



**Meeting of the Finance & Audit Committee**  
**Tuesday August 11, 2015**  
**4:00-5:25p.m.**  
 Quarters 2 Building, Beacon Hill Campus  
 1200 12<sup>th</sup> Ave South Seattle, WA

MEMBERS PRESENT		NOT PRESENT	ALSO PRESENT
Nate Dreon	Rhonda Berry	Tony McLean	Jeff Natter
Bob Cook	Paul Feldman (by phone)		Christina Bernard
Doris Koo (at 4:51)			Rikka Dayao

Nate Dreon called the meeting to order at 4:03 p.m. A quorum was present. There was no public comment.

**Minutes**

The July 14, 2015 Finance & Audit Committee meeting minutes were approved (Moved/2<sup>nded</sup> by Cook/Berry. 4 of 4 in favor).

**Financial Stewardship**

*Investment Update*

The Committee reviewed the PHPDA's current investments and year-to-date interest income.

*June 2015 Financials*

The Finance Committee reviewed and accepted the June 2015 financial statements (Moved/2<sup>nded</sup> by Cook/Berry. 4 of 4 in favor).

*Q2 Financial Report*

The Finance & Grants Manager advised that the Quarter 2 Financial Statements were identical to the June 2015 Financials, with narrative focused on year-to-date rather than monthly activities. The Committee reviewed and accepted the Quarter 2 Financial Report (Moved/2<sup>nded</sup> by Berry/Cook. 4 of 4 in favor).

*Exploration of Program-Related Investments*

The Executive Director and the Finance & Grants Manager reported on their August 5 meeting with Doris Koo, Bob Cook, and Paul Feldman regarding possible Program-Related Investments/Loaning options for the PHPDA. The sub-committee is working on ideas that will allow the PHPDA to do more with their funds that will further their mission besides grantmaking. PHPDA staff will continue to work on drafting a program-related loaning proposal for the Committee to review.

**Property Management**

*Report on Q1 2015 Tower Operating Expenses*

The Finance & Grants Manager presented the report for Quarter 1 2015 Tower Operating Expenses. The Committee requested further clarification on why certain expenses were lower/higher than expected. The Finance & Grants Manager will pass on their questions to the Property Manager.

*Updated Tower Operating Budget*

The Committee reviewed an updated Tower Operating Budget from the Property Manager. The primary change from the original Tower budget accepted in December is that the Seattle College programs will not be moving in until 2016. The Finance & Grants Manager noted that if this revision is accepted, she will begin monthly billings based on this budget and will issue credits for the payments made at the higher budget level earlier in the year. The credits will be applied to outstanding invoices



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and future monthly operating invoices. Additionally, while the Tower budget is part of the overall PHPDA operating budget, that overall budget will not be updated since these are just pass-through costs. Tower operating expenses and reimbursement will, therefore, be underbudget on the overall PHPDA financial statements. The Finance Committee recommend to Governing Council to accept the updated 2015 Tower Operating Budget (Moved/2<sup>nd</sup>ed by Cook/Berry. 4 of 4 in favor).

*Proposed Grant Opportunity with Department of Commerce*

The Executive Director advised the Committee of a grant opportunity for the Department of Commerce from 4Culture that will help Commerce pay for portion of the restoration of the windows in the Pacific Tower. Since the grant requires the owner of the property to apply, the PHPDA would be the only applicant for this opportunity. The Executive Director has met with consultants working on the project to explore options for how the PHPDA could assign or pass-through the grant reporting requirements and payments directly to Commerce. He will request from the Governing Council approval of his continued exploration of options.

**Grant Management**

*Preliminary Report on Unexpended Grant Funds*

The Finance & Grants Manager advised the Committee of the amount of unexpended grant funds from a few of the grantees. The Committee will get final reports of the grantees at next month's meeting and unexpended funds are due by mid-September. The Executive Director commented that even with some grantees not utilizing the full amount of granted funds, the performance of work from the grantees is still high.

**Operating Policies**

*Update Policy 04-2010 Emergency Executive Succession Plan*

The Finance & Grants Manager discussed the current Emergency Executive Succession Plan and the process the PHPDA would go through in case the plan needed to be implemented. After going through the list of files that are included in the plan, the staff requested to edit that list of files to more current and relevant documents. The Finance Committee forwarded to the Governing Council for approval to update Policy 04-2010 Emergency Executive Succession Plan (Moved/2<sup>nd</sup>ed by Berry/Feldman. 4 of 4 in favor).

**PHPDA Reserve Funds**

The Finance Committee has discussed placing additional funds in the Pacific Tower and Property Reserve fund for the past several months. The PHPDA staff recommends the addition of \$5,000,000 to the Pacific Tower and Property Reserve Fund in 2015 (a change in the net asset transfer in the 2015 Operating Budget). The following considerations influenced the staff recommendation:

- 1) The PHPDA received advice about a restoration reserve from Century Pacific (real estate advisors) in 2013 after the Commerce lease was signed. At that time, they recommended a reserve of approximately \$38 million by the end of the lease term in order to restore the Tower and allow time for re-tenanting. They provided several scenarios to reach this reserve level. While PHPDA staff are not necessarily advocating for the need to reach \$38 million, it is clear that \$5 million (in addition to the \$1,124,156 already in reserves) puts us closer to the level of total reserves proposed.



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2) PHPDA staff met with City of Seattle Facilities staff. While the City does not have a policy on reserve fund for buildings (rather, they have an ongoing operating and maintenance schedule), the Asset Planning Manager agreed that \$5 million at minimum would be a reasonable start for such a reserve.

3) The PHPDA Governing Council authorized the Executive Director to sign a Nondisturbance and Attornment Agreement in January. While it is unlikely that the Department of Commerce will default on their lease, if they do so in the next eight years, the PHPDA will receive effectively no lease income for the space currently leased to Commerce and will be responsible for Tower operating expenses until the end of the eight year term of the agreement. Reserving the \$5 million would put the PHPDA in a better situation should a default occur.

4) The PacMed lease, which currently represents approximately 25% of PHPDA's lease income, is slated to expire in 2021. If PacMed does not renew and there is a gap in which this space is empty, having the additional \$5 million in reserves will allow for continuity of PHPDA program spending and potentially repairs and improvements to the Quarters buildings that may be necessary for leasing.

Additionally, the PHPDA's Property Manager projected maintenance needs for the Tower at approximately \$11 million over the next 20 years. While much of this would be pass-through, the PHPDA must be prepared to pay for many of the projects upfront before being reimbursed.

The Treasurer requested to see a projection of the PHPDA's budget (administrative, grantmaking, income, etc.) for the next 5-10 years to assess future transfers to the reserve fund. The Finance Committee recommended that the Governing Council approve the change to the budgeted Net Assets and to transfer, \$5 million to the Pacific Tower and Property Reserve Fund in 2015 (Moved/2<sup>nd</sup>ed by Cook/Berry. 5 of 5 in favor).

**Adjournment**

The meeting was adjourned at 5:20 p.m.

Minutes approved: \_\_\_\_\_

\_\_\_\_\_  
(Date)