



To: Port of Hood River Budget Committee
From: Michael McElwee, Budget Officer
Date: April 26, 2011
Re: Budget Message for Fiscal Year 2011/2012

The annual budget for the Port of Hood River is prepared by staff for review and modification by the Budget Committee and subsequent review and adoption by the Port Commission. This memorandum provides an overview of the FY 11/12 budget and a description of key issues in accordance with O.R.S. 294.

Overview

The Port operates on a fiscal year that begins July 1 and ends June 30. Through the annual budget, policy and project decisions of the Commission are planned and implemented. In both draft and final form it is a public document and public input is sought and welcome.

All budget activities of the Port of Hood River are categorized within the following three funds:

- **General Fund:** This fund includes activities related to 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.
- **Bridge Repair and Replacement Fund:** This special revenue 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 dedicated revenue from a 1994 toll increase. These are transferred from the Revenue Fund. Expenditures for the fund are associated with capital improvements that extend the useful life of the bridge.
- **Revenue Fund:** Most of the Port's activities are business-type activities and are accounted for in the Revenue Fund. The major revenues are from bridge tolls and tenant leases. The revenues and expenditures are identified and allocated to asset centers.

Financial Policies

The key overall financial policies that underlie the proposed budget are described in the Port's Strategic Plan. These are summarized as follows:

1. Financial Management—the Port seeks to be financially self sufficient with a balance between sources of capital and cash flow.
2. Asset Management—The Port seeks to manage its assets with a holistic and integrated strategy intended to accomplish the public purposes described in ORS 280 and ORS 777.

Key Budget Issues

The following are material budget issues that have been considered in preparing the Proposed FY 2011/12 Budget:

- The Port has made a significant investment in capital projects in recent years. Preservation of capital reserves must be the focus to allow for future contingencies.
- The Port must anticipate significant capital expenditures to preserve the long-term viability of the Hood River Bridge. A toll increase may be necessary to secure adequate funds for future projects.
- The Port is ahead of schedule on sale of properties in the Waterfront Business Park. The budget assumes that two properties will successfully close in June.
- Overall occupancy rates in Port buildings are high. There is limited space availability for new tenants. Planning and design for another building in the next year is not anticipated in the budget. Rather, the Port will rely more heavily on private sector initiatives to further community job creation goals.
- A significant proposal has been made to re-purpose the Expo Building for DaKine. This project is dependent upon the company's approval and successful negotiations lending an area of significant uncertainty to the budget.
- Acquisition of additional industrial lands to achieve employment goals remains an objective of the Port. The Proposed Budget includes some funds for an acquisition opportunity if one arises.

Asset Areas

The following are issues and highlights of the proposed budget pertaining to each of our key asset areas:

Bridge/Transportation

In FY 10/11 the Port completed a long-term (30-year) operations plan for the Hood River Interstate Bridge. That plan was based on the premise that the Port should take all reasonable means to keep the bridge operating for as long as possible. It identified a specific list of capital improvements that the Port must anticipate well into the future. Because of these long-term capital needs, and the need for additional attention to regular maintenance, repairs and inspections, the budget assumes implementing a toll increase in January 2012. A toll increase would need to be specifically authorized by

the Port and may compel public input and controversy. It will be important for the Commission to provide direction on the following:

- The extent a toll increase is allocated exclusively for Bridge capital needs
- Whether an increase is applied both to cash and electronic tolling
- The specific timing of implementation

The Proposed Budget assumes a \$1 toll taking effect in January of 2012 and the transponder toll remaining at current levels until FY 2012/13. Our long-term model has assumed a significant shift of cash customers to the Breeze-By system.

In the Proposed Budget \$1.2 million is budgeted for the first phase of painting on the Bridge. This project will remove pack rust, prime and selectively paint the lower chords of the bridge spans and associated gusset plates to extend the useful life of the bridge. Although we will continue to seek federal funds, that prospect is increasingly unlikely. The Port anticipates completing the project over five years at a total cost of approximately \$6 million. When bids are received and a contractor is selected for the first phase of work it will help determine the most efficient means and cost of later phases. This project will involve challenges and risks due to staging, paint disposal, weather conditions and other factors. In addition, we have increased the amount of funding for regular capital maintenance, inspections and troubleshooting in FY 11/12. These efforts include deck welding, lift span repairs and other similar projects that are recommended by the Port's bridge engineer. Some may be carried out by Port staff; others will need contractor assistance. Similarly, we have budgeted funds for routine upgrades and trouble shooting of the BreezeBy system.

The EDA has approved transfer of funds remaining from the recent Anchor Way project to a variety of smaller projects on Portway Avenue. These include new sidewalks, asphalt and a cul-de-sac to terminate Portway Avenue at the Hook. This is a 50/50 matching grant and will require a match of approximately \$250,000 of Port funds.

Waterfront Development

Significant progress was made in FY 2010/11 in developing the Waterfront Business Park (WPB). One lot in this industrial subdivision was sold and two are anticipated to sell in June under the terms of Disposition and Development Agreements. These land sales occurred more quickly than expected and represent over \$900,000 in net proceeds to the Port. The Port will continue to market the remaining two lots in the WPB but anticipates less effort in this area due to the limited number of remaining parcels.

In March, the Port conveyed a detailed proposal to re-develop the Expo Building as an office/headquarters for DaKine. The proposal is currently being evaluated by DaKine and a decision is expected this summer. The total cost of the project is approximately \$4 million with \$1 million from Port equity and the balance borrowed. We have allocated funds to complete design and permitting in order to begin construction of the project in the latter part of 2012. However, this initiative represents a significant area of uncertainty until a decision is made by DaKine and only if subsequent negotiations are successful.

In FY 10/11 the Port completed purchase of the Luhr Jensen Building. Expected costs were incurred to prepare the building for new tenants. A lease was recently signed with Turtle Island Foods and the building is now fully committed. Final tenant improvements are expected to be completed by June. The building has strong tenants and net income is expected to be stable over a multi-year period. As with any older building, however, there is the potential for unexpected capital costs.

The Halyard Building is complete and the first lease was executed in April. Tenant improvements are now underway for Real Carbon and the tenant is expected to take occupancy in June. With this lease, the structure will be approximately 25% occupied. The FY 11/12 budget includes \$300,000 for tenant improvements that will be necessary to fit the remainder of the building out for future tenants. We are actively marketing this building.

Funds are also budgeted to upgrade the last remaining vacant portion of the Western Power Building for a future tenant.

We have budgeted funds to begin planning the area east of N. 2nd Avenue—known as Lot #1. This is the last remaining large-scale parcel of Port property on the Waterfront and an area with a significant amount of community interest. It is not yet clear what the process and schedule will be to implement this planning process but the outcome should be a specific concept for legal lots, access/egress and utilities that is tied to expected market conditions and has support from the community. We have not received specific word from Insitu on the decision to locate a campus in the Gorge and that may alter the approach to Lot #1.

Overall, the Port's proposed expenditures for professional services in the area of waterfront development will continue at low levels in FY 11/12 as the focus turns to implementation of known or expected projects. We will budget contingency funds for various needs that may require consultant assistance.

Recreation/Marina

In FY 10/11 the Port completed reconstruction of the jetties and beach at the Event Site. This was a significant investment in the property in order to stop increasing erosion of the Event Site Beach. In FY 11/12 we have budgeted for \$30,000 to repair two areas where significant erosion has occurred in waterfront rap-rap areas. We have also budgeted \$50,000 to remove sand in front of the Event Site and improve the area for recreation. This latter project would only occur with significant financial support from other sources. Aside from these two projects, we do not anticipate significant enhancement projects at the Waterfront recreation sites in FY 11/12.

The Proposed Budget anticipates one major project in the Marina-- \$250,000 to upgrade the Marina electrical system. The electrical system has been in a deteriorated condition for some time and is insufficient to provide power needs for all slips. The budget amount is based upon a rough estimate and will be confirmed once engineering and cost estimates are complete. Funding for this project would primarily come from an increase in slip rates. We have also included funds to begin planning and engineering to re-configure the Seaplane Dock assuming this can provide additional slip capacity and serve other needs. We

have also budgeted funds to replace the deteriorating access floats to the Visitor Dock.

With federal transportation funds remaining from the Frontage Road Feasibility Study we expect to build portions of a pedestrian/bicycle pathway on either end of the Pedestrian Bridge. The required local match of Port funds to complete this project will be approximately \$50,000.

The Marina Office Building is in deteriorating condition and a comprehensive evaluation was completed in March 2011. The Commission must determine whether to renovate the building or complete a limited number of improvements with the expectation the building will be demolished in the next 3-5 years. The Proposed Budget includes \$250,000 for a complete building upgrade and an additional \$50,000 for tenant improvements. The decision whether to proceed with this project will be dependent upon a thorough financial analysis of the building and conformation of lease terms with the Chamber.

Airport

The FY 11/12 budget anticipates completion of the vacation of Orchard Road which is necessary to shift the main runway to meet FAA standards. This includes engineering of the road termini and utility re-location. The budget also assumes completion of design and engineering for the actual runway shift. However, these projects are almost wholly dependent upon receipt of federal funds. Therefore, actual construction would not occur until late 2012 or beyond.

The Airport budget includes limited funds for additional security fencing around the airfield, installation of card readers at two gated access points and other minor projects. We will continue to evaluate the need and feasibility of installing security cameras at the Airfield but no funds are currently in the Proposed Budget.

Summary

The Proposed 2011/12 Budget reflects project priorities, staffing levels and capital and administration expenditures that staff believes are consistent with the Port's Mission and Strategic Plan. The Budget Committee's review, modification and approval of a Proposed Budget followed by Commission adoption will be necessary before the budget can take effect July 1, 2011.