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November 22, 2004

Washington Utilities &
Transportation Commission
P.O. Box 47250
Olympia, WA 98504

Attn: Carol Washburn

Dear Mrs Washburn,

Please insert enclosed articles from the Port Townsend Leader issue of November 17, 2004 into Docket # TC-041340, Pennco Transportation.

I do not understand how Mr. Harris is financially able to operate Pennco Transportation's existing authority, much less any additions to his authority.

Sincerely,



Richard E. Ashe
President

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STATE OF WASH.
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MARKETPLACE

Section
Wednesday
November 17, 2004

Bank results
C 2

Business Spotlight
see C 2

Boat school names Wells
see C 2

Classifieds C 3-9
Legals C 9-11

number
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Debt clouds businessman's waterfront restoration plans

By Barney Burke
Leader Staff Writer

By the end of 2004, software entrepreneur Kevin Harris plans to complete the purchase of the Waterman & Katz Building (W&K) and resume renovation of the historic Cannery Building at the foot of Quincy Street in downtown Port Townsend.

There are buyers and back-up buyers for the residential condominiums on the second floor of the Cannery, said Richard Hild, an associate broker at John L. Scott Associates. Hild is handling the sale of the condos as well as the sale of W&K, currently owned by Ballenas Corp. of Victoria, B.C.

It's unclear just when the condominiums will be ready for occupancy, however. Much of the building renovation remains undone, street utility work has not begun, and local contractor Little & Little Construction left the job site in August 2004. The contractor has filed a lien for non-payment in the amount of \$145,023.

Little & Little is not Harris' only creditor. Public records on file in Jefferson County and elsewhere show that Harris may owe more than \$450,000 in liens and judgments. Those creditors include Microsoft, the Washington departments

"I'm working through the challenges."

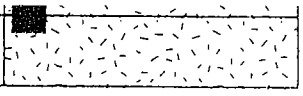
Kevin Harris
business owner

multiple business ventures. "I'm working through the challenges."

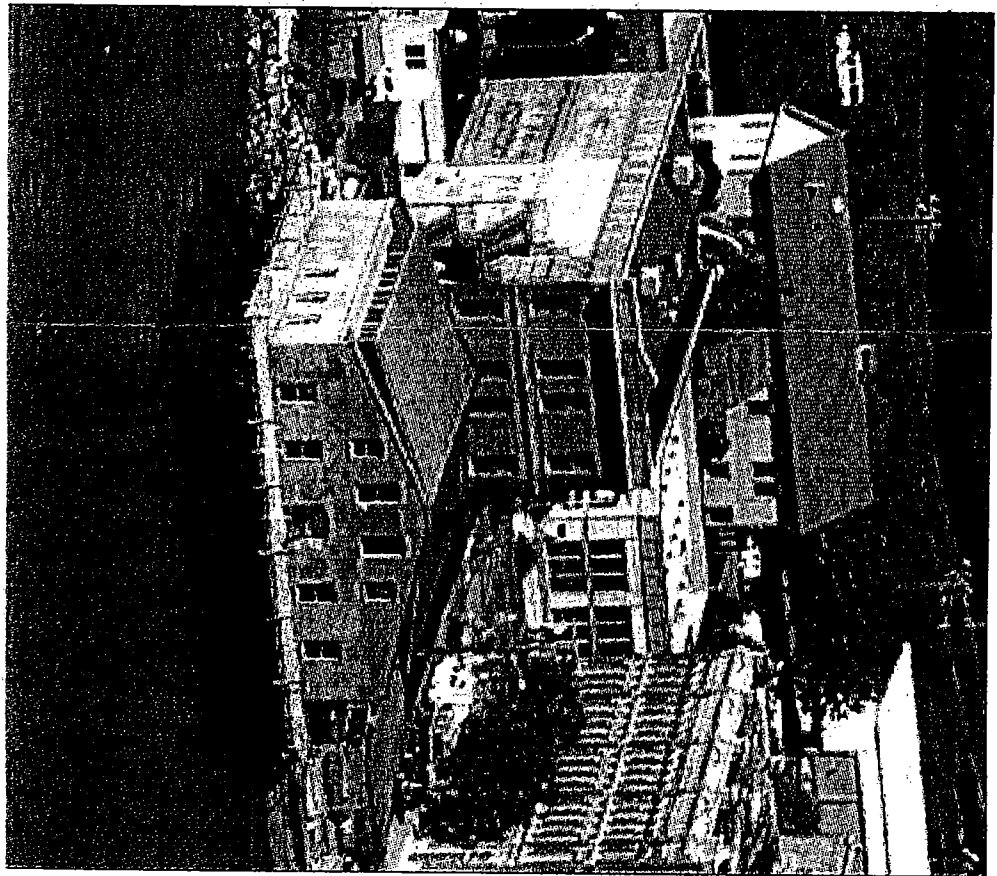
Like Harris, Hild is enthusiastic about the market for the waterfront condos, even though two are just 950 square feet, two are about 700 square feet and none have onsite parking. He confirmed that there are buyers and back-up buyers waiting for the project to be completed.

The asking rent for the 4,200 square feet on the ground floor is \$1.95 per foot (not including maintenance, insurance and other "triple net" expenses), said Hild. In addition to the value of its waterfront location, Hild noted that the building has been reinforced per seismic requirements.

As to concerns about liens and debts clouding the property, Hild said buyers are protected because, as a normal course of business, all encumbrances



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Security, and the Internal Revenue Service (see related story on this page). In addition, the property taxes on the Cannery for 2003 and 2004 are delinquent.

Harris optimistic

Originally, Harris planned to put his software company, Real Solutions/MACROsystems, in the second floor he added to the circa 1880s building that for many years housed a clam cannery. But after having difficulty finding retail or restaurant tenants for the ground floor, he decided to create four residential condominiums on the second floor and put his company on the ground floor until a retail or restaurant tenant is secured.

Harris' new plan has been approved by city officials as well as the Washington Department of Ecology. He still needs to apply for a "binding site plan" from the city, but that's considered a routine administrative matter, said planner Jon McDonough.

"I think real estate in downtown Port Townsend is going to continue to appreciate strongly," said Harris, who said that all four residences, priced at \$395,000, have buyers and back-up buyers.

As to his debts potentially affecting his ability to complete the Cannery, Harris said, "That is a totally separate company." The entity that owns the Cannery is Quincy Street at the Waterfront LLC.

"I have taken on a couple of projects," said Harris this week of his mul-

ated. "You couldn't give title unless it's paid," he said. He also noted that the project was delayed while permits were obtained to use the second floor for residential rather than commercial uses.

"He's an excellent businessman,"

Although a lot of structural work on the Cannery Building has been completed, the exterior deck and most of the interior improvements are still not finished. Owner Kevin Harris plans to create residential condominiums on the second floor of the Cannery and expects to execute a contract to purchase the adjacent Waterman & Katz Building, whose major tenant is the City of Port Townsend, by year's end.

Photo by Patrick J. Sullivan



Kevin Harris stands in front of the historic Cannery Building at the foot of Quincy Street in downtown Port Townsend in 2002, when he bought the building. Two years later, the renovation is not complete, but Harris expects to resume construction soon despite a number of financial claims against him and one of his companies, Real Solutions/MACROsystems. File photo by Barney Burke

Claims stack up against Harris' businesses

A public records check by The Leader in November 2004 revealed a number of claims against Port Townsend business owner Kevin Harris and two of his companies, Real Solutions/MACROsystems and Pennco Transportation.

Although the numbers here are based on public documents, they do not neces-

that Harris has satisfied at least \$25,000 in other claims.

Records show:

- Contractor Little & Little Construction, which was renovating the waterfront Cannery Building for Harris, filed a lien in August 2004 for \$145,023.
- The Washington Department of

• The Washington Employment Security Department has filed two claims totaling more than \$17,000 against Harris and others. Harris told the Leader he is making payments on those claims.

- The Internal Revenue Service (IRS) has filed two tax liens totaling more than \$20,000 for unpaid income taxes.

Hild said of Harris, "I don't know of anything that he's fallen down on."

Waterman & Katz

Hild said that to his knowledge, the Cannery and the purchase of W&K are separate, stand-alone projects.

W&K, renovated several years ago following a controversial decision by the City of Port Townsend to rent office space there, has been for sale for several years at a price of \$1.8 million.

The city is now the major tenant, having taken over all of the space previously leased by Peninsula College, which moved its campus to Fort Worden State Park in September. The sidewalk-level tenant is Ancestral Spirits Gallery.

According to City Manager David Timmons, the city is paying about \$12,000 for 4,000 square feet of additional space for a year. The space is being used to deal with records currently housed in City Hall and to replace meeting rooms that are no longer available because of planned renovations to the landmark building, he said. Also, part of that space is being allotted to Kathleen Purdy, who runs the WSU Small Business Development Center, See CANNERY, Page C 11

Transportation in January 2004; that lien has been released.

- Microsoft sued Real Solutions/MACROsystems in June 2004 for non-payment of invoices. Harris responded that the case should be dismissed because Microsoft did not deliver the service he paid for on its MSN website.



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A public records check by The Leader in November 2004 revealed a number of claims against Port Townsend business owner Kevin Harris and two of his companies, Real Solutions/MACROsystems and Pencco Transportation.

Although the numbers here are based on public documents, they do not necessarily reflect the current status of a particular claim.

Altogether, it appears that Harris and his wife and/or Real Solutions/MACROsystems may owe \$450,000 in liens and judgments. Public records also show

that Harris has satisfied at least \$25,000 in other claims.

Records show:

- Contractor Little & Little Construction, which was renovating the waterfront Cannery Building for Harris, filed a lien in August 2004 for \$145,023.
- The Washington Department of Labor and Industries has filed at least five actions against Harris and/or his wife and Real Solutions/MACROsystems for more than \$5,000 since 2002. At least two of those claims have been satisfied, records show.

• The Washington Employment Security Department has filed two claims totaling more than \$17,000 against Harris and others. Harris told The Leader he is making payments on those claims.

• The Internal Revenue Service (IRS) has filed two tax liens totaling more than \$200,000 for unpaid income taxes from 2000, 2001 and 2002 against Harris and his wife. Harris said he is negotiating with the IRS over a deduction that was disallowed for those years. A third IRS lien in the amount of \$25,627 was filed against Pencco

Transportation in January 2004; that lien has been released.

• Microsoft sued Real Solutions/MACROsystems in June 2004 for non-payment of invoices. Harris responded that the case should be dismissed because Microsoft did not deliver the service he paid for on its MSN website. In August 2004, Jefferson County Superior Court Judge Craddock Verser awarded Microsoft a judgment of \$22,781.26. Microsoft is still a client of MACROsystems, said Harris.

• Personnel recruiting firm Hall See CLAIMS, Page C 11

Borino won't be marketing director

By Barney Burke
Leader Staff Writer

Port Townsend Marketing Director Nancy Borino has decided not to seek a contract with the City of Port Townsend for 2005 after seven years on the job.

The city issued a request for qualifications, or RFQ, in November as it has in past years for the contract position. The position is funded by LTAC (Lodging Tax Advisory Committee) funds, or "bed taxes," paid by hotel and motel guests.

Responses to the RFQ are due Nov. 30, and LTAC is expected to review those responses on Dec. 1. City Manager David Timmons said this week.

Although Borino's contract runs out on Dec. 31, Timmons said the Port Townsend Chamber of

Commerce has helped the city pursue chase advertising for the first quarter of 2005 to ensure that there is no gap in marketing while a new person or firm is selected.

Borino said she decided not to seek another contract with the city because "the city's direction is different from what my skills and strengths are." The city would like

more emphasis on advertising and marketing, but her core skills are advocacy, education, promotion and networking, she said.

Asked to name her biggest accomplishment in the role, Borino said it was "success in educating the community of the importance of tourism."



Nancy Borino

The Chamber of Commerce had handled the city's LTAC finances in 2003 and 2004 but voted to end that contract Dec. 31. Borino's company, Hera and Associates, was a subcontractor to the chamber. During the time the chamber handled LTAC money as well as previous years when it was all handled by the city, LTAC budgets were overspent.

The issue came up in summer 2004 in preparation for the city's annual state audit. There were no findings of wrongdoing in the audit, and the chamber, Borino and the city agreed to cut expenses so that the budget for 2004 would not be exceeded. When a subsequent bill for advertising exceeded this year's budget, the chamber board voted to pay it out of its own funds to keep LTAC expenditures within budget.

(Contact Barney Burke at bburke@ptleader.com.)

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Caninery: Challenges ahead for Harris

Continued from Page C 1
currently located in City Hall.

Timmons said that the City Council as of January 2005 plans to meet in W&K instead of Fort Worden. Meanwhile, he plans to request authorization from the City Council to award a construction bid for the annex on Nov. 29, although the project is about \$400,000 short on funding, he said last week.

Computer business

According to the Nevada Secretary of State's Office, Real Solutions/MACROsystems is a Nevada corporation formed in January 2002 (the company has existed since 1991, according to its website, but Harris bought it much later).

Harris is listed as the president, secretary and treasurer. Nevada records also show the company's corporate status to be in "default."

According to its website, MACROsystems is a "web development and IT [information technology] firm" with 18 employees. The firm leases a small office on Prospect Avenue (entrance to Kala Point) just off State Route 19, but most employees telecommute to other locations in Puget Sound, said Harris. The website indicates that MACROsystems is a "Microsoft Certified Partner" and lists Microsoft as one of its clients. Microsoft sued Harris, et. al., for nonpayment for advertising on MSN's website.

Also listed as clients are a number of government agencies such as the U.S. General Services Administration and the Washington State Lottery. A lot

Also listed as a client is Pennco Transportation.

Pennco Transportation

Harris bought Pennco Transportation in March 2003. The company is best known for providing shuttle service to SeaTac airport. In January 2004, the IRS filed a \$25,627.91 lien against Pennco for the tax period ending September 2003. That tax lien was released in February 2004.

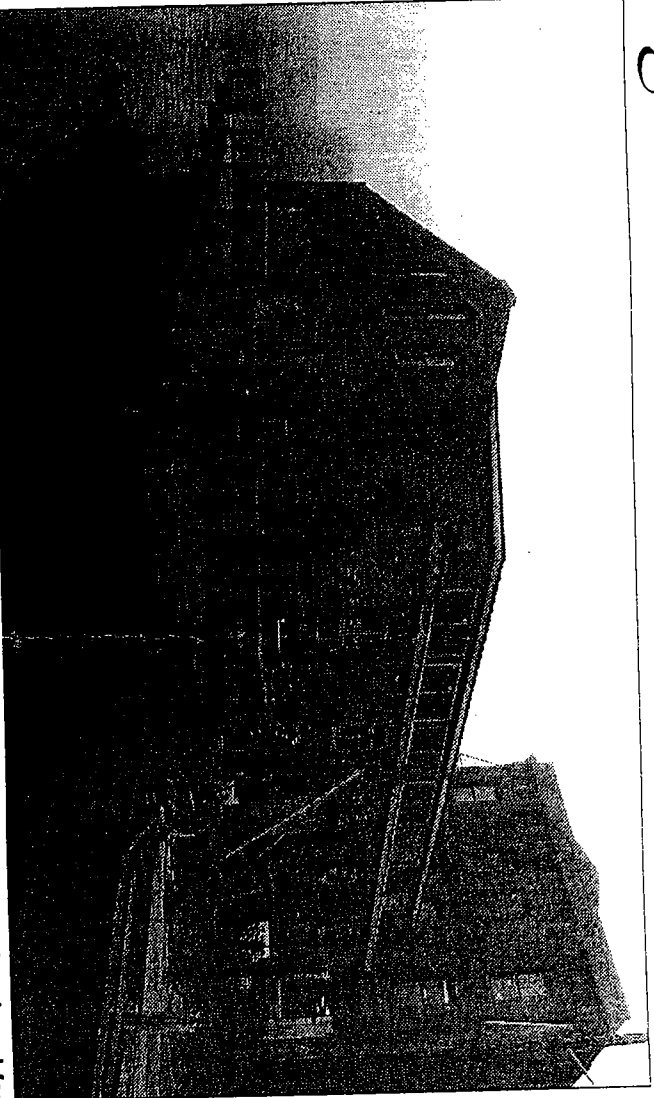
With 35 employees and 30 vehicles, Pennco is the largest transportation company on the Olympic Peninsula and provides vital medical, airport and other transportation services, Harris said. If he can obtain state permission to pick up passengers in Kitsap County, the business can become more profitable, he said. Harris acknowledged that buying Pennco has created more of a financial drain than he had anticipated.

"I've spent so much time on Pennco issues and challenges that I have really neglected a lot of the administrative issues I need to deal with at MACRO," Harris said Nov. 16.

Harris said he bought Royal Tours in 2004. In conjunction with Pennco, Royal Tours has recently been selling trips to Victoria, B.C., for flu shots.

City loan

In March 2004, Harris signed an agreement putting up the Canney Building as collateral for a \$25,000 federally-funded "community development block grant" loan from the City of Port Townsend. That loan is in "third position," behind two bank mort-



Impressive improvements have been made to this waterfront building that had been abandoned for decades, but it remains uncertain when the restoration can be completed. Photo by Barney Burke

were already delinquent and the first installment of 2004 taxes was becoming due.

This information would have been readily available by checking the Jefferson County website, but apparently no one did, Timmons surmised. Delinquent taxes on the building are now \$7,330 including interest, county records show.

The loan application was reviewed and recommended for funding by a committee of the private nonprofit Port Townsend Main Street Program. The application on file at the city shows that Harris was required to document the cost of new windows, about \$35,000, to qualify for a facade improvement loan. Timmons notes that while the city might not get repaid for some time, the facade work paid for by the loan has been completed.

had originally been designed as office space, he said.

Because of shoreline regulations, it is all but impossible to create waterfront properties of this type in Washington today, said Timmons, and thus he expects that the value will be enough to repay the city.

Community leader

Many who know Harris regard him as a friendly person who likes to get involved with community projects. He was nominated for the Port Townsend Chamber of Commerce's "Business Leader of the Year" award in 2003.

Currently, Harris is the president of the Jefferson County Historical Society and serves on the board of directors of Centrum

as well as the Economic Development Council.

Harris is one of the 11 founders of MarinerBank, which opened in December 2002. At the time, Harris had said that he felt there was a need for a "community bank" because it seemed difficult for businesses to borrow money from local institutions.

MarinerBank President Jim Grabicki said last week that Harris was part of the limited liability company that took the preliminary steps to form MarinerBank, but he resigned on his own initiative before an application to create the bank was filed with bank regulators.

"He had a lot of things on his plate," said Grabicki. (Contact Barney Burke at hburke@ptleader.com.)

that Real Solutions/MACRO systems is a subcontractor to Publicis, which she described as an "advertising firm" based in Seattle.

Claims: Outstanding suits, taxes

Continued from Page C 1
 Kinion sued Real Solutions/MACRO systems for \$15,580 in June 2003; that case was dismissed at the request of Hall Kinion. "He was OK to deal with," Mike Lovejoy, an attorney who represented Hall Kinion, said of Harris. Lovejoy said the company agreed to settle for about \$10,000 but has not received payment.

Paul Boyes Inc. sued Harris in 2004. King County court records show that Harris never appeared in the case in person or through an attorney. A judgment against Harris for \$35,861 was awarded, but Harris said he is countersuing Boyes for violating a "non-competit" agreement. Although Jefferson County records show that property taxes on the Cannery Building were

One of the requirements of the agreement is that Harris "pay before delinquent all lawful taxes." At the time the agreement was executed, the 2003 taxes

paid for through 2002, the year that Harris bought it, the 2003 and 2004 taxes are delinquent. Including penalties and interest, \$7,330 in taxes are now past due. However, records show that the property taxes are completely up to date on three homes that Harris owns in Jefferson County.

There are three mortgages on the Cannery Building: Kitsap Bank (\$125,000), American Marine Bank (\$990,000), and the City of Port Townsend (for a federally funded "block grant" loan of \$25,000). No public records were found of any delinquencies or foreclosures pertaining to these loans, although Harris has not yet complied with a requirement of his city loan that he pay property taxes on a timely basis.

ground utility work for the building, Timmons noted. Also, there will be minor modifications to the roof to create small decks for the second-story condos, which

Bankruptcy Court, Western Washington Division, show that Harris and his wife, Rebecca Sue Harris, filed for a Chapter 7 bankruptcy in January 1994; that petition was discharged in June 1994. The couple filed a Chapter 13 bankruptcy in August 1994; that petition was dismissed.

Unlike a Chapter 11 bankruptcy that allows someone to restructure debts, these two chapters of the bankruptcy code pertain to complete liquidation of debts.

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Advertise in The Leader's

Gift Ideas

December 2004



Channel	Time	Program
Monday Channel 47	7:00-8:00 am	Worship Tal Chi with Michael
	8:00-9:00	Artists: Storyline
	10:00-10:30	Midweek Movie: The Untouchables
	11:00-11:30	Value of Property
	1:00-1:30	Conquering Fear #2
	2:30-3:30	People: Evelyn (The Voice) Be Heard
	4:00-5:00	People: Evelyn (The Voice) Be Heard
	5:00-6:00	People: Evelyn (The Voice) Be Heard
	6:00-6:30	People: Evelyn (The Voice) Be Heard
	7:00-7:30	People: Evelyn (The Voice) Be Heard
Tuesday Channel 47	7:00-8:00	Worship Tal Chi with Michael
	8:00-9:00	Artists: Storyline
	10:00-10:30	Midweek Movie: The Untouchables
	11:00-11:30	Value of Property
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	7:00-7:30	People: Evelyn (The Voice) Be Heard
Wednesday Channel 47	7:00-8:00	Worship Tal Chi with Michael
	8:00-9:00	Artists: Storyline
	10:00-10:30	Midweek Movie: The Untouchables
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	6:00-6:30	People: Evelyn (The Voice) Be Heard
	7:00-7:30	People: Evelyn (The Voice) Be Heard
Thursday Channel 47	7:00-8:00	Worship Tal Chi with Michael
	8:00-9:00	Artists: Storyline
	10:00-10:30	Midweek Movie: The Untouchables
	11:00-11:30	Value of Property
	1:00-1:30	Conquering Fear #2
	2:30-3:30	People: Evelyn (The Voice) Be Heard
	4:00-5:00	People: Evelyn (The Voice) Be Heard
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	10:00-10:30	Midweek Movie: The Untouchables
	11:00-11:30	Value of Property
	1:00-1:30	Conquering Fear #2
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	7:00-7:30	People: Evelyn (The Voice) Be Heard

PITY Master Schedule - Channel 47 & 48

