PORT OF NEWPORT MINUTES

February 27, 2018
Commission Work Session & Executive Session

I. EXECUTIVE SESSION

Commission President Patricia Patrick-Joling called an Executive Session of the Port of Newport Board of Commissioners to order at 12:00 noon at the South Beach Activities Room, 2120 SE Marine Science Dr, Newport, OR, **PURSUANT TO ORS 192.660(2)(a) – TO CONSIDER THE EMPLOYMENT OF AN OFFICER, EMPLOYEE, STAFF MEMBER OR AGENT.**

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

Management and Staff: Aaron Bretz, Interim General Manager; Mark Harris, Staff Accountant; and Karen Hewitt, Administrative Assistant. Richard Stellner, Human Resources Consultant, participated by phone.

Members of the Public and Media: Kiera Morgan, KYTE/KNPT Radio

Executive Session was adjourned at 12:31.

II. CALL TO ORDER

Commission President Patricia Patrick-Joling called the Special Commission Meeting of the Port of Newport Board of Commissioners to order at 12:32 pm at the South Beach Activities Room, 2120 SE Marine Science Dr., Newport OR, 97365

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

Management and Staff: Aaron Bretz, Interim General Manager; Mark Harris, Staff Accountant; and Karen Hewitt, Administrative Assistant. Todd Kimball, CFO Selections, participated by phone.

Members of the Public and Media: Ed Backus, Collaborative Fisheries Associates, LLC; Kiera Morgan, KYTE/KNPT Radio; Steve Beck; Yale Fogarty, ILWU; David Jincks; Pat Ruddiman, ILWU; Robert Smith; Mike Storey, Pegasus; Jim Seavers; Doug Cooper, Hampton Lumber; Dietmar Goebel, Newport City Council; Heather Mann, Midwater Trawlers Cooperative.

III. GENERAL MANAGER RECRUITMENT UPDATE

A motion was made by Lackey and seconded by Skamser to authorize Richard Stellner to enter into contract negotiations with Doug Parsons for the General Manager position at the Port. The motion passed 3 – 2, with Chuck and Lamerdin opposed.

IV. NIT FACILITY OPERATIONS DISCUSSION

- A. Terminal Finances
- B. Projecting Terminal Revenue
- C. Projecting Unrestricted Reserves at NOAA

Kimball said there was discussion about what kind of revenue would be needed to recover costs and be successful at the Newport International Terminal (NIT). Patrick-Joling said the Commission had the slides available from his previous presentation. Bretz distributed information sent by Kimball, which is appended to the minutes. Kimball referred to the slide presentation, page 10 in the packet, showing the NIT revenue before and after renovations. Total revenue moved upward until 2010, when there was construction and an economic downturn. Since that time, revenue has increased significantly in the past 4 – 5 years. He then referred to page 11, NIT operating profit and loss. This appears to be in good shape. Kimball added in the debt service beginning in 2012-13, and added revenue from leased properties, referring to page 12 in the packet. The net income is still lagging behind debt service payments, shown on the middle line in the graph. Kimball looked at profit and loss by business unit, with a focus on NIT. He thought it was important to move bond proceeds and debt service into NIT analysis. Once that was done, it provided a more realistic picture of what was going on at NIT. He also incorporated an annual capital reserve and allocated administrative costs. This showed a loss of $215K for NIT in the last fiscal year.

Kimball referred to the information distributed by Bretz, with possible targets for NIT revenue. The figure of $155K additional annual revenue needed to break-even on a cash-basis was based on the $215K loss, adding back in the $50K placeholder for capital reserves. This figure does not include funds toward future replacement costs. This would be the bare minimum needed, not really what's required. The additional revenue figure of $450K included capital improvement costs, projected based on the Port's financial statement, divided over 35 years, subtracting out current operating income. This is a ballpark estimate. Kimball said the goal would be to have annual funds set aside for long term capital improvements. Some projects may last for more than 35 years, or future costs may be higher. Kimball said the Port would need to look at future value of the costs. Lackey asked if the amount of the $25MM used for remediation was figured in. Chuck said there had been about $7.5MM spent on remediation. Kimball said there would be more work needed to find more accurate numbers, but there should be money set aside for future repairs.

The next step was to include paying back the investment, not just the taxpayers, but more broadly. This led to the figure of an additional $750K of annual revenue needed. This could be adjusted by taking out the remediation funds and changing the payback period, but this number was somewhat based on the length of the bonds. Next was a consideration of having a 10% return on investment, which leads to the figure of $850K additional annual revenue. The Port should be productive with the invested funds. Lastly, $1.14MM additional annual revenue represented breaking even after the removal of the bond levy. This would be a long term goal of where the Port would want to be. The Port can't do an additional levy to fund projects every five years, and several other projects needed future investments. This should maximize the investment already received from the taxpayers, and store away funds for the next project.

Patrick-Joling said this was a good snapshot of what the Port needs, and should get ready to put plans in order. Lackey said he was trying to match the $450K with the current profit and loss, and why it did not match the $218K. Kimball said it was based on the total construction cost of $25.8MM over 25 years for long term repair and replacement, subtracting net operating income. Kimball said he should subtract out the $739K for remediation. He added the $218K just represented the current deficit based on operations. $450K would include repair and replacement costs.

Bretz next referred to the slide on page 19 in the packet showing NOAA ROI introducing the discussion on the restricted fund outlook and whether unrestricted funds would be available for other places at the Port. Kimball said the NOAA project has been more self-sustaining than NIT based on calculations. In general, the Port needs to insure that there will be funds available long-term for repair/replacement at NOAA. The Port should always set aside part of revenue for future needs and keep current with a reserve study. If there is an excess from ROI or lower repair costs, potentially there would be cash available for other uses. But it would be a safe bet that NOAA funds not be used for other purposes, unless only for a bridge loan for a short-term project. Kimball said he believed a more current version projects a deficit. The budget has money set aside for replacement reserves. Based on a 20 year reserve study, that amount will be depleted in 20 – 30 years. Ideally the amount will wave, with funds used for repairs and then replaced. Kimball said he calculated new numbers, and if the 20 year study is accurate, the reserve fund would need to have $185K per year set aside.

Chuck asked about restricted vs. unrestricted funds. Kimball said that had come up also in a meeting with Harris and the auditor. Kimball said he is not sure if the restrictions are clear. Jincks said the restrictions were based on the SFO (Solicitation for Offer) to set aside funds for upkeep and repair. The unrestricted funds were left over from contingencies and set aside bond funds. Since then, the Port has pulled $.5MM for other uses. Kimball suggested the Port make sure the reserve study is accurate and a worst case scenario. Patrick-Joling said the Port may have some discretion to use the funds, but needs to bolster the account.

Lamerdin said that as much as finances are important, there are also tangible operations concerns that need addressing. The Commission needs to have discussions to clarify how the Port operates; this should be discussed in a future work session. Patrick-Joling agreed.

V. PUBLIC COMMENT

Jincks said he applauded the Commission for having the statement done, and they can now go further to create a business plan for the Port of Newport. This was the first step. Second, they can look at business units, then a maintenance plan. Jincks questioned Kimball about the life years. There is an obvious need for money, but there is a problem if the other business units are not understood, the money will go into a black hole of administration. Jincks said he supported a maximum return at NIT, but not until a business plan is in place to create a basic foundation. A businessman as General Manager is the best way forward right now.

Beck said sometimes the best way forward is to look backward. He suggested going a step further and look at the build out at the 9 acres and Teevin deal with a graph to show that the deal would not work to help move forward with what will.

Fogarty questioned the remediation and said that NIT is not yet finished. Remediation would go up if the project was completed as engineered. Some costs are missing. He agreed a business plan is needed. History is slim with data when shipping was at the Port. It would be better to go forward with future business plans instead of looking back. Kimball may be an expert to use to evaluate future projects. Fogarty agreed to sit down to discuss the business plan. He said Bretz has done a great job, and the new manager can be helped by Bretz regarding operations.

VI. ADJOURNMENT

Having no further business, the meeting adjourned at 1:24 pm.

ATTESTED:

Patricia Patrick-Joling, President

Stewart Lamerdin, Secretary/Treasurer

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Here are some possible targets, with explanations for what we'd achieve.

- $155K additional annual revenue would allow NIT to break-even on a cash-basis
  - This option does not cover ANY repair and replacement costs
  - Does not leverage the use of the bond levy
- $450K additional revenue would be a reasonable estimate to cover long-term repair and replacement (capital improvement costs divided over 35 years)
- $750K additional annual revenue (over 25 years) to result in a full payback of the amount invested for the project
- $850K additional annual revenue (over 25 years) to result in fully payback and a 10% ROI.
- $1.14M additional annual revenue would allow us to break-even on the NIT, after the removal of the bond levy. This should definitely be the long-term goal. This option allows us to take the proceeds from the tax payers and leverage it for future capital improvement projects (CM!) We don't need to be here tomorrow, but it should be the target.

(Submitted by Todd Kimball, CFO Selections)

Port of Newport Commission Work Session
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