

Klickitat County Port District No. 1  
**RESOLUTION NO. 8-2015**

A Resolution of the Port of Klickitat Commission  
**Establishing a Leasehold Improvement Reserve**

**WHEREAS**, the Port Commission has stated its preference that all leases executed by the Port include a provision requiring, or permitting the Port to require, the lessee to remove, repair, or restore any leasehold improvements at the expiration or termination of the lease; and

**WHEREAS**, the Port Commission acknowledges that under special circumstances the Port may reasonably elect to execute a lease without such a provision; and

**WHEREAS**, an aging leasehold improvement will require repair, restoration, demising, or demolition to make it suitable for re-leasing or re-development; and

**WHEREAS**, the Port Commission seeks to protect the future financial condition of the Port by insuring the Port has, at the expiration or termination of any lease absent such a provision, reasonably sufficient monies available to effect the required repairs, restoration, demising, or demolition;

**NOW, THEREFORE, BE IT RESOLVED** that the Port Commission does hereby establish a Leasehold Improvement Reserve account to which monies shall be apportioned for future use in repairing, restoring, demising, or demolishing any leasehold improvement constructed by a lessee not obligated to remove, repair, or restore said improvement at the conclusion or termination of its lease, pursuant to the provisions set forth below:

1. Port staff shall establish an estimated future demolition cost by:
  - a. Obtaining a current estimated cost for the demolition of the leasehold improvement from no less than two (2) contractors with each contractor having a minimum of three (3) years applicable demolition experience;
  - b. Calculating the average of the estimates obtained;
  - c. Calculating the average annual increase in the Consumer Price Index (CPI) for the lesser of the previous twenty-five (25) years or the number of years for which such information is available (see [www.bls.gov/cpi](http://www.bls.gov/cpi)); and
  - d. Calculating the future value of the average estimated demolition cost using a period equal to the remaining years of the lease term, including any extension options, and the average annual change in the CPI.
  
2. Port staff shall establish a schedule of annual apportionments to the Leasehold Improvement Reserve by:
  - a. Calculating the average interest rate of the Local Government Investment Pool (LGIP) for the lesser of the previous twenty-five (25) years or the number of years for which such information is available (see [www.tre.wa.gov/lgip](http://www.tre.wa.gov/lgip));
  - b. Calculating the projected annual lease revenue in each remaining year of the lease term, including any extension options, using the contractual lease amount and applying either a fixed escalation percentage (if the same is set forth in the lease agreement) or the average annual increase in the Consumer Price Index as described above;
  - c. Identifying the percentage where the sum of the future values of that same percentage of the projected annual lease revenue for each year, based on the average LGIP interest rate identified above over the remaining lease term plus any extension options, totals an amount at the end of the lease term, and any extension options, equal to, or marginally greater than, the future value of the estimated demolition cost; and
  - d. Applying the percentage identified above to the projected annual lease revenue for each remaining year of the lease term, including any extension options.

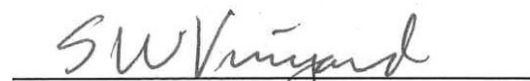
3. Port staff shall apportion to the Leasehold Improvement Reserve, at the conclusion of each fiscal year during the remaining lease term and any executed extension option, the amount set forth in the schedule established above and any interest on the balance of the Reserve earned during the fiscal year
4. Monies apportioned to the Leasehold Improvement Reserve shall be recorded by Port staff in a general ledger account appearing as a Current Asset on the Port's balance sheet.
5. A subsequent Port Commission may, by motion or resolution, utilize monies apportioned to the Leasehold Improvement Reserve, provided that said motion or resolution shall include a schedule of additional monthly or annual apportionments sufficient to fully restore the Reserve. The amount restored shall be equal to that which would have otherwise been held had the monies not been so utilized, including any interest that would have been earned had the amount used been placed in a long-term investment typically employed to hold other Port monies.
6. The annual budget for the Port shall include the amount to be apportioned to the Leasehold Improvement Reserve during the next fiscal year for all leasehold improvements subject to this policy and all interest on the balance of the Reserve projected to be earned in the next fiscal year.
7. No less than once in each fiscal year, or upon the request of the Port Commission, Port staff shall report to the Commission the balance of the amounts apportioned to the Leasehold Improvement Reserve for each leasehold improvement subject to this policy and the total amount then apportioned to said Reserve.
8. Except as set forth above, the monies apportioned to the Leasehold Improvement Reserve shall not be used for any purpose other than to repair, restore, demise, or demolish the leasehold improvements subject to this policy contemporaneous with, or subsequent to, the expiration or termination of their respective lease agreements.
9. Any unused monies apportioned to the Leasehold Improvement Reserve for a leasehold improvement subject to this policy may be reapportioned from said reserve and utilized in any manner after the Port has:
  - a. Repaired, restored, and/or demised the leasehold improvement and leased no less than fifty percent (50%) of the total space thus improved; or
  - b. Completed demolition of the leasehold improvement(s) and restoration of the area thereunder to a state suitable for use by a new lessee.

**ADOPTED IN OPEN SESSION** this 8th day of December, 2015.


ATTEST:

  
 Margie Ziegler, Port Auditor

**PORT OF KLICKITAT COMMISSION**

  
 Wayne Vinyard, President

  
 Bill Schmitt, Vice-President

  
 Jim Herman, Secretary

PORT SEAL