



Finance & Asset Management Committee Meeting Minutes

Tuesday, June 20th, 2018

4:00 p.m. to 6:00 p.m.

Classroom

Committee Members Present: Ray Ishii, Gloria Skouge, David Ghoddousi, Paul Neal, Devin McComb, Patrice Barrentine

Other Council Members Present: Betty Halfon entered the meeting at 5:40 pm

Staff/ Consultants Present: Mary Bacarella, John Turnbull, Jay Schalow, Matthew Holland, Tristan Dyer, Kelsey Lindblom, Brady Morrison, Karin Moughamer

Others Present: Joan Paulson, Joe Read, Nick Setten

The meeting was called to order at 4:04 pm by Ray Ishii, Chair.

I. Administration

A. Approval of the Agenda

The agenda was approved by acclamation.

B. Approval of the Finance & Asset Management Committee April 17th, 2018 Minutes

The April 17th, 2018 meeting minutes were approved by acclamation.

II. Announcements and Community Comments

Joan Paulson noted on the draft audit report that the PDA has a deficit of \$608 in 2017 even though the PDA was dealing with a \$500,000 deficit in July 2017, that's after staffing layoffs and delaying and deferring payments. Joan is concerned with paying staff at a level that will keep staff. She does not believe the PDA is competitive in salaries. Joan continued by noting it's taken two years of her comments to get the PDA to approve terrorism insurance. Joan discussed resolution 18-23, the contract for the demolition of the Pike Hillclimb skybridge and referenced her previous comments that the PDA does not own the skybridge and it is halfway outside the historical district and the ownership is cloudy. She feels moving forward on this puts the PDA in a legal cloud and undermines the Charter. She does not recommend approval of resolution 18-23. Last, Joan handed out a diagram included in the tour guide handbook and noted the portion she highlighted in purple is not part of the historical district yet is marked as so on the diagram. She would like to see this corrected and she would like to hear a legal opinion on the removal of the skybridge.

III. Reports & Discussion Items

A. 2017 PDA Audit

Ray Holmdahl from Peterson Sullivan began the presentation with an overview of their relevant experience noting similar experience at state organizations and other large Seattle businesses.

Ray continued with a summary of deliverables prepared by his firm, including an unmodified opinion, which is a “clean” opinion, of the PDA financial statement audit. There are two changes discussed in the report. The first is a change in accounting principle, GASB 80 which results in QB2 and QB3 being blended into PDA financials rather than presented as discrete components. LaSalle and WASH remain discrete components. There is also information on the subsequent unwind of PPMBQ2 (March 2018.) LaSalle, WASH, QB2 and QB3 also received a clean opinion (those were issued earlier in 2018.)

With regards to the Single (Federal Compliance) Audit, it is an unmodified opinion on compliance and no findings or questioned costs. There is no Management Letter with no material weaknesses identified. They also conducted Tax Return Preparation for LaSalle LLC, WASH LLC, PPMQB2 (in process, due November 15, 2018) and PPMQB3 (in process, due November 15, 2018). Lastly, there were certain filings with the Department of Housing and Urban Development (for the PDA, Market House, and Livingston Baker), which is due September 30.

Ray Holmdahl continued by stating some required communications on their responsibility under generally accepted auditing standards which is to provide an opinion. They have to talk to the PDA about significant accounting policies (and the quality of those policies), which they had no issues with. The auditors have to tell the PDA the review contains judgements and estimates. They made one small audit adjustment to roll forward net positions from the previous audit for \$3,063. There were no passed adjustments or disagreements or difficulties in the audit process. They did not feel anything hurt their independence in the process. Lastly, there are a couple steps left to complete the audit, including board approval, signed representation letter from management, and final quality control process (including updating subsequent events.)

Matt Smith from Peterson Sullivan reviewed several discussion topics, starting with follow-up from the 2016 internal control suggestions which mentioned the development of written procedures surrounding reporting requirements as they relate to compliance and accounting for complex transactions. Matt noted that the PPMQB2 unwind in 2018 will present unique complexities. The 2017 audit does include QB2 and QB3 blended rather than as discrete units. The auditors like to go outside the financial statements and walk around the Market to correlate the numbers and try to visit tenants. Matt noted that in 2020 the lease accounting standards will change for QB2, WASH, QB3, LaSalle. Those leases will be pulled onto the balance sheet. Lessee and lessor impact for GASB/PDA, and only lessee impact for all other entities under ASU 2016-02. This results in a significant impact on the balance sheet of the PDA, however, no significant impact to revenues and expenses.

Ray Holmdahl added that in 2020 if the PDA has a 5 year lease with someone, all five years’ worth of lease payments will be recorded as a receivable on the books and then there will be a deferred revenue on books as a liability. It doesn’t change the bottom line but will gross up the balance sheet.

Matt Smith continued by reviewing the last five years of audit statements summarized. The PDA has grown substantially over the last five years but the net position hasn’t changed over the last year. Ray noted capital assets have changed over the last five years.

Matt Smith noted on the Comparative Statements of Net Position (assets) the Working Capital for 2017 should be a deficit of \$520,000.

Matt Smith directed the committee to page 9, Comparative Statements of Activities, and discussed the increased operating loss as a result of blending QB2 and QB3 into the financial statements. However, that amount is balanced by the grant revenue of QB2 and QB3. He stressed the performance is much stronger than the balance statements lead you to believe due to the blending of QB2 and QB3. Ray noted the Change in Net Position has been positive over the last five years.

David Ghoddousi asked for them to reiterate the cash flows from operations resulting in negative \$608,000. Matt Smith responded that is the cash flow required to operate the market net of the cost to run those operations. Those operate at a deficit, however, it does not include the operations of the components. Matt directed the Committee to page 11 in the Draft Audit which outlines the net cash flows from operating activities.

Ray Ishii asked if the QB2 was pulled out of the 2016 and 2015 numbers. Matt and Ray responded yes. Ray asked if there is a reason why that was done. Matt responded that in 2016 WASH made a huge advance payment of rent somewhere around \$10M.

Matt Smith reviewed the Financial Statement of non-profits, which applies to QB3 only. This is a new accounting standard update that was passed in August 2016 and there are six main provisions outlined on the PowerPoint slide.

Ray Holmdahl discussed managing cybersecurity risks, recommending the PDA develop a formal cybersecurity program.

Ray concluded by thanking the PDA and the finance department for all their hard work.

- i. Proposed Resolution **18-21**: Approval of 2017 PDA Audited Financial Statements
Ray Ishii introduced proposed resolution **18-21** which states:

BE IT RESOLVED that the PDA Council hereby approves the 2017 PDA financial statements, audited by Peterson Sullivan LLP, Certified Public Accountants, covering the period beginning January 1, 2017 through December 31, 2017.

Paul Neal moved the proposed resolution and Patrice Barrentine seconded the motion.

Ray Ishii asked if there was any specific systems the auditors dove into a little more deeply. Ray Holmdahl responded they will do a walkthrough of each key system. Matt noted that over the course of the single audit roughly 40-60 different types of transactions. Every single significant line item on the financial statements they review the transactions. They worry when supporting documents can't be identified quickly and PDA staff never hesitate to find what is needed.

Ray Ishii asked if any of the subsystems are tested, for instance the parking machines. Matt Smith responded they look at deposits and reports from those systems but he

doesn't physically go out to the parking garage. Jay Schalow noted the auditors will interview different staff members independently of the finance department.

Ray Ishii asked if they have any recommendations on cybersecurity for the Market. Matt Smith responded they don't evaluate risk of being breached as part of the audit. Jay added the Market is under PCI compliance which does scans of the system externally and includes the garage. The parking machines do not collect data from the cards.

For: Devin McComb, Paul Neal, Ray Ishii, Gloria Skouge, Patrice Barrentine, and David Ghoddousi

Against: 0

Abstain: 0

Proposed Resolution **18-21** passed by a vote of 6-0-0.

B. Review of the PDA Financial Statements for May 2018

Jay Schalow reviewed the financial statements for May noting there are no big changes on the balance sheets. Total revenue for the end of May 31, 2018 is over budget by \$576,205 (8%) and total operating expenses is under budget by \$628,750 (10.2%). Net result after debt service and reserves is \$1,204,951 over budget and the PDA is up to date on all debt payments.

Jay reviewed the Operating Statement footnotes, highlighting that commercial revenue is over budget by \$177,325 with Percent Rent is \$30k over budget. Residential revenue is over budget by nearly \$40,000 as vacancy is less than budgeted. Surface revenue is over budget by \$7,804 while garage revenue is over budget by \$212,279 and for January – May is \$375k (40%) higher than the same period last year. Mary Bacarella added that parking revenue for June 1-18 is \$192,000 (2017 it was \$152,000).

Jay continued noting almost all operating expense categories are under budget due to several vacancies in staffing, spending less in utilities, and of course due to trending.

Paul Neal asked if that is why expenses for programs and marketing are under budget by 17%. Mary Bacarella responded that is due to trending and it will be spent over the summer.

Jay Schalow noted percent rent is \$30K over budget YTD and \$100K higher than the actual of the same period last year. The CRRF is \$11.6M for the end of April 30, 2018.

Mary Bacarella noted the MarketFront closeout list of projects is mostly complete.

Ray Ishii asked if the parking tickets pulled increased the same as revenue. Mary Bacarella responded in June 16,000 tickets were pulled compared to 12,000 in June 2017.

Ray Ishii would like to know if some of the expenditures that are below budget, such as maintenance, will pick up over the year or what the reasoning may be for that. Jay Schalow responded maintenance expenses will start to pick up as more staff are hired to do the work. Ray asked if staffing has been an issue. Mary Bacarella responded it has been difficult to find employees that work well for the Market and it's been especially difficult in facilities, maintenance, and security.

C. Checking Account Activity Report

Jay Schalow handed the Checking Account Activity Report to Karin Moughamer.

IV. Action Items

A. Proposed Resolution **18-22**: Insurance Coverage for Terrorism and Sabotage

Mary Bacarella introduced proposed resolution 18-22 which states:

WHEREAS, the PDA is responsible for obtaining insurance coverage for its Pike Place Market properties, and for the properties managed by the PDA in the Market Historic District, such as LaSalle Senior Housing LLC, LaSalle Condominium Association, MarketFront Condominium Association, Western Avenue Senior Housing LLC, Western Avenue Manager LLC, PPM QB2 and PPM QB3; and,

WHEREAS, the PDA Finance and Asset Management Committee has been presented and approved under Resolution 18-14 the renewal package for the 2018-2019 property and liability insurance coverage for both the Pike Place Market PDA, and the properties managed by the PDA in the Market Historic District; and,

WHEREAS, the PDA is acquiring additional coverage for Terrorism and Sabotage.

NOW, THEREFORE BE IT RESOLVED, that the PDA Council hereby authorizes the PDA Executive Director, or her designee, to approve policy terms and conditions of the coverage for Terrorism and Sabotage for an annual amount not to exceed \$33,811. The details of the coverage are shown below:

For Property

Limit: USD 202,486,687 any one **occurrence** and in the aggregate for **damage** and **financial loss** combined

Premium: USD 25,311 (100% annual)

For Liability

Sub-Limit: USD 10,000,000 any one **occurrence** and in the aggregate for **damage** and **financial loss** combined

Premium: USD 8,500 (100% annual)

BE IT FURTHER RESOLVED that the PDA Council hereby authorizes the continuation of the brokerage representation and services provided by Arthur J. Gallagher Risk Management Services, Inc.

David Ghoddousi moved the proposed resolution and Patrice Barrentine seconded the motion.

Devin McComb is in support of the resolution given the information provided but asks for the PDA to think of ways to evaluate if this is the right choice and to include a line item in the

budget annually to cover this. This could include talking to other companies or organizations about their choices.

For: Devin McComb, David Ghoddousi, Paul Neal, Ray Ishii, Patrice Barrentine and Gloria Skouge
Against: 0
Abstain: 0

Proposed Resolution **18-22** passed by a vote of 6-0-0.

B. Proposed Resolution 18-23: Authorization for Contract Authority – Demolition and Removal of Pike Hillclimb Skybridge

Mary Bacarella introduced proposed resolution **18-23** which states:

WHEREAS, the Pike Place Market Preservation and Development Authority (PPMPDA) was chartered by the City of Seattle pursuant to RCW 35.21.730 et. Seq with the mission of promoting enterprises essential to the functioning of the Pike Place Market, including the preservation and expansion of the low-income residential community, the promotion and survival of small businesses , and the expansion of services to the public market and community; and,

WHEREAS, in order to maintain the viability of the Pike Place Market and the PPMPDA has undertaken an effort to identify and address issues and opportunities related to the design of the Central Waterfront and the development of parcels adjacent to the Market including construction of the MarketFront and improvements to the Western Avenue streetscape that may directly affect the future of the Market, and;

WHEREAS, the PPMPDA made significant improvements to the Pike Hillclimb during levy funded major renovation in 2009 and 2010 including adding new stops for the Leland Elevator and constructing new stairs leading up to the Market from Western Avenue, and;

WHEREAS, the levy funded improvements significantly diminished the usefulness of the skybridge for access to the market and the elevator on the west side of the skybridge has been closed for 4 years, and;

WHEREAS, On August 23, 2016 the PPMPDA and Seattle Department of Transportation (SDOT) Directors signed a Letter of Commitment agreeing to allow up to \$300,000 in pending Street Use permit fees associated with the MarketFront project and the Pike Hillclimb skybridge removal to be applied toward the total cost of removing the Pike Hillclimb Skybridge; and,

WHEREAS, On June 29, 2017 the PPMPDA Council approved **Resolution 17-28** for the PDA to enter into a Memorandum of Agreement with SDOT for the removal of the Pike Hillclimb Skybridge; and,

WHEREAS, On August 10, 2017 PPMPDA and SDOT entered into a Memorandum of Agreement for Pike Hillclimb Skybridge Removal whereby the PPMPDA shall remove all skybridge elements from the right-of-way, including columns on the east side of Western Avenue, but not the elevator and abutting stairwell on the west side of Western Avenue; install railings to secure the elevated portions that remain on private property to the east and the elevator landing to the

west; and restore all right-of-way associated with the skybridge removal to SDOT standards; and,

WHEREAS, the PPMPDA has conducted the appropriate public bid process to remove the Pike Hillclimb Skybridge.

NOW, THEREFORE, BE IT RESOLVED that the PPMPDA Council authorizes the PPMPDA Executive Director or her designee to enter into a contract with the sole bidder **Rhine Demolition** in an amount not to exceed **\$497,681.60** for the purpose of **removing the Pike Hillclimb Skybridge**. This amount includes Washington State Sales Tax and a 4.2% contingency.

The funds for this project will be drawn from the **Capital Projects PDA GL 163777-00**.

BE IT FURTHER RESOLVED THAT that the PPMPDA Council authorizes the PPMPDA Executive Director or her designee to proceed with the City permit process which will include additional fees, the amount of which will be determined once the project is underway.

Mary Bacarella also added there is money in the budget to cover this and there will be additional fees including permits and railings and possibly the city waiving some permit fees.

David Ghoddousi asked if the amount was less last year. Mary responded \$350,000 was the amount approved but she does not believe anyone had done a lot of research on the exact costs.

Patrice Barrentine moved the proposed resolution and Paul Neal seconded the motion.

David Ghoddousi asked for clarification on the response from PDA attorneys on whether the PDA can spend money outside the historic district. Mary Bacarella responded asked if that question was asked last year when the resolution was passed but she will ask counsel.

Patrice Barrentine asked if \$300,000 is already in the budget and this resolution represents the difference. John Turnbull responded there is \$300,000 in unspent funds from MarketFront construction set aside for street permits. If the PDA does not take down the skybridge that money is owed to the City. There is \$50,000 in a reserve fund set up a long time ago taking money from accounts related to the management of surface parking lots that was originally for upkeep of the skybridge. \$300,000 is the maximum amount the city can defer in street use fees and it has nothing to do with the actual cost of tearing down the skybridge.

Ray Ishii asked why only one bid was solicited. Mary Bacarella responded an advertisement was posted in the Daily Journal of Commerce and five different companies were called, but only one responded, Rhine, which is also tearing down the viaduct.

Ray Ishii clarified that the \$497,000 does not include permit fees. Mary Bacarella responded permit fees are not known. Once this contract is approved the PDA can work with Rhine Construction and the city to determine those fees and see if the city will waive any permit fees.

Devin McComb recalls the vote last year was close and asked if this resolution is passed, should it be put on the Consent Agenda or go to full Council for further discussion.

Ray Ishii asked if there are costs other than the permit fees that are unknown. Mary Bacarella responded there will be a cost for railings and we don't anticipate any other costs.

Ray Ishii asked the Committee if they feel comfortable voting on the resolution and then the Committee can decide on whether to put it on the Consent Agenda. Ray also remembers this bid is only for 60 days. Mary responded the bid is for 90 days but they are hoping to have the contract signed by the end of June when the bid expires.

For: Devin McComb, Paul Neal, Ray Ishii, Patrice Barrentine, and Gloria Skouge

Against: David Ghoddousi

Abstain: 0

Proposed Resolution **18-23** passed by a vote of 5-1-0.

V. Property Management

A. Residential Property Management Report

John Turnbull began by stating residential is doing very well and vacancies are trending down and units are being turned over faster. He has not heard anything about bed bugs for 60 days and he will consider reducing that contract. Together with the maintenance department there have been some big improvements in some buildings with apartments that are 30 years old. Maintenance just finished upgrading a two bedroom townhouse in Sanitary Market with the tenant moving in just hours after it was finished. Apartments in the Pine Building are also being upgraded as well as some upgrades in the LaSalle. John has had some meetings with residents at WASH and hoping to have the outdoor plaza up and running this summer.

Ray Ishii noticed the vacancy rate is roughly half of what it was last year and asked why that is. John Turnbull responded there were a collection of units that were left in bad condition upon move-out and needed additional maintenance work. There was some high vacancy in Stewart House, possibly due to the manager not providing enough attention to the tenants. In spring of last year WASH opened and when you open a new building there is a lot of trouble shooting so maintenance staff had focused their attention to fixing those problems at the cost of not getting other units turned over quite as fast.

VI. Public Comment

None.

VII. Closed Session

The Committee Chair stated that the committee would go into closed session at 5:08 p.m. to discuss the property management report and return into open session at approximately 5:28 p.m.

The committee entered into closed session at 5:09 p.m.

A. Property Management Report - *Closed Session (RCW 42.30.110(c))*

B. Review of Lease Proposals

i. Lease Renewal – Pike Place Chowder Co., 1530 Post Alley #11

- C. Review of Delinquency Report
 - i. Vacancy Report
 - ii. Current Lease Negotiations

The committee entered into open session at 6:03 p.m.

The committee discussed the property management report which included the delinquency and vacancy report along with the current commercial lease negotiations during the closed session.

VIII. Open Session

Proposed Resolution **18-24**: Lease Proposals – June 2018

<u>Tenant</u>	<u>Term</u>	<u>Start Date</u>
Pike Place Chowder Pike Place Chowder Co. Larry Mellum	Five (5) Years	July 1, 2018

David Ghoddousi moved the proposed resolution and Devin McComb seconded the motion.

For: Devin McComb, David Ghoddousi, Paul Neal, and Ray Ishii

Against: 0

Abstain: Patrice Barrentine, Gloria Skouge

Proposed Resolution **18-24** passed by a vote of 4-0-2.

IX. Resolutions to be added to the Consent Agenda

- Proposed Resolution **18-21**: Approval of 2017 PDA Audited Financial Statements
- Proposed Resolution **18-22**: Insurance Coverage for Terrorism and Sabotage
- Proposed Resolution **18-23**: Authorization for Contract Authority – Demolition and Removal of Pike Hillclimb Skybridge

X. Concerns of Committee Members

None.

XI. Adjournment

The meeting was adjourned at 6:05 p.m. by Ray Ishii, Chair

Meeting minutes submitted by:
Karin Moughamer, Executive Administrator