



PORT OF KENNEWICK REGULAR COMMISSION MEETING

JULY 14, 2020 MINUTES

Commission Meeting recordings, with agenda items linked to corresponding audio, can be found on the Port's website at: <https://www.portofkennewick.org/commission-meetings-audio/>

Commission President Commissioner Don Barnes called the Regular Commission Meeting to order at 2:00 p.m. via GoToMeeting Teleconference.

ANNOUNCEMENTS AND ROLL CALL

The following were present:

Board Members: Commissioner Don Barnes, President (via telephone)
Skip Novakovich, Vice-President (via telephone)
Thomas Moak, Secretary (via telephone)

Staff Members: Tim Arntzen, Chief Executive Officer (via telephone)
Tana Bader Inglima, Deputy Chief Executive Officer (via telephone)
Amber Hanchette, Director of Real Estate and Operations (via telephone)
Nick Kooiker, Chief Finance Officer (via telephone)
Larry Peterson, Director of Planning and Development (via telephone)
Lisa Schumacher, Special Projects Coordinator
Bridgette Scott, Executive Assistant (via telephone)
Lucinda Luke, Port Counsel (via telephone)

PLEDGE OF ALLEGIANCE

Commissioner Barnes led the Pledge of Allegiance.

APPROVAL OF THE AGENDA

MOTION: Commissioner Novakovich moved to approve the Agenda as presented; Commissioner Moak seconded. With no further discussion, motion carried unanimously. All in favor 3:0.

PUBLIC COMMENT

No comments were made.

CONSENT AGENDA

- A. ***Approval of Direct Deposit and E-Payments Dated July 2, 2020***
Direct Deposit and E-Payments totaling \$82,967.92
- B. ***Approval of Warrant Register Dated July 14, 2020***
Expense Fund Voucher Number 102206 through 102257 for a grand total of \$106,957.31
- C. ***Approval of Regular Commission Meeting Minutes June 23, 2020***

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MOTION: *Commissioner Novakovich moved to approve the Consent Agenda as presented; Commissioner Moak seconded. With no further discussion, motion carried unanimously. All in favor 3:0.*

PRESENTATION

A. Rural County Capital Funds (RCCF) and Opportunity Zone Analysis: Ben Floyd of White Bluffs Consulting & Derek Moody & Travis Adamson of Blodgett, Mickelsen & Adamson

Mr. Arntzen stated the Commission asked staff to provide an analysis on the Rural County Capital Funds (RCCF) (Exhibit A), which staff has been working on. Included in the RCCF analysis is the application of the Opportunity Zone (OZ) analysis, which was been drafted by Mr. Kooiker and the CPA firm of Blodgett, Mickelsen & Adamson. Mr. Arntzen is asking for Commission acceptance of the Rural County Capital Funds (RCCF) and Opportunity Zone (OZ) Analysis.

Mr. Arntzen outlined the three topics of the RCCF Funding analysis:

1. **RCCF Balance:** As of May 31, 2020, the Port has a balance of \$1,469,432 (unencumbered); however, there is an additional \$500,000 from the City of Kennewick for The Willows project for infrastructure for Columbia Basin College's Culinary School which is no longer a viable option. Additionally, there is approximately \$1,316,000 from the sale of the former West Richland Racetrack to the City of West Richland. The funding is contingent on Benton County approving the fund transfer as part of a project-specific application.
2. **Current Projects Under Consideration:** Based on Commission comments and the strong recommendation of DPZ Partners, staff has been reviewing the possibility of remodeling the Corporate Hangars at Vista Field. Staff enlisted the help of David Robison from Strategic Construction Management (SCM). Mr. Robison has produced a detailed report on the Hangar Remodel, which will be presented at the next Commission Meeting; however, based on a preliminary review of the report, the Hangar Remodel exceeds the RCCF funding amount significantly.
3. **Future RCCF Funding:** The Port accrues funding at the rate of approximately \$480,000 annually (varies based on County accruals) and estimates the Port will have approximately \$1,440,000 for capital projects by the program sunset date of June 30, 2023. The Port hired Ben Floyd of White Bluffs Consulting to meet with jurisdictional partners about potential project partnerships (Exhibit B). Mr. Floyd provided a summary of the discussions from our partners regarding RCCF partnerships.

Discussion ensued between the Commission and staff regarding potential partnerships.

Mr. Kooiker stated if a potential project is under \$200,000, it would be more cost effective to create a line item in the Capital Budget and use the RCCF funding for one large project.

Commissioner Moak recalls the Port assisted Benton City on their waterfront master plan and asked staff to share the final report at the next Commission Meeting. Additionally, Commissioner Moak is more interested in leveraging RCCF funds in ways that make the most sense and would like to see combining our funding with those that have a similar vision.

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Mr. Arntzen stated Mr. Floyd's report lets the Commission know where are partners are philosophically and believes this will allow staff to create a process in which to identify specific projects.

Mr. Kooiker enlisted help from Derek Moody and Travis Adamson of Blodgett, Mickelsen & Adamson on the Opportunity Zone (OZ) Analysis (Exhibit C). Mr. Moody and Mr. Adamson summarized their findings on the three Hangars in relation to the OZ tax benefits, which included: selling the properties, leasing the properties, and investing money into the properties.

Mr. Moody and Mr. Adamson answered Commissioner questions regarding the OZ stipulations and the Vista Field Hangars.

Mr. Arntzen concluded the discussion on the OZ and asked the Commission to consider accepting the RCCF and OZ Analysis report. Additionally, Mr. Arntzen requested continued discussion with the City of Richland regarding the City's Center Parkway project.

Commissioner Barnes encouraged Mr. Arntzen to maintain communication with the City of Richland.

Commissioner Barnes noted that he would be more comfortable seeing the SCM Hangar report prior to accepting the RCCF and OZ Analysis report.

MOTION: Commissioner Novakovich moved to approve Resolution 2020-11, accepting the Rural County Capital Fund and Opportunity Zone Analysis. Commissioner Novakovich further moves to approve goal #12 of the CEO's goals and objectives and further move that all action by port officers and employees in furtherance hereof is ratified and approved; and further that the port Chief Executive Officer is authorized to take all action and to pay all expenses necessary in furtherance hereof; Commissioner Moak seconded.

PUBLIC COMMENT

No comments were made.

Discussion:

Commissioner Novakovich stated the Commission is only accepting this analysis, which he thinks was done very well and approving number twelve (12) of the CEO's goals and objectives. Commissioner Novakovich thinks the discussion on what might happen in the future with the hangars is a separate discussion and is not part of this motion.

Commissioner Moak agrees with Commissioner Novakovich's comments and thinks the Commission will discuss the RCCF and OZ analysis at the next Commission Meeting related to the hangar remodel. Both topics are subject to significant policy decisions that will be made by the Commission in the future. We asked for this report and the Commission will make any decisions as to what we are going to do with those reports after we receive the report from SCM. And as Mr. Arntzen stated, it may be sometime after we accept the reports that we actually make policy determinations. Commissioner Moak does not believe in holding up any acceptance of

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the reports based on another report, because both of them will involve significant discussion on the part of the Commission. Commissioner Moak supports accepting the Resolution, which accepts the Rural County Capital Fund and Opportunity Zone Analysis report.

Commissioner Barnes read the Resolution and listened to the reports and is pleased with report content and stated it was very informative. Commissioner Barnes would like to see the SCM report on the hangar remodel prior to accepting this Resolution and stated if this Resolution is delayed by a mere two weeks, it is not clear to him how that damages anything, only that it provides additional information. If it is the will, the majority of the Commission is to approve the report today, knowing that we have another report coming from SCM in two weeks, then that is the will of the Commission and he will not fight that. Commissioner Barnes stated it was an excellent presentation and the information and material was very informative; however, we are looking at something that is a wow factor. Mr. Arntzen indicated that the preliminary budget for the hangar remodel is well in excess of the RCCF funds that we have available now and Commissioner Barnes would feel more comfortable with this Resolution if he had all of the information from the hangar remodel report.

With no further discussion, motion carried. All in favor 2 Ayes (Commissioners Moak and Novakovich): 1 Nay (Commissioner Barnes).

RECESS

Commissioner Barnes called for a recess for at 3:50 p.m. until 4:00 p.m.

Commissioner Barnes reconvened the meeting at 4:00 p.m.

EMERGENCY DELEGATION UPDATE

A. Carbitex Rent Deferral

Ms. Hanchette reported that Oak Street Industrial Park tenant, Carbitex was shut down for over two months based on the Governors Stay Home Order. Carbitex had zero revenue during this time, yet with the assistance of a PPP loan, they were able to keep all of its 40 employees on payroll and continued to pay rent to the Port plus other expenses. The PPP loan has now been exhausted so Carbitex is funding all operations and additional expenses of COVID-19 on its own. Carbitex is requesting a rent deferral of three months (July, August, and September) of lease payments to pay at the end of their current lease with the Port. Should the deferral be granted by the Commission, the Lease Addendum would have an expiration of March 31, 2022?

Commissioner Moak confirmed that Carbitex is requesting a rent deferral and nothing will be paid back until 2022 and inquired if that was standard lease terms to defer rent.

Ms. Luke reviewed several options being used by various ports across states to help tenants and rent deferral is one of those tools that have been used. Ms. Luke stated it is an option to add the rent deferral to the end of the lease; however, there are other alternatives but this is the alternative that has been requested by Carbitex. Ms. Luke would protect the Port as much as it can be protected, but noted there is risk with these extensions/deferrals.

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Commissioner Moak inquired if it is the staff recommendation to accept the rent deferral.

Mr. Arntzen stated there is risk on the part of the Port commission and as CEO, he does not endorse or recommend the proposal.

Commissioner Novakovich cannot support the rent deferral and stated there are risk factors that could affect the Port cash flow.

Commissioner Moak does not object to a rent deferral and asked if staff could work with Carbitex.

Commissioner Barnes confirmed that Carbitex was not asking for rent forgiveness, but that they would extend their lease three months and repay their deferral during the period of January-March 2022. Additionally, the Port would normally include an increase on a new lease period.

Ms. Hanchette confirmed that Carbitex was not asking for rent forgiveness, but would amend their lease and extend it through March 2022. Ms. Hanchette stated the Port could include a certain percentage increase as part of that amendment. Ms. Hanchette believes the tenant will ask for the current rent lease.

Ms. Luke stated the rent would be deferred, not forgiven and there would be an addendum to extend the current lease and reiterated that there is risk to the Port that we may not collect all of the deferred rent.

Commissioner Barnes suggested exploring renegotiating the lease terms with Carbitex, possibly beginning in as early as October 2020 through December 31, 2021, in order to alleviate the Port's risk and the doubled rent payments for Carbitex in January, February, and March of 2022.

Ms. Hanchette believes Carbitex would be open to other ideas on how to spread the Port's risk and will explore those options with Mr. Boninger.

Further Commission and staff discussion ensued regarding the rent deferral request.

It is the Consensus of the Commission to not approve the rent deferral request and asked staff to relay the Port concerns to Carbitex and discuss other viable options.

REPORTS, COMMENTS AND DISCUSSION ITEMS

A. 2021-2022 Budget & Work Plan Ideas

Mr. Arntzen will pose questions to the Commission to capture their thoughts on the draft 2021-2022 Budget and Work Plan over the next few meetings to help staff with the draft Budget and Work Plan.

Mr. Arntzen summarized the first five questions for the Commission to consider:

1. Should the new budget take COVID-19 into account, for example, future financial impacts, building and development slow down, and the impacts to Vista Field and Columbia Gardens? Should the budget offer flexibility in the ever-changing environment;

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2. Should the Port place emphasis on finishing projects currently queued up as opposed to starting new projects;
3. There may be an impending shift from maximizing construction of new projects to funding more operational activities. Instead of investing in capital projects, the Port may need to finance more towards operations to maintain properties we have redeveloped, such as Vista Field and Columbia Gardens;
4. Does the Port have an overall philosophy that identifies one major project that is head and shoulders above other projects? If the budget were to reflect capital activities, should it focus on Vista Field or be spread around the district;
5. Should the Commission move forward with the Hangar Remodel project, how would it be funded or would it be prudent to wait and see what happens with COVID-19?

The Consensus of the Commission is to receive the information in email form regarding the first five questions from Mr. Arntzen and to add it to the Agenda for future discussion.

B. Vista Field Implementation Team Update

1. Construction Status Update

Mr. Peterson reported that construction of Phase 1A of Vista Field is 99% completed. Total Site Services continues clean up the site and will be filling the water feature for testing and operation later this week.

C. Clover Island/Columbia Drive

1. Kennewick Waterfront Master Plan Update

Mr. Peterson reported that Makers architecture and urban design have been reaching out to the stakeholders in our community. Mr. Peterson and Ms. Hanchette have had the opportunity to participate in some of these phone calls, including Clover Island tenants, the City of Kennewick and Columbia Basin College. Mr. Peterson stated the Clover Island tenants are very appreciative of how the Port has continued to maintain Clover Island and Columbia Drive throughout the Stay at Home order.

2. 1135 Project Status Update

Ms. Bader Inglima reported that the U.S. Army Corps of Engineers (USACE) continues to work on the 1135 habitat restoration project. In 2019, the USACE hired a contractor to prepare biddable documents for the restoration and staff and A&E consultant, John Fetterolf have been working closely with the contractor and providing information and assistance. The documents are approximately 90% complete and Port staff submitted their comments on July 2, 2020. We are currently waiting for USACE to schedule the design review meeting. USACE continues to move forward and anticipates bidding the project in late August - September, with the intent to utilize the in-water work window in November – February, with upland work to continue into June or July of 2021. Ms. Bader Inglima stated we are on track, but the project will depend on the USACE finalizing the documents and receiving fiscal funding. The Port has yet to receive the cost estimates on the 90% design and Ms. Bader Inglima stated there may be possibility that a budget line item may need to be added.

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D. District Wide Project Timelines

Mr. Peterson presented the Commission with a memo regarding the major project timeline/sequence- 2020 detailed and 2020-2021 summary memo (Exhibit D). Mr. Peterson stated this is our best guess at this time, not knowing what the impacts of COVID-19 will be to timing and the uncertainty of the response from the private sector and lending institutions. Mr. Peterson stated DPZ Partners continues to work on the list of questions posed early this year and the information will be provided to the Commission at future meetings. Mr. Peterson outlined the memo and the task timelines and reiterated that the information is a best guess scenario due to COVID-19. The summary timeline covers the next 18 months (2020-2021) and the four areas: Vista Field, Columbia Drive, Clover Island and District-wide matters.

E. Communications with Public

Ms. Bader Inglima continues to communicate with the public regarding Port projects and our progress and what we are doing during this interesting time. Ms. Bader Inglima reported that the Port Newsletter has gone to the printer; however, it will be distributed differently this time via direct link via a number of social media outlets as well inserted in the *Journal of Business* and the *Senior Times*. The newsletter addresses the Port's recent improvements announcing the food truck plaza businesses and the winery patios reopening. Additionally, the Port coordinated a media release announcing Beus Brothers farm market joining the wineries and food trucks at Columbia Gardens. Ms. Bader Inglima reported staff is assisting Makers with the Waterfront Master Planning Process, by creating a webpage on our website which allows the public to sign up to be part of the online email exchange with Makers as the planning process moves forward. Lastly, Ms. Bader Inglima stated the Port television advertisement is nearly complete and should start running in August.

F. Director Reports

Ms. Hanchette reported in February, the Port entered into a Purchase and Sale Agreement with Santiago Estates for 26 acres with an extended due diligence period. Santiago Estates requested a Comprehensive (Comp) Plan Amendment from the City of Kennewick to rezone the area; however, the City did not pass the Comp Plan Amendment. Therefore, the Port will be returning the escrow as soon as the paperwork is finalized.

Mr. Kooiker has been gathering many sources of information from staff, from ports, and from other government entities related to COVID-19. The Commission has always passed a conservative budget and these are the times when it is paying off. For example, the Port lost two Coyote work-crews in March due to COVID-19, but staff was able to purchase a few small equipment items to do more work with less people. The Port had the ability to make the necessary adjustments in the budget cycle because of the conservative budget that was passed in 2018. Mr. Kooiker stated there could be a delayed affect to our tenants and potentially more operating costs to our properties. Mr. Kooiker asked the Commission to review the Port's budget philosophy and reminded them that the 2021-2022 Capital Budget contains \$900,000 in loan payments for Vista Field Phase 1A. If the Commission is unsure about the future, one possibility is to pay off the debt sooner. Mr. Kooiker stated of the \$900,000 in payments to the bank, \$250,000 is interest. Mr. Kooiker stated there are several different scenarios to look at for the 2021-2022 budget and stated the Port is in a fortunate position because they passed a conservative budget.

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G. Commissioner Meetings (formal and informal meetings with groups or individuals)

Commissioners reported on their respective committee meetings.

H. Non-Scheduled Items

Commissioner Novakovich reported that the Benton Franklin Council of Governments is in the process of moving locations and he came across a report from 1965 from the Port of Kennewick. The report addressed industrial locations and stated Vista Field was located three miles west of Kennewick at that time and Clover Island property could be leased from the Port for water-oriented enterprises.

PUBLIC COMMENTS

No further comments were made.

COMMISSION COMMENTS

No comments were made.

ADJOURNMENT

With no further business to bring before the Board; the meeting was adjourned 5:31 p.m.

APPROVED:

PORT of KENNEWICK

BOARD of COMMISSIONERS

Don Barnes, President

Skip Novakovich, Vice President

Thomas Moak, Secretary

*The July 14, 2020 Commission Meeting Minutes were Approved by the Port of Kennewick Commissioners on July 28, 2020 at the Regular Commission Business Meeting.

Memorandum

To: Port Commission

From: Tim Arntzen, CEO

Date: 7/14/2020

Re: **Rural County Capital Fund/Opportunity Zone Analysis**

The commission has directed that I take a 360 degree view of the present and near future status of the RCCF. The commission also asked that I discuss application of Opportunity Zone (O-Zone) strategies with respect to the Vista Hangars. For the RCCF portion of this analysis, I will include an analysis of current funding and current project(s) identified for funding; together with future funding and future project possibilities. For the O-Zone portion of this memo, I have provided a few bullet points drafted by the port CFO and a detailed financial analysis in memo format produced by the local CPA firm of Blodgett, Mickelsen and Adamson related to the O-Zone opportunities. I also have provided a memo produced by White Bluffs Consulting which details jurisdictional partners' views related to potential future RCCF projects which could be undertaken by the port.

I also would like to point out that this analysis only includes the "Port" portion of RCCF funds. This shouldn't be confused with funds from development partners. As an example, the City of Kennewick has committed \$1,000,000 of the "City's" RCCF balance to the shoreline project.

I. RCCF ANALYSIS

Currently Available RCCF Funding:

The following spreadsheet prepared by the port CFO showcases the funding currently available to the port via the RCCF account.

RCCF Balances as of 5/31/20	\$
Fund Balance	\$ 1,969,432
Less: Willows Infrastructure	\$ (500,000)
Unencumbered Fund Balance	\$ 1,469,432

As noted above, and in the case of the Willows, there may be "strings" attached, i.e. the funding is not entirely unencumbered. A case in point is the \$500,000 of "banked" port RCCF funding which was to be used to supplement a federal EDA grant application for infrastructure at the Willows site for the culinary institute. The port was not successful in its endeavors for the EDA grant, and the college is contemplating

starting the institute on its land holdings in Pasco. Thus, it appears that the \$500,000 earmarked for the Willows is no longer necessary or appropriate for that specific use (i.e. a culinary institute). Whether to reprogram this funding and where, is a policy decision resting with the commission. Additionally, it may be appropriate to discuss re-allocating the Willows funding in collaboration with the City of Kennewick, which was to be the port's partner in the culinary endeavor. It is possible that the city would not object to the port "reprogramming" this \$500,000 *if it were to be used on a project located in Kennewick* (for example the hangar remodel). And, it may be appropriate to ask the city if it would consent to contributing its \$500,000 match (from the Willows project) to the new port project.

Second, any Racetrack funding is contingent on the county approving the funding transfer as part of a project-specific application. In general, the county is willing to transfer this funding from West Richland to the port, but reserves the right to approve the transfer when the transfer request is made as a part of an accompanying approved project. Since this funding isn't in the Port's RCCF fund balance yet, this was not included in the above referenced spreadsheet. For reference, the remaining amount to be paid to the Port by the City of West Richland is \$1,316,000.

Thus, if the port's RCCF funding of approximately \$1,470,000 was added to the Racetrack funding of approximately \$1,315,000 then the port could conclude it has (or will have) \$2,785,000 in RCCF.

Current Projects under Consideration:

Vista Field Hangar Remodel. This project would consist of remodeling one or more hangars to create vibrancy for Vista Field, as strongly recommended by DPZ. This project is detailed in a report produced on the port's behalf by Strategic Construction Services which will be presented to the commission at the next commission meeting.

Briefly, the hangar project would include remodeling one of the hangars to create space to serve as a Port of Kennewick real estate office, a small satellite office for maintenance crew, and a very small police mini-station. One or two of the other hangars could be repurposed into several small shops in a mini-merchants market (or "Market of Many Shops" as called out in the Pattern Language document produced by Professor Black) or as a small restaurant or two (or other types of vibrancy-producing uses).

Preliminary cost estimates indicate that remodel costs would exceed the currently available RCCF fund balance. Therefore, should the commission choose to pursue the hangar project, additional non-RCCF funds would be necessary for completion. The hangar report includes a potential funding scenario for the hangars, including non-RCCF funds. Additionally the commission could allocate a line item for additional funding in the upcoming 2021-22 Budget.

Beyond the hangar remodel, staff has not produced a list of other potential current project possibilities. It seems that the commission has indicated a moderate to strong desire to focus on the hangar project, based in part, on the strong recommendation of DPZ for the port to create vibrancy at the port's southern gateway to its New Urbanism project at Vista Field. Should the commission desire staff to identify other possibilities, staff would be happy to do so. Any identification of an alternate project might best be considered as outside the scope of this report; and may best be accomplished through the upcoming budget and work plan process (which includes public participation).

Future RCCF Funding:

The port accrues funding at the rate of approximately \$480,000 annually. However, the actual amount of funding varies based on accrual into the county account, which is variable due to it being based on sales tax receipts (which are variable as well). The end date for accumulations into the fund is June 30, 2023. Thus,

if the port were to accrue funds at \$480,000 annually for the remaining life of the overall fund (3 more years), the port would have funding of approximately \$1,440,000 for capital projects. This \$1,440,000 would be in addition to the various sources of current funding identified above.

Future Projects:

Rather than staff suggesting a list of potential projects, I have tasked White Bluffs consulting (Ben Floyd) with visiting with our development partners to produce a list of projects for commission consideration. At this point I do not think the objective for staff is to determine the outcome (i.e. produce a detailed list of projects) but rather identify a process by which the commission would make the ultimate determination of which future projects to potentially pursue. A good start may be to review the list of projects identified by jurisdictional partners; review any ideas produced by the waterfront master planning process, etc. Thus, the focus of this memo will be to “sign off” once the jurisdictional partner list is assembled. The next chapter, should the commission desire, could be to embark on a more formalized process to identify the two or three future projects for further scrutiny. Since any future project relies on the accumulation of future RCCF funding, there may not be a need to rush to the finish line on this aspect of the RCCF paradigm. As mentioned above, should the commission wish an additional process for identifying future projects, it is beyond the scope of this memo and may best be handled through a more detailed process which includes public participation. Please see the White Bluffs memo (Exhibit B) attached.

II. OPPORTUNITY ZONE ANALYSIS

Opportunity Zone Analysis and Potential for Opportunities/Implementation. The commission requested that the CEO provide information related to the potential for Opportunity Zone investment. The port CFO has contracted with the Blodgett, Mickelsen and Adamson CPA firm to provide insight into these possibilities. Following is a brief discussion related to O-Zones. This CPA report (Exhibit C) is attached for commission review. In short, the CPA report indicates:

- The benefit of an opportunity zone is the deferral of capital gains tax for an investor. It has many similarities to a 1031 tax deferred exchange.
- Typically, an investor who purchases a building in an opportunity zone would be required to invest as much capital into the building as they purchased it for. As an example, if you purchased a building for \$500k, the investor would be required to invest an additional \$500k into the building within 2.5 years. However, since the Port’s hangar buildings have been vacant for a period of time they qualify for an exemption. This effectively makes the buildings more valuable for an investor because they don’t need to invest as much money into the building.
- This also creates a situation that is less than ideal for the Port because an investor would have no incentive to make improvements to the hangar buildings. As an example, they could use it as temporary storage or a place to store vehicles.
- Selling vacant land at Vista Field is probably a better situation for the Port, because it will require an investor to make improvements in order to qualify for the tax incentive.
- The best way for an investor to use the incentive is to purchase the hangars. There is less incentive to lease.

Conclusion

Presently the port has up to \$1,469,432 of RCCF funding available for current use, subject to some conditions. If the Racetrack funding of approximately \$1,315,000 is added to that, then the port could conclude it has (or will have) \$2,785,000 in RCCF for use on current projects or those in the near future. The commission has identified the Vista Hangar remodel project as a prime candidate for current RCCF funding. A concurrent report (Strategic Construction Management) related to the remodel project has

identified exciting uses for the hangars. The report has also benchmarked potential construction costs and potential sources of funding.

Future RCCF funding in the approximate amount of \$1,440,000 is likely to accrue to the port over the remaining life of the program. Other potential projects likely within budget have been identified via Ben Floyd in discussions with jurisdictional partners. The commission could seek to identify other possibilities in the future. Opportunity Zone legislation may not attract the type of investor to the hangars that the port desires, but the legislation likely could help land sales and subsequent development at Vista Field in general.

Hopefully this memo outlines several paths forward for commission consideration.



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MEMORANDUM

To: Tim Arntzen
From: Ben Floyd, White Bluffs Consulting
Cc:
Re: Upcoming Rural County Capital Fund Projects – Findings from Cities and County Discussions
Date: June 30, 2020
Project: 33

The Port of Kennewick (Port) hired White Bluffs Consulting (WBC) to hold calls with representatives from the Cities of Benton City, Kennewick, Richland and West Richland, and Benton County on potential upcoming Rural County Capital Fund (RCCF) projects that could be partnering opportunities with the Port. The findings from these communications are summarized in this memorandum.

Benton City

Communication with Mayor Linda Lehman on June 16

- The City has a master planning project they are trying to get funded for the DNR land south of and adjacent to Interstate 82, which is within the Port District. They desire to have this area be a higher end commercial and hotel area to serve Red Mountain wineries visitors. She has a RCCF grant request in for \$260,000 to Benton County to conduct this master planning, but not has not yet heard whether this request has been approved. The City does not have any RCCF capital projects identified at this time but expects there may be some that result from the master planning effort.
 - Down the road she would like the Port to consider being a contributing partner in purchasing the railroad bridge that crosses the Yakima on the eastern edge of the City but no specific financing plan is in place for that acquisition. The plan is to turn that bridge into a bike path and pedestrian bridge and link it into the regional trails network.
-

Benton County

Communication with Adam Fyall on June 25

- Benton County does not have any projects specifically earmarked for their RCCF funding at this time, nor do they have partnerships they are seeking to establish for specific projects. They do have two projects that could have potential for partnership but the project development for these is moving slowly:
 - Belmont Road (West Richland area) – This would involve extension of the road and utilities preparations in the commercially-zone area.
 - Adair Road (south of Kennewick) – This is in the area that Kennewick is trying to bring into their UGA as industrial lands. The County is working with the current owner on a plan for the area and may assist with road improvements to facilitate freeway interchange commercial/industrial uses.
- The County is open to partnerships on economic development projects where there are identified needs, opportunities to leverage other funding sources and mutual benefits.
- The County views the Port as a valued economic development partner. The Port in many ways has set the standard for RCCF projects and grant applications in the County.

Kennewick

Communication with Marie Mosley and Evelyn Lusignan on June 25

- Projects to partner on:
 - Connecting waterfront to Downtown Kennewick and Washington Street “Complete Street” grant
 - Find a way to get people using the Columbia River trail into Downtown and Clover Island, and make Washington more bikable and walkable
 - Partner with Port, City and Downtown Association
 - Phased project is fine
 - Columbia Gardens – continue to invest and make this area vibrant
 - CBC Culinary Arts partnership – keep working to make it happen
 - Boutique food shops to get people to stay in the area
-

- Work on completing the trail around Duffy's Pond by acquiring land and constructing last section of trail area
- Plan for making progress on the Isaacson Trailer park, recognizing this is a longer-term effort
- Vista Field
 - Open to partnership ideas around infrastructure – see general point provided below
- Due to significant amount of population and tax base that comes to the Port from Kennewick portion of the Port District, the Kennewick City Council expects that most of the RCCF funding Port receives should be invested in Kennewick.
- City is most comfortable investing in infrastructure, utilities and landscaping but not in buildings; the Port should invest in buildings. The City and Port can work together to establish flexible project financing arrangements, while being mindful of respective funding roles.

Richland

Communication with Pete Rogalsky on June 22

Timing for the call was very good, since the City recently completed the right-of-way acquisition with Tri-City Railroad across the two railways that will need to be crossed for the completion of Center Parkway between Gage and Tapteal Drive.

- The City has budgeted around \$1.2 million for property acquisition of 3 or 4 portions of parcels plus one entire parcel, and are going to be approaching the County, both Ports and City of Kennewick for contributions in the \$100,000 range (from RCCF funding accrued in the respective accounts most likely) to match the \$700,000 - 800,000 of Richland RCCF funding accrued.
 - Construction would be \$1.5 million, and the City has \$500,000 in WSDOT grant funding plus will be seeking another \$100,000 or so from each partner to support construction in 2022 or 2023.
 - Completing this project will open up/enhance the developability of the remaining Tapteal Drive properties for commercial development.
-

Port support for this north Center Parkway project could replace the prior partnership request by the City to the Port to contribute to the south Center Parkway project.

West Richland

Communication with Roscoe Slade on 6/23

The City does not have any additional RCCF candidate projects planned at this time.

- The current cooperative efforts being discussed with the Port for supporting a land exchange along with the recent racetrack property sale have positioned the City nicely for their current economic development efforts.
 - There has been further delay in the Alexanders/City property swap as they are doing some due diligence on geo-tech on Alexanders' property due to high groundwater levels. Accordingly, the City is asking to hold until August on all activities related to the cooperative approach outlined earlier this spring around approval of land swap and water right transfers to get the issues they are working through with Alexanders' property resolved or a revised swap agreement crafted.
-

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CERTIFIED PUBLIC ACCOUNTANTS
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June 17, 2020

Port Commissioners
Port of Kennewick
350 Clover Island Drive
Kennewick, WA 99336

Commissioners,

At the request of Mr. Nick Kooiker, Chief Financial Officer/Auditor for the Port of Kennewick, we have prepared the following summary information for your consideration regarding three airplane hangars located at 6600 W. Deschutes Ave., Kennewick, WA. This property is owned by the Port of Kennewick (the Port) and is in an Opportunity Zone which has certain tax benefits available to it.

Opportunity Zones and tax benefits

The primary tax benefits of Opportunity Zones (OZ) are tax deferral of capital gains and a step-up in basis to fair market value for qualifying investments. In order to benefit from the OZ program, an investor must generate a capital gain and if the gain is invested into a Qualified Opportunity Fund ("QOF") the taxpayer can defer paying tax on this gain until they sell the investment in the QOF or on their tax return for the December 31, 2026 year, whichever is sooner. This is similar to the benefit of entering into a Section 1031 like-kind exchange.

If the investment in the Opportunity Zone is held for five years, the taxpayer(s) receives a step-up in basis of 10 percent, meaning that they will ultimately only pay tax on 90 percent of the original capital gain invested. If it is held for seven years, then it will receive an additional 5 percent step-up for a total of 15 percent. This benefit lasts until December 31, 2026 and any gains which have been deferred must be recognized and paid on this date unless the investment has been sold or exchanged before this date. The final benefit of the OZ program is for investments that are held for at least 10 years. After 10 years, the taxpayer receives a step-up in basis to the fair market value on the date that the investment is sold or exchanged. Thus, while the taxpayer eventually pays tax on the original investment amount, when the OZ investment is finally sold, any additional appreciation of this investment will be tax free.

For existing buildings (like yours) to qualify under the OZ program, they typically must be substantially improved, which means that the investor's basis in the building must be doubled within a 30-month window. However, as your property has been vacant, it qualifies for an exception to this rule and is deemed to meet the requirements of the OZ program for any investor who purchases it.

Potential investors would be looking to buy or lease the property to start a business within the zone or to sublease the property to other investors. Under the program, the investor's business must have substantially all its property located within the zone and 50 percent or more of the income of the business must be derived from business within the zone. Certain businesses are specifically excluded from qualifying. These include country clubs, golf courses, massage parlors, tanning salons, gambling facilities, hot tub facilities, racetracks, or any business in which the principal business is the sale of alcoholic beverages off premises.

Port of Kennewick options for Vista Field hangars

Considering the benefits available to investors under the OZ program, the Port's hangars located in Vista Field have additional value, in the form of tax benefits. The Port is a tax-exempt entity and will not benefit from the tax benefits provided by this program. Compared to other properties within the two Kennewick Opportunity Zones (Vista Field and Downtown Kennewick), the hangars recent vacancy qualifies the property for any investor who uses or acquires them without requiring any additional investment to qualify the property.

Accordingly, the options available to the Port are to (1) sell the property as is to an investor that intends to use the property as part of a Qualified Opportunity Zone Business (QOZB) which utilizes this property, (2) lease the property as is to a QOZB, and (3) invest money into the property to increase the purchase price of a sale or lease transaction. Below we will discuss the various advantages/disadvantages of the above options and describe matters for the Port to consider in making its decision.

Sell the Property

The first option is to sell the property to an investor who intends to have a qualifying business within the zone. Since the properties meet the vacancy exception, there is no requirement for the investor to substantially improve the property. The Port's property will have added tax benefits when compared to non-OZ properties in the Tri-Cities, all other things being equal. Similarly, compared to other local OZ property, it will not require any substantial improvement upon being purchased in order to qualify. The properties can also be sold individually or together. The buyer could use the properties as they are, level them and build something new, or remodel the existing structure(s). The buyer would be required to generate sufficient income so that 50 percent or more of income is sourced within an OZ and at least 90 percent of their business property (which includes the hangars) must qualify under the program.

Lease the Property

The second option is to lease the property to an investor or business that is formed as a qualifying business in the zone. While this is a very viable option, and one that allows the port to maintain long-term ownership and control over the property, the property already qualifies under the program due to the vacancy exception. Because of the readily available benefit from a purchase, the additional benefit of leasing is diminished somewhat for these particular properties.

Invest Money into the Property

The final option is to improve the properties before selling or leasing them as a way to drive up the purchase or lease prices. The properties will qualify under the OZ program whether or not such an investment is made. Therefore, if the Port believes they can generate a return on such an investment then this would be financially beneficial. Investors will not be required to substantially improve the property either way, so having an improved property would not be seen as a downside which requires substantial investment following a purchase as would be the case for other (non-vacant) properties.

Summary

Any property located in an opportunity zone can qualify investors for desirable tax benefits. Additionally, investments made within opportunity zones that are held for ten years will have tax-free appreciation. Investments must be made into qualifying businesses that generate at least 50 percent of their income within the opportunity zone. The Port's property will automatically qualify as qualifying property because of its recent vacancy, and this is a benefit to investors. The Port's property would be best utilized in either being sold or leased to an investor that will have a qualifying business within the zone. Such investors will receive significant tax benefits that may last for many years. Thus, any valuations or appraisals made on these properties should account for the potential tax benefits that come with the property.

Appendix A – Example of Opportunity Zone benefits

A dentist retires and sells her practice and building for a total of \$2,500,000. The dentist has basis of \$250,000 in her practice and \$500,000 in the land and building. The purchase price is allocated \$1,500,000 for the practice and \$1,000,000 for the land and building. This generates capital gains of \$1,250,000 for the practice and \$500,000 for the land and building for a total of \$1,750,000. At a 20% capital gains rate, \$350,000 of tax would be owed the following April 15.

Utilizing the OZ program, the dentist could invest the \$1,750,000 into a Qualified OZ Business (QOZB) and defer recognizing this gain until December 31, 2026. The dentist buys into a QOZB in Vista Field and holds the investment for 5 years and receives a step-up in basis of \$175,000 or 10 percent of her investment. This reduces her tax owed by \$35,000 and has allowed her from having to pay the tax for 6 to 7 years.

In 2035, the dentist finally sells her investment in the QOZB for \$4,500,000. Her initial basis in this investment was \$0 until she held it for 5 years and received the \$175,000 or 10 percent step-up. On December 31, 2026 when she recognized and paid tax on the capital gain of \$1,575,000 (\$1,750,000 less the step-up of \$175,000) her basis became \$1,750,000. Typically, this would mean the dentist has a capital gain of \$2,750,000 upon sale. However, under the OZ program, upon selling this qualified investment, she receives a step-up in basis to the fair market value, or \$4,500,000, and recognizes no gains and pays no tax on this investment during 2035.

During 2020 when the dentist initially defers her capital gain of \$1,750,000, she will include Form 8949 with her income tax return (Form 1040) to self-certify that she has invested this gain into a Qualified Opportunity Fund that was formed for the purpose of investing in eligible property that is located in an opportunity zone. The QOF will file Form 8996 every year on its return to continue to qualify as a QOF.

To: Tim Arntzen, Executive Director
From: Larry Peterson
Date: July 14, 2020
Re: Major Project Timeline/Sequence – 2020 Detailed & 2020/2021 Summary

Due to the complexity of the Vista Field redevelopment project, coupled with other projects the Port is simultaneously pursuing, a 2020 timeline or task sequence chart was prepared and presented in February 2020. **Within weeks of creating the original task timeline COVID-19 was declared to be a worldwide pandemic which overnight changed how, when and where people interact.** The Port has adapted to this situation and has managed to keep both the major and minor projects moving forward; however COVID-19 has negatively affected all Port activities to a degree.

2020 DETAILED TIMELINE

The timeline identifies tasks for each of the remaining Commission Meetings in 2020 and when Commission discussion (X) and Commission action (XX) could/would need to occur. This list was primarily crafted to aid sequencing of these tasks and identify which could occur in parallel and which must precede other tasks.

2020 & 2021 SUMMARY TIMELINE

The summary timeline covers the next 18 months (2020 & 2021) and the four main areas/topics; Vista Field, Columbia Drive, Clover Island & District-wide matters. Before the private sector can start building at Vista Field or Columbia Drive, numerous steps are involved. Port decisions, production & distribution of marketing materials, RFI issuance & review, design review, building permit review, buyers due diligence period and then the closing process. Based on all of those steps and under a best case scenario, the remainder of 2020 would be utilized to prepare for marketing in early 2021 with the remainder of 2021 involving collaboration with the private sector to finalize design and land sale transaction(s) for construction in 2022. **This task timeline will be impacted by many yet unknown factors, paramount of which would be the private sectors willingness and ability to venture into development projects during the uncertain economic times which lay ahead.**

TIMELINE QUALIFIERS/REMINDERS

- #1) Main purpose is identification of task sequencing and time periods are approximate *{Commissioners have acknowledged and reinforced the approximate nature of the timelines};*
- #2) Changes to the timeline are all but assured and when significant changes occur, these timelines will be updated and shared with the Commission and public *{project evolution and estimating 6-18 months forward surely impacts this timeline};*
- #3) Function and status tracking supersede format of the 2020 Detailed Timeline *{this is a working document to help keep all on track}.*

"Best Guess" however COVID-19 impacts are unknown

PORT of KENNEWICK - 2020 TIMELINES - MAJOR PROJECTS
(Design, Construction; Market, Lease or Sell & Policy Issues)

<p>X = Commission action (discussion & general direction) XX = Commission Decision (likely via Resolution)</p>	Month	2020												
Commission Meeting	Port Staff	Consultants	July 14th	August 28th	September 11th	September 25th	September 8th	September 22nd	October 13th	October 27th	November 10th	November 24th	December 8th	December 22nd

VISTA FIELD	Phase #1A	Roads & Utilities Construction	Larry	Parametrix, Hall, SCM		X					XX				
	Phase #1A	Platting	Larry	Parametrix, Hall, RSI										X	
	Phase #1A	Project Management "Team"	Amber & ALL	VF Team	X	X	XX								
	Phase #1A	Property Owner Association	Larry & Amber	Doris Goldstein & White Bluffs	X	X	X	XX							
	Phase #1A	Use Considerations	Larry & Amber	SCM	X	X		X		XX					
	Phase #1A	Architectural Considerations		VF Team	X	X		X		X		XX			
	Phase #1A	Property Pricing	Amber & Larry	SEWA		X		X		XX					
	Phase #1A	Real Estate Commission Policy	Amber & Nick	n/a	X	X	XX								
	Phase #1A	Marketing Approach	Amber & Tana	VF Team		X		X		X		XX			
	Phase #1A	Marketing Materials (Project Folio, Collaborative Design, Builders Bible, Website)	Amber & Tana	VF Team		X		X		X					
	Phase #1B	Hangar-Policy Direction & Scope	Tim	SCM	X		XX								
	Phase #1B	Budget Determinations	Nick, Amber & Larry	SCM	X	X		XX							
	Phase #1B	Hangar Design	Larry & Amber	CIKT, VF Team & SCM										X	

COLUMBIA GARDENS	Phase #2C	Shipping Container Design	Larry & Amber	Dry Box											
	Phase #2C	Shipping Container Fabrication	Larry & Amber	Dry Box											
	Phase #2	Property Owner Association/Covenants	Amber & Larry	Oneza			X	X	X	X	X	XX			
	Phase #2	Architectural & Use Considerations	Larry & Amber	Oneza			X	X	X	X	X	XX			
	Phase #2	Property Pricing	Amber	SEWA			X	X	X	X	X	XX			
	Phase #2	Real Estate Commission Policy	Amber & Nick	n/a	X	X	XX								
	Phase #2	Marketing Materials (Project Folio, Website, etc.)	Amber & Tana	TBD											

KENNEWICK WATERFRONT	Master Plan	Kennewick Waterfront Plan	Tim & Larry	Makers		X	X	X	X	X	X	X			
	1135 Project	Design & Permit	Tana	USACE consultants											
	1135 Project	Bidding & Construction	Tana	USACE consultants					XX						

DISTRICT WIDE	Planning	2-Year Work Plan	Larry	White Bluffs			X	X	XX					
	Budget	2-Year Budget	Nick	TBD			X	X	XX					
	Planning	Comp Scheme Update	Larry	White Bluff										

Policy
Design/Permitting
Construction
Planning & Mechanics
Marketing

VF TEAM: Port Staff; Amber-Point of Contact/Project Manager, DPZ Miami & Protland, Cascadia, Parametrix, Hall Engineering, SCM, White Bluffs

DPZ Miami & Portland: Elizabeth Plater Zyberk, Senen Antonio & Matt Lambert

Cascadia: Michael Mehaffy, Laurence Qamar

Parametrix: Sam Nielson, PE; Darren Sandeno, LA

Hall Engineering & Associates: Gary Hall PE

White Bluffs Consulting: Ben Floyd, Doris Goldstien & Steve DiJulio

Strategic Construction Management (SCM): David Robison, CCM, LEED AP

"Other" Assistants:

Appraisal Group SEWA: Nikki Griffith, MAI, CCM

Rogers Survey Inc., P.S. (RSI): Dave Baalman, PSL, CFedS

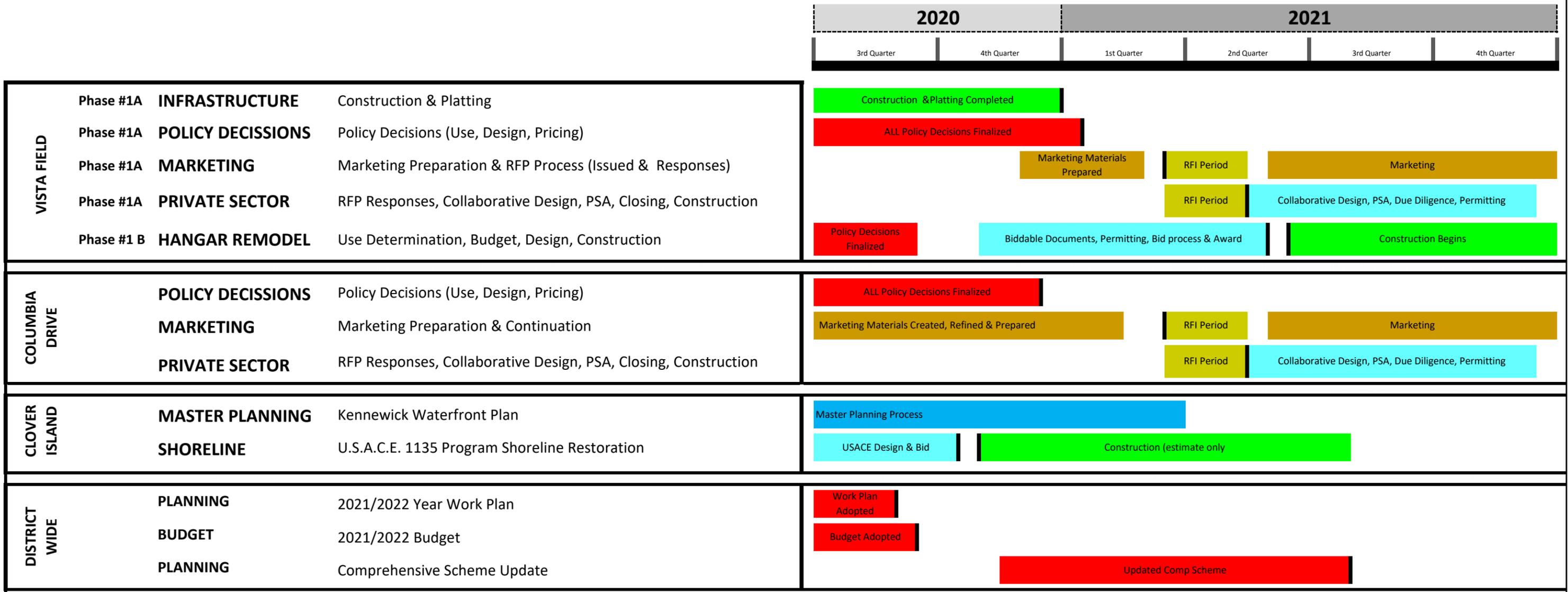
Oneza and Associates (Oneza): Ferdouse Oneza, AICP

Makers Architecture & Urban Design, LLP (Makers): Julie Bassuk, AICP

"Best Guess" however COVID-19 impacts are unknown

"Best Guess" however COVID-19 impacts are unknown

PORT of KENNEWICK - 2020/2021 TIMELINES (MAJOR PROJECTS Design, Construction; Market, Lease or Sell & Policy Issues)



Policy
Design/Permitting
Construction & CM
Planning & Mechanics
Marketing RFP

"Best Guess" however COVID-19 impacts are unknown

NOTES:

Main purposes of this timeline is to show the **SEQUENCE** of tasks, therefore all times are approximate and should be considered as such
 Private Sector Construction timeline estimates are **BEST CASE** scenario dependent upon thorough responses from private sector and timely review by Port Team and permitting agencies
 Hangar reconstruction sequence is dependent upon COMMISSION'S ultimate decisions to pursue and fund the project
 Clover Island 1135 shoreline enhancement project is **SOLELY** dependent upon United State Army Corps of Engineers controlled schedule and federal fiscally year budget allocations