



Fort Worden
— PORT TOWNSEND —
A HISTORIC GATHERING PLACE

To: FWPDA Board of Directors
FWPDA Finance and Audit Committee
WA State Parks
City of Port Townsend Financial Oversight Committee

From: David Timmons, Fort Worden Lifelong Learning Center Public Development
Authority (FWPDA) Executive Director

Date: November 16, 2021

Subject: FY 2022 Draft Operating and Capital Budget

All,

Attached is the administration's draft budget for Fiscal Year 2022. There is much we have accomplished in the last year, but our work is not done. The next two years are seen as pivotal years for the organization.

This will be the first year of the organizational restructuring that will refocus the role of the PDA as a property manager - keeping the assets it manages in conformance with the mission and goals of the Life Long Learning Center. Hospitality services will no longer be provided by the PDA directly.

Hospitality services and property management are both explicit provision in our Master Lease. It was envisioned that profit from the PDA's role as both property manager and provider of hospitality services would recover its cost of doing its business - acting as a pass thru agent as did State Parks when it was playing this role. However, attempts by the PDA to recover its costs of its operations, solely with operating income from the management of the Park's assets that are assigned under the Master Lease, have not worked well.

The Master Lease with State Parks grants full authority and assignment of obligations to the PDA to manage the assets assigned to it consistent with the 2008 Master Plan. Part of the restructuring objectives was to develop a different model to meet the financial obligations of the PDA . Having contracted for hospitality services to be provided by an organization dedicated for that purpose, and setting aside capital and deferred management needs, this budget is the first step in implementing a **cost recovery** approach to focus on the property management role of the PDA.

The budget as submitted is balanced. However, there are some underlying assumptions that were made to accomplish this outcome. Absent implementation of these options, the budget would be imbalanced by -\$300,000. On the expenditure side the budget is based upon the experience and

estimate of the costs we are familiar with that remain a component part of the organizations continuing obligations. These expenses of the organization are predictable, consistent and well understood.

But the issue and challenge we face is a revenue challenge. The review and emphasis of the budget has been on the revenue sources.

The focus and challenge of this budget has been on our ability to match current revenue to expense. Since the organization has no taxing authority it can only assess fees for services it provides. The proposed budget plan for 2022 is based upon revenue estimates derive from implementation of a temporary cost recovery model.

What is new is a series of estimated income from the addition of an administration fee added to expenditures that are conducted on behalf of the Parks via the Master Lease assigned to the FWPDA as Tenant. This includes all operating and capital expenses estimated for 2022.

Successfully implementing these cost recovery assessments allows us to balance the budget. There are a few other adjustments that were considered. The budget as presented contains the following recommendations for both the revenues and expenditures.

First of the expenditure side expenses were estimated based upon the historical operating costs of the campus. The most significant change is the administration of the organization. A small staff consisting of the Executive Director, Clerk and Administrative Assistant.

The financial management is set to be through a series of contractual relationships with two individuals as opposed to full or part time staffing. Much of the finances of the previous operation is shifting over to hospitality making this transition a real and cost-effective option.

Legal services will stay as a contract for service, but with a new provider which is to be implemented by year end 2021.

Other professional services include a variety of providers such as the lobbying firm, audit services, etc.

Under the restructuring the cost of utilities and other services are being done as a pass thru to the organizations that utilizing them. Much goes to hospitality as a new user.

Capital expenditures are based upon actual planned and funded expenses. This includes the funds granted for the partial completion of the site work at Makers Square (\$712,000); Completion of the Energy Improvements (\$330,000); Completion of the Glamping Project (\$600,000); and, the assessment of Building 203 for Work Force Housing (\$150,000).

On the revenue side, the budget is based upon what has been historically accounted for and the assessment of a need to adjust the organizations income stream to balance against the expenditures.

An adjustment was made to account for a new rental agreement with the Marine Science Center and an adjustment in the existing lease terms with others. Noting this may change during the year, it was felt that the best we can do is to build the budget on existing terms rather than speculate on a new model.

What has changed the most is the recovery of operating expenses for the campus that previously was internal to the organization that is no longer a part of the organization such as hospitality will assume.

Since this is now a stewardship of the organization to process and collect these expenses incurred on behalf of the campus a 10% fee has been added as a new cost recovery revenue stream for the organization to offset its costs of administrating the campus expenses.