Port of Newport

FY2018-2019 BUDGET MESSAGE

DATE: *16 May 2018 (Updated 12 June 2018)*

RE: *Fiscal Year 2018-2019 Budget*

TO: *Port of Newport Budget Committee*

ISSUED BY: *Doug Parsons, General Manager / Budget Officer*
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ACKNOWLEDGEMENT

As Budget Officer, it is my responsibility to solicit budget-related input from the Port of Newport ("PON") staff and Port Commissioners; prepare the proposed budget; participate in the Port Commission budget priorities work sessions; prepare this Budget Message; participate in the Budget Committee meeting(s); and prepare/file the requisite budget-related documents. There are multiple PON staff who helped develop the FY2018-2019 budget. Chris Urbach, Recreational Marina (South Beach) Harbormaster; Kent Gibson, Commercial Marina Harbormaster; Jim Durkee, NOAA MOC-P Facilities Manager; and Don Moon, International Terminal Manager, each provided valuable planning input. Aaron Bretz, Director of Operations; Mark Harris, Accounting Supervisor; Becca Bishop, Accounting Clerk; and Karen Hewitt, Administrative Supervisor, each made major contributions toward developing the budget documents. Without their efforts I would not be able to present this budget. Karen also arranged the various budget-related meetings, assembled the Budget Binders, distributed the electronic version of the budget documents, and ensured that the appropriate notices were posted and published.

INTRODUCTION

The budget document ultimately submitted to the State of Oregon is the Port's financial plan for its next fiscal year. The proposed budget figures herein are the best estimate of what the Port expects to receive (i.e. "Resources" in public agency jargon; "Revenue" in corporate business jargon) and what the port plans to spend (i.e. "Requirements" " in public agency jargon; "Expenses" in corporate business jargon) from 1 July 2018 through 30 June 2019. To prepare this budget we used the Port's past budget years' financial history to estimate future income and expenditures for our upcoming FY2018-2019.

The inspiration for this budget comes from a number of Port Commission sanctioned policy documents. The Board adopted the Port's Strategic Business Plan and the Port's Capital Facilities Plan (collectively referred to as the "5-Year Plan") in 2013, and has committed to updating this document in 2018. In February 2017 the Commission adopted goals covering many aspects of the Port's operation.

The following two budget-related resolutions will be considered as part of the Port's budget process:

[1] A Resolution Adopting a Compensation Plan for Port Employees; and
[2] A Resolution Setting Rates, Fees, and Charges.

The Budget Resolution will ultimately be adopted at the Regular Monthly Commission Meeting currently scheduled for 26 June 2018.

RECENT INTERNATIONAL TERMINAL HISTORY

In November 2006 voters authorized the Port of Newport to issue bonds not to exceed $15,452,000 to fund the reconstruction and environmental cleanup of the inoperable Marine Terminal. Work on the project began in 2010, with an occupancy permit issued in December 2013. The total price of the project was over $27M. Since the project completion there has been an absence of shipping from the renamed Newport International Terminal ("NIT"), but the distant water fleet and midwater trawlers expanded their use of the facility. Unfortunately, the moorage fees and service charges to these fishing vessels have not generated enough revenue to make up the NIT's negative operating income which is largely driven by the substantial debt service associated with rebuilding the terminal.

In 2015 the City of Newport formed the McLean Point Urban Renewal Plan which includes the NIT within the plan boundaries. Also in 2015 the Port received a $2M Transportation Investment Generating Economic Recovery ("TIGER") grant from the U.S. Department of Transportation, as part of a proposed International Terminal Shipping Facility ("ITSF") project of approximately $6.5M. Other grant applications were not successful. The TIGER grant program is now the newly named Better Utilizing Investments to Leverage Development ("BUILD") grant program. In August 2017 the Board voted to reject the agreements which were part of a proposal to develop a log shipping facility using the NIT and other Port property at McLean Point. Shortly thereafter the Port withdrew its application for the already rewarded TIGER grant since the rest of the financial pieces for the shipping project were not in place.

Because the planned ITSF project was not implemented, the proposed budget appropriations for the Port's upcoming FY2018-2019 much more closely correspond to those of FY2015-2016 rather than those of FY2016-2017. When comparing the proposed values for this coming fiscal year on both the State LB forms and the Port's forms which feed the LB forms, you will find that they generally correlate with those of the "First Preceding Year (FY2016-2017)".

The Port staff and Commissioners intend to seek and secure a varied customer base for the NIT, and will fairly evaluate all financially viable projects which are equitable to all parties involved and don't exclude other users. The Port is committed to working with all NIT stakeholders including the distant water fleet, midwater trawlers, other commercial fishermen, seafood buyers, log and finished lumber shippers, container shippers, ILWU, research vessels, cruise ships, and various other marine-related customers so that they are each part of the process as this asset is developed.

BUDGET "SNAPSHOT"

Funds. The proposed budget to be submitted to the State is a document comprised of five (5) separate funds including the General Operating Fund ("GOF"), Bonded Debt Fund ("BDF"), Facilities Maintenance Reserve Fund ("FMRF"), Construction Fund ("CF"), and the NOAA Lease Revenue Fund ("NOAA"). All day-to-day operations are accounted for in the GOF and NOAA funds.

Figure 1 is a compilation of the totals on the Local Budget ("LB") forms required by the State of Oregon:

	Historical Data							
	Actual		Adopted Budget					Proposed by
	Second Preceding Year	First Preceding Year	This Year					Budget Officer
	FY2015-2016	FY2016-2017	FY2017-2018		Fund	Description	State Form	FY2018-2019
1	$4,870,090	$5,935,741	$5,418,316	1	GOF	Total Resources	LB-20	$5,842,668
2	$4,870,090	$5,935,741	$5,418,316	2	GOF	Total Requirements	LB-30	$5,842,668
3	$1,040,549	$1,134,147	$1,349,370	3	GOF	Total Personnel Services	LB-31	$1,597,956
4	$1,199,989	$1,337,289	$1,626,550	4	GOF	Total Materials & Services	LB-31	$1,677,199
5	$9,492,251	$1,371,140	$876,000	5	BDF	Total Resources & Total Requirements	LB-35	$910,955
6	$173,563	$133,939	$235,699	6	FMRF	Total Resources & Total Requirements	LB-11	$802,625
7	$183,643	$105,732	$7,250,100	7	CF	Total Resources & Total Requirements	LB-10	$106,000
8	$8,132,483	$8,273,171	$8,731,279	8	NOAA	Total Resources & Total Requirements	LB-10	$8,275,100

Figure 1 – Compilation of the Port's Local Budget Forms to be submitted to the State

In recent years the detailed information underlying the Port's Budget was provided to the Port Commissioners, Budget Committee Members (a.k.a. Freeholders), Port stakeholders, the public, and the media in the form of spreadsheets requiring readers to dig deeply to reach much of the desired details. Beginning with this proposed FY2018-2019 Budget, the Port's finance department has provided the same information in the form of new LB-like detail forms which feed into the State's LB forms. Additionally, multiple new summary forms have been compiled to provide the supporting budget details in a clearer, more intuitive manner. Both efforts are expected to speed up the development of future Port budgets.

Profit Centers. Beginning in FY2018-2019 all of the Port of Newport's resources and requirements (a.k.a. revenue and expenses) will be budgeted, booked and tracked in one of seven (7) separate profit centers including Administration ("ADM"), Recreational Vehicle Park ("RV"), Recreational Marina ("RM"), Commercial Marina ("CM"), Newport International Terminal ("NIT"), Leased Properties [all but NOAA] ("LP"), and NOAA MOC-P ("NOAA"). This is expected to greatly clarify the Port's financial situation, identifying problem areas as well as opportunities to improve customer services.

Figure 2 provides the abbreviations used herein for the Port's funds and profit centers. The order of the funds is that used in both our QuickBooks Chart of Accounts and our audited financials for FY2016-2017.

Abbreviations			
Funds (5)		Profit Centers (7)	
GOF	General Operating Fund	ADM	Administration
BDF	Bonded Debt Fund	RV	Recreational Vehicle Park
FMRF	Facilities Maintenance Reserve Fund	RM	Recreational Marina
CF	Construction Fund	CM	Commercial Marina
NOAA	NOAA Lease Revenue Fund	NIT	Newport International Terminal
		LP	Leased Properties (all but NOAA)
Other		NOAA	NOAA MOC-P
UEFB	Unappropriated Ending Fund Balance		

Figure 2 -- Abbreviations

Figure 3 shows the proposed FY2018-2019 Budget apportioned by profit centers. This is the equivalent of a private-sector Profit & Loss Statement for each of the Port's seven profit centers.

Port of Newport
FY2018-2019 Budget by Profit Center [1]
Updated: 12 June 2018

Historical Data [2] Actual Year FY2015-2016	Actual Year FY2016-2017	Adopted Budget This Year FY2017-2018	Description	PROFIT CENTERS: ADM [3] Administration	RV RV Park	RM Recreational Marina	CM Commercial Marina	NIT Newport International Terminal	LP Leased Properties All but NOAA	LP Leased Properties NOAA	Proposed by Budget Officer FY2018-2019
			Operating								
$6,999,962	$7,189,298	$7,178,977	Revenues	$660,155	$1,041,700	$905,500	$797,300	$414,600	$687,000	$2,556,950	$7,063,205
			Expenses:								
$1,137,943	$1,209,475	$1,431,755	Personnel Services	$635,920	$111,933	$314,032	$385,045	$145,126	$5,900	$78,306	$1,676,262
$1,496,775	$1,779,647	$2,243,020	Materials & Services	$493,050	$408,350	$305,897	$308,200	$143,702	$18,000	$750,500	$2,427,699
$3,393,292	$3,734,008	$3,610,414	Debt Service	$1,002,305	$214,383	$29,950	$11,450	$506,581	$0	$1,997,271	$3,761,940
$6,028,010	$6,723,130	$7,285,189	Total Operating Expenses	$2,131,275	$734,666	$649,879	$704,695	$795,409	$23,900	$2,826,077	$7,865,901
$971,952	$466,168	($106,212)	Operating Income (Loss)	($1,471,120)	$307,034	$255,621	$92,605	($380,809)	$663,100	($269,127)	($802,696)
			Non-operating								
$125,000	$489,173	$8,006,000	Revenues (Transfers In & Grants)	$844,117	$0	$1,800	$0	$86,250	$0	$0	$932,167
$209,634	$781,635	$6,881,599	Capital Outlay	$0	$18,000	$90,680	$655,606	$260,000	$25,600	$86,000	$1,135,886
$125,000	$60,000	$1,410,000	Transfers Out	$809,617	n/a	n/a	n/a	n/a	n/a	$0	$809,617
($209,634)	($352,462)	($285,599)	Non-operating Income (Loss)	$34,500	($18,000)	($88,880)	($655,606)	($173,750)	($25,600)	($86,000)	($1,013,336)
$762,318	$113,706	($391,811)	Total Net Income (Loss) [4]	($1,436,620)	$289,034	$166,741	($563,001)	($554,559)	$637,500	($355,127)	($1,816,032)

[1] This page is merely meant to provide the reader with an overview of the Operating Income (or Loss) for each of the Port's 7 profit centers.

[2] Data taken from the "Schedule of Revenues, Expenditures and Changes in Fund Balances (Budgetary Basis)" in the "Supplemental Information" section of the Port's audited financials. These are not financial statements prepared using the accrual basis of accounting in conformity with Generally Accepted Accounting Principles (GAAP). They do not include adjustments for depreciation, GASB-68 pension adjustments, GAAP adjustments to capital outlay and debt, etc.

[3] The Administration profit center includes both the "Revenue" and the "Debt Service" components of the Bonded Debt Fund. It also presently includes multiple management and supervisory salaries, taxes, and benefits. Some or all of these items will likely be apportioned to the various other profit centers at a future point in time.

[4] Don't try to compare the "actual" values on the left to the "budgeted" values on the right. For the reasons explained in footnote [2] it would be like comparing apples and oranges.

Figure 3 – FY2018-2019 Budget by Profit Center

Capital Improvements. Figure 4 shows the recommended capital improvement projects ranked in order of priority.

Port of Newport

RECOMMENDED CAPITAL IMPROVEMENTS (By Priority)
Fiscal Year 2018-2019

PON Staff Recommendations

(Individual projects subject to modification(s) throughout FY 2018-2019 by Board of Commissioners)

Item #	Priority	Sub-priority	Fund	Project	Dept.	Cost Estimate
1	S	1	FMRF	Replace fuel dock solenoid valve	RM	$ 15,000
2	S	2	GOF	Hoist Dock 110v additions/moves	CM	12,981
3	S	3	FMRF	Relocate Hoist Dock electrical lines beneath pier	CM	102,000
4	S	4	FMRF	PD5 pier engineering - Phase III[1] (OBEC)	CM	86,625
5	S	5	FMRF	Replace electric load centers - Recreational Marina (first 3 of 9)	RM	38,000
6	S	6	GOF	Replace waste water pump station	RM	32,680
7	S	7	FMRF	Port Dock 7 replace 8 mid-pilings and 2 end-pilings; PD 5 replace 2 pilings	CM	120,000
8	S	8	CF	Evaluate Rogue Brewery seawall	LP	10,000
9	S	9	NOAA	Repair/replace steel pile caps (contract requirement)	NOAA	6,000
10	S	10	NOAA	Camel system repairs & modifications	NOAA	80,000
11	S	11	GOF	Security Cameras & Network [2]	NIT	115,000
12	S	12	GOF	Security Cameras & Network[3]	CM	15,000
13	S	13	GOF	Security Cameras & Network	RM	5,000
14	S	14	GOF	Two water line extensions to west wharf	NIT	6,000
15	S	15	GOF	Purchase and install 2nd swing hoist for use on East Wharf	NIT	130,000
16	S	16	GOF	Facility repairs and improvements to create PON Business Incubator[4]	LP	15,600
17	S	17	GOF	Concrete pad for waste oil/bilge tank	NIT	9,000
18	S	18	FMRF	Port Dock 7 new floats, ≈ 160 linear ft. (Sections E & F)[5]	CM	288,000
19	S	19	FMRF	Port Dock 7 section F restoration of utilities	CM	23,000
20	S	20	CF	Fenced, auto-access long-term public parking lot (≈ 30 vehicles)	CM	8,000
21	S	21	CF	Design of RV Park Annex full upgrade - Phase I	RV	18,000
					Total:	**$ 1,135,886**

[1] Includes permitting costs ($115,000 expended in FY 2016-2017).
[2] Homeland Security 75% matching grant for NIT (Port pays 25%).
[3] Partial cost match of $5,000 from SDAO
[4] Old Yaquina Fruit Processing Building (partial buildout, ≈ 600 ft^2, including office for DulsEnergy); now called "Port of Newport Business Incubator".
[5] This is only 27.7% of the floats we actually need for this section of PD7. We plan to acquire & install others in FY 2019-2020 (pilings to be installed in FY 2018-2019).

Priorities
S - Short term (next budget year)
N - Near term (2 to 5 years)
M - Mid term (6 to 10 years)
L - Long term (11 to 20 years)

Figure 4 – Recommended Capital Improvements (by Priority)

The actual start dates for the individual projects will depend upon a variety of indeterminate factors including evolving perceived needs, contractor and material availability, permitting and licensing timelines, staff workloads, etc.

While last year's budget was focused on creating new revenue at the International Terminal, this year's proposed budget represents a paradigm shift to completing capital improvements which are first safety-related (both for personnel and the environment), followed by those that have the potential to generate increased revenue for the Port from a cross-section of profit centers. Rather than focusing on a single large capital project, this year's proposed budget encompasses 21 smaller capital improvement projects. It is our intention to implement these projects while we concurrently search for significant grants to enable larger capital improvement projects in FY2019-2020.

BUDGET HIGHLIGHTS

Some notable highlights of the Port's FY2018-2019 Budget include:

- 21 separate Capital Improvement projects including:
  - $431,000 in replacement and additions of pilings and floats to repair and increase moorage space for commercial fishing vessels, and
  - over $270,000 in repairs and additions to hoists at the Commercial Marina and the International Terminal

- Reduction of property taxes to Port District homeowners from about $1,000,000 to about $515,000 in FY2018-2019 only

- A 25% matching reduction (about $34,500) of the Port's unfunded PERS obligation from the State of Oregon if the Port pays about $103,500 against its unfunded PERS obligation

- A 60% matching grant of about $86,250 from Homeland Security if the Port invests about $56,250 to acquire and install security cameras and the associated computer network assets at the International Terminal

- Implementation of an Employee Assistance Program for all Port staff and family members

- Approximately doubling the annual training budget to $48,000

- Increasing the contingency amount in the General Operating Fund from $100,000 to $300,000

- Increasing the contingency amount in the Facilities Maintenance Reserve Fund from $8,000 to $80,000

- Placing an initial contingency amount of $70,000 in the Construction Fund for unforeseen maintenance at the International Terminal

- Placing a contingency amount of $100,000 in the NOAA Fund, and placing the amount of $150,000 in the Future Reserves of the NOAA Fund.

Each of these items are addressed within the Budget Message section of the particular fund they affect.

GENERAL OPERATING FUND ("GOF")

The Port's General Operating Fund is projected to start the upcoming FY2018-2019 with a net working capital of about $1.729M (accrual basis) vs. about $1.572M budgeted for FY2017-2018. Total Resource (i.e. revenue) into the GOF, and Total Requirements (i.e. expenses) out of the GOF, are balanced and projected to be about $5.842M, as opposed to about $5.418M budgeted for the previous year.

For FY2018-2019 Personnel Services are projected to be about $1.598M (vs. about $1.349M budgeted for the previous year); Materials & Services are projected to be about $1.647M (vs. about $1.627 budgeted for the previous year); and our Debt Service & Transfers are projected to be about $1.693M (vs. about $892.7K budgeted for the previous year). There are only two transfers from the GOF, one in the amount of $747,792 to the Facilities Maintenance Reserve Fund, and one in the amount of $61,825 to the Construction Fund.

The capital improvement projects, and their budgeted amounts planned to be funded by the GOF fund in FY2018-2019, are shown below in Figure 5:

	Profit Center	Budget	Resources (Grant/Loan)	Projected Cash Requirement
General Operating Fund (GOF)				
Hoist Dock 110v additions/moves	CM	$ 12,981	$ -	$ 12,981
Replace waste water pump station	RM	32,680	-	32,680
Security cameras & network	NIT	115,000	86,250	28,750
Security cameras & network	CM	15,000	-	15,000
Security cameras & network	RM	5,000	-	5,000
Two water line extensions to west wharf	NIT	6,000	-	6,000
Purchase and install 2nd swing hoist for use on West Wharf	NIT	130,000	-	130,000
Facility repairs and improvements to create PON Business Incubator	LP	15,600	-	15,600
Pad for waste oil/bilge tank	NIT	9,000	-	9,000
Subtotal		341,261	86,250	255,011

Figure 5 – Capital Improvements to be funded by the General Operating Fund

The GOF has thirteen (13) separate debt instruments with a projected debt service in FY2018-2019 of about $884K. As of 30 June 2018, the projected outstanding balance on these debts is $8,349,567. A debt service requirement details sheet for all of the Port's debt (16 instruments in total) is provided in the budget package.

Port management recommend increasing the contingency amount in the General Operating Fund from $100,000 to $300,000 for FY2018-2019.

Rates, Fees and Charges. The Port's infrastructure is in serious need of both repair and maintenance. The Port is faced with the nearly overwhelming task of closing a deferred maintenance gap of around $42M, as well as addressing identified future capital improvements of around $28M. The Port recently reexamined its rates, many of which have become outdated, and Port staff proposed an updated rate structure which is in line with the current rates of our closest regional competitors. The incremental revenue from the proposed rate increases in the 11 June 2018 draft of the rate document was projected to amount to about $569K/year, bringing the Port's projected revenue from services to about $3.416M in FY2018-2019. The purpose of the proposed rate increases is to enable the Port to increase facility maintenance and repairs; fund the most pressing infrastructure capital projects; keep up with increasing expenses; and maintain or increase customer services in the near future.

To date, the various Port stakeholders have been unable to reach consensus on the proposed rates for FY2018-2019. Rather than delay the proposed budget, a compromise has been reached to use rate increases identical to those used in FY2017-2018 for the individual line items in sections 1, 2, and 3 (i.e. Service Rates, Commercial Marina, and International Terminal) of the rate document. The incremental revenue from these proposed rate increases is expected to amount to about $348K/year, bringing the Port's projected revenue from services to about $3.195M in FY2018-2019.

Tenant Leases. The Port presently leases property to 27 lessees, receiving lease payments of about $3.171M/year. Our largest tenant is the U.S. Government's National Oceanic and Atmospheric Administration ("NOAA") which pays the Port approximately $2.544M/year. There are 8 other tenants in South Beach which pay the Port a combined total of about $417K/year, slightly over $350K/year of which comes from Oregon Brewing Company's Rogue Brewery. The Port has 9 tenants on the bayfront paying a combined total of slightly over $83K/year, and another 9 tenants at the Newport International Terminal property paying a combined total of just under $127K/year. A detailed Schedule of Leases is provided in the budget package.

Public Employees Retirement System ("PERS"). In FY2017-2018 the Port's budgeted PERS expenses more than tripled to $53,614, and is budgeted to increase to $65,886 for FY2018-2019. The Port's unfunded PERS liability (i.e. our "Net Pension Liability") recorded in our audited financials for FY2017-2018 was $689,933 effective 30 June 2017. GASB-68, which about two years ago required smaller organizations such as the Port to begin reporting their Net Pension Liability, added 10 pages to the Port's audited financials. Under SB 1566, signed by Governor Brown on 10 April 2018, participating public employers will have an opportunity to deposit at least $25,000 (up to a maximum of 5.0% of their unfunded PERS liability) and receive 25% matching contributions from the State's soon-to-be created Employer Incentive Fund ("EIF") to offset a portion of their unfunded PERS liability. It is expected that the Port will be eligible to participate in this matching program in the second half of our FY2018-2019. We have budgeted a payment by the Port of $103,500, and a match by the State of $34,500, to reduce our unfunded PERS liability by the amount of $138,000. Interestingly, this maximum allowed State match is about the same amount that our PERS expenses jumped by in our last fiscal year.

BONDED DEBT FUND ("BDF")

The Bonded Debt Fund exists solely to receive property tax and make General Obligation ("GO") bond payments related to the remediation and reconstruction of the International Terminal. This is a fairly simple fund to budget as income may only be used to make debt payments. Principal payments are typically made once a year (on or before January 1st), and interest payments are typically made twice a year (on or before January 1st and July 1st). The Port currently has two GO bonds, one of which is from 2011 ($5,452,000 with a projected outstanding balance of $5,065,000 as of 30 June 2018), and the other is from 2016 ($7,610,000 with a projected outstanding balance of $7,320,000 as of 30 June 2018).

It is normally not necessary to carry a beginning balance in the Bonded Debt Fund since most of the property tax is collected in November with plenty of time to make the first payments which are due by January 1st. For this reason, the Port generally shows an Unappropriated Ending Fund Balance ("UEFB") of zero for this fund in the budget. However, this year is an exception since a substantial balance was kept here following the bond refunding in 2016 of the 2007 issuance, to facilitate the transition of paying off the 2007 bond and incurring the new 2016 bond. Because of the previously mentioned restrictions on the use of funds in the Bonded Debt Fund, there is no reason to maintain a substantial balance in this fund. In our FY2018-2019 budget we plan on using a major portion of this FY2017-2018 UEFB to substantially reduce property taxes to Port District homeowners from about $1,000,000 to about $515,000 in FY2018-2019 only, conservatively leaving a FY2018-2019 UEFB of $30,000 in the Bonded Debt Fund.

FACILITIES MAINTENANCE RESERVE FUND ("FMRF")

The Facilities Maintenance Reserve Fund was created by the Board in 1998 to purchase and repair existing Port infrastructure and property. Resources for this fund are typically generated through transfers from the General Operating Fund. It has been previously suggested that the Board create a new landed poundage-based fee to be charged to seafood buyers operating on Port property, and that this fee stream be assigned to the Facilities Maintenance Reserve Fund.

All monies in this fund are available for reprioritization in case of maintenance emergencies at the Port. All activities in the Facilities Maintenance Reserve Fund require Board approval.

The Port's FMRF is projected to start the upcoming FY2018-2019 with a beginning working capital (a.k.a. retained earnings) of $54,733 (accrual basis) vs. $75,500 budgeted for FY2017-2018. Total Resource (i.e. revenue) into the FMRF, and Total Requirements (i.e. expenses) out of the FMRF, are balanced and projected to be $802,625, as opposed to $235,699 budgeted for the previous year.

The capital improvement projects, and their budgeted amounts planned to be funded by the FMRF fund in FY2018-2019, are shown below in Figure 6:

	Profit Center	Budget	Resources (Grant/Loan)	Projected Cash Requirement
Facilities Maintenance Reserve Fund (FMRF)				
Replace fuel dock solenoid valve	RM	15,000	-	15,000
Relocate Hoist Dock electrical lines beneath pier	CM	102,000	-	102,000
PD5 pier engineering - Phase III	CM	86,625	-	86,625
Replacing electric load centers - Recreational Marina	RM	38,000	-	38,000
Port Dock 7 replace 8 mid-pilings and 2 end-pilings; PD 5 replace 2 pilings	CM	120,000	-	120,000
Port Dock 7 new floats, ≈ 180 linear ft. (Sections E & F)	CM	288,000	-	288,000
Port Dock 7 section F restoration of utilities	CM	23,000	-	23,000
Subtotal		672,625	-	672,625

Figure 6 – Capital Improvements to be funded by FMRF

The largest capital improvement project to be funded by the FMRF this coming fiscal year is for new pilings (about $10K apiece) to be acquired and driven during the upcoming "In Water" work period (i.e. 1 November → 15 February). This work will enable us to acquire and install new floats at Port Dock 7 to create additional commercial moorage space. The Port has reached a moorage occupancy for semi-annual and annual moorage in the Commercial Marina of about 95% (over 100% if you assume 10' between boats and/or take into account transient vessels). Aaron Bretz, the Port's Director of Operations, will be providing a summary of this situation at the next Regular Monthly Commission Meeting later this month.

For our FY2018-2019, Port staff recommend that a contingency amount of $80,000 be allocated to the Facilities Maintenance Reserve Fund for unforeseen repairs and any unplanned maintenance issues occurring at the Port's infrastructure and properties.

Computerized Maintenance Management System. The Port uses a computerized maintenance management system ("CMMS") developed by Hippo CMMS. The package is particularly useful for projecting maintenance costs and tracking deferred maintenance projects. The Port's Director of Operations feels that the Port is presently using just over half of the capabilities of this software, and plans to enroll our assets at the Recreational Marina and the International Terminal during FY2018-2019.

CONSTRUCTION FUND (“CF”)

The Construction Fund receives and expends monies related to the Port’s construction and reconstruction projects. Most recently this fund was used for the reconstruction of the International Terminal. All activities in the Construction Fund require Commission approval. For our FY2018-2019, Port staff recommend that an initial contingency amount of $70,000 be allocated to the Construction Fund for unforeseen repairs and any unplanned maintenance issues occurring at the International Terminal.

The Port’s Construction Fund is projected to start the upcoming FY2018-2019 with a beginning working capital of $44,055 (accrual basis) vs. $0 budgeted for FY2017-2018. Total Resource into the CF, and Total Requirements out of the CF, are balanced and projected to be $106,000, as opposed to $7,250,100 budgeted for the previous year.

The capital improvement projects, and their budgeted amounts planned to be funded by the CF fund in FY2018-2019, are shown below in Figure 7:

	Profit Center	Budget	Resources (Grant/Loan)	Projected Cash Requirement
Construction Fund (CF)				
Evaluate Rogue Brewery seawall	LP	10,000	-	10,000
Fenced, auto-access long-term public parking lot (≈ 30 vehicles)	CM	8,000	-	8,000
Design of RV Park Annex full upgrade - Phase I	RV	18,000	-	18,000
		36,000	-	36,000

Figure 7 – Capital Improvements to be funded by Construction Fund

A time-critical capital outlay to be funded early in our FY2018-2019 is the professional evaluation of the seawall at our lessee Rogue Brewery’s facility, budgeted at $10,000.

NOAA LEASE REVENUE FUND (“NOAA”)

The 20-year contract for the National Oceanic and Atmospheric Administration Marine Operations Center - Pacific (“NOAA MOC-P”) facility between the Port of Newport and the U.S. Government was signed in August 2009. The 40,852 ft.^{2} facility (rentable space in administration building and warehouse) is currently about 66% occupied, providing working space for 58 federal employees. There are presently two NOAA vessels (the Rainier and the Bell M. Shimada) officially homeported in Newport. The NOAA MOC-P facility hosts four other NOAA ships (the Fairweather, Reubin Lasker, Oscar Dyson, and the Surveyor) during the course of the year.

The Port is responsible for maintaining an approximately 1,300 foot long pier with six berths capable of mooring these vessels; for dredging to a depth of at least 24 feet at the face of the NOAA pier; for maintaining the NOAA MOC-P buildings and a small boat dock; and for providing a full-time Facilities Manager. The U.S. Government pays the Port a lease payment of slightly over $2.54M per year (projected to be $2,544,000 in FY2018-2019), nearly all of which is used to pay the debt service on the revenue bond issued in 2010 to build the NOAA facility (projected to be $1,997,271 in FY2018-2019); dredging approximately every other year (projected to be about $490,000 in FY2018-2019); and material, services, and capital outlays (together projected to be about $346,500 in FY2018-2019).

The NOAA fund is a major component of the Port’s budget, is a great source of pride for Newport and the State of Oregon, but doesn’t generally contribute to covering any of the much-needed improvements elsewhere around the Port. In years like FY2018-2019 involving dredging at the pier face, relatively high materials and services, and obligated capital outlays for repairs, the NOAA lease has a negative operating income which reduces the bond fund’s working capital balance. For our FY2018-2019, Port staff recommend that a contingency amount of $100,000 be allocated to the NOAA Fund for unforeseen repairs and any unplanned maintenance issues occurring at the NOAA MOC-P facility.

The Port's NOAA Fund is projected to start the upcoming FY2018-2019 with a beginning working capital of $5,718,150 (accrual basis) vs. $5,678,779 budgeted for FY2017-2018. Total Resource into the NOAA Fund, and Total Requirements out of the NOAA Fund, are balanced and projected to be $8,275,100, as opposed to $8,731,279 budgeted for the previous year.

The capital improvement projects, and their budgeted amounts planned to be funded by the NOAA fund in FY2018-2019, are shown below in Figure 8:

	Profit Center	Budget	Resources (Grant/Loan)	Projected Cash Requirement
NOAA Fund (NOAA)				
Repair/replace steel pile caps (contract requirement)	NOAA	6,000	-	6,000
Camel system repairs & modifications	NOAA	80,000	-	80,000
Subtotal		86,000	-	86,000

Figure 8 – Capital Improvements to be funded by the NOAA fund

As a result of currently low interest rates, it may be possible to achieve a bond refunding of our 2010 NOAA Revenue Bond during FY2018-2019. This bond was initially issued in the amount of $24,095,000 and is projected to have an outstanding balance of $19,105,000 ($16,120,000 callable) as of 30 June 2018. Earlier this month KeyBanc noted that the Port could potentially save about $1,188,224 in interest upon a bond refunding at the current interest rate, but both the Director of SDAO's Advisory Services and the Port's Bond Counsel noted that there are legal issues involved and that this won't be a simple refunding. To be conservative, the expected saving from such a refunding of the NOAA Revenue Bond is not factored into our FY2018-2019 budget.

<u>Dredging</u>. Earlier this year the U.S. Army Corps of Engineers ""USACE") dredged for 36 days at the Yaquina Bay bar, jetty, and harbor (about 362,000 cubic yards) plus another 21,000 cubic yards inside of the USACE-maintained breakwater at the Port's Recreational Marina. For FY2018-2019 the Corps plans 30 days of dredging at Newport (they've been allocated about $3,096,000 for this 280,000 → 300,000 cubic yards) beginning early summer and just before winter. For FY2019-2020 they've been allocated about $3,080,000 for dredging at Newport. Congress provides these federal allocations to USACE for the purpose of keeping the Port of Newport safe and operational for commercial and recreational vessels, facilitating the coastal economy. Although these funds are critical to the Port, they are not part of the Port's budget.

Periodic dredging required within the Port (e.g. at the face of the NOAA pier and both International Terminal wharfs, inside of the recreational and commercial marinas, adjacent to the various Port docks, etc.) must be paid for from the Port's budget and are typically large expenses.

FUND BALANCE REPORTING

At the end of the accounting period ending 31 March 2018, about half of the Port's cash assets were restricted. At that time the Port had restricted cash in the amount of $4,301,818 and unrestricted cash in the amount of $4,401,167. We are in the process of examining these restrictions to better understand their covenants. Discussions about these restrictions have led to inquiries regarding fund restrictions by fund types. The following background information on fund balance reporting is meant to provide some clarity on this issue.

Fund balance reporting is governed by the Governmental Accounting Standards Board (specifically GASB Statement #54). A concise excerpt from a GASB #54 fact sheet is provided below. I've added some associated notes [in brackets]:

"Fund balance will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

- *Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. [These are external restrictions, not restrictions by the Port.]

- *Committed fund balance*—amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint. [These restrictions may be implemented by the Board using either a motion or a resolution.]

- *Assigned fund balance*—amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority [These restrictions may be implemented by either the Board or the GM giving e-mail direction to either the Director of Finance or the Accounting Supervisor.]

- *Unassigned fund balance*—amounts that are available for any purpose; these amounts are reported only in the general fund."

In the Port's accounting system (the non-profit version of QuickBooks), we simply need to create separate line items in the "Funds Balance" section of the Balance Sheet to report restricted, committed, assigned, and unassigned (i.e. unrestricted) fund balances. Appropriated "Contingencies" and "Future Reserves" remaining at the end of the current fiscal year (i.e. FY2017-2018) do not automatically carry forward to the budget for the next fiscal year (i.e. FY2018-2019); they must be adjusted as necessary and re-appropriated as part of the budget adoption process. Incidentally, Unappropriated Ending Fund Balances (UEFB) adopted in our FY2018-2019 budget will not be available for any use in FY2018-2019 (except for emergency situations followed by a supplemental budget), and will be the starting fund balances for our FY2019-2020.

CONCLUSION

The finance staff's efforts at implementing new detailed Port budget forms to feed the State's required Local Budget forms will significantly speed up next year's budget process. In addition, the apportionment of the Port's revenue and expenses to our seven separate profit centers will provide a valuable financial monitoring and control tool in future years, and enable more timely and better informed decisions related to the Port's finances and operations.

As do other active Ports in Oregon, our organization faces a broad cross section of issues including aging infrastructure, unfunded but necessary capital improvement projects, securing infrastructure grants, backlogs of administrative and accounting work, rising benefit and State PERS retirement rates, growing regulation of water-related activities, differentiating ourselves from our competitors, improving customer service, and even addressing a growing number of sea lions! In particular the Port of Newport is saddled with a high debt service load, and is ranked among the lowest in salary rates amongst Oregon and regional ports.

I would like to thank the entire Port staff for their high quality, professionalism, and great attitudes. Across the board they are all committed to sustain and improve customer service despite the significant resource challenges we must overcome on a daily basis. Likewise, the Port Commissioners continue to make significant contributions in setting Port policy, serving as stewards of the Port's assets, and providing me with direction and guidance.

In the coming year we need to secure grants; add new revenue sources; automate some of our key operational and accounting tasks; increase our investments in staff through both their compensation and training; position our organization to take advantage of new opportunities; and protect our existing growing revenue streams across multiple profit centers which are each focused on very different customer bases with sometimes diverging needs.

The proposed FY2018-2019 Budget will not cure decades of deferred maintenance, nor will it greatly reduce the backlog of identified capital improvement projects, but it's a good start toward enabling the Port to move forward and prosper.

Sincerely,

Doug Parsons
General Manager / Budget Officer
12 June 2018