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OCT 29 2004

WASHINGTON COUNTY DEVELOPMENT AUTHORITY

October 28, 2004

Mr. David Boulter
Executive Director
Legislative Council
115 State House Station
Augusta, ME 04333-0115

Dear Mr. Boulter:

Enclosed please find 2 copies of the annual report of the Washington County Development Authority pursuant to the requirements of Chapter 383, subchapter 3 of Title 5 of the Maine Revised Statutes Annotated.

The Authority is pleased to report that the former Cutler Naval Station facilities in Cutler were successfully transferred from the United States Navy to the WCDA in late 2003, and, then to Sunset Group LCC, the designated developer, on May 13, 2004. We understand that the developer has begun his work to rehabilitate several units of housing at the base for sale to the general public, as well as marketing several former administrative and industrial buildings at the base for reuse as commercial buildings.

Please let me know if you have questions or would like additional information about the activities of the WCDA.

Sincerely,



Dianne Tilton
Chair
Washington County Development Authority

Enc.

Cc: Hon. John E. Baldacci, Governor, State of Maine
Hon. Lynn Bromley and Hon. Nancy Sullivan, Co-Chairs
Joint Standing Committee on Business, Research and Economic Development

C/o Sunrise County Economic Council
P.O. Box 679, Machias, ME 04654
Phone: 207-255-0983; Fax: 207-255-4987

WASHINGTON COUNTY DEVELOPMENT AUTHORITY ANNUAL REPORT

Introduction

Pursuant to the provisions of Title 5 of Maine Revised Statutes Annotated, Chapter 383, Subchapter 3, Article 2-A, the Washington County Development Authority is required to submit an annual report to the Governor, the Executive Director of the Legislative Council and the joint standing committee of the Legislature having jurisdiction over business and economic development matters. The report must be submitted no later than 120 days after the close of the authority's fiscal year. The Authority's second fiscal year ended on June 30, 2004. This annual report must be submitted on or before the statutory deadline of October 28, 2004. The report that follows fulfills that requirement.

Section 13083-F of 5 MRSA requires that the annual report of the Authority include:

- A. A description of the authority's operations and activities;
- B. An accounting of the authority's receipts and expenditures and assets and liabilities at the end of its fiscal year;
- C. A listing of all property transactions pursuant to section 13083-D;
- D. A statement of the authority's proposed and projected activities for the ensuing year; and
- E. Recommendations regarding further actions that may be suitable for achieving the purposes of this article.

History of the Authority

The Washington County Development Authority was established by the Second Regular Session of the 120th Maine Legislature as Chapter 568 of the Laws of Maine 2001. The Authority was established in response to the need to create a state entity that could take title to the former Naval Computer and Telecommunications Station in Cutler, Maine from the United States Navy. This necessity was created by the lack of financial capacity of the Town of Cutler to take direct possession of the base, which is authorized under federal law, and the ineligibility of the Cutler Development Corporation (CDC) to take direct possession of the facility from the Navy. Federal laws do not permit the Navy to transfer the base to a local development corporation such as the CDC, which was formed by Cutler area communities for the specific purposes of ensuring that the NCTS facility is redeveloped. Current member communities of the CDC are Cutler, Machias and East Machias.

The WCDA's board of directors is comprised of nine members, seven of which were appointed by then-Gov. Angus King in October and November of 2002 and two of which were appointed by Gov. John Baldacci in early 2003. Gov. King appointed the

following members: George Finch of Eastport, Janet Toth of Eastport, Cynthia Rowden of Cutler, Wanda Cates of Cutler, Evelyn Preston of East Machias, Dianne Tilton of Harrington, and Shirley Erickson of Machiasport. Gov. Baldacci appointed Elmer Harmon of Dennysville as the eighth public member in April 2003 to replace the appointee nominated from Machias who moved from the area prior to Senate confirmation. At the same time, the Governor designated then-Acting Commissioner Dann Lewis of the Department of Economic and Community Development as the ex officio commissioner-designee member of the Authority. Mr. Lewis remains on the board as of the date of this report although he currently serves as Director of the Office of Tourism within the DECD.

The Trustees of the Authority have been appointed to staggered terms of one, two, three and four years. The Commissioner-designee serves at the pleasure of the Governor.

Annual Board Meeting

The WCDA Board of Trustees held its second annual meeting on April 27, 2004 in Machias. At that meeting the following officers were elected: Dianne Tilton, chair; Janet Toth, vice chair; Cynthia Rowden, treasurer; and Shirley Erickson, secretary.

No other business was conducted at the annual meeting.

Other Meetings and Activities

The WCDA Trustees held 10 regular board meetings in Fiscal Year 2003-2004. Most of the Authority's board meetings were devoted to items related to the acquisition of the former Cutler base from the U.S. Navy and the subsequent transfer of the former base to Sunset Group LLC, the developer designated by the Cutler Development Corporation as the end user. Portions of some meetings focused on the issue of whether or not to have legislation submitted to expand the duties and powers of the Authority to allow it to develop, redevelop, acquire, purchase or lease other properties in Washington County for economic development purposes. This would allow the Authority to work with a broader range of interests and provide a much-needed public partner for economic and community development infrastructure projects in Washington County, rather than limiting the WCDA's authority to selling, developing or leasing former military installations. In the 2003-2004 Fiscal Year, the WCDA adopted bylaws, governing the operation of the Authority and a Code of Ethics for Trustees.

Receipts and Expenditures

The WCDA received the net cash proceeds from the sale of the facilities to Sunset Group LLC (\$300,000) on May 13, 2004. Another \$100,000 of the total purchase price of \$400,000 was the subject of a promissory note entered into by the parties under which Sunset Group LLC will have to pay the WCDA the remaining \$100,000 of the purchase price if it fails to create 128 new jobs at the former base within three years of the transfer of ownership from the WCDA to Sunset Group LLC. Likewise, should Sunset Group

LLC be successful at creating the 128 new jobs, the WCDA will forgive that portion of the sale price. Following receipt of the sale proceeds, the WCDA paid out one-third of the net sales proceeds (\$100,000) was remitted to the Cutler Development Corporation to cover its expenses associated with marketing and negotiating for redevelopment of the base (see Schedule A attached) by a designated developer. Other funds are earmarked to be distributed in accordance with a vote of the WCDA trustees. (See attached financial statement.)

Property Transactions

The WCDA accepted ownership of the former Cutler Naval Base facilities from the Navy on December 12, 2003. The property included 54 acres representing the former administrative and housing areas of the base and a 25-acre parcel of land north of the base where the water reservoir and treatment facility are located. Following the transfer of this property to the WCDA, the Authority contracted with the Cutler Development Corporation to provide caretaking, security and maintenance services on the acquired properties. The CDC engaged some members of AFGE Local 2635 to provide these services at the former base for a specified hourly rate. It was anticipated that the WCDA would transfer the facilities to Sunset Group LLC within a few weeks of acquiring the former base. However, for a variety of unforeseen reasons, Sunset Group LLC was not able to accept responsibility for heating and maintaining the former base until February 5, 2004. In January 2004, the WCDA voted to accept assignment of the Purchase and Sale Agreement between Sunset Group LLC and the CDC. (See attached letter from Dianne Tilton to David Eldridge). Subsequently, the WCDA entered into a lease-purchase agreement with the Sunset Group on February 5, 2004. Under this agreement, Sunset Group took full responsibility for the care and maintenance of the base, including any expenses associated with those responsibilities. On or about May 13, 2004, the actual sale and transfer of the former base properties by WCDA to Sunset Group LLC occurred.

During the period that WCDA held title to the facility (December 12, 2003 until May 13, 2004), heat, security and maintenance costs totaled approximately \$70,000. These funds came from a line of credit established by the Cutler Development Authority at Machias Savings Bank. Following the closing on May 13, 2004, the CDC was reimbursed these costs out of the net proceeds from the sale of the base. The CDC also was reimbursed for other expenses it incurred associated with the marketing and sale of the facility, including legal and advertising expenses, professional services, and other contractual obligations.

Under a purchase and sale agreement negotiated by the CDC and assigned to the WCDA in February, 2004, Sunset Group LLC paid \$400,000 for the former Cutler base properties, including \$100,000 in the form of a note that could be forgiven if certain job creation requirements were met within 3 years of the sale of the base to Sunset Group. (See attached correspondence between the chair of the WCDA board and the president of the CDC Board of Directors.) Sunset Group gave the WCDA a \$300,000 check, representing the balance of the purchase price.

Proposed and Projected Activities

The WCDA expects to be successful in obtaining legislative approval to expand its authority, thus positioning the WCDA to work with Washington County municipalities, businesses and non-profits to undertake projects to enhance the development of the county's economy. (See attached FY 2004-2005 budget.)

Recommendations

The WCDA Board of Trustees proposes the following actions that will assist it in carrying out its goals and objectives:

- Passage by the 122nd Legislature of a bill to expand the Authority's powers and duties to enhance economic and community development capacity in Washington County
- Approval by a future Legislature of a multi-million bond issue question to capitalize the WCDA in its expanded role as a public economic and community development agency.
- Continued oversight of the job-creation criteria and the right of first refusal options contained in the Purchase and Sale Agreement with the Sunset Group LLC
- Continued distribution of base sale proceeds in accordance with recommendations by the Cutler Development Corporation Board of Directors, which were adopted by the WCDA Board of Trustees, in the 2003-2004 Fiscal Year (See attached minutes.)

Attachments:

- ❖ Financial reports: WCDA Check Register, WCDA Annual Income Statement and Schedule A, FY 2004-2005 Budget
- ❖ January 23, 2004 letter from WCDA to Cutler Development Corporation accepting assignment of Purchase and Sale Agreement with Sunset Group LLC
- ❖ Minutes of the June 29, 2004 Meeting at which sale proceeds distribution was voted upon (Item 5)
- ❖ July 2, 2004 letter from WCDA to CDC confirming oversight responsibilities for Purchase and Sale Agreement follow-on items

Washington County Development Authority
 Checking Account Register
 FY 04

Washington County Development Authority Check Register, FY 2003-2004

Beginning Balance			7/1/2003	1238.17
Preti-Flaherity	Legal Exp. Inv 1198288	113	9/19/2003	-819.00
Preti-Flaherity	Legal Exp. Inv 1200776	114	10/27/2003	-2604.00
<i>Deposit</i>	<i>SCEC</i>	<i>2417</i>	<i>10/27/2003</i>	<i>3000.00</i>
Preti-Flaherity	Legal Exp. Inv # 1206480	116	12/31/2003	-931.52
<i>Deposit</i>	<i>SCEC</i>	<i>2495</i>	<i>12/31/2003</i>	<i>1000.00</i>
Registry of Deeds	Deed filing	115	1/2/2004	-26.00
<i>Deposit</i>	<i>SCEC</i>		<i>1/26/2004</i>	<i>1000.00</i>
Sebago Technics	Survey Inv # 200401011	117	1/27/2004	-949.87
Preti-Flaherity	Legal Exp. Inv #1209848	118	2/27/2004	-7421.72
<i>Deposit</i>	<i>SCEC</i>		<i>2/27/2004</i>	<i>8000.00</i>
Deposit	SCEC		4/6/2004	5569.46
Deposit	SCEC		4/6/2004	200.00
Preti-Flaherity	Legal Exp	119	4/1/2004	-7196.02
voided check	check 119		4/27/2004	7196.02
Preti-Flaherity	Legal Exp	120	4/27/2004	-7196.02
<i>Deposit</i>	<i>Sunset-Sale of base</i>		<i>5/13/2004</i>	<i>300000.00</i>
Preti-Flaherity	Legal exp. Inv #1244796	121	5/28/2004	-402.47
Cutler Dev Corp	exp. per statement 5/28/04	122	5/28/2004	-100000.00
Preti-Flaherity	legal exp inv # 1247127	123	6/8/2004	-311.39
EMDC	distribution	124	6/30/2004	-20000.00
SCEC	distribution	125	6/30/2004	-20000.00
				159345.64

Attachments

Washington County Development Authority
Annual Income Statement
FY 04

Washington County Development Authority Income Statement, FY 2003-2004

1. Beginning Balance		1,238.17
2. Revenue:		
2.a. Grants & contracts		18,769.46
2. b. Proceeds of property sale		300,000.00
	Total Revenue	320,007.63
3. Expenses:		
3.a. Legal		19,686.12
3.b. Survey/Deed Work		975.87
3.c. Development Expenses*		100,000.00
3.d. Grants & Contracts		40,000.00
	Total Expenses	160,661.99
Ending Balance		159,345.64

* See schedule A

Cutler Development Corporation Revenue and Expense

Deposits	Interest	Directors Ins	Legal Fees	Checks	News	Loan Int	Harmon	Van Dunk	Robinson	Porter	Albee	Tibbets	Labor and Parts	Oil	Phone
\$5,000.00	\$2.75	\$1,150.00	\$692.80	\$52.77	\$999.12	\$25.55	\$205.00	\$440.00	\$900.00	\$100.00	\$250.00	\$100.00	\$277.76	\$5,799.41	\$130.51
\$11,000.00	\$0.79	\$1,322.00	\$879.20	\$20.73	\$94.50	\$28.10	\$160.00	\$310.00	\$1,260.00	\$200.00	\$200.00	\$100.00	\$2,511.69	\$5,869.81	\$16.58
\$1,602.93	\$2.21		\$9,530.16	\$20.73	\$94.50	\$65.11	\$430.00	\$310.00	\$1,320.00	\$200.00	\$325.00	\$200.00	\$1,254.50	\$6,949.71	\$204.91
\$10,000.00	\$1.07		\$1,831.61			\$49.72	\$400.00	\$1,045.00	\$840.00	\$200.02	\$750.04	\$100.00	\$225.00	\$2,378.52	\$51.59
\$15,000.00	\$6.90	Corrections	\$2,605.20			\$45.20	\$1,080.02	\$2,495.08	\$2,640.00		\$1,000.00	\$100.00	\$600.00		\$411.40
\$10,000.00	\$4.17		\$1,130.40			\$48.12	\$700.00	\$1,380.00	\$1,320.00		\$280.00		\$75.00		\$86.75
\$4,000.00	\$4.07	\$86.04	\$644.07			\$49.73	\$420.00	\$400.00	\$660.00		\$650.00		\$2,233.00		\$1,232.40
\$25,000.00	\$3.56	\$25.00	\$2,603.10			\$43.74		\$650.00	\$650.00				\$491.00		
\$25,000.00	\$3.25		\$786.00			\$50.24		\$786.77							
\$35.68	\$2.17		\$1,200.64			\$35.68									
\$600.00	\$1.79		\$4,892.98			\$151.04									
	\$1.86		\$5,569.46			\$161.46									
	\$4.89		\$2,020.12			\$32.98									
	\$3.63		\$794.00			\$208.32									
	\$3.28		\$36.40												
	\$5.09														
\$107,238.61	\$51.48	\$2,583.04	\$35,216.14	\$94.23	\$1,188.12	\$994.99	\$3,395.02	\$7,816.85	\$9,590.00	\$700.02	\$3,455.04	\$600.00	\$7,667.95	\$20,997.45	\$2,134.14
\$107,290.09		Total Deposits													
\$96,432.99		Total Expense													
\$10,857.10		Remaining Balance in Checking													

Schedule A

**Cutler Development Corporation
P.O. Box 52
Cutler, Maine 04626**

May 28, 2004

TO: Washington County Development Authority

Invoice Amount: \$100,000.00

Description:

The following treasurer's report lists the itemized expenses of the Cutler Development Corporation for the period of March 1, 2003 to May 27, 2004. The total amount drawn on the line of credit to cover these expenses was \$100,000.00. The Cutler Development Corporation is seeking reimbursement for the entire \$100,000.00 from the WCDA from its proceeds of the sale of the Cutler Navy Base.

Respectfully Submitted,

Charlene Cates

Charlene Cates

Treasurer

Washington County Development Authority
FY 05 Budget

Washington County Development Authority FY 2004-2005 Budget

Beginning Balance	159,345.64
Project Grants & Contracts	
Town of Cutler	70,000.00
Town of East Machias	20,000.00
Town of Machias	20,000.00
Downeast Regional Airport	30,000.00
Legal	6,000.00
Technical Assistance	6,000.00
Postage, copies	500.00
Direct Project Costs	6,845.64
	159,345.64

WASHINGTON COUNTY DEVELOPMENT AUTHORITY

January 23, 2004

David Eldridge, President
Cutler Development Corporation
c/o Machias Savings Bank
P.O. Box 318
Machias, ME 04654

Dear David:

The Washington County Development Authority Board of Trustees voted at its Special Meeting on Monday, December 29, 2003 to accept assignment of the Purchase and Sale Agreement as amended between the Cutler Development Corporation and the Sunset Group LLC.

The Trustees also authorized me to write a letter on their behalf concerning the intent of the Authority to adhere to the wishes of the CDC with respect to the distribution of sale proceeds and the follow-on responsibilities included in the amended Purchase and Sale Agreement and the Memorandum of Agreement between CDC and WCDA dated on or about December 10, 2003. The WCDA Trustees are requesting, however, that any expense the WCDA incurs above and beyond the funds it currently has available for transfer and closing costs be reimbursed from the sale proceeds. At this time, the Trustees do not anticipate a need for such reimbursement but want to make clear their expectation that should they exhaust their current limited funds they will have a source of funds to cover expenses associated with the transfer and closing. Furthermore, WCDA is willing to meet obligations of CDC as instructed by CDC during the post-closing period.

To provide a simple mechanism for this, WCDA proposes that it retain the proceeds from the sale for a period of 45 days after closing and use as much of those funds as necessary during that period to pay expenses associated with WCDA's ownership of the property that are not met from WCDA's other resources. Additionally, WCDA is willing to follow instructions from CDC to make payments from the sale proceeds to meet CDC's obligations during the aforementioned 45 day period. At the end of this 45 day period, the remaining funds net of any such expenses will be remitted to CDC along with an accounting for any such expenses.

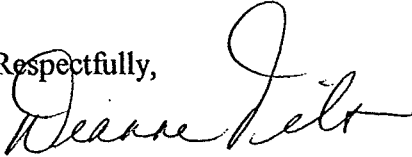
Please indicate CDC's acceptance and approval of this proposal by signing the enclosed duplicate original of this Letter of Agreement and returning it to me.

C/o Sunrise County Economic Council
P.O. Box 679, Machias, ME 04654
Phone: 207-255-0983; Fax: 207-255-4987

Page Two
Eldridge Letter
1/23/04

Finally, the WCDA Trustees wish to invite the CDC Directors to ask individual WCDA Trustees for their comments about the distribution of net sale proceeds by the CDC. Although we recognize the CDC Board's prerogative in this matter, several of the WCDA Trustees may have perspectives and information that may be helpful to the CDC Directors in formulating a position on the net proceeds distribution.

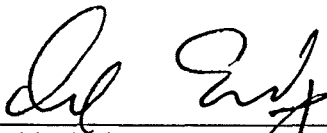
Respectfully,



Dianne Tilton, Chair Pro-Tem
Washington County Development Authority

CC: Directors, Cutler Development Corporation
Trustees, Washington County Development Authority

Accepted by:



David Eldridge, President
Cutler Development Corporation

1/26/04
Date

WASHINGTON COUNTY DEVELOPMENT AUTHORITY

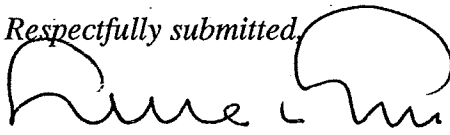
*Minutes of the Regular Meeting
Tuesday, June 29, 2004*

Attending: Janet Toth, Eve Preston, Wanda Cates, Bud Finch, Dianne Tilton, Shirley Erickson (by phone) and Chris Spruce.

1. D. Tilton, Chair, called the meeting to order at 4:09 p.m.
2. Minutes of 5/26/04 regular meeting: J. Toth moved that the minutes be accepted as presented, second by E. Preston. Voted 6-0 in favor.
3. Treasurer's report: D. Tilton passed out the latest financial statement in the absence of the treasurer. J. Toth moved that the report be adopted as presented, second by W. Cates. Voted 6-0.
4. C. Spruce reported on the 5/27/04 meeting of the Cutler Development Corporation, circulating copies of the minutes of that meeting. He said the CDC board had voted to recommend to the WCDA how the net proceeds from the sale of the former Cutler base should be distributed. He also said the board wanted reassurances from the WCDA trustees that the trustees would be willing to take responsibility for the follow-up requirements of the Purchase and Sale Agreement, specifically those contained in the job creation and right of first refusal clauses.
5. Consideration of CDC recommendation on distribution of proceeds from sale of former Cutler Naval Base: C. Spruce distributed a list of the parties to which the CDC board recommended the net proceeds be distributed. B. Finch said that while he would not oppose the desires of the CDC board or the decision by the WCDA trustees to adhere to the CDC's recommendations, he thought it was unfortunate that the funds were being disaggregated. The net proceeds of \$200,000 could be used as leverage for a significant economic development project, he suggested. Following additional discussion, the trustees voted 6-0 to adopt the following motion: The WCDA honors the CDC's recommendations with respect to the distribution of funds. However, the trustees, through the Chair, strongly urge the Towns to use their proceeds for economic development purposes. The WCDA also will offer to hold the designated funds in escrow for the Town's use if that is what the Town wishes; otherwise, the Town may request that the entire designated amount be remitted to it. Motion by E. Preston, as amended by B. Finch, second by W. Cates. Voted 6-0 in favor.

6. Consideration of CDC request to WCDA to confirm the Authority's willingness to oversee job creation requirements of the Purchase and Sale Agreement: E. Preston noted that the Purchase and Sale Agreement was legally assigned to the WCDA by the CDC. As a result, the WCDA Trustees are legally obligated to fulfill the seller's obligations with respect to the sale of the former base, she said. It was the consensus of the trustees that the Chair of the board should write a letter to the CDC confirming this fact.
7. Other business: Trustees briefly discussed the agenda for the next meeting. D. Tilton said she would follow-up with Sunset Group LLC on the status of their work on the base and whether the WCDA could be of further assistance; she also will follow-up with the Attorney General about the letter sent to him after the last meeting; the trustees also will hold a discussion at the July meeting about expanding the Authority's duties and how that might be pursued with the 122nd Legislature.
8. The meeting adjourned at 5 p.m.

Respectfully submitted,



Shirley M. Erickson, Secretary

07-13-04

Date

WASHINGTON COUNTY DEVELOPMENT AUTHORITY

July 2, 2004

Dave Eldridge
Cutler Development Corporation
c/o Machias Savings Bank
PO Box 318
Machias, Maine 04654

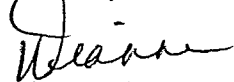
Dear David:

Thank you for your June 25 letter reminding the WCDA Board of Trustees of our responsibility with regard to the job creation and other requirements included in the purchase and sale agreement that the WCDA was assigned by the CDC.

We are aware of the conditions and do intend to provide oversight to the job creation obligation and other requirements made of the seller in the agreement.

I thank you and the other members of the CDC for your skillful handling of this transaction, your diligence, and your commitment to the goals of the base redevelopment.

Sincerely,



Dianne Tilton, Chair
Board of Trustees

Cc: WCDA Trustees