

Port Office Consolidation

A 2018 Citizens Advisory Committee Project Report

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Background

The Port currently leases several types of commercial real estate from third parties in several locations here in Thurston County, at a cost approaching \$300,000 per year.

The POCAC was asked to look into how the Port utilizes its leased spaces, and to investigate and make suggestions about how the Port might use those resources most efficiently, while still providing sufficient space to accommodate the Port's changing real estate needs over time.

The impetus for this assignment was the discovery of environmental issues affecting the Marina office. Approximately \$400,000 was allocated in the 2018 budget for remediation of these issues, though a "short term fix" was implemented. Although the immediate pressing need was addressed, it prompted a closer look into Port real estate needs and obligations, and whether some advantage could be realized through consolidation of certain facilities.

Current Situation

Administrative Offices:

The Port currently leases just over 12,000RSF (rentable square feet) of Class B+ office space at Percival Plaza, a multi-tenant office building in downtown Olympia. This facility is leased through June 30, 2020 at a rate which, during the final year of the agreement will equate to \$22.38/sf on a Modified Gross basis inclusive of property taxes, building insurance, and proportionate operating expenses. This is in the higher range for comparable space elsewhere in the County, but for space in this particular location, with close proximity to the Marine Terminal and the Swantown Marina, it is very much in line with market rates.

Maintenance Space:

Additionally, the Port leases at least one additional "warehouse" type space at 700 Marine Dr, at an annual cost of approximately \$40,000. This space is largely used as storage.

Other Considerations

Changing Real Estate Needs:

Over the last few years, the Port's real estate needs have seen substantial changes as staffing levels have adjusted. The Port's workforce will continue to expand and contract, but staffing decisions are much more immediate and flexible than real estate contracts. It is difficult to suggest options for real estate needs, including the relative advantages & disadvantages of leasing vs. owning, without a stronger sense of the Port's long term direction.

Other Real Estate Holdings:

The Port of Olympia is a significant landowner in Thurston County, with more than 2,000 acres of land and numerous buildings either leased to third parties, or awaiting re-purposing. It is possible that some value (and flexibility) could be realized by the Port better utilizing its own commercial real estate.

Financing:

As a public entity, the Port of Olympia has the ability to obtain financing through the issuance of bonds. However, the capacity for taking out additional bonds (and servicing that debt) is limited, and decisions must be made about the highest and best use for any additional bonding capacity. It is the POCAC's understanding that there are numerous projects that would require that additional bonding capacity, and the Commissioners and staff face some difficult decisions in allocating those funds appropriately and effectively.

Sea Level Rise:

It is generally expected that sea levels will continue to rise in the future. The Port of Olympia is on the front lines of that issue, and any decisions made with respect to the Port's real estate needs and holdings will need to take that issue into consideration.

General Findings/Recommendations

Overall Direction

Before the Port can make an informed, responsible decision about consolidating its leased real estate, and before the POCAC can really be of any use in providing feedback from the citizens' perspective, decisions about the future direction of the Port need to be made.

Lease vs Own

One of the most significant decisions facing the Port as far as real estate is concerned is the question of leasing vs ownership of its facilities. If the Port expects to be around for another 100+ years, and we at

the POCAC have no reason to doubt that it would, then owning its own building (either through building or buying) is the wiser choice by a large margin. The real difficulty is deciding when the time is right to buy or build. With other important projects competing for limited financial resources, with construction costs at record highs as they are today, it is probably in the Port's best interest to continue leasing for the next several years – perhaps with an eye on building/buying during the next eventual downturn in the real estate market when prices and construction costs finally dip down.

Our Best Advice

At this time, there are too many variables at play (see “Other Considerations” above) for the POCAC to provide any real meaningful input into the decision of whether or not to consolidate the Port's offices. However, we would welcome the opportunity to participate in this important conversation at a time when the number of viable options been narrowed down. In the meantime, it is our strong recommendation that Port staff begin negotiations for a renewal of its current Lease agreement at Percival Plaza as soon as possible. By entering into negotiations for a renewal now, even a short term renewal, the Port will achieve the best possible outcome – a deferral of this important decision until it is in a better position from which to evaluate all of its potential solutions.