

PORT OF NEWPORT MINUTES

December 19, 2017

Regular Commission Meeting & Executive Session

I. CALL TO ORDER

Commission Vice-President Jeff Lackey called the Regular Commission Meeting of the Port of Newport Board of Commissioners to order at 6:00 pm at the South Beach Activities Room, 2120 SE Marine Science Drive, Newport, Oregon.

Commissioners Present: Walter Chuck (Pos. #1); Sara Skamser (Pos. #2); Stewart Lamerdin (Pos. #3)(arrived 6:07 pm), Secretary/Treasurer; and Jeff Lackey (Pos. #4), Vice President. Patricia Patrick-Joling (Pos. #5), President, was excused.

Management and Staff: Aaron Bretz, General Manager Pro Tem; Mark Harris, Staff Accountant; Becca Bishop, Accounting Clerk; and Karen Hewitt, Administrative Assistant.

Members of the Public and Media: Ed Backus, Collaborative Fisheries Associates, LLC; Todd Kimball, CFO Selections; Yale Fogarty, ILWU; Barrett Tower, ILWU; Pat Ruddiman, ILWU; Dietmar Goebel, Newport City Council; and Doug Cooper, Hampton Lumber.

II. CHANGES TO THE AGENDA

There were no changes to the Agenda.

III. PUBLIC COMMENT

There was no public comment at this time.

IV. CONSENT CALENDAR

- A. Minutes
 - 1. Regular Commission Meeting 11/28/2017
- B. Financial Reports
- C. DSL Waterway Lease – NOAA
- D. Leases
 - 1. TNMP Properties – Fish Meal Plant & Storage Renewal
 - 2. NOAA MOC-P Lease Amendment
- E. Contracts
 - 1. Vertiv – NOAA HVAC maintenance
- F. Special Use Permits
 - 1. U-Da-Man Fishing Tournament
- G. Declaration of Surplus Property

A motion was made by Chuck and seconded by Skamser to approve the Consent Calendar. The motion passed 3 – 0.

V. CORRESPONDENCE/PRESENTATIONS

- A. Todd Kimball – Port of Newport Financial Review

Kimball started by saying that he was hired by the Port of Newport (the Port) to serve as an Interim Director of Finance, acting in some of those capacities and provide a financial review. He presented a financial review of the Port by Power Point presentation, which is included in the Meeting Packet. He encouraged the Commission

to ask questions along the way. Kimball advised that every aspect of the Port's finances could not be presented in a half hour presentation, but he hoped this to be the start of a conversation and provide a road map going forward. He mentioned on the Agenda that he had completed a few analyses to present, including reviewing 14 years of data for the International Terminal, and the current year financial statement. He used revenue as a baseline for comparison of Oregon and Washington ports. Kimball found it surprising that all but one of the 16 ports reviewed had net operating losses in 2016, even though 2016 was not a recessed economic year. Lackey asked if the \$797K by which the Port of Newport's interest expense exceeded property taxes was for five years; Kimball replied this was just in one year, and was typical of the last five years with an average of \$700K. The interest expense The Port has had non-operating losses in four of the last five years. Kimball said he found it an anomaly that the Port is spending almost half as much as other ports on personnel services, as a % of revenue. He said this was not just the smaller ports pushing that number up, but the percentage was consistent with the larger ports, although it may be slightly overinflated. Port property taxes are consistent with other ports, but the Port's interest expense is over 4 times higher. Grant income is a factor in non-operating income, and the Port has below average grant income over the past five years.

Lamerdin asked if the definition of a grant may not be consistent from one organization to other. Kimball said this come from audits so he didn't think it would be defined differently and is pretty simple to classify. Lamerdin asked about how the Army Corps dredging might be considered as a grant even though it came out of the ACOE funds. Kimball said 2016 tended to be a heavy grant year for other ports which may be a factor. Bretz said that the dredging service wasn't accounted for in the Port's books, and the process for how that was obtained is not clear. Kimball said that, on the other hand, the lottery funds grant for NOAA in the past was huge. Lackey asked about what the types of grants were received by the other ports. Kimball said not specifically, but he did know that the Port of Astoria also has an airport so they also receive FAA grants, and they have also been successful with ODOT Connect Oregon grants. Lackey asked if Bretz was aware of any large grants given to other ports. Bretz said he has heard of a number of grants. Connect Oregon does not have any competitive grant funds available until 2019 at the earliest. The Port of Toledo has received a number of different funds. The Department of Agriculture has a rural business development grant that he brought to the attention of DulsEnergy. Bretz said that Hewitt will be taking an SDAO grant writing course in February, and will hopefully get more information. Kimball said current assets are on par with other ports. Capital Assets are higher, but on the other hand, long-term debt is also much higher. The Port has a healthy number of cash on hand, which does include NOAA funds. Kimball said he could do another calculation without the NOAA funds, which would bring the Port closer to the port average, but still acceptable. The ratio of current assets to liabilities is also strong, but would also come down closer to the average if NOAA funds were excluded.

Kimball said that the Port of Newport is highly leveraged, and he had done significant related analysis. The amount of debt compared to assets is high. A fairly significant amount of money has been borrowed, and so interest expense is comparatively high. The average port's interest expense is 7.5% of revenue, but 31.7% for the Port. The Port has invested money in assets and is now banking on them producing, with a thin margin of error and higher risk. The ability to reduce costs is also extremely limited since fixed costs are high and operating costs are fair/reasonable. Chuck asked if the debt to assets ratio included the GO Bonds; Kimball said yes. Skamser asked if bonds were ever reduced by grant funds. Kimball said the state may have some forgivable debt, but bonds would be refinanced to achieve savings.

Kimball said he reviewed International Terminal Revenue over a long period of time. Most of the time was looking at the growth pattern from 12-13 to 16-17. Operating income has picked up in the last five years. Kimball analyzed net income after debt service, and including properties, which has had a loss over the past five years. Lamerdin asked why he only went back to 12-13 looking at including the properties. Harris explained that is also when the Port switched to QuickBooks, so the more historical data is not easily retrievable. Chuck said the Terminal was opened in 2012. Kimball said he took the current Profit & Loss Statement by Business Unit, and made some adjustments including moving lease revenue to the location out of administration, allocating administrative expenses, and moving debt service to the location. He also took out current year

capital expenditures and inserted a number to represent capital reserves based on the capital projects list annualized over 20 years. He said this is not how the profit and loss statement “should” be done, but is one interpretation; he finds it preferable to group geographically because most people can picture buildings in certain locations. Lamerdin asked if the net income after administrative expenses of \$1.2MM was real. Kimball said the only “x” factor was the annual capital reserve, which was an estimate. This would ideally be based on a capitalization/capital improvement plan. Bretz said he understands that the capital priorities are set annually based on staff recommendations. The best performers for net operating income are South Beach and then the Commercial Marina. This is in part due to the fact that the Port generally has not financed improvements in these locations. The poorest performing are the Terminal and NOAA because the operating net income is underperforming. Improvements were made, debt was obtained, and the returns are not significant enough to elevate the net operating income. The situation flips when considering that the improvements have already been made to the Terminal and NOAA, and South Beach and the Commercial Marina have significant deferred maintenance. Bretz asked about the reserve held for NOAA. Kimball said the reserves are projected in 20 years to go from \$2.5MM to \$500K. The idea would be for the reserve to stay flat at a minimum, but with increasing costs, the reserve should really increase over time. His recommendation is that schedule be reviewed and the reserve number reevaluated. The current schedule estimates \$33K per year added to the reserve, Kimball’s estimate is \$185K. He did not recommend using the unrestricted reserves for another purpose, unless there is a very short term known need to borrow, but even that would be an extreme exception. Bretz said that the NOAA reserve that is restricted has \$3.21MM in funds, and the unrestricted has \$1.96MM. Chuck asked if the PERS increase was included in the personnel expenses. Kimball said it was not included in the 16-17 chart, but there is likely to be a post audit adjustment for non-cash long term debt. He added that the significant PERS increases will really be hitting in 2017-18. Overall, there are net losses in all of the business units. South Beach is in the best position, followed by the Commercial Marina.

Kimball said he did some additional analysis on return on investment (ROI). Between 2008 and 2014, approximately \$26MM into the International Terminal. Net operating income increased from \$11K in fiscal year 2013 to about \$287K in fiscal year 2017. This results on a net ROI of about 1%. The weighted average cost of capital (interest) is about 4%. This poor return is partly borne by the tax payer bond. At NOAA, approximately \$37.5MM was invested between 2008 and 2012. Net operating income in 2016-17 was about \$900K, so a ROI of 2.4%. Considering the Lottery funds grant, the weighted average is approximately 2.2%. NOAA is covering its costs, but the reserve needs review. Some of the challenges to the Port revolve around improvements to the Port being primarily funded with debt. The net income from these properties is minimal, so they don’t the surplus needed to fund the “next” project. It may be difficult to secure additional debt or tax payer funding, and the risk of financial troubles if revenue declines is increased. Port infrastructure has faced several years of deferred maintenance, which is common on the coast. This often leads to emergency spending instead of long term planning. This relates back to the need for reserves for capital projects. On the other hand, the Port has some strengths. The Port has sufficient cash and can operate without a line of credit, has low operational costs which could lead to increased net income when revenue increases, has an opportunity to evaluate taking available of tourism, and has revenue and new business opportunities at the International Terminal. To respond to a question he received from Patrick-Joling, he projected if the Port wanted the International Terminal to meet the current costs and create capital reserves, an additional \$480K would need to be raised annually. If the Port wanted to cover what the tax payers put in, the Port would need to generate and additional \$700K at the Terminal. Kimball said he could send his analysis to Bretz.

Kimball suggested that the Port create a process where capital projects go through a financial review prior to approval, and selected on anticipated ROI and relatively short payback period. Lamerdin asked how the Port would respond to infrastructure upgrades that are critical to Port operations. Kimball said this was a good point, but the Commission should be judicious in the projects chosen. The Port has already chosen NIT and NOAA as the big projects, and emergencies do occur. He recommends seeking additional grants and pursuing additional business opportunities at the International Terminal. He also recommends evaluating opportunities to expand services, raise rates including evaluating what is needed to cover costs, add tariffs, review reserves needed for

capital needs and matching grant funds, and continue to look at refinancing long-term debt. Kimball said a finance manual should be developed for policies and procedures, including a procurement manual and lease policy, among other things. Lackey asked that some specifics be provided to Harris and Bretz. Bretz agreed there are a lot of standard policies needed rather than relying on resolutions. Kimball also recommended considering allocation of administration costs, shifting lease property income geographically, and continuing to look for ways to look for process efficiencies. He noted that this month a narrative was added to the financial statement to help the Commission understand the data, which he recommended to be done monthly. Kimball also thinks that Purchase Orders should be reviewed by Department Managers since they would be the ones most likely to know what was going on, rather than the finance department and the General Manager.

Skamser asked if Kimball had a recommendation about possibly updating the accounting software from QuickBooks. Kimball did not see a reason to change from QuickBooks; although there are some challenges, it is working well and the Port is getting what it needs. To implement a new system would likely cost \$100K. Bretz added that QuickBooks has 70% - 80% of the market share. Lackey said he liked the structure of the profit and loss statement, spreading the lease properties and administrative costs. The recommendations can serve as possible future actions.

VI. OLD BUSINESS

A. Items Removed from Consent Calendar

No items were removed from the Consent Calendar.

B. Accounts Paid

A motion was made by Chuck and seconded by Skamser to approve the Accounts Paid. The motion passed 3 – 0.

C. Commission Meeting Procedures

1. Audio Recordings
2. Phone-in Meeting

Lackey introduced the item and said that the Commission was asked to approve audio recordings of the Commission Meetings and to allow Commissioner participation by phone if they were not able to attend. The purpose is to clarify the Commission's intent. Chuck asked if the Port had the equipment to have phone-in meetings. Bretz said that staff had just got the equipment, but was looking to install a phone line in the Activities Room. He added that an extension cord to the RV office may be available. This should be set up by January. Skamser asked if Commissioners could vote by phone. Hewitt said public meeting law allows for phone in meeting, provided the public is provided a place where they can listen to the meeting or possibly call in.

A motion was made by Chuck and seconded by Skamser to allow audio recordings to be entered in the record and for meetings allowed to be participated in by phone including votes. The motion passed 4 – 0.

VII. DEPARTMENTAL REPORTS

A. Director of Finance

1. November Occupancy Report

Harris referred to the reports included in the Meeting Packet. There was no discussion on this report.

- B. Director of Operations
 - 1. TCB Public Safety Report for November
 - 2. Commercial Fishing Users Group Committee
 - a) Minutes 11/6/17 Draft

There was no discussion on these items.

- C. General Manager Pro Tem
 - 1. DulsEnergy Proposal
 - 2. NIT Space Diagram
 - 3. Personnel Service Cost Analysis
 - 4. OBEC Engineering Plans & Cost Estimate
Port Dock 5 Pier Approach

Bretz referred to the report included in the Meeting Packet. He said he is working with DulsEnergy on ideas so that they can move forward. He added that additional funding through the County and City would not be the case right now. He steered DulsEnergy into speaking with DEQ and felt they could use help learning how to get a project engineered. He included a drawing of possible space use at the Terminal for feedback from the community so that it was received early in the process and get some discussion going. Bretz referred to his recommendation to find ways to have more competitive wages at the Port. Bretz said that the new cost estimate for Port Dock 5 engineering plan, and referred to the previous cost estimate on which he highlighted areas that were changed.

Bretz said the Port was likely to need to hire another employee at the Commercial Marina with Don Moon serving temporarily at the Terminal. Temporary help that may be brought in cannot operate the crane. Commercial Marina staff is used at the Terminal when necessary. He said he worked with Harris and there is room in the budget, but wants to make sure there will be room toward the end of the fiscal year. A number of people have come to Bretz asking about insurance for people working on Port property. The Port has insurance requirements but there needs to be a better process for obtaining this information in the office. He is working with the Port’s insurance agency to get a comprehensive list of requirements, and a request has been sent out to other Port entities to see what they are doing. Bretz advised that the Rogue Brewery said they will be hiring an artist to get started on the mural in the spring. They are also considering requesting expanding their building; there is a Memo of Understanding in their lease that says that the Port would need to analyze its lease properties before any expansion could be considered. He called attention to Kevin Corwin who saved the F/V Sunrise from sinking at the dock.

VIII. COMMISSIONER REPORTS

There were no Commissioner Reports. Skamsner said it is busy at the Terminal, but it’s too bad the Port is not making more money there.

IX. CALENDAR/FUTURE CONSIDERATIONS

- 12/25/17..... Christmas Holiday, Port Office Closed
- 1/1/17 New Year Holiday, Port Office Closed
- 1/6/18Resolution Run & Polar Bear Plunge
- 1/15/18Martin Luther King Day, Port Office Closed
- 1/23/18Regular Commission Meeting
- 2/19/18Presidents’ Day, Port Office Closed
- 2/22 – 2/25/18Newport Seafood & Wine Festival
- 2/27/18Regular Commission Meeting

There were no changes to the Calendar/Future Considerations. Lamerdin asked about the status on the discussion about non-NOAA vessels docking at NOAA pier. Bretz said that discussion will take place after the first of the year. He referred to Jim Durkee's report, and that the Guardian is regularly at NOAA. The Guardian and the Newport Fire Department are interested in South Beach if secure moorage can be provided. Skamser added that having the South Beach Marina dredged will be helpful. Skamser commented on a Canadian boat that had come through with some unauthorized equipment which ran afoul with Customs. Lamerdin said he appreciated the Port's help in getting them moved from the OSU dock.

X. PUBLIC COMMENT

Goebel asked about whether the \$1.8MM cost was for Port Dock 5. Bretz clarified that this was for the pier approach, the ramp, and the float at the bottom only. Goebel asked if the Port has looked into how this would be funded. Bretz said the final engineering still has to be done next year, and the plan is to begin construction the following year at which time funding would be sought. Lamerdin said this has been part of the Port's Capital Improvement Plan.

XI. EXECUTIVE SESSION PURSUANT TO ORS 192.660(2)(a) – TO CONSIDER THE EMPLOYMENT OF AN OFFICER, EMPLOYEE, STAFF MEMBER OR AGENT. (7:40 pm.)

Commissioners Present: Walter Chuck (Pos. #1); Sara Skamser (Pos. #2); Stewart Lamerdin (Pos. #3), Secretary/Treasurer; Jeff Lackey (Pos. #4), Vice President. Patricia Patrick-Joling (Pos. #5), President, was excused.

Management and Staff: Karen Hewitt, Administrative Assistant.

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

No decisions were made in Executive Session.

Executive Session was adjourned at 8:49 pm.

XII. ADJOURNMENT

Having no further business, the meeting adjourned at 8:50 pm.

ATTESTED:

Patricia Patrick-Joling, President

Stewart Lamerdin, Secretary/Treasurer

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