

**PORT OF NEWPORT MINUTES**  
**May 10, 2016**  
**Budget Committee Meeting**

**I. CALL TO ORDER / INTRODUCTIONS**

Commission President Walter Chuck called the Budget Committee Meeting of the Port of Newport to order at 6:03 pm at the OSU Extension Office, 1211 SE Bay Boulevard, Newport, OR 97365. Committee members and staff introduced themselves.

**Freeholder Members Present:** Fred Postlewait (Pos. #1), Brian Barth (Pos. #2), Alan Brown (Pos. #3), Ron Benfield (Pos. #4), and Mark Collson (Pos. #5).

**Commissioners Present:** Walter Chuck (Pos. #1), President, David Jincks (Pos. #2), Secretary/Treasurer, Stewart Lamerdin (Pos. #3), and Patricia Patrick-Joling (Pos. #5). Ken Brown (Pos. #4), Vice-President was absent.

**Management and Staff:** Kevin Greenwood, General Manager; Larrabee, Director of Finance; and Karen Hewitt, Administrative Assistant.

**Members of the public and Media:** Dennis Anstine, Newport News-Times.

**II. ELECTION OF BUDGET COMMITTEE PRESIDENT**

**A motion was made by Collson and seconded by Benfield to select Postlewait as Budget Committee President. The motion passed 9-0.**

**III. BUDGET MESSAGE**

General Manager Greenwood presented the Budget Message and the budget documents to the committee. After thanking Larrabee, Director of Finance, Fuller, Director of Operations, Port Facility Managers and Harbormasters, and Hewitt, Administrative Assistant, for their contribution to the budget process, Greenwood provided a summary of various components of the budget. He noted that the Port's Strategic Business and Capital Facilities Plans adopted in early 2013 and updated in 2015 provided much of the basis for the budget presented. Greenwood summarized 3 resolutions that would be part of the final budget adoption by the Port Commission in June: a rates, fees and charges resolution; an employment compensation resolution; and a capital prioritization resolution.

**INTERNATIONAL TERMINAL SHIPPING FACILITY.** Greenwood highlighted the International Terminal Shipping Facility as the Port's number one capital priority which would cost \$6.5MM to fund, including grants received and to be applied for. Greenwood requested that the 2016-17 budget include a \$2MM placeholder transfer from NOAA cash reserves to the

Construction fund as evidence to grant providers a source of match. Collson asked if bridge loans would be a revenue source if the project was not started by 2017. Greenwood said the ConnectOregon grant would provide the balance of needed funds if received, but the Port is currently not scored highly. The \$2MM transfer would show there are funds available to cover the gap, with other anticipated grants. Greenwood acknowledged there is risk, but there is a lease option signed with Teevin Bros, Inc., and other promising statistics showing potential users of the ITSF. A feasibility study is currently commissioned to quantify markets. Greenwood had spoken with the TIGER grant administrators, who want to see the Port's financing in place by October of 2016, with the grant agreement signed in September 2017. The placeholders would allow for financing to be in place by October 2016, with the Commission determining if any additional debt was warranted. Lease revenue anticipated from Teevin and other tenants/users would provide the revenue stream and provide income for maintenance, debt service, and capital. Collson would like to see maintenance remain as a priority for the Port. Postlewait commented that in the past lease income was not used for maintaining current facilities and expressed concern for additional spending on building a new facility. Greenwood emphasized that any final decisions on expenditures would be at the Commission's discretion. Of the approximately \$5MM in the NOAA fund, \$2MM is restricted and the remainder will be needed for contractual obligations, most of which won't be used at the end of the next 10 years except for dredging. Jincks commented that the NOAA funds were needed for emergencies. Brown added that the Port Commission had the responsibility to manage the reserves closely. Jincks acknowledged that the \$300K budgeted for dredging was not a firm number and caution was needed. Greenwood said that the biggest issue had been the dredge spoils; the City of Newport has agreed to allow unusable material to be disposed of at the airport in exchange for obtaining usable material. A royalty would still need to be paid to the Department of State Lands.

In response to questions from the Committee about using gravel or a mix of gravel and asphalt, instead of more expensive asphalt over the entire area, Greenwood advised that he spoke with Eric Oien of Teevin who was opposed to gravel for the damage to equipment that would result. Collson suggested that an arrangement might be made with Teevin to pave areas over time. Jincks asked if there was a fall back should Teevin pull out of the project, and suggested a \$3MM log yard could be the fall back.

Chuck and Patrick-Joling affirmed that their intent was not to spend the \$2MM placeholder, intending to keep NOAA funds in reserve. Collson asked if the NOAA fund was growing; Larrabee said that last year saw a \$14K growth, and next year a negative growth was anticipated because of dredging to be done.

FACILITY MAINTENANCE AND OPERATIONS PLAN (FMOP). Greenwood noted that one of the maintenance positions budgeted for the maintenance crew outlined in the FMOP would come from current staff. This crew would focus on maintenance and repair, but would not relieve other operations personnel of maintenance tasks as well. He added that Jincks and Larrabee had been involved in the development of the FMOP, including the use of Computerized Maintenance Management Software (CMMS) and the core mission of the crew.

LEASE CHANGES. Greenwood explained the developments in the Oregon Brewing Company lease which would result in an increase in lease income, which would compensate for the loss of the Yaquina Bay Fruit Company (YBFC) lease, as well as development of a new Multi-Use area in South Beach. Collson asked about the Port's contribution to development costs, which Greenwood explained was considered in the lease amount and the agreement for no CPI increase over a period of years. In addition, the ongoing negotiations with DulsEnergy were anticipated to add to lease income, although not included in the current budget because the lease is not finalized. Patrick-Joling added that DulsEnergy is a start-up venture that has venture capital in place. Greenwood said the Port would apply for grant funding and may need a supplemental budget approved for the extension of intake and outfall water lines, which would ultimately be DulsEnergy's responsibility.

Benfield asked about the finite real estate available in South Beach and the limitations on future growth. Greenwood said the property formerly occupied by YBFC, the Anderson lot, and the old Sportsmen's Annex were the extent of available real estate in South Beach which amounted to less than 10 acres. In addition, there are 9 acres at McLean Point. Collson said the peninsula, in the past, had been considered for research and education, like an OSU expansion. He added that NOAA could attract additional research interest. Greenwood commented that part of the planned development at McLean Point included the installation of municipal sewer lines and private investment in an industrial park, which would provide additional opportunities. To follow up on another concern, Greenwood will follow up with Tim Gross to ask about drainage at Moore Drive.

Larrabee added that some of the additional revenue generated could be used toward maintenance. Jincks expressed concern over the current damage at Port Dock 7, and the increased use for unloading fish. He told the Committee about his recommendation in the Special Meeting about charging a user fee based on the poundage of fish unloaded. Currently, the Port charges only for service and moorage. He added that the 3¢ per gallon charge at the International Terminal was originally an agreement with a particular vendor, and is now a fee for wear and tear; this could be the basis for the poundage fee at the Commercial Dock. Greenwood said that staff would look into drafting a resolution in the future to add this to the fee schedule adopted in June.

NOAA FUND. Greenwood said that the NOAA fund budget anticipates positive operating income, but some major projects that will tap the fund's cash reserves, including contractually obligated maintenance dredging, recreational area development and office reconfiguration which are separate from the Port's Capital Improvement list. A dredging study completed by the Port recommended pursuing deeper dredging, which will increase initial costs but limit the frequency. He also referred to the requested \$2MM transfer into the Construction Fund, discussed earlier. This fund is Greenwood responded to a question from Collson that an area was devoted to eel grass mitigation.

BONDED DEBT. Greenwood reviewed the fund, voted to fund the International Terminal 10 years ago, and explained that an initial balance was unnecessary since taxes collected in November would cover the January payments due. He announced that the Commission had approved Resolution 2016-01 to issue new bonds. Larrabee had worked with SDAO to obtain an improved rate that would, over the next 11 years, save taxpayers over \$1MM. Greenwood said this has no impact on the Port's internal funds. Collson asked if the savings could be applied to retired bonds. Larrabee said the surplus could end up going back to the Port. This would require notice, but this would be at the end of the 11 years. Larrabee is also looking into other refinancing options for the NOAA fund which would benefit the Port and potentially free up reserves.

MAINTENANCE RESERVE FUND. Greenwood said this fund was created by the Commission in 1998 (Res. 5-1998) to purchase and repair existing Port assets. In the budget, three of the prioritized projects are slated to be paid through this fund: Swede's dock, storm basins at NIT, and PD-5 access pier repair start. \$25K of unused Construction Funds will be transferred to the Maintenance Reserve Fund in the current fiscal year. This fund is used only for maintenance emergencies, which included a repair to the South Beach fuel line this year, and will be used for hoist dock repair which is currently under review. This fund is currently added to through the operating fund, rather than the NOAA fund as it had been in the past. The potential fish poundage tax could also be used here. Benfield asked if there was a future looking program to identify ongoing and long term needs. Greenwood said there was a 20 year preview for the NOAA fund, but not for the General Fund. FMOP is a first step in establishing a long term maintenance plan. Port management is separating capital costs from maintenance and repair costs to get a better picture.

CONSTRUCTION FUND. Greenwood stated that the most recent use of this fund was for the construction of the now completed IT. Some of the unspent proceeds were used to pay for soft-costs related to the ITSF development. The \$6.5MM needed for the ITSF project would mostly come from grants and construction loans. He recommended that the ITSF be accounted for through the Construction Fund. Jincks asked about last year's planned transfer from the Maintenance Reserve Fund into the International Terminal Fund of \$100K. Greenwood said that, although \$100K was budgeted, some of those funds had been used, and \$25K was transferred into the IT fund. Jincks said the original intent of the Construction Fund was to have a reserve for maintenance of the IT: a contingency fund maintained for emergencies. Money from this fund has been spent on the shipping facility project, but it needs to be protected. The \$50K that will be in the fund should not be used for other expenditures. Postlewait asked if the use of the funds had been approved by the Commission. The \$100K budgeted was not a "true" budget, rather an estimate. Greenwood did not expect \$100K would be left in the fund. Jincks said he may not have approved the soft-cost expenditure if he realized the Construction Fund was being used. Postlewait added that maintenance of the IT would entail large costs, and suggested the Port stop building new projects unless the current assets can be maintained. The IT is a \$30MM asset whose maintenance must be a priority over new building. Barth also expressed concern about the money that would be required for maintenance of the Rogue facility. Greenwood suggested an

option of having \$100K for contingencies in the General Fund, and transfer \$50K into the IT fund. Jincks said he was not comfortable with taking from the Operating fund, and would prefer building on the IT contingency fund. Collson pointed out that the asphalt parking lot at this IT will wear out and the maintenance and repair would be a significant foreseeable expense. Benfield asked when the maintenance fund would be used. Postlewait added that staff should be determining when reserves will be needed. Greenwood replied that evaluation would provide the basis for expenditures. He said it was a widespread problem for municipalities to fund 100% of depreciation. The FMOP would be used to address these needs. Jincks allowed that it would take years before reliable future maintenance planning would be available, but Fuller developing this through FMOP was a good start. Currently much maintenance is deferred; the log yard would be great, but the Port still has to survive with current assets.

**GENERAL OPERATING FUND.** Greenwood anticipated using approximately \$670K of the Operating Fund reserves in the 2016-17 fiscal year, which nonetheless reflects a less negative relationship between operating income and expenses than the current fiscal year. Operating income is expected to increase based upon increased occupancy at the RV Park, Rogue lease expansion, and CPI adjustment to other fees. Potential income from DulsEnergy has not been included in the budget since the lease is not finalized. An increase in operating expenses includes a 10% increase in debt service. There will be a jump this year in the payment for the RV Park construction loan, but a final payment on the 30-ton mobile crane reduced debt service. Personnel services are increased due to adding two maintenance employees as well as increased health insurance premiums. Materials and Services have increased in part due to FM OP, but are offset in part by decreased legal fees and software expenses.

For non-operating income, permanent taxes are used for expenses such as capital outlay and grant expenses. There are also grants included in the budget for updated security infrastructure, safety, and derelict removal. Greenwood recommended a \$100K contingency for emergencies and a \$60K transfer out of the General Fund into the Facilities Maintenance Reserve Fund. \$515K in capital outlay is budgeted for non-operating activity which, includes \$300K out of last year's cash reserves for replacing piles at Port Dock 5, purchase of a maintenance truck, and planning for South Beach amenities. The budget plans for an end-of-year cash reserve of \$945K.

**CONCLUSION.** Greenwood presented the budget recommendations to the Committee based upon input from the management team and review by the Commission. He reminded the Committee that once the budget is approved, the Commission could not adjust the figures by more than 10% without a supplemental budget. He assured the Committee that the Port management and Commission would focus on revenue and expenditures based on consideration of the Port's goals, visions, developments and challenges.

#### **IV. BUDGET OFFICER REVIEWS BUDGET DOCUMENTS WITH COMMITTEE**

Greenwood asked for comments or questions from the Committee on the line items in the budget documents.

**GENERAL OPERATING FUND DEBT SERVICE.** Postlewait asked about the OR Special Public Works Loan on page 29 of the packet, and if the employment threshold was met now. Greenwood said the jobs were anticipated from Teevin, which was one reason the ITSF, along with the revenue, was a Port priority. Jincks asked if jobs created in the fishing industry and fleet vessels at the IT could be used to reach these numbers. Greenwood will work with the Mid-Water Haulers to quantify job development.

**FACILITIES MAINTENANCE RESERVE FUND and CAPITAL IMPROVEMENT LIST.** Larrabee said the budgeted numbers had been determined by the Capital Improvement Prioritization list. Postlewait asked if there was more deferred maintenance to include. Collson also noted that long term projects were not on the previous list. Greenwood advised that the Priorities List is a planning document. Collson asked why stainless steel was planned rather than plastic at the IT. Greenwood said this was the recommendation of the Facilities Manager and Fuller.

**GENERAL OPERATING FUND.** Collson asked why the maintenance at the Rogue Brewery were not on the priorities list since they represent a significant revenue source that must be protected. Collson expressed concern about the sea wall. Greenwood said some sloughage had been filled but the problem is not yet solved. Jincks said engineering would be needed for the sea wall which was not designed for the current loads. Larrabee says the Port needs an evaluation of the status before projects can be budgeted.

Greenwood the budget was a conservative estimate and included the Port Dock 5 piles. Although the net was negative, over the last few years the budget showed positive numbers at the end of the cycle.

Chuck questioned the IT moorage and services budgeted at \$300K, and whether debt payments could be made on a \$2MM loan would require increased revenue at the IT, in which \$30MM had already been invested. He would like to see the IT used as it was intended. The previous negotiations with Hancock would not have been good for the Port. Jincks added that the initial budget of \$15MM was too low, but added the IT added \$96MM to local income. Postlewait added that the business of the Port is fishing not timber. Barth asked what would happen when the fishing fleet was displaced by the other uses at the ITSF. Greenwood said this would be a scheduling issue managed by the Facilities Manager. Jincks said the distant water fleet, who are here approximately four months per year, would be displaced. Hopefully there would be logging income; the facilities need repair.

Jincks asked about the fees for accepting credit cards and whether we took American Express. Larrabee said we accept Visa and MasterCard, but these fees have increased as more payments are made by credit card, including at the pay station. Larrabee added that staff is looking into processing credit card payments directly through QuickBooks which may save money.

Jincks said one of the biggest increases to our costs in contracted support services. As our employees have aged, with 3 – 4 ops personnel on light duty, staff is not doing all that they used to. Jincks suggested this also was affected by the emphasis on service vs. maintenance. The Port budgeted \$80K for security which used to be done by Port staff. As a consequence, employees are not walking the docks and noticing what needs to be done. Collson suggested that a weekly walk of the docks be performed. Jincks said that in the past, Operations was not split into North/South teams as it is now, which allowed for more shifting off staff where most needed. Larrabee said that Fuller was leading a paradigm shift reflected in the FMOP to reprioritize service and maintenance. Jincks allowed that the cultural shift was not yet seen in the management of personnel, the cost of which was not accurately reflected in the timesheet breakdown.

**COMPENSATION PLAN FOR EMPLOYEES AND WAGE STEP SYSTEM.** Collson asked if the step increases were automatic. Greenwood said this was based on yearly employee evaluations. Two employees last year did not receive an increase until meeting performance goals after six months post review. Jincks added that the move to the performance based step system was made from a previous COLA and merit system.

**RATES, FEES AND CHARGES.** Greenwood advised that the draft document had been reviewed and distributed for public comment and would be brought to the Commission again in May and recommended for approval in June. The suggested landing fees would be researched and added at a later time. Collson asked if there was a specific group that was buying fish, to which Greenwood responded there are approximately 8 – 9 buyers currently permitted by the Port.

Benfield asked if staff had checked the market regarding our RV Park fees. Larrabee said staff had researched and our prices are competitive although we have received comments that we are on the high end. Jincks said one of the biggest increases to our costs in contracted support services. As our employees have aged, with 3 – 4 ops personnel on light duty, staff is not doing all that they used to. Jincks suggested this also was affected by the emphasis

**CONSTRUCTION FUND.** Greenwood said the Port would need to bridge a \$2MM gap if the EDA grant was received, which needed at 50% match. Jincks commented this was similar to money budgeted for the IT: budgeted but not really there until Commission approves. Collson asked if Teevin would sign a lease even if operations may shut down. Greenwood said no, and Jincks added that when Hancock dropped out, Teevin lost their funding source.

**NOAA FUND.** Benfield asked about the decreased traffic he has observed at the NOAA dock, and suggested this may also lead to decreased wear and tear on the facility. Jincks said the use depended on NOAA's budget, which currently saw six new ships replacing older ships, four of which were planned for Newport in 2018. He added that the NOAA fleet travels depending on the function of research or stock assessments.

V. PUBLIC COMMENT

There was no public comment.

VI. APPROVAL OF BUDGET

Greenwood recommended the Committee move to approve the budget as presented.

**A motion was made by Collson and seconded by Jincks that the Budget Committee approve the proposed budget for the 2016-2017 fiscal year. The motion passed 9-0.**

Greenwood recommended the Committee move to approve the tax rate as presented.

**A motion was made by Collson and seconded by Benfield that the Budget Committee approve the tax rate of point zero six zero nine (.0609) per \$1000 of assessed value for operating purposes in the General Fund and in the amount of \$1,000,000 for payment of general obligation bond principal and interest in the International Terminal Debt Fund for the 2016-17 fiscal year. The motion passed 9-0.**

X. ADJOURNMENT

There being nothing more to come before the Budget Committee, the Budget Committee President adjourned the meeting at 8:17 pm.

ATTEST:

  
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Walter Chuck, Commission President

  
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David Jincks, Secretary / Treasurer.