



To The Citizens of Kitsap County and other Interested Parties:

On August 11, 2009, I recommended to the Port of Bremerton's Board of Commissioners that it not go forward with the proposed Kitsap SEED incubator building. The board accepted that recommendation by a 2-1 vote.

As you know, this has been a very difficult issue for the Port and our community. I want to share with you here my analysis and recommendations so you can know the reasons I believe a change of course is necessary.

I continue to believe the Port should pursue the underlying goals of the SEED project, and the board has authorized us to pursue a new path forward that is within the Port's fiscal capabilities. In the months ahead, we want to work with all those interested in creating clean technology jobs in our region to develop a new approach.

We welcome public involvement as we move forward. If you would like to comment on this decision, you can email your remarks to guest@portofbremerton.org.

Sincerely,

Cary Bozeman
CEO, Port of Bremerton



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CEO Recommendation

SEED Project

August 11, 2009

Submitted by:
Cary Bozeman, CEO

CEO'S RECOMMENDATIONS ON KITSAP SEED PROJECT

Five years ago, the Port of Bremerton embarked on an ambitious undertaking: The development of a sustainable energy business campus aimed at making Kitsap a pioneer in clean-technology development and job creation.

Kitsap SEED, as the project has come to be known, was conceived with worthy goals and good intentions. We as leaders of the port must remain committed to its underlying goals of building a better future by encouraging clean-tech jobs and responsible environmental stewardship.

But since the Kitsap SEED concept was first introduced, many things have changed. Efforts to bring the project to fruition have encountered obstacles, delays, a changing economic climate and deterioration in the overall financial condition of the Port. The project's potential for success has diminished. The Port itself has undermined its efforts by actions that have damaged its bond of trust with taxpayers.

All of which brings us to the point today where I believe that Kitsap SEED, as a bricks-and-mortar building project funded by local tax dollars, should not go forward. Here are the primary reasons:

- 1) The Port cannot afford to finance the Phase One incubator building, much less subsequent construction phases, without putting its existing operations and overall financial stability at risk.
- 2) The Port does not hold sufficient public trust from the community to continue with a project that carries significant financial risk for its taxpayers.
- 3) The project lacks the level of support it needs – from the Port's Board of Commissioners or the community – to move forward now, or in the foreseeable future.
- 4) The "opportunity cost" of continuing to try to make the project work as initially conceived diminishes the Port's ability to pursue more achievable job creation initiatives while still promoting clean technology and sustainability.

Let's look at each of these factors:

FINANCIAL ABILITY:

As the Port's Chief Financial Officer reported six weeks ago, financial shortfalls in other areas of Port operations combined with expenses related to the SEED project have dangerously depleted the Port's cash reserves:

- Our inability to lease at market rate a 25,500-square-foot building in Olympic View Business Park is costing the Port \$270,000 a year.
- Lease-out of the Bremerton Marina has fallen significantly behind schedule and is now projected to fall \$220,000 short of its budgeted goal for this year.
- The projected cost of the SEED incubator building, in its original concept, exceeds the amount available through identifiable funding sources. For this reason, efforts have been made to reduce the overall cost. But this has required additional spending on design and engineering work, further diminishing the Port's financial reserves.

The redesign and re-engineering work has produced a concept for a lower-cost building that could be constructed for \$5.16 million. The Port has been awarded a grant from the federal Economic Development Administration for half that amount. The grant requires an equal amount in matching funds from the Port, which it could provide through general obligations bonds.

But I do not believe it would be fiscally responsible to do this for several reasons:

- The estimated debt service of \$217,500 a year on the bonds to support the match would put even more pressure on the Port's operating budget and cash reserves.
- The incubator building would be built with no guarantee that we can attract enough tenants and sufficient tenant revenue to offset the debt service. This is a risk we cannot afford to take at a time when we already experiencing difficulty leasing our empty building in Olympic View.

THE PORT'S PUBLIC TRUST DEFICIT:

The public's trust in the port is damaged. I have made restoring that trust an urgent priority.

Proceeding with the SEED building project in the face of the Port's current financial condition is not the way to regain the public's confidence.

We all know the reasons for the public's distrust. The Port's passage of a tax to build the Bremerton Marina without engaging the public was a mistake, and we are now living with the consequences. The fact that we are behind schedule in leasing out the marina, requiring additional tax dollars to meet its operating costs, only makes matters worse.

We owe it to the taxpayers now to make the marina self-sufficient, and we will. But until we do, we cannot compound the problem by putting more taxpayer funds at risk, as building the SEED incubator facility would do.

LACK OF POLITICAL AND COMMUNITY SUPPORT:

Berk & Associates, an independent consultant hired to review the SEED business plan last year, concluded that the project should be viewed as an entrepreneurial effort. “There are real risks and challenges to be overcome and without a clear and unanimous commitment to the project, we recommend it not be undertaken.”

It is clear the project does not have the unanimous commitment of the Port’s current Board of Commissioners, and that is not likely to change in the foreseeable future. While the project does have some significant support in the community, it has not achieved the widespread backing it needs to go forward.

OPPORTUNITY COST:

For the past five years, the SEED project has consumed financial resources and staff energy beyond that of any other Port initiative. It was conceived as a project of community pride and commitment, but has instead become a source of divisiveness. It has distracted from other opportunities and diminished the Port’s ability to focus on success in its core operations.

We cannot continue down this path.

Our mission is to use public tax dollars wisely to create good jobs and a better future for our region. We can show leadership in encouraging clean technology and environmental sustainability without building new buildings we can’t afford. But to do so, we must first put our financial house in order, work to restore the public trust and end the political battling over SEED.

THE PATH FORWARD:

While I believe it is necessary to put SEED aside as a building project, we can and should pursue its goals of acting as a catalyst for job creation in clean technology. And to be credible in attracting clean-tech and environmentally-responsible companies, we need to demonstrate a commitment to sustainability practices in our own operations.

Our efforts moving forward, therefore, should be two-pronged:

- 1) The SEED concept has always involved more than constructing buildings, and we need to shift our focus now to the elements that do not require a building project funded by local taxpayers. Our anticipated \$250,000 federal appropriation for the program costs of SEED provides the opportunity to explore other ways to achieve its goals.

The non-profit corporation created to advise the SEED project has begun working on alternative approaches. We should carefully consider its ideas and also engage others interested in clean-tech job creation in the region to devise a strategy that is feasible and cost-effective.

The Kitsap Economic Development Alliance, the county's Clean Tech Working Group, the Clean Technology Trade Alliance and others could bring additional assets to such an effort. Our relationships with Olympic College and Washington State University could provide important education and research linkages.

A well-conceived initiative scaled within our capabilities and conducted in partnership with others could provide technical support and other incubation services for start-ups, encourage education and workforce development initiatives, and help recruit companies to the county that are a good match for our market.

The Port brings valuable assets to attracting such companies: We have undeveloped industrial-zoned property with easy access to airport, rail and highway transportation. This includes the site prepared for the SEED buildings and our unleased building in Olympic View, which is LEED-registered and can likely be upgraded to LEED certification with little new expense.

It is important that we continue to target and encourage clean-tech businesses to locate on our property. With existing and anticipated grant funding for program costs, we have the opportunity to demonstrate success without putting taxpayer funds in jeopardy or negatively affecting the Port's ability to adequately fund its other operations.

- 2) If we are to be a leader in encouraging clean technology job creation, we must begin with good environmental stewardship at home.

We have asked the directors of each of our operating divisions to explore opportunities for improving sustainability practices in our current businesses. We will look comprehensively at our practices related to energy efficiency, maintenance operations, supplies and waste streams.

To the extent that any new sustainability measures require additional expense, it is all the more important that we restore the Port's finances to a condition that would allow us to do the things we need to do in this area.

IN CONCLUSION:

It is difficult for an organization to go through the experience of dedicating five years to an ambitious project and not achieve the results initially conceived. Many partners in the community have worked hard to try to help make this effort successful, for which we as leaders of the Port are grateful. Opponents of the project have raised important questions and concerns that deserved to be heard, and that is how it should be.

Public involvement plays a critical role in our democratic way of life, and as messy as it can be sometimes, positive outcomes can be achieved only by respecting and encouraging that involvement.

I believe it is time for the Port of Bremerton to chart a new course toward achieving positive outcomes in all aspects of our operations. And I am confident that with continued public involvement along the way, we can find a new path to success in creating good jobs and building a stronger community.

I ask today that you accept the recommendations I have made in this report, and help the Port and the community begin taking positive steps down that path.

Cary Bozeman
CEO, Port of Bremerton