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Karen Goschen

April 22, 2017

Mr. Brian Alvis  
Economic Development Administration  
Jackson Federal Building  
915 Second Ave., Room 1890  
Seattle, WA 98174

**Re: EDA Award No. 07 01 07214**

**Review and approval of draft leases for Composite Recycling Technology Center and Peninsula College**

Dear Mr. Alvis:

Enclosed with this letter are two draft leases for which the Port of Port Angeles (the “**Port**”) seeks Economic Development Administration (“**EDA**”) approval as a special condition of the above referenced EDA Award.

An earlier version of the lease for the Composite Recycling Technology Center (“**CRTC**”) was previously submitted for EDA review and comment. EDA provided written comments regarding the CRTC lease to the Port via an August 19, 2016 email from Katherine Chekouras, EDA regional counsel. In the email, Ms. Chekouras requested changes and/or additions to the CRTC lease to ensure compliance with EDA policies.<sup>1</sup> The enclosed lease drafts have been revised to incorporate the changes/additions requested by Ms. Chekouras. Specifically:

- The non-discrimination clause is found at Section 7.1 of both leases.
- Language requiring EDA approval for assignments has been added to Section 7.10 of both leases.
- Language permitting EDA to inspect the premises has been added to Section 7.19 of both leases.
- Language requiring a three year record retention period and that records be made available to EDA has been added as Section 4.8 of both leases.

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<sup>1</sup> Ms. Chekouras’ email also noted that the lease for Peninsula College (“**PC**”) was not reviewed because it was not yet submitted. The PC lease is similar in many respects to the CRTC lease, and is likewise enclosed for EDA review and consideration.



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Ms. Chekouras' email also provides comments regarding abatement features within the CRTC lease and general comments regarding EDA scrutiny of waiver of rent. Because abatement and waiver of rent are features present in the enclosed proposed leases, it is incumbent on the Port to provide additional information and detail regarding each lease to allow EDA to gauge the merits of the proposed abatement and rent waiver.

**CRTC Lease.** The Port and CRTC have negotiated the initial monthly lease rate for the CRTC lease to be \$8,985.60. Ms. Chekouras requested a letter prepared by a local real estate broker detailing whether the rental amount can be considered fair market rent. The Port retained local commercial appraiser Halberg & Associates ("**Halberg**") to complete a market rent analysis for the premises leased by CRTC. Halberg completed the analysis in December 2016, and established a market rate of \$9,620.00 per month (based on \$.40/square foot for industrial space and \$.80 per square foot for office space). The difference between the negotiated monthly rate with CRTC and that established by Halberg is \$634.40 less, or seven percent (7%). In a March 28, 2017 addendum to the market rent appraisal, Halberg clarified that due to the lack of similar local properties for comparison; the established market rate is subject to a range of plus or minus twenty percent (20%). The negotiated lease rate with CRTC is therefore within the reasonable range of fair market rent.

To the extent EDA continues to have concerns that the negotiated lease rate is lower than fair market value, Ms. Chekouras requested a statement about additional value/consideration this lease brings the Port. As an initial matter, please review the "Recitals" section of the draft lease (pages 1 – 2) in which the Port and CRTC developed general statements regarding (i) the Port's commitment to economic development within Clallam County; (ii) the Port's identification of composites recycling as a viable economic development opportunity for Clallam County; and (iii) how CRTC's operations in the composites recycling industry will substantially further the Port's goals in this area. While these realities do not allow for objective valuation, CRTC's importance and contribution to the Port's economic development mission for Clallam County should not be understated.

In addition, when gauging the established monthly lease rate, it is important to be mindful that the Port negotiated this lease rate based on the rates it charged a current tenant in one of its newest manufacturing buildings and the rate was negotiated in early 2015 as part of the CRTC's business and funding plan. Because of the economically stagnant conditions in Clallam County, the Port had no reason to believe rates increased from its most recent negotiated lease rate for similar space nor did the Port have the



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final design for the building to know the features and mix of industrial and office space. It is likewise important to consider that as a new non-profit corporation, CRTC relied on this negotiated rate when developing its short and long term budgets.

The CRTC lease includes a rent abatement feature whereby lease payments are to be abated for the first two years of the lease, with all abatement amounts to be paid to the Port in equal monthly installments for the eight years remaining on the initial term of the lease (in addition to ongoing lease obligations). Note, if CRTC defaults on its obligations to pay rent (and abated rent) under the lease, all abated amounts become immediately due and payable (*see* Section 3.3). Ms. Chekouras' email indicated abatement of market rent is acceptable.

**PC Lease.** In its lease negotiations with PC, the Port has determined it would be appropriate to abate rent payments for the first two years of the lease. Starting in year 3, the rent would be abated at a rate 80%, then 70% for year 4, and 60% in year 5. There is an option to renew the lease for an additional five years, and rent for each of those years would be abated at a rate of 50%.

Ms. Chekouras' email indicated "there is a presumption that a rent waiver (particularly for an extended period of time) is not fair market value and as such the request would be highly scrutinized." In anticipation of this scrutiny, the Port provides the following details supporting the decision to allow a two year rent waiver period under this lease.

PC is an open-access, comprehensive community college located in Port Angeles, Washington. As a government entity, it operates on a strict and finite budget cycle which does not allow for much flexibility or unanticipated spending. PC serves a vital and unique role in Clallam County as a primary source for vocational and employment training for workers within the County.

At the root of the consideration surrounding the formation of CRTC was the prospect of developing an on-site training program through PC which would provide necessary training to allow those students the skills necessary to be employed by CRTC (and other composite recycling companies) in the future. The Port recognized that allowing PC to develop an on-site training program at CRTC's location would be pivotal to the success of its economic initiative mandated by developing a sustained composites recycling industry in Clallam County. The Port also recognized that such a training program may prove vital to CRTC's sustained economic viability. The Port's conclusions were reached, in part, based on the following considerations:

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- Development and implementation of a PC Composites Technology program is an important part of CRTC's integrated approach to establishing and growing a recycled composites industry. Having a highly skilled and trained workforce to work on this pioneering technology is essential for its growth and success and the sustainability of the industry in Clallam County.
- The co-location of the PC program within the CRTC building allows for the development of specific skills relevant to recycling of scrap aerospace grade carbon fiber to be made available to students. CRTC staff provides teaching on specific leading-edge equipment and recycled materials processing techniques in their production facilities that would be difficult or impossible if the classes were located in an off-site facility.
- The rapid growth anticipated with CRTC means that finding workers with the right skills would be difficult. Working with PC faculty to tailor the content of their curriculum to CRTC's needs ensures that a pool of qualified candidates is available to safeguard adequate staffing for new production as CRTC introduces new products and processes.
- The PC program is foundational to the success of CRTC and being located in the same space allows easy transfer of knowledge and experience to the faculty and students.
- CRTC provides access to state-of-the art production equipment for teaching purposes and CRTC gains access to expertise and experience of faculty.
- CRTC works with PC to design student projects and uses them to explain the freedom of product design possible with composites and to promote innovative applications of composite recycling.

As the Port and CRTC worked to develop plans for the improvement of the leased premises, it was apparent that CRTC would not require use of the entire premises during the first several years. With "extra" space within the building, and with an eye toward attracting PC to this available space to locate its composites-based training, the Port developed the PC portion of the building using a "build it and they will come" strategy. The PC portion of the building is twenty-three percent (23%) of the total leased space.

Because of the identified value in having PC's program co-located at the CRTC building, the Port developed a plan for enticing PC to move from its then-current location to the new space. The primary challenge in doing so was economic – PC was not paying rent at its then-current location and PC didn't have the budget flexibility to



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add rent to its operating cost. The Port recognized that PC would unlikely agree to incur the costs in developing the new composites training program and the costs of relocating to the new space if it also had to pay rent for the space. Simply put, PC is on a strict government-regulated budget and it would not be able to immediately afford development and moving costs and rent. In considering the development of a new composites program, PC determined it would need enrollment at full capacity to allow it to eventually pay for the leased space – something that would require time as well.

To allow PC the time necessary to build a sustainable training program, to relocate to the new space, and to develop additional funding sources (if necessary), the Port and PC negotiated a lease which included a rent abatement plan as outlined above. Under the proposed lease, rent would be abated and, if PC remains compliant under the terms and conditions of the lease, the rent would then be waived. If PC did not remain compliant under the lease, the abated rent would become immediately due and payable.

The fair market monthly lease rate for PC's portion of the CRTC building is \$2,925. The total abated/waived rent for the term of the lease is as follows:

- Year 1: \$35,100 (100% abatement)
- Year 2: \$35,100 (100% abatement)
- Year 3: \$28,080 (80% abatement)
- Year 4: \$24,570 (70% abatement)
- Year 5: \$21,060 (60% abatement)
- Years 6-10: \$17,550 each year (50% abatement)

**TOTAL: \$231,660**

If the Port paid PC to develop a customized certificate training program in order to train the workforce to support the Port's economic initiative of creating a new carbon fiber recycling industry, the costs of developing the training program would likely exceed the amount of abated rent. In preparation for preparing this correspondence, PC was contacted to ascertain its costs in developing the training program. PC has determined that the costs to conceptualize the necessary components of the program, obtain all necessary program approvals from regulators, hire faculty, and develop curricula for the specialized composite certificate and programs to support CRTC totals at least **\$250,000**. In addition, PC provided in-kind telecomm design services for much of the CRTC building valued at approximately **\$100,000**.





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While it is possible to determine an approximate “cost” to develop the specialized program and services provided by PC, developing a tangible assessment of the overall “value” the Port will receive from the PC lease is difficult because there are no objective measurements for that value. However, it should suffice to say that the value vastly exceeds the rent related revenues the Port would realize from this lease if market rent was being paid without reduction.

In light of the unique and irreplaceable benefits PC’s tenancy at the CRTC building will have for the Port’s economic development mission in Clallam County, the Port respectfully requests EDA to approve the enclosed draft lease, which includes a two-year rent waiver period.

Please let me know if there is any additional information I can provide to assist with your review and consideration of the CRTC and PC leases.

Best Regards,

Karen F. Goschen  
Executive Director  
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kareng@portofpa.com

Enclosures

CRTC proposed lease  
Peninsula College proposed lease