



PORT OF KENNEWICK REGULAR COMMISSION MEETING

OCTOBER 25, 2022 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 Skip Novakovich 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: Skip Novakovich, President (via telephone)
Kenneth Hohenberg, Vice President (via telephone)
Thomas Moak, Secretary (via telephone)

Staff Members: Tim Arntzen, 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 (via telephone)
Lisa Schumacher, Special Projects Coordinator
Bridgette Scott, Executive Assistant (via telephone)
Carolyn Lake, Port Counsel (via telephone)

PLEDGE OF ALLEGIANCE

Ms. Scott led the Pledge of Allegiance.

APPROVAL OF THE AGENDA

MOTION: Commissioner Hohenberg 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 October 18, 2022**
Direct Deposit and E-Payments totaling \$71,641.46
- B. Approval of Warrant Register Dated October 25, 2022**
Expense Fund Voucher Number 104214 through 104256 for a grand total of \$101,138.67
- C. Approval of Regular Commission Meeting Minutes October 11, 2022**
- D. Palencia Wine Co. Lease Renewal; Resolution 2022-30**

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MOTION: *Commissioner Hohenberg 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. 2023-2024 Draft Budget Workshop

Mr. Kooiker presented the 2023-2024 Draft Budget (Exhibit A).

Commission and staff discussion ensued regarding the draft 2023-2024 Budget.

REPORTS, COMMENTS AND DISCUSSION ITEMS

A. Vista Field Update

Ms. Hanchette reported that she participated in a financial roundtable with Community First Bank, organized by Amanda Jones. Ms. Hanchette shared the Port's standard Purchase and Sale Agreement, which has certain stipulations such as the buyback clause. Vista Field is unique in that financing a live/work unit is not very common and there may be additional steps for a potential buyer. Ms. Hanchette has several tours set up and will now be able to outline the basic financial terms.

B. Tamastslit Cultural Institute Trust Board

Ms. Scott reported that Commissioner Novakovich has been elected to serve as the new president for the Tamastslit Cultural Institute Trust Board. Staff congratulated Commissioner Novakovich and thanked him for his efforts in continuing to build our relationship with the Confederated Tribes of the Umatilla Indian Reservation.

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

Commissioners reported on their respective committee meetings.

D. Non-Scheduled Items

Mr. Arntzen stated Ms. Hanchette has been very busy at Vista Field and commended her for her community outreach. Mr. Arntzen would like to memorialize her tasks into a working document to provide for community reference.

Mr. Arntzen commented on the economy and inflation and stated these factors will have implications for staff salaries and Vista Field. With a potential recession, consumers have been looking for ways to reduce their costs by eliminating purchasing big-ticket items and moving away from discretionary spending. The housing market has struggled due to high interest rates and builders have reduced their activity. Lastly, inflation is near 8% and social security is offering a cost-of-living adjustment of 8.7%. Mr. Arntzen reported that inflation on some items are greater than the overall rate: food costs are up over 13%, gas is up 18%, electricity is up 16%, and natural gas is up 33%. These implications will affect staff salaries, and we do our best to keep salaries commensurate with cost of living. Additionally, there may be implications related to the speed at which Vista Field is developed.

PORT OF KENNEWICK REGULAR COMMISSION MEETING

OCTOBER 25, 2022 MINUTES

Commissioner Hohenberg appreciates Mr. Arntzen bringing this up because it isn't just about wages and benefits, but being competitive, fair and taking care of our employees, who are our most important resource. Commissioner Hohenberg appreciates the heads up and stated it is challenging when dealing with public funds; however, at the end of the day, these are the tough decisions and the right thing to do to take care of people. Commissioner Hohenberg appreciates Mr. Arntzen's comments and believes it is important to keep our employees as whole as possible.

Commissioner Novakovich agrees with Commissioner Hohenberg and stated these factors are tough to swallow but need to happen. Commissioner Novakovich stated Mr. Arntzen has assembled a wonderful staff that have been through a lot the past few years and stayed; and he would like them to stay and work together as a team and move forward and do great things at Vista Field, Columbia Gardens and our community. Commissioner Novakovich thanked Mr. Arntzen for his forward thinking and asked Mr. Arntzen to let the Commission know if there is anything they can do to support his efforts.

Commissioner Novakovich relayed that Ron Swanby of Swampy's BBQ received their building permit and he appreciates Ms. Hanchette and the team's efforts.

PUBLIC COMMENTS

No comments were made.

COMMISSION COMMENTS

No comments were made.

ADJOURNMENT

With no further business to bring before the Board; the meeting was adjourned 2:58 p.m.

APPROVED:

PORT of KENNEWICK BOARD of COMMISSIONERS

DocuSigned by:

Skip Novakovich

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Skip Novakovich, President

DocuSigned by:

Kenneth Hohenberg

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Kenneth Hohenberg, Vice President

DocuSigned by:

Thomas Moak

A35176A2D2CD413...

Thomas Moak, Secretary

PORT OF KENNEWICK

RESOLUTION No. 2022-30

***A RESOLUTION OF THE BOARD OF COMMISSIONERS
OF THE PORT OF KENNEWICK TO
APPROVE A FIVE-YEAR LEASE RENEWAL FOR
PALENCIA WINE CO.***

WHEREAS, the Port of Kennewick entered into five-year lease with Palencia Wine Co. November 1, 2017 to lease building space in the Columbia Gardens Wine and Artisan Village at 421 E. Columbia Drive Buildings A110 and A140, Kennewick and an addendum dated March 1, 2020 to add bullpen space in the Oak Street Industrial Park and an addendum dated January 1, 2021 for utility and food truck arrangement; and

WHEREAS, the tenant desires to exercise their option to renew for another five years and has agreed to a 3% annual rent escalation; and

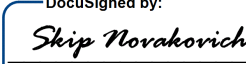
WHEREAS, the tenant has requested an additional five-year lease option at the expiration of this term.

NOW, THEREFORE, BE IT RESOLVED that the Port of Kennewick Board of Commissioners hereby approves a five-year lease renewal with an additional five-year option for Palencia Wine Co.


BE IT FURTHER RESOLVED that the Port of Kennewick Board of Commissioners hereby ratify and approve all action by port officers and employees in furtherance hereof; and authorize the Port Chief Executive Officer to take all action necessary in furtherance hereof.

ADOPTED by the Board of Commissioners of Port of Kennewick on the 25th day of October 2022.

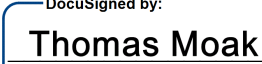
***PORT of KENNEWICK
BOARD of COMMISSIONERS***

By: 
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SKIP NOVAKOVICH, President

By: 
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KENNETH HOHENBERG, Vice President

By: 
A35176A2D2CD413...

THOMAS MOAK, Secretary

THIRD AMENDMENT OF COMMERCIAL PROPERTY LEASE AGREEMENT

This THIRD AMENDMENT OF COMMERCIAL PROPERTY LEASE AGREEMENT (this “Third Amendment”) is entered into this _____ day of October, 2022 (the “Effective Date”) by and between the PORT OF KENNEWICK, a Washington municipal corporation (as “Landlord”) and PALENCIA WINE COMPANY LLC., a Washington corporation (as “Tenant”), who are hereinafter referred to individually as a “Party” and collectively as the “Parties.”

RECITALS

WHEREAS, the Parties previously entered into a Commercial Property Lease Agreement, dated November 1, 2017, and subsequently entered into an Amendment to Commercial Lease Agreement dated March 1, 2020, related to real property commonly known as 1328 E. 3rd Ave in Kennewick, Benton County, Washington (collectively, the “Agreement”); and

WHEREAS, the Parties entered into a second amendment dated January 1, 2021, related to real property commonly known as 421 E. Columbia Drive Suite A110 and one mobile vendor space including utilities in Kennewick, Benton County, Washington (collectively, the “Agreement”); and

WHEREAS, Tenant desires to exercise the Lease Option under Article 3 of the Agreement to extend the Term for another five (5) years (the “First Option Period”), and further requests the ability to enter into another five (5) year term at the end of this First Option Period; and

WHEREAS, the Parties desire to amend the Agreement by memorializing a rent increase for the First Option Period, and to authorizing an additional five (5) year option (the “Second Option Period”) to be potentially available to Tenant, based upon the terms and conditions of the Agreement and this Third Amendment, at the conclusion the First Option Period; and

NOW, THEREFORE, based on the foregoing Recitals, the Parties agree as follows:

AGREEMENT

1. Recitals. The Recitals set forth above are hereby incorporated into this Second Amendment by this reference.
2. Commercial Property Lease Agreement. The Agreement described in the Recitals above is incorporated by reference into this Second Amendment as though written in full and shall, except as otherwise specifically modified herein, remains in full force and effect.
3. Amendments. The Agreement is amended as follows.
 - 3.1 Basic Lease Provisions. The following sections of the Basic Lease Provisions are hereby deleted and replaced in their entirety as follows:
 - G. Lease Commencement Date: The First Lease Option period begins on November 1, 2022.

I. Lease Options: Tenant shall have one (1) additional five (5) year option to extend the lease beyond this First Option Period authorized by this Second Amendment.

K. Base Monthly Rent Calculation for Building A110 & A140:

Year 1: \$0.65 psf

Year 2: \$0.66 psf

Year 3: \$0.67 psf

Year 4: \$0.68 psf

Year 5: \$0.69 psf

OPTION EXERCISED

Year 6: \$0.71 psf

Year 7: \$0.73 psf

Year 8: \$0.75 psf

Year 9: \$0.77 psf

Year 10: \$0.79 psf

Base Monthly Rent Calculation for Bullpen Space:

January 2020 through End of Term: \$.05 psf/month

2,000 sq. ft.

\$100.00 per month

before LET

OPTION EXERCISED (not including LET)

Year 6: \$103.00 per month

Year 7: \$106.00 per month

Year 8: \$109.00 per month

Year 9: \$112.55 per month

Year 10: \$115.93 per month

N. Total Monthly Rent (including LET) Building A110 & A140:

Year 1:

November 2017 \$526.13

December 2017 \$526.13

January 2018 \$526.13

February 2018 \$526.13

March – Nov 2018 \$4,623.73

Year 2: \$4,694.87

Year 3: \$4,766.00

Year 4: \$4,837.13

Year 5: \$4,908.27

OPTION EXERCISED

Year 6: \$5,050.54
Year 7: \$5,192.81
Year 8: \$5,335.08
Year 9: \$5,477.34
Year 10: \$5,619.61

Total Monthly Rent (includes LET) Bullpen Space:

OPTION EXERCISED

Year 6: \$116.23
Year 7: \$119.61
Year 8: \$123.00
Year 9: \$127.00
Year 10: \$130.82

Total Monthly Rent (includes LET) for both buildings and bullpen.

The Parties acknowledge that the years below do not accurately reflect the time Tenant has spent in Building A, but for purposes of ease of reference, the years reflect Lease Option years.

OPTION EXERCISED

Year 6: \$5,166.76 per month
Year 7: \$5,312.42 per month
Year 8: \$5,458.07 per month
Year 9: \$5,604.35 per month
Year 10: \$5,750.43 per month

- P. Rent Due Date: Rent shall commence on March 1, 2018 and be due thereafter on the first day of each month. From November 1, 2017 through February 28, 2018, Tenant shall be responsible for payment of Utilities as set forth in Article 7, and Leasehold Tax, if any, as set forth in Paragraph M, above. This section shall also apply to any Lease Options exercised.

3.2 Term. Article 3 is hereby amended as follows:

The Term hereof shall commence on the Lease Commencement Date defined in the Basic Lease Provision and shall terminate on the Expiration Date defined in the Basic Lease Provisions, unless earlier terminated.

Tenant shall have one (1) additional five (5) year extension option at the end of the First Option Period. ~~Tenant shall have the option to renew this Lease for one (1) five (5) year extension term,~~ but only if Tenant gives landlord written notice thereof not less than ninety (90) days prior to the

Expiration Date of the First Option Period. If tenant timely exercises this option, then the Lease shall continue in effect on the same terms and conditions, provided, however that a new rental rate will be negotiated for the renewal period based on the then current market rental rates for comparable facilities and there shall be no further renewal options. Tenant's right to the renewal term shall be contingent upon Tenant not being in default hereunder at the time of notice of intent is given or at any time thereafter prior to the beginning of the renewal term.

4. Further Acts and Documents. The Parties shall execute any and all further documents, instruments, and other conveyances and agreements, and shall do all acts, which may be necessary or appropriate to fully implement the provisions of this Second Amendment.
5. Construction.
 - (a) In the event of any conflict, inconsistency or ambiguity between the terms of the Agreement and this Third Amendment; the terms of this Third Amendment shall govern and control.
 - (b) Any terms that are capitalized in this Third Amendment but not defined in this Third Amendment and that are capitalized and defined in the Agreement shall have the same meaning for purposes of this Third Amendment as they have for purposes of the Agreement.
 - (c) The descriptive headings in this Third Amendment are for convenience only and will not control or affect the meaning or construction of any provision of this Second Amendment.
6. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and shall constitute one and the same instrument.

[Remainder of page left intentionally blank. Signature and notary pages follow.]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date set forth above.

LANDLORD:

**PORT OF KENNEWICK, a Washington
Municipal corporation, by authority of its Commissioners**

By: _____
Tim Arntzen, Chief Executive Officer

Reviewed:

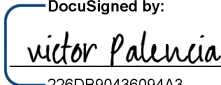
Approved as to Form:

Nick Kooiker, Chief Financial Officer

Taud Hume, Port Counsel

TENANT:

**Palencia Wine Company LLC,
a Washington corporation**

By:  _____
Victor Palencia, President

STATE OF WASHINGTON)

: ss.

County of _____)

WAIVED DUE TO COVID OFFICE CLOSURE

I hereby certify that I know or have satisfactory evidence that, on this ____ day of September, 2022, **Tim Arntzen** signed this instrument, on oath stated that (she/he) is authorized to execute the instrument as the **Chief Executive Officer** of the **PORT OF KENNEWICK**, and acknowledged it to be (her/his) free and voluntary act of such party for uses and purposes mentioned in the instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

Notary Public in and for the State of

Washington, residing at _____

My commission expires: _____

STATE OF WASHINGTON)

: ss.

County of _____)

I hereby certify that I know or have satisfactory evidence that, on this ____ day of September, 2022, **Victor Palencia** signed this instrument, on oath stated that (she/he) is authorized to execute the instrument as the _____ of **PALENCIA WINE COMPANY LLC**, and acknowledged it to be (her/his) free and voluntary act of such party for uses and purposes mentioned in the instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

Notary Public in and for the State of

Washington, residing at _____

My commission expires: _____

Port of Kennewick

2023/24 Budget

October 25, 2022

Managing Resources & Accountability

by Nick Kooiker, CFO/Auditor



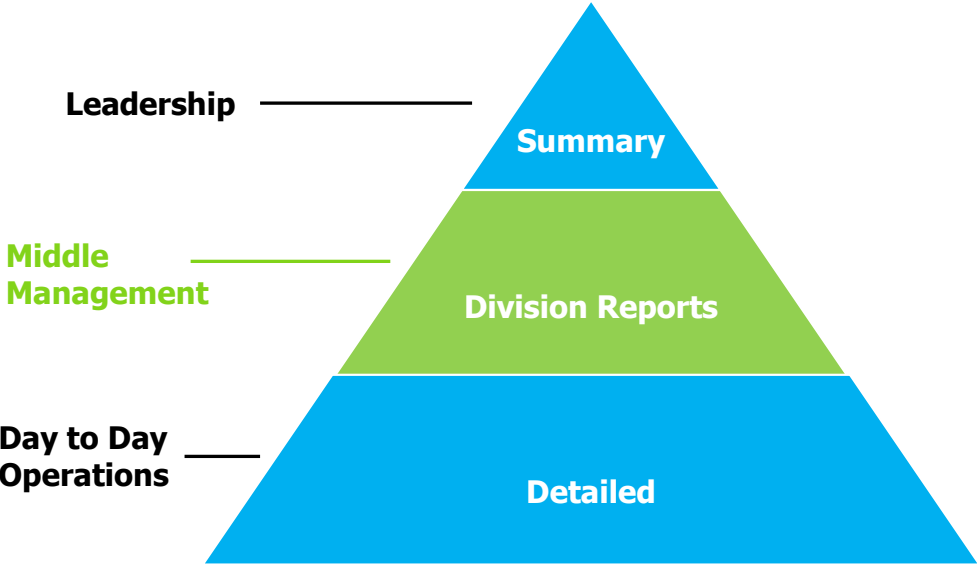


GFOA

(Government Finance Officers Association)

Reporting Pyramid

Reporting Pyramid





Economic Data



National
Level



State
Level



Local
Level

Unemployment: National ~ State ~ Local

3.7%

National
Unemployment Rate

10.2% in 2020

3.9%

State
Unemployment Rate

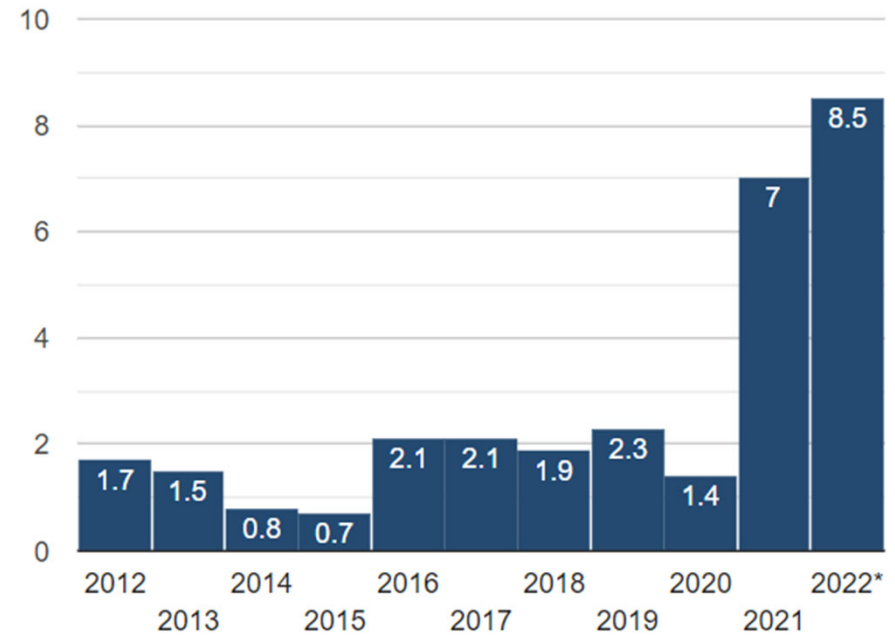
3.8%

Benton County
Unemployment Rate

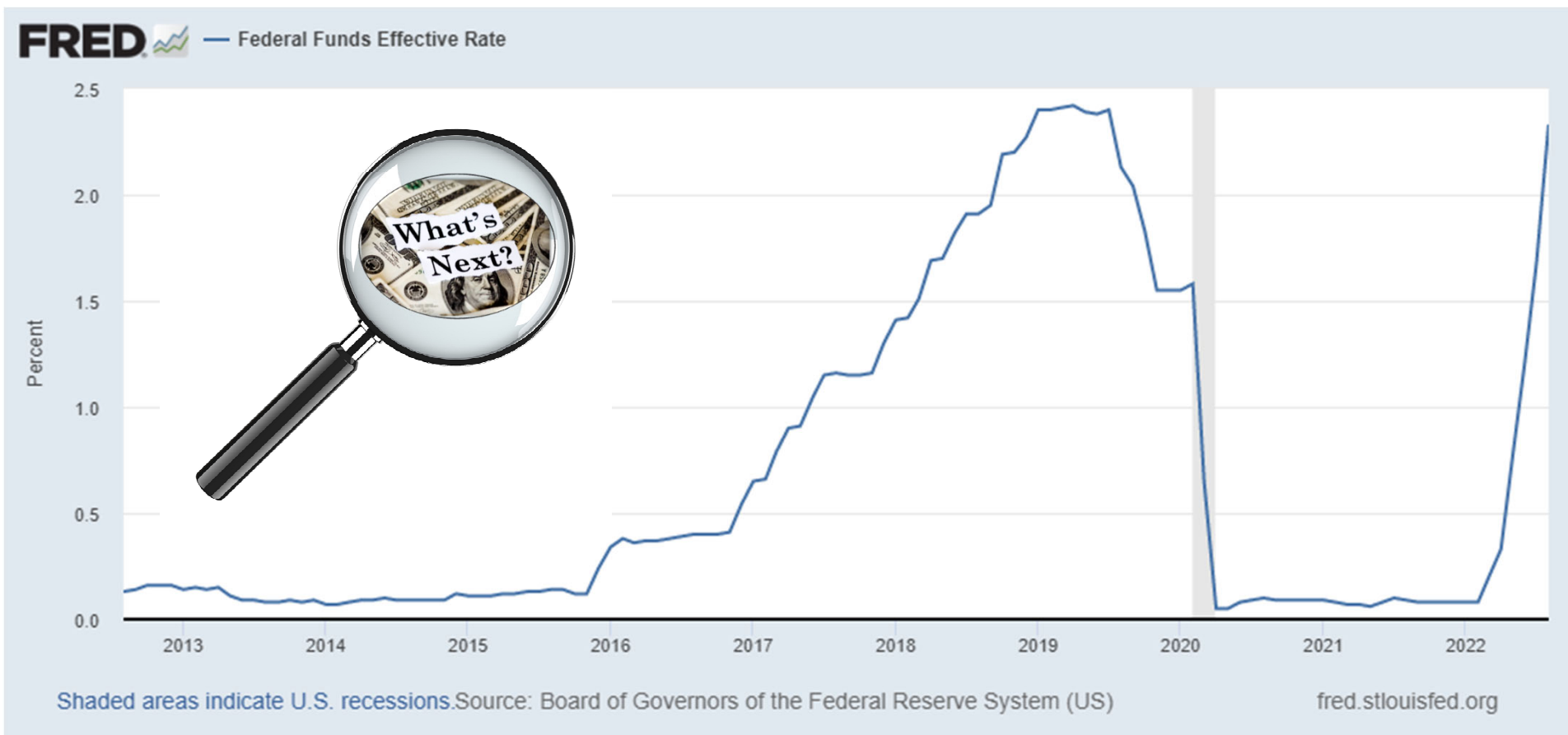
As of July 2022
(WA State Employment
Security Dept.)



Chart: United States Annual Inflation Rates (2012 to 2022)



General Uncertainty



- **Approximately \$12M in cash**
- **The Port owes just over \$4.1M on the Vista Field loan, and the interest rate increases in December 2023**
- **Operating revenues are approximately 16% higher than benchmark**
- **Operating expenses are approximately 9% under benchmark**
- **The Port's net position is just over \$67M**
- **The 2022 levy rate is \$.26/thousand, compared to \$.44 in 2001.**



Port's Current Financial Position

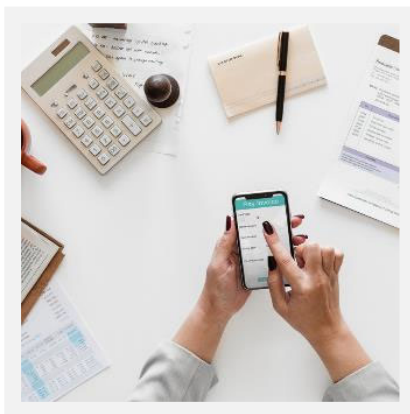
- **Reducing costs and enhancing revenues when feasible while maintaining acceptable service levels.**
- **Promoting fiscal responsibility among departments.**
- **Acknowledging the Port's limited staff and financial resources.**
- **Provide the public with high quality projects and services within a healthy work environment by encouraging efficiency...**
- **\$2.5M reserve fund**



Budget Philosophy

Resolution 2018-27

Budget Assumptions



Fund Balance

Forecasting fund balance on 12/31/22 to be approximately \$10.2M



Inflation

This budget is conservative, allowing for increased expenses



RCCF

Capital Budget relies heavily on RCCF funding

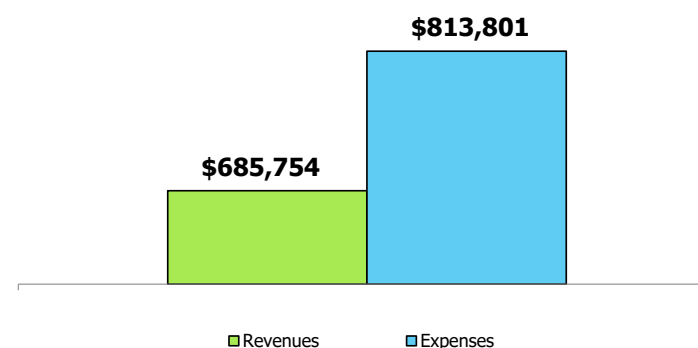


Maintaining Port Investments

Budget reflects funding to maintain current service levels



Responsible for operations and management of marina, haul outs and boat storage.



- The marina is nearly 100% occupied, so recommending a minimum 2% per year increase in rates.
- Expenses include estimated staffing costs, increase in marina liability insurance, extra security patrol, and milfoil cost.
- Most expenses are indexed to a 5% inflation factor, an actual contract amount, or estimated by department manager.

Marine Division

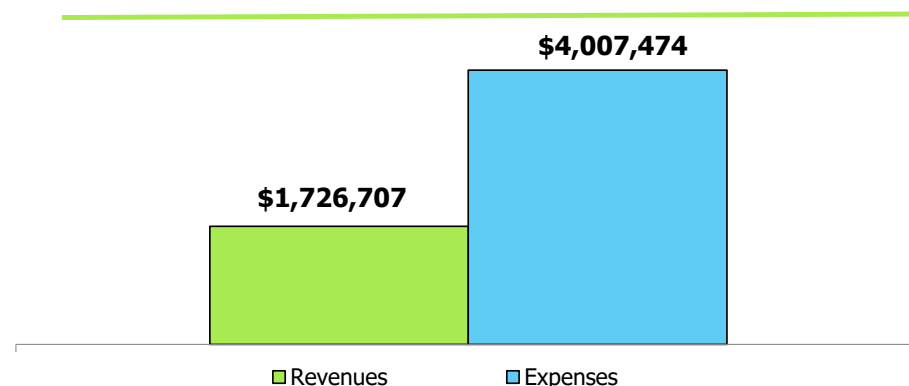
Revenue & Expenses



Property Management Division

Revenue & Expenses

Responsible for management, operations, and maintenance of various Port assets (mainly Port buildings).



- Revenues are based upon leases in place through 2024, and leases that are “highly likely” to renew.
- VFDF-A is mostly vacant due a material lease ending. This was a \$143k/year lease (approximately 14% of lease revenues). This revenue is not in the budget.
- Expenses include estimated staffing costs, increase in utility expenses, extra Vista Field grounds maintenance assistance, a town planner, asphalt and storm drainage maintenance, extra food truck plaza assistance, plus extra security patrol.
- Most expenses are indexed to a 5% inflation factor, an actual contract amount, or estimated by department manager.



Corporate Division

Revenue & Expenses

Other divisions are supported by the corporate division. Which includes, among many other things: Board of Commissioners, Legal, Accounting & Finance, IT, and Contract Administration.

Corporate Cost
\$4,249,640



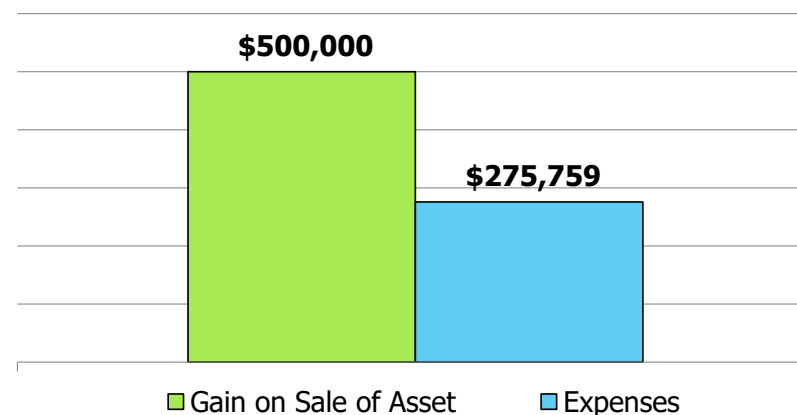
- Budget takes into account additional staffing resources needed, as well as the property management budget.
- Expenses include increase in liability insurance, advertising, and automobile expenses for newly acquired Port maintenance trucks. The budget also allows for a new staff member, if needed.
- Most expenses are indexed to a 5% inflation factor, an actual contract amount, or estimated by department manager.



Real Estate Division

Revenue & Expenses

This division manages the process of buying or selling property in support of the Port's overall business plans.



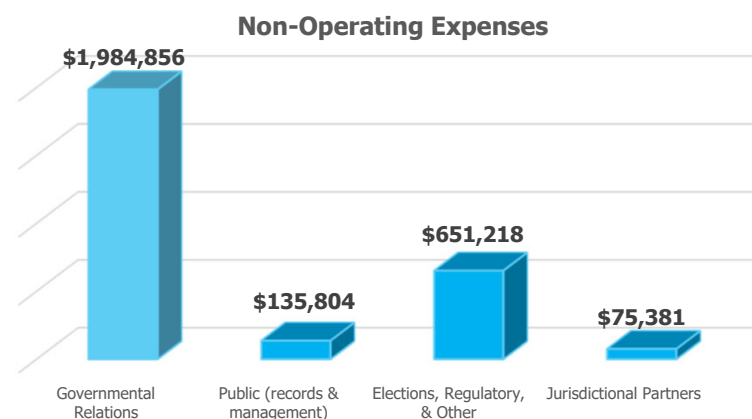
- Port staff typically budgets approximately \$500k in land sales during the budget cycle, which is very conservative.
- Expenses are primarily estimated staff time related to this division and other cost that is not allowed to be capitalized. Expect increased cost for marketing and selling vista field properties.



Non Operating Division

Revenue & Expenses

This division includes various items that don't affect Port operations. This can include items such as: Election costs, third party audit expenses, marketing expenses, and membership dues.



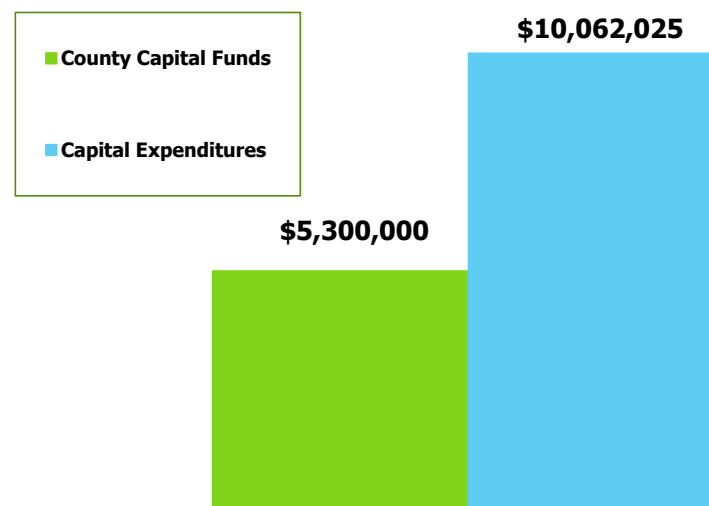
- Expenses tied to a contract, or membership dues such as TRIDEC, WPPA, Visit Tri Cities, etc.
- Expenses include estimated staff time related to this division. Increased budget for 2023 election and SAO two year audit.
- Property tax revenues are budgeted at \$9.5 million.



Economic Development Division


Revenue & Expenses

This division supports all of the Port's capital assets to be planned or constructed.



- Revenues include RCCF for Vista Field Hangars and Infrastructure. The expenses are balanced out in capital budget for each of those line items.
- Details of capital expenditures are on the next slide (except staff cost allocated to this division).

Capital Projects



CAPITAL EXPENSES	TOTAL 23/24
Vista Field Hangers	\$ 3,300,000
Vista Field Infrastructure	\$ 1,325,000
Vista Field Misc	\$ 350,000
Vista Field Parking	\$ 500,000
Vista Field Satellite Shop	\$ 500,000
1135 Shoreline	\$ 500,000
Clover Island	\$ 500,000
Columbia Drive	\$ 450,000
VFDF A Rehab	\$ 500,000
Art Project	\$ 100,000
City of Richland	\$ 300,000
Asset Replacement	\$ 500,000
Opportunity Fund	\$ 125,000
Misc. Capital	\$ 100,000
Staff Cost for Capital	\$ 1,012,025
TOTAL	\$ 10,062,025

*Totals include estimated staff time

2023/24 Preliminary Budget

Total Revenues	\$ 17,703,661
Total Expenses (less capital and promotional hosting)	\$ 12,903,089
<i>Profit (Loss)</i>	<i>\$ 4,800,571</i>
Capital Expenses	\$ 10,062,025
Promotional Hosting Expenses	\$ 24,125
Beginning Cash on Hand	\$ 9,755,248
Reserve Fund	\$ 2,500,000
Unrestricted Fund Balance	\$ 1,969,670
<i>Ending Cash on Hand</i>	<i>\$ 4,469,670</i>

Thank You

Nick Kooiker, CFO/Auditor
509-586-1186
nick@portofkennewick.org

