



To: Port of Hood River Budget Committee

From: Michael McElwee, Budget Officer

Date: April 26, 2016

Re: Budget Message for Fiscal Year 2016-17

The annual budget for the Port of Hood River is prepared by staff for review and approval by the Budget Committee and subsequent adoption by the Port Commission. This memorandum provides highlights of the FY 2015-16 Proposed Budget and other information in accordance with O.R.S. 294.

Overview

The Port operates on a fiscal year that begins July 1 and ends June 30. The budget is a key document by which the Port Commission's policy and project direction is planned and implemented. Public input is sought and welcome at all stages of budget preparation.

Budget preparation follows these key steps as required by state statute:

- A **Proposed Budget** is prepared by the Port's designated Budget Officer based on discussions at the Commission's Spring Planning meeting. This year, the Spring Planning meeting was held on **March 29, 2016**.
- The Budget Committee discusses the Proposed Budget and may make changes as approved by vote. After approval, the Proposed Budget becomes the **Approved Budget**. Formal approval of the tax rate for the upcoming fiscal year is also required.
- The Approved Budget is the subject of a **hearing** when the Commission seeks public testimony. This year the public hearing is expected to occur on **May 24**.
- The Commission considers any changes and then approves an **Adopted Budget** which takes effect **July 1, 2016**.

Budget Preparation Overview

The Port of Hood River is designated as a Municipal Corporation in the State of Oregon and operates in accordance with ORS 777 and other statutes. All budget activities of the Port are categorized within the following three funds:

- **General Fund:** Includes activities related to general governmental activities. The revenue comes from property tax receipts. Since property taxes are insufficient to pay all governmental related expenditures, there is a transfer from the Revenue Fund for the difference.
- **Revenue Fund:** Most of the Port's activities are business-type activities and are accounted for in the Revenue Fund. The primary revenues are from bridge tolls and tenant leases. The revenues and expenditures are identified then allocated to asset centers.
- **Bridge Repair and Replacement Fund:** This fund segregates revenues and expenditures related to capital improvements associated with the Hood River Toll Bridge. Sources of revenues are grant monies, bond receipts, and a portion of toll revenue from both the 1994, 2012 and 2017 toll increases. These monies are transferred from the Revenue Fund. Expenditures for this fund are associated with bridge capital improvements that extend its useful life, maintenance and replacement planning. This fund also reflects the debt service payments from the debt financings related to the bridge improvements and holds the required debt service reserve.

Port of Hood River Financial Policies

The Port's annual budget is prepared in conformance with adopted financial policies. On January 14, 2014 the Port Commission adopted a new policy entitled "Financial Administrative Policies and Procedures." Two key financial policies govern the long-range financial plans and annual budget of the Port:

- Reserve funds that equal 10% of the Port's depreciable assets
- An overall debt service coverage ratio of 2.0.

Budget Highlights

The following sections are highlights of the FY 2016-17 Proposed Budget organized by major asset areas of the Port's operations.

ASSET AREAS

Industrial/Commercial Properties

- Overall occupancy rates remain high in all Port buildings. Turnover is expected in the Wasco Building with the vacation of the 2,700 s.f. MCCOG space but re-leasing is highly likely. 6,721 s.f. also remain vacant in the Big 7 Building.
- Two property sales were closed in FY 2015-16 (Expo and Riverside lots) resulted in a significant increase in our reserves. The Commission has dedicated these reserves to the

development of a new industrial building(s). No additional property sales are expected to occur in FY 2016-17 except for the possibility of one lot at the Lower Mill property.

- The Port closed on the 12-acre Lower Mill property in July 2015. The Proposed Budget assumes the completion of on-site utility work and design & permitting for a new, port-owned industrial building. However, uncertainty exists about the possible need to pay for off-site water system improvements that could delay development or postpone expected property sales.
- We have made excellent progress in completing the backlog of property management tasks. The FY 2016-17 Proposed Budget shows a continued high level of investment in the maintenance of Port facilities. The most expensive capital project budgeted is roof replacement of the north portion of the Jensen Building.
- All significant planning work is expected to be completed on Lot #1, the largest remaining industrial property in Port ownership, in FY 2016-17. Expensive road and utility infrastructure will be necessary to prepare Lot #1 for development. Funding for this work must come from tax increment bonds or grant funding and will likely not happen for some time.

Bridge/Transportation

- Significant uncertainty exists as a result of the alleged bridge allision that occurred in fall 2015. The Port has filed a notice of claim to our insurance carrier seeking compensation for replacement of the wire ropes—currently estimated at \$1.1 million. The settlement timing, likelihood of success and rope replacement schedule are all uncertain. The budget, therefore, reserves funds for legal expenses and makes conservative assumptions about timing and insurance payments.
- Another uncertainty exists relates to the lift span. The lift span is currently closed and efforts are underway to restore operability. If the lift span remains non-functional after live testing is carried out in May, additional assessment work and funding may be needed for repairs. It is not possible to estimate the cost of those repairs at this time. In the worst case scenario, the Port will need to borrow funds for repairs and seek approval in a Supplemental Budget.
- Significant questions also exist concerning efforts to replace the bridge-- brought about primarily by new opportunities for federal transportation funding. The budget assumes the Port will apply for a federal grant in spring 2017 (about \$5 million) to complete the Final Environmental Impact Study (EIS), acquire ROW and carry out engineering for a new bridge. However, in the alternative, the Port could self-fund the EIS and prepare for a much larger construction grant in the future. Great attention will be made by the Port Commission in FY 2016-17 to identify a specific strategy to advance bridge replacement efforts and identify a financing plan.

- The known bridge-related capital projects in the Proposed Budget are repair of the auxiliary trusses, continuance of Phases 2 and 3 of the new electronic tolling system and the start of Phase 4 with the installation of the hardware. The truss repairs have been postponed due to the collision investigation and are not critical but highly recommended by the Port's bridge engineer. The tolling system upgrade will result in much greater reliability and some decrease in operating expenses.
- The Proposed Budget assumes a toll increase being initiated in January 2017. This increase would allow bridge revenue to keep pace with inflation and provide additional funding to meet the expected requirement for a "local match" to obtain federal funding for bridge replacement efforts. Any such funds will likely need to be allocated in a separate isolated fund, specifically intended for bridge replacement.
- Staff has been carrying out welding repairs for the past two years. The Proposed Budget assumes this will be an ongoing repair expense that should continue for the foreseeable future.
- The budget maintains the higher level of expenditures for maintenance, repairs and inspections that was initiated in FY 2013-14.

Recreation/Marina

- Significant funds have been expended over the last several years to construct new trail improvements. The proposed budget only assumes funds for one of two possible small projects, re-paving and safety improvements to a short stretch of path under the bridge connecting to the Best Western property or participation in constructing the trail connection from the Nichols Basin seawall to the new Naito access road.
- The Proposed Budget includes very modest but regular investment in upgrades and improvements to most Port recreation sites.
- The Proposed Budget assumes continuation of the financial contribution to the Sheriff's Department to pay for waterfront patrols by the Marine Deputy.
- In FY 2015-16 the Port monitored parking demand and supply on the waterfront, in part, to identify issues and potential solutions regarding parking management. A specific parking plan is being developed for implementation in 2017. The Proposed Budget assumes installation of meters and a contract with the City for parking enforcement. If approved by the Commission, parking fees are expected to generate positive net funds to offset waterfront maintenance costs. However, there will be some risk that revenues will not match pro forma expectations.
- No major capital investments in the Marina are anticipated in FY 2016-17. The Proposed Budget does include funds for conceptual engineering of a new Transient Boat Dock, necessary to begin the long permit process and prepare an application for

OSMB grant funding. Also budgeted are funds to purchase a small modular dock for the South Basin Dock to increase its use for dinghies.

Airport

- The major focus of effort in FY 2015-16 was completion of the Master Plan. That plan is now complete and to the FAA for approval. The Master Plan provides the priority for future capital investment in the Airport by the FAA which funds 90% of approved projects.
- Significant capital projects are contemplated in the next few years. In FY 2016-17 the highest priority FAA project is the South Taxi-way which has received a funding commitment from the FAA and is expected to be constructed through the summer of 2017. The total cost of this project is about \$1.2 million which will require a 10% Port contribution.
- The most significant uncertainty relates to the potential for site improvements and private development around the North Apron. This could be a very important step to maximize use of the Airport but a specific agreement with a private developer has not been reached. The Port is in the running to receive a \$1.3 million state grant out of a total project cost estimated at \$2.1 million. However, this will require a 40% local contribution or about \$800,000. The Proposed Budget assumes this match amount will be financed by the Port.

Administration & Management

- Medical insurance premiums, a large part of personnel costs, are expected to have a relatively small increase of 1.6%, while the Port's PERS obligation will remain in line with increases in overall wages or about 2.4%. However, in FY 2017-18 the PERS obligation will increase by about 16% overall. Overall, personnel costs are budgeted to increase by 2.3%. Some of this increase is due to the new sick leave law being implemented.
- Staffing changes have brought excellent new skill sets in many technical and professional areas. No change in staffing levels is anticipated.
- Regional collaboration and government affairs advocacy is currently a high priority and expenses would increase modestly in the Proposed Budget. The Proposed Budget includes additional expenditures for a public advocate in Salem in anticipation that a transportation bill will be considered.

SUMMARY

The FY 2016-17 Proposed Budget reflects project priorities, staffing levels and capital and administration expenditures that staff believes are consistent with the Port's mission and direction from the Port Commission. FY 2016-17 is a year when greater than usual uncertainty

exists, particularly relative to the bridge. The Proposed Budget allows for greater revenue and increased flexibility to respond to the requirements or opportunities that may present themselves. The Budget Committee's review, modification and approval of this Proposed Budget will be necessary for the Commission to review for adoption following a hearing that is scheduled for **May 24, 2016**. Any final changes will be included in the final adopted budget that will take effect **July 1, 2016**.

**PORT OF HOOD RIVER
BUDGET COMMITTEE RECOMMENDATIONS
FOR THE BUDGET YEAR 2016-17**

Please Note: