Port of Newport

2017-18 BUDGET MESSAGE

D ATE: *May 9, 2017*

RE: *2017-18 Fiscal Year Budget Presentation*

TO: *Port of Newport Budget Committee*

ISSUED BY: *Kevin Greenwood, General Manager/Budget Officer*

INTRODUCTION

As budget officer, it is my responsibility to prepare the proposed budget, post the necessary notices, hold the committee and budget hearings, and deliver the budget message. There are, however, several people who have helped me develop this budget including Stephen Larrabee, Director of Finance; Mark Harris, Accountant; and Jim Durkee, interim Director of Operations, who also serves as the Port's NOAA MOC-P Facilities Manager. Our other facility managers (Chris Urbach, South Beach Harbormaster; Pete Zerr, International Terminal Manager; and Kent Gibson, North Commercial Harbormaster) also provided valuable input. Karen Hewitt, Administrative Assistant, helped ensure that all notices were published and the budget documents distributed. Management met several times to review this document and without their help and understanding, I would not be able to present this budget.

The budget is the Port's financial plan. The proposed budget figures are based on the best estimate of what the Port will receive (resources) and what the port will spend (requirements) from July 1, 2017 to June 30, 2018. To prepare this estimate, we use past budget years' financial history to estimate future income and schedule our expenditures to balance with expected revenue.

The taxpayers of the district provide financial support to the Port District at a combined rate of 58.96-cents per $1,000 of Assessed Value (AV). 6.09-cents is the district's permanent rate and 52.87-cents is the district's millage rate for the general obligation bonds (GO) for the terminal remediation and repair. In Lincoln County, the Assessed Value (AV) is 90% of Real Market Value (RMV). A new home in the port district with an appraised value (RMV) of $300,000 is taxed approximately $159 this year for port services ($300,000 x 90% / $1,000 x $0.5896 = $159.)

The inspiration for this budget comes from a number of Commission sanctioned policy documents. In 2013, the board adopted the Port's Strategic Business and Capital Facilities Plans and updates the capital improvements lists annually. The Commission adopted goals in February covering all aspects of the Port's operation. In addition, the Port Commission conducted a public work session on April 4th to review personnel-related cost estimates and prioritize capital projects. Input from that meeting also aided staff in drafting this budget.

In addition to the budget resolution that will ultimately be adopted in June, there are three other resolutions that should be adopted as part of the Port's budget process: (1) a rate, fee and charges resolution that has been reviewed monthly since December, (2) an employment compensation resolution that summarizes and authorizes staff wages and benefits, and (3) a capital improvement list prioritizing projects. Copies of those draft resolutions are included in this packet.

The proposed budget is a document comprised of five separate funds: Bonded Debt Fund, Facilities Maintenance Reserve Fund, Construction Fund, NOAA Lease Revenue Fund, and General Operating Fund. All day-to-day operations are accounted for in the General and NOAA Funds. Below is a break- down of the proposed budget by business unit.

FIG 1. - BUDGET 2017-2018 BY OPERATIONAL DEPARTMENT

	GENERAL						NOAA
	Admin.	NIT	So. Beach	No. Comm.	Maint.	Total	Total
OPERATING							
Income	$665,178	$388,000	$1,687,000	$784,000	$0	$3,524,178	$2,552,500
Expense	$928,962	$652,627	$1,253,133	$645,190	$119,688	$3,599,600	$2,390,589
Personal Service	*$539,210*	*$77,575*	*$363,262*	*$255,535*	*$113,788*	*$1,349,370*	*$82,385*
Materials & Service	*$371,900*	*$137,400*	*$673,550*	*$352,800*	*$5,900*	*$1,541,550*	*$306,470*
Debt Service	*$17,852*	*$437,652*	*$216,321*	*$36,855*	*$0*	*$708,680*	*$2,001,734*
NET OPERATING	($263,784)	($264,627)	$433,867	$138,810	($119,688)	($75,422)	$161,911
NON-OPERATING							
Income	$226,000	$0	$0	$0	$0	$226,000	$500,000
Expense	$345,000	$6,900	$75,000	$0	$20,000	$446,900	$666,000
Capital Outlay	*$0*	*$6,900*	*$75,000*	*$0*	*$20,000*	*$101,900*	*$66,000*
Transfers	*$160,000*	*$0*	*$0*	*$0*	*$0*	*$160,000*	*$500,000*
Other	*$185,000*	*$0*	*$0*	*$0*	*$0*	*$185,000*	*$100,000*
NET NON-OPERATING	($119,000)	($6,900)	($75,000)	$0	($20,000)	($220,900)	($166,000)
NET INCOME	($382,784)	($271,527)	$358,867	$138,810	($139,688)	($296,322)	($4,089)

HIGHLIGHTS

International Terminal Shipping Facility. Developing the Port's 9-acre parcel at McLean Point into a leasable shipping facility has been the Commission's top priority for several years. The International Terminal business unit has been losing hundreds of thousands of dollars a year since the facility was completed five years ago. Our FY 15-16 audit showed the International Terminal losing $220,000 with an outstanding debt balance of $5.2-million. Other port activities (primarily South Beach) have subsidized the loss. The losses are driven by the annual debt service payments which are budgeted to be $437,000 in FY 17-18.

FIG. 2 - TERMINAL OPERATING PROFIT AND LOSS (FY 15-18)
Shipping operations not included.

			FY 15-16		FY 16-17		FY 17-18
			Audit		Budget		Budget
OPERATING REVENUE							
	Operational Income		$383,325		$285,000		$388,000
			$383,325		**$285,000**		**$388,000**
OPERATING EXPENSE							
	Debt Service		$441,442		$437,756		$437,652
	Materials & Service		$102,130		$108,100		$137,400
	Personal Services		$59,543		$71,486		$77,575
			$603,115		**$617,342**		**$652,627**
NET OPERATING			($219,790)		($332,342)		($264,627)
LONG TERM DEBT BALANCE			$5,241,416		$5,005,206		$4,753,281
							Balances at end of fiscal year

Since the terminal construction was completed in 2013 and with the absence of shipping, the distant water fleet and midwater trawlers have expanded their use of the facility. In 2014, those Oregon vessels generated $128-million in fish landings in Alaska and are an economic driver for Lincoln County, but have not generated enough revenue to make up the negative net operating income at the terminal. The Port is committed to working with the distant water fleet and midwater trawlers so that they are part of the process as this project develops.

OPPORTUNITY FOR NEW CASH FLOW AND ECONOMIC DEVELOPMENT

The Port has generated a number of market studies (ref. Shipping Facility Feasibility Study, June 2016; Terminal Renovation Project Economic Analysis, January 2012; and Haglund Softwood Log Export Analysis, April 2014) that show that the log market in Lincoln County is strong.

- Teevin Bros., who will lease the Port's 9-acre facility, is a proven operator and has signed a lease for up to 20-years.
- Ten shipments per year is sustainable and only account for 5% of the private market proving the log market is valid.
- Teevin's heavy equipment would provide opportunities for other commodities.
- Even though the market is lower than during the recession (a boom time for exports), demand continues at the Ports of Astoria and Coos Bay.
- There is a significant transportation cost savings by shipping out of Newport, since most of the timber is within 30-50 miles of Newport.
- The development of a maritime industrial park with private and city urban renewal investment would leverage the Port's investment and provide additional warehousing and laydown areas for the commercial fishing fleet.
- An estimated 50 new jobs would be created with the addition of this shipping facility.

Each Handysize vessel would generate over $100,000 in tariffs and there would be approximately $5,000 in direct shipping costs to the Port. In our negotiations with Teevin and their log provider, they anticipate an average of ten shipments a year supported by the market analysis.

Of course there will be expenses related to the venture and the Port will be investing in its future as significant net cash flow won't be realized until the seventh year. Our analysis also takes into account a slower start-up (5-7 shipments in first year), the additional state loan payment ($118k), the hiring of an additional terminal employee ($75k), loss of some fishing vessel revenue ($38-95k), setting aside annual cash for maintenance/dredging reserves ($100k), and cost sharing with our private financial investor.

The specific operational costs will be approved as a supplemental budget later this calendar year, but staff has produced a tentative budget for the committee's review as an appendix to this document.

This opportunity, however, will make immediate offsets to the current negative cash flow and within 7-8 years net $500,000-600,000 annually that would be used to replace the Port's depreciated commercial fishing docks, buy down the Port's debt, or other goals to be determined by the Port Commission.

FINANCING SUMMARY

In 2015, the Port received a $2-million U.S. Dept. of Transportation (TIGER) grant, but other grant applications were not successful. The State of Oregon did agree to loan the Port an additional $2-million which would add debt to the terminal's liabilities and an $118,000 annual loan payment to its operational expenses. Late last year, the Port met with Silvan Forestry Inc., a Bellevue, Wash. log broker with a presence in six northwest ports including Coos Bay. Silvan has been interested in gaining access to the Lincoln County log market and has agreed to loan the Port $2.5-million repaid through a 50% reduction in its tariff rate and is a non-recourse contribution meaning that the Port is not restricting its full faith and credit or collateral in exchange. Last year, a transfer of $2-million from the NOAA Fund was budgeted, but not utilized. I am recommending a $500,000 transfer this year to serve as a construction – or bridge – loan to facilitate payments prior to reimbursement.

The aforementioned agreements could be approved at any moment and a supplemental budget for the current year would be brought forward so that construction could begin in advance of the 2017-18 fiscal year.

<u>Port Dock 5 Pier Approach Engineering</u>. Last year the Port Commission prioritized, budgeted, contracted and received a Conceptual Alternatives Analysis for the replacement of the Port Dock 5 (PD5) Pier Approach from OBEC Consulting Engineers. During the year-long study, it was determined that the access could fail in the next few years and a gate was installed to limit truck traffic on the pier. It quickly became a priority for the Commercial Fishermen's User Group (CFUG) as the pier is the only access to the 150 berths located on PD5. Alternative 1 included the replacement of the entire sub-structure while maintaining as much of the current decking as possible. Alternative 2 included a full replacement of the wooden deck with a concrete and steel deck. Alt. 3 included replacing and expanding the entire structure to allow for upwards of 12 trucks to park on the access. Both Alt. 1 and 2 would allow for Alt. 3 to be added at some point in the future.

Following the path forward in the engineer's report, the $118,000 engineering exercise proposed for this budget would include:

- Perform a condition assessment of the existing timber deck.
- Perform a geotechnical investigation.

- Develop permitting strategies.
- Perform 30% design for Alternative 2.
- Work with CFUG on 30% design input.
- Prepare permitting documents and agency applications.
- Submit permit applications.

This is the first step in what would be a $1.9-million replacement of another critical piece of port infrastructure.

Upgraded Marketing Materials. During the Commission goal setting, marketing and public relations was discussed. This budget includes $25,000 (offset by grants) to re-design the Port's website, develop materials for boat and trade shows, and develop better press relations with the community. Both the Oregon Tourism Commission and Oregon Business have grants that could help assist with funding.

BONDED DEBT FUND

The Bonded Debt Fund exists to receive property tax and make general obligation bond payments related to the $15-million remediation and reconstruction of the International Terminal (IT) passed by district voters in 2006. (The final cost of the project totaled over $27-million.) This is a fairly simple fund to budget as income may only be used to make debt payments.

It is not necessary to carry a beginning fund balance since most of the property tax is collected in November with plenty of time for the first payment due in January. As such, the Port shows zero fund balances in the budget.

There is good news this year as the Port refinanced the 2007 issuance and that has resulted in a $50,000 annual savings to district taxpayers. The overall transaction will save taxpayers $1-million during the 21-year life of the bonds. The higher amounts in the last two fiscal years are accounted for in the transition of paying off the old bond and incurring the new. The Port's finance staff annually researches opportunities for refinancing the Port's debt.

FACILITIES MAINTENANCE RESERVE FUND

The Facilities Maintenance Reserve Fund was created by Res. No. 5-1998 to purchase and repair existing Port infrastructure and property. Resources for this fund are generated through a transfer from the General Fund. Positive operating income from FY 16-17 becomes the basis for transfers into this reserve fund in FY 17-18. Management anticipates transferring $160,000 from the General Fund in FY 17-18. Priorities for this fund are developed through annual review of the Port's Capital Facilities Plan. In April, the Port Commission reviewed staff's recommendations and will ultimately adopt a resolution identifying the Port's capital priorities in late May. In addition, the Commercial Fishing Users Group (CFUG) also reviewed projects and suggested priorities. The resolution prioritizing projects is included as an appendix to this document and includes a list of all capital needs totaling tens of millions of dollars.

There are a number of capital projects being budgeted this year, but only three of those projects are replacing existing assets: beginning the engineering and permitting for the capital replacement of the Port Dock 5 access pier ($115k), replacing two forklifts at the North Commercial facility and the International Terminal ($24k), replacing asphalt at the terminal ($13k) and replacing/relocating the South Beach RV dump ($26k). Those project budgets total $178,000.

It should be noted that we have $50,000 available for repairs to the terminal structure that were transferred into the fund after the terminal construction was completed, but we do not anticipate using that budget item.

All funds are available for reprioritization in case of maintenance emergencies. For example, in 2014-15, the Port used Maintenance Reserve Funds to replace an emergency failure of the South Beach fuel line which cost $80,000.

All activities in this fund require Commission approval.

CONSTRUCTION FUND

The Construction Fund receives and expends monies related to construction projects. Most recently it was used for the construction of the International Terminal which is now complete.

The Port has used some unspent proceeds from the terminal construction to pay for pre-construction soft costs related to the development of the shipping facility on 9-acres owned by the Port on McLean Pt. The balance ($50k) was transferred into the Facilities Maintenance Reserve Fund for future repairs and maintenance of the terminal.

Management is recommending that income and expenses related to the construction of the International Terminal Shipping Facility (ITSF) – once formally approved by the Commission – be accounted for out of the Construction Fund.

The NOAA transfer will be used as a construction loan. This means that the cash from this resource would be used to fund monthly construction expenditures before grant and loan reimbursements are received by the Port. The intent is that NOAA will be repaid as the resources from TIGER and IFA are received. This transfer may also be used as a contingency with repayment in future years determined by the Port Commission.

All activities in this fund require Commission approval.

NOAA FUND

The Port of Newport and the federal government are currently preparing for the sixth year of operations in our twenty year lease. The Marine Operations Center is currently 65% occupied providing working space for 56 federal employees. Though only two vessels (the Rainier and Shimada) are officially homeported in Newport, MOC-P hosts the other five vessels in the Pacific fleet including the Fairweather, Lasker, Hi’iaklakai, Dyson and Sette during the course of the year. The Port is responsible for maintaining six berths capable of mooring these vessels. NOAA pays $2.5-million annually the vast majority of which pays of the revenue bonds that were used to the build center.

The NOAA fund is a major component of the Port’s budget, but is a relatively minor contributor to covering other much-needed improvements around the Port, but, of course, is a great source of pride for Newport and the state. This year’s budget anticipates positive operating income of over $161,000. Positive operating income is normally held in the ending fund balance for a year and then used to either dredge or complete other capital maintenance projects the following year. Dredging the berths is becoming an every other year event and was completed this past winter at a cost of $300,000.

Management anticipates a beginning fund balance of $5.68-million of which $2-million is restricted, and amount which we should increase year. It is critical that these cash reserves stay healthy so ensure that dredging and repairs to the pier and buildings can be done to the highest standard especially as we near the end of the 20 year lease.

Last year, the Port included a $2,000,000 placeholder transfer for the shipping facility project that was not used. I am recommending that the budget committee reduce that transfer to $500,000 into the Construction Fund this year that would serve as bridge financing and/or contingency.

Other capital maintenance projects that the Port is obligated to perform include interior painting ($60k) and pile cap replacement ($6k). Since these projects are contractually obligated, they do not appear on the Port's Capital Improvement List.

The Port will be obtaining permits to increase the prism for future dredging efforts. This will increase initial maintenance dredging costs but allow for less frequent dredging.

GENERAL OPERATING FUND

The General Operating Fund will budget for the use of approximately $300,000 of its reserves, much less than the $670,000 that was budgeted last year. The Port is anticipating beginning working capital of just over $1.57-million. Last year we anticipated beginning the year with just over $1.6-million.

When we focus solely on our net operating income (income and expenses based upon our day-to-day activities), the negative amount is reduced to $75,000; $155,000 less than last year.

The Port is budgeting for a 12% increase in Operating Revenue compared to last year's budget estimate. Our projected budget in FY 16-17 was $3.134-million and we project finishing much stronger based upon an increased number of visitors to the RV Park, more aggressive pricing during high-traffic events, and vigilant CPI adjustments to leases, moorage and service fees.

FIG. 3 - HISTORICAL OPERATING REVENUE (FY 13-18)

		FY 13-14	FY 14-15	%	FY 15-16	%	FY 16-17	%	FY 17-18	%
		Audit	Audit	Δ	Audit	Δ	Projected	Δ	Budget	Δ
Operating Revenue		$3,062,865	$3,154,462	3%	$3,346,165	6%	$3,485,952	4%	$3,524,178	1%

This budget does not take into account any operational revenues from the proposed International Terminal Shipping Facility.

Our operating expenses (personal services, materials and services and debt services) are about 5% more than last budget cycle which includes a 7% increase in budgeted personnel services and 9% increase in Materials and Service (M&S).

FIG. 4 - HISTORICAL OPERATING EXPENSES (FY 13-18)

		FY 13-14	FY 14-15	%	FY 15-16	%	FY 16-17	%	FY 17-18	%
		Audit	Audit	Δ	Audit	Δ	Projected	Δ	Budget	Δ
Operating Expenses		$2,805,065	$2,750,612	(2%)	$2,875,632	5%	$3,183,635	11%	$3,599,600	13%

Last year, the Commission added a Maintenance Department that has not been hired with the absence of a Director of Operations. The increases in M&S this year are driven by an increase in materials that