a cost basis was more appropriate.

A cost basis, where FWH keeps all but 3.5% of gross revenue, is more appropriate?

5. The 3.5% fee paid by FWH to FWPDA equals the fee FWPDA owes State Parks. Although currently deferred, the fee is scheduled to be paid beginning 2023. Is this fee a projected

income source for restoration loan repayment? Is this permitted under the FWPDA-FWH contract agreement?

The 3.5% paid to the FWPDA is not the same amount owed to Parks under their 3.5% fee. State Parks' fee from the FWPDA is 3.5% of FWPDA gross revenue. Parks would get 3.5% of 3.5% paid by FWH. In other words, the 3.5% concession fee paid by FWH is not a pass-through amount. The 3.5% from FWH goes into a larger pool of gross revenue that the PDA would draw from for State Parks' revenue sharing requirement, if reinstated.

The fee paid to the FWPDA is to pay only a portion of the Restoration Bond initially, which is not covered by the Makers Square lease payments. There is no nexus to have this payment apply to debt as a condition of the contract.

Drafts of the Concession Agreement that I have seen do not support your statement that Parks would get only 3.5% of the 3.5% fee paid by FWH to FWPDA. Has Parks agreed to this? Please provide the agreement.

6. What are the roles and responsibilities of FWH and FWPDA in maintaining and repairing the buildings managed by FWH?

FWH will be part of a campus wide maintenance program and they will pay their respective share, as will all other partners. Section 4 of the Concession Agreement addresses this matter.

Who will be determining who pays what for maintenance? The FWH business plan shows an annual expense of \$462,519 in year 5, or 5.7% of gross revenue. Is that an appropriate respective share? How much additional funding will be available from other partners?

7. What are the roles and responsibilities of FWH and FWPDA in implementing and achieving the lifelong learning mission at Fort Worden?

The role of the FWPDA is outlined in its Charter and the Master Lease. The role of the FWH is outlined in their Articles of Incorporation and Bylaws. Also, Sections 2.5 and 2.6 of the Concession Agreement address this.

8. What measures will be provided in the FWH Bylaws to elect community members to the board of directors?

The FWH Bylaws outline board representation and appointment. Also, community members need to refer to community as a state-wide interest since this is a state facility.

FWH and its board were pitched as "local" during development. The FWH entity was pitched as a community-based nonprofit. The bylaws include NO requirement for community representation on the board and NO opportunity to participate in board appointment, which is controlled solely by the board.

9. What measures will be provided in the FWH Bylaws to require regular reporting to the community and opportunities for community review of operating results and future plans?

The Concession Agreement outlines a higher standard of reporting and public input than what is expected of any other campus partner. Please see the agreement for this information, specifically Sections 3.4 and 3.5.

With regards to all questions about FWH, please note that Section 12.3 of the agreement reflects our collective intent to recognize that certain terms may need to be amended/added within the first year of the agreement.

- Questions submitted by Mark Blatter to FWPDA Board of Directors