

FRIDAY HARBOR PORT DISTRICT
Port Commission Special Meeting at
221 Weber Way – Skagit Valley College Community Room
April 4, 2018

Minutes

Port Commissioners Present: Barbara Marrett
Greg Hertel
Graham Black

Port Staff Present: Todd Nicholson, Executive Director
Phyllis Johnson, Auditor
Tami Hayes, Harbormaster
Stuart Hansen, Airport Manager
Shane Krause, Executive Assistant

Public Present: Michael Roff, Marine Services Group
KJ Roff, Marine Services Group
Ed Ferro, Friday Harbor Marine
Gary Westby, Friday Harbor Marine
Dennis Foote, Marine Services Group
Steve (illegible)
Mike Ahrenius, Jensen & Sons Shipyard
Dale Balmer
Don Nixon
Paul Hart
Ed Hale

(RCW 42.30.040, A member of the public shall not be required, as a condition to attendance at a meeting of a governing body, to register his or her name and other information, to complete a questionnaire, or otherwise to fulfill any condition precedent to his or her attendance. Therefore, any individual present including speaking who has not stated their name for the record or signed in shall not be listed on the minutes.)

Commissioner Hertel brought the meeting to order at 4:00 pm, explaining the purpose of the Special meeting being to hear presentations from two prospective operators. He asked Jim Hooper, representing the Citizen’s Advisory Committee, if the Committee had input from their discussion on the proposals to which Jim Hooper responded that the Committee had decided to not discuss the proposals.

1. **Citizen comments/requests:** None
2. **The Port Commission will hear presentations from two prospective Lessees on operating the Jensen and Sons Shipyard.**

The Executive Director gave details on the timeline of a Request For Proposals, work performed in the investigation of the prospective purchase of the Jensen and Sons Shipyard, and explained the importance of having an operator in place immediately upon purchase of the facility. The

Staff and Commissioners discussed the stormwater permit and treatment of wash water at the facility.

Commissioner Hertel called Friday Harbor Marine (FHM) forward to present their proposal, represented by Mike and Jan Close. Mike Close asked for additional details on the stormwater permit. He shared details of their proposal to move FHM's operations down to the Shipyard, to include many new services not currently offered and including areas of the property not subject to the Request For Proposals. He noted challenges including limited skill sets present on the island and a need to bring employees in from the mainland. He shared a staffing plan for the transition from their old site to the Shipyard, noting a need for additional staff to run the travelift. Commissioner Marrett expressed concern about enough revenue being present to support the list of additional services being proposed. Mike Close responded that the provided list is services they currently provide. Commissioner Hertel asked if FHM's current staffing includes experience running a boatyard on the water with lift activity, to which Mike Close responded that they did not have that combination but noted having experience with running a boatyard both on the water and in a shop, and a current staff member with experience running a lift at a railroad yard. Commissioner Marrett asked if FHM had an existing "mainline" to skilled workers to which Mike Close responded that they do not, noting that they are hard to find. He shared that they have outgrown their existing shop and remain busy through the winter season. Commissioner Black asked how many boats they expect to have space for in a proposed new building, which Mike Close stated they are looking at a 60x60 and 60x80 building size and that it depends on the boats as to how many can fit within. Commissioner Marrett asked what FHM sees as its biggest challenge and if they have talked to the current owners about their biggest challenge. Mike Close stated that he had not spoken with the owners, but noted challenges of finding additional employees and converting the operation to a year-round business. Jan Close stated that the yacht brokerage builds business for the other proposed services. Commissioner Black asked if FHM is anticipating that the lease include slips in the marina, to which Mike Close responded that they will need some for the lift and for emergency repair customers. Commissioner Marrett asked if they are currently doing brokerage services, which Mike Close confirmed. Commissioner Black asked for more information on an "arts and crafts" service listed in the proposal, which Mike Close explained as part of proposed development of the area outside of the current boatyard.

Commissioner Hertel called Marine Services Group (MSG) forward to present their proposal, represented by Michael Roff (CEO) and KJ Roff (President). Michael Roff shared details of their current operations and experience with the associated stormwater permit, as well as stormwater prevention and accident prevention plans already in place. He noted their knowledge of the processes involved and the importance of adhering to the guidelines within. He explained a recent modification from the Department of Ecology to the stormwater permit and how it affects owner maintenance activities in a boatyard. He gave details on how they approach outside trades workers doing business in their yard, their current staffing and yard capacity for boats. KJ Roff spoke towards how they use a hydraulic trailer to maximize use of the space. Commissioner Marrett asked if the existing marine railway at the property would be useful, which Michael Roff confirmed that it may be. Michael Roff shared details of their current staff skill set, and noted that they would bring existing staff over as needed until they have dedicated local staff trained and in place. KJ Roff explained that they send their staff out for paid training and certification as needed. Commissioner Hertel asked how MSG would utilize the existing facilities, which Michael Roff explained that the State will dictate some of the use and

that a covered building for working on boats would be beneficial. He shared details of the yard they currently operate and how stormwater and wash-down water is captured and treated with zero discharge as compared to existing facilities at Jensens and some associated concerns. The Executive Director noted there are options for the Port to make improvements to the existing treatment facilities. Michael Roff and the Commissioners discussed use of the existing buildings. KJ Roff shared details of their existing business, including how they currently share customers with many other businesses including at Friday Harbor. He noted the decline in number of boatyards across the State and resulting displacement of boat owners looking for services. Commissioner Hertel noted many boat owners travelling from Friday Harbor to Anacortes, which Michael Roff confirmed that they would be able to capture their business keeping it in Friday Harbor. Commissioner Marrett asked how many people MSG expects to employ, to which KJ Roff noted having already hired current San Juan Island resident Dennis Foote as a General Manager in preparations for operating the facility. They plan to retain the existing staff and expect to require additional employees. They stated that they will staff according to the volume of business, and to achieve their planned capacity. They will rotate existing employees in to cover immediate needs while sourcing local talent to hire and train, including internships from Skagit Valley College's Marine Trades School. Michael Roff explained arrangements already made with the owners of Jensen's in acquiring the name to retain it for familiarity. Commissioner Hertel noted the intent to retain the name for historical purposes. KJ Roff explained MSG's business model being to own, operate, and manage their individual businesses as independent businesses while centralizing purchasing, accounting, and distributing management costs across them. He explained that they understand the history of Jensen's and challenges of an island community, and stated that they are confident they will be able to sustain and increase revenue up to the constraints of the available space within 3 years. Commissioner Marrett asked what MSG sees as its biggest challenge and if they have talked to the current owners about their biggest challenge. Michael Roff responded stating that they have spent a lot of time with Mike Ahrenius, and approached him when they became aware of the opportunity of operating the facility who directed them to contact the Executive Director. Michael Roff noted the challenges at Jensen's are different than what they experience in their existing yard, explaining that they are very different but that they do see some of the types of work commonly experienced at Jensen's. KJ Roff noted the tidal influences of the Travelift operations, explaining that they will need to be creative to meet customer's timelines and that they will be able to adopt the existing approach used by Jensen's. Commissioner Marrett asked if MSG would object to a competing business operating in the currently undeveloped space, which Michael Roff responded that they would focus on their business and it would not be a concern to them. The Executive Director shared that whoever is operating the Travelift would be subject to a lift neutrality clause as a condition of their lease. Michael Roff shared that they already work under that model without a problem.

Commissioner Hertel called for a 5 minute recess at 5:24 pm

Commissioner Hertel called the meeting back to order at 5:29pm

Action Items

A. Discuss merits and approve a Lessee for the Jensen and Sons Boatyard

Commissioner Hertel explained how the discussion will be approached, to include brief public input as well as input from the current operator of the Shipyard. The Commissioners discussed the candidates' proposals, agreeing that both are strong. Commissioner Marrett noted that MSG would be able to begin immediately, and proposed a scenario of both candidates operating with MSG running the existing Shipyard and FHM operating in the currently undeveloped space. Commissioner Hertel explained the importance of experience with Shipyard operations and associated stormwater permits, with a focus on risk management to avoid interruptions to services. He noted FHM's proposal was broad and expressed interest in some of the aspects taking place, but shared that he preferred MSG due to their existing experience. Commissioner Black asked why Commissioner Hertel feels that MSG is ready to take over operations versus FHM. Commissioner Hertel explained that MSG is successfully working in a much tighter facility, and learned from their Lessors that they have a good relationship with MSG as a tenant. Commissioner Black asked for contrast between MSG and FHM, which Commissioner Hertel noted the size of the boats being the main aspect due to limits of FHM getting the boats to their current location. He noted an appreciation for the operator having backup from other facilities, and MSG's plans to recruit locally. Commissioner Hertel spoke towards FHM's broader proposal noting that it considered the potential future of the undeveloped area but explained that it is subject to the Master Plan and not up to the operator to plan in advance.

Commissioner Hertel opened up the discussion to public comments.

Mike Close expressed concern about Commissioner Hertel taking time to travel to MSG's operation but not FHM's. He spoke towards letters of support and FHM's existing services, stating that they do not refer work off-island and keep all of their revenue on-island. He expressed concern about MSG's projected revenue and staffing plan. He stated that the stormwater prevention plan is a "red herring", noting that his manager has run a "much bigger one than that".

Paul Hart shared personal experiences with both businesses, supporting FHM.

Commissioner Hertel asked Mike Ahrenius, owner and operator of Jensen & Sons Shipyard, to give his input. Mike Ahrenius explained that a partnership to the mainland is required to operate, noting that Jensen's developed connections to multiple Shipyards where they obtained help with projects. He expressed a preference for a facility with such a connection, the experience and ideas that come from the mainland, adding that MSG's ongoing education of their employees was interesting. He stated that San Juan Island is in a large part the mainland, and as a boatyard operator his preference is for an operator that has resources and can take over immediately. He believes that MSG has the integrity and value to enable a higher level of success and support the boatyard.

Ed Hale shared a personal experience as a customer with MSG and supported their proposal.

Jim Hooper, Chair of the Citizen's Advisory Committee but speaking as an individual, spoke towards and gave appreciation for the process and feedback on the operators. He noted not seeing details from MSG on undertaking construction of buildings in their proposal, and posed the question of how MSG would approach administration of Jensen's whether it be on-island or off-island.

The Executive Director shared details of the amount of time invested by Port Staff with MSG to establish a smooth transition due to them being the only operator coming forward until recently. He compared proposed lease rate structures and infrastructure improvements, noting that FHM would pay for their improvements and MSG would pay a higher rate after the Port makes improvements, and that both operators would be open to other businesses being present in the undeveloped area. He stated that he and Staff support MSG as the operator working cooperatively with the current owners to transition operations. He expressed a desire for FHM to work together with the Port to achieve many aspects of their proposal in the undeveloped area.

Commissioner Hertel asked the Commissioners if they will make a decision on the proposals. Commissioner Black asked the Executive Director for a comparison on proposed lease rates, which he provided. The Executive also explained the approach to infrastructure improvements as they relate to the rates stating that they are essentially the same. Commissioner Black asked about the concern raised about staffing for administration and impact to sales tax revenue, which the Executive Director explained that sales tax from sales would not be impacted. Commissioner Marrett explained that admin support off-island means those wages won't stay on-island, but it enables the business to run more efficiently. The Executive Director recommended focusing on what makes sense and has the lowest risk for the Port, which can then work on other activities to grow tax revenues. Commissioner Black asked for clarification on why MSG is more prepared to step in and take over, which Commissioner Hertel explained that they are currently running a Shipyard successfully. The Executive Director noted that it is hard to predict who will be more successful, but if the Commission want the stormwater permit to not be under the Port and the historic name to be retained a clean transition will be critical, and that the Port has been working with MSG for over 5 months to the point of almost having a Memorandum of Understanding in place. He shared belief that both candidates would be successful, but that MSG is ready to go with substantial time and effort already invested and that he cannot recommend a different course without a dramatic anticipation of a different outcome. Commissioner Marrett agreed that avoiding a gap in business at the yard and revenue would be beneficial. Commissioner Hertel asked for a motion.

Commissioner Black moved to direct staff to continue Memorandum of Understanding negotiations with MSG. Commissioner Marrett seconded, noting the possibility of complimentary business between FHM and MSG. Mike Close declined interest. The motion carried unanimously.

Citizen comments/requests: None

Commissioner Hertel adjourned the Special meeting at 5:46 pm.



Barbara Marrett, Commissioner



Greg Hertel, Commissioner



Graham Black, Commissioner