



Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: January 17, 2012

To: Council Member Lisa Goodman, Chair, Community Development Committee

Referral to: Council Member Betsy Hodges, Chair, Ways and Means/Budget Committee

Subject: Approval of Upper Harbor Terminal Operating Budget for 2012

Recommendation: Approve the attached Upper Harbor Terminal Operating Budget for 2012

Previous Directives: On July 23, 2004, the City Council authorized an Operating Agreement with River Services Inc. to manage and operate the City's Upper Harbor River Terminal from 2005 through 2014. Article VI of the agreement requires annual approval of the Terminal's Operating Budget for the ensuing year. The City Council has approved the budget annually with the most recent approval on January 14, 2011 for the 2011 budget.

Prepared by: Carrie Flack, Senior Project Coordinator, 612-673-5010

Approved by: Charles T. Lutz, Deputy CPED Director _____

Catherine A. Polasky, Director Economic Policy and Development _____

Presenter in Committee: Carrie Flack

Financial Impact

No financial impact

Action is within the Business Plan

Community Impact

Neighborhood Notification: Not applicable

City Goals: A City That Works - the City's infrastructure will be well managed and maintained

Sustainability Targets: Not applicable

Comprehensive Plan: consistent with goals identified for Economic Development; Environment; and Land Use

Zoning Code: Consistent

Living Wage/Business Subsidy: Not applicable

Supporting Information

The City has owned and operated the 48 acre Upper Harbor River Terminal (UHT), an inter-modal bulk commodity freight facility in North Minneapolis, since the early 1960's. In 1991 the City entered into an operating agreement with River Services Inc. (RSI) for operation of the UHT. The City's 1991 operating agreement with RSI was renewed in 1992, 1995 and 2000. A new 10 year agreement was entered into in 2005. The agreement makes the Operator responsible for all net losses incurred from operation of the Terminal (the "No City Loss Payment"). The City pays all expenses associated with running the terminal including an operator fee and receives all revenues from the terminal's operations. If a loss is incurred from the terminal operations then the operator reimburses the City for those losses, including the operator fee. Termination of the contract may occur with 180 days notice to the operator and tenants. Costs to secure the site as vacant without an operator include: one time cost to establish security \$365,000, annual security cost \$75,000, and annual storm water fees \$160,000.

Article VI of the "Operating Agreement Between City of Minneapolis and River Services Inc." requires that the Operator (RSI) submit to the City a budget itemizing expenses for the ensuing year. City approval is required before those expenses can be incurred. Items to be included in the estimated budget are identified in Section 6.01 of the Agreement and include projected costs related to normal operations, repairs and maintenance, building repairs and improvements, replacement of equipment, advertising and other necessary expenses. Additionally, the Operator must submit an estimate of revenues from operation of the Terminal for the subject year. The itemized Operating Budget for 2012 and an estimate of the net revenues (gross revenues minus operating costs and management fee) are attached as Exhibits 1 and 2, respectively. The exhibits also present for comparison the 2011 revenues and expenses that were projected originally. The two years are relatively comparable as the terminal has been stable in its operations.

A review of the proposed Operating Budget for 2012 shows that RSI has projected that operating expenses at the Terminal will exceed revenues by \$130,163. The operator fee for 2012 is \$172,308. Therefore, the operator projects that the end year payment back to the City will be \$302,471, bringing the aggregate City expenditure on the property to zero. RSI has reported this projection is very conservative and is based on current customer commitments. They are comfortable that additional customers of their freight services will be found in 2012, and that belief is the reason why they are willing to continue operation in 2012.

Subject to a final audit, 2011 had revenues of approximately \$1,627,103 and expenses of \$1,650,632. After including the management fee of \$165,612 it is expected that the No City Loss Payment for 2011 will be \$192,453. RSI fully understands that they are responsible for these costs and will reimburse the City as they have in 2004, 2005, 2006, 2007, 2008, 2009 and 2010.

**Exhibit 1
Upper Harbor Terminal
2012 Operating Budget**

Expenses

Expense	2011	2012
Payroll Wages and Taxes	\$611,571	\$604,445
Pension Overhead and Gen. Admin.	\$48,926	\$48,355
Workers Comp	\$42,810	\$42,310
General Insurance	\$51,504	\$51,996
Health and Disability Insurance	\$95,004	\$76,320
Professional Services	\$45,000	\$52,500
Barge Surveying	\$6,496	\$9,400
Freight Charges	\$11,000	\$13,600
Supplies-office	\$10,500	\$11,004
Supplies-shop	\$2,604	\$3,996
Supplies-safety	\$5,496	\$5,496
Postage/Delivery	\$1,548	\$2,004
Travel/Auto Expense	\$744	\$996
Dues & Subscriptions	\$600	\$996
Licenses & Permits	\$2,496	\$2,004
Utilities-electricity	\$80,496	\$87,504
Utilities, stormwater	\$164,472	\$140,736
Telephone	\$9,504	\$12,300
Security	\$13,500	\$14,052
Rent-equipment	\$0	\$35,832
Repairs & Maintenance	\$361,377	\$393,607
Demurrage	\$3,000	\$3,000
Marketing	\$648	\$504
Miscellaneous	\$456	\$504
TOTAL OPERATING EXPENSES	\$1,569,752	\$1,613,461

Exhibit 1 (continued)
Upper Harbor Terminal
2012 Operating Budget

Projected Revenues

Commodity	2011	2012
Dredged Sand	\$50,004	\$69,996
Twine	\$207,837	\$199,913
Pipe/Plate	\$0	\$0
Steel	\$10,320	\$27,120
Steel Scrap	\$49,264	\$58,016
Coal	\$370,568	\$241,683
Harbor Service	\$5,504	\$7,504
Top Soil	\$0	\$0
Elevator	\$0	\$0
Grain Direct	\$0	\$0
Salt	\$1,557	\$1,560
16&8 thousand ton storage domes	\$282,000	\$318,000
12&2 thousand ton storage domes	\$40,949	\$39,561
Miscellaneous Storage/Handling	\$290,298	\$259,110
Aggregate	\$61,031	\$77,440
Pig Iron	\$118,802	\$158,399
Truck Scale	\$12,648	\$24,996
Miscellaneous	\$0	\$0
Management fee	\$168,924	\$172,308
TOTAL PROJECTED REVENUE	\$1,669,706	\$1,655,606
Management Fee	-\$168,924	-\$172,308
REVENUE	\$1,500,782	\$1,483,298

**Exhibit 2
Upper Harbor Terminal
Projected Revenues and Expenses**

	2011	2012
Revenue (total minus mgt. fee)	\$1,500,782	\$1,483,298
Operating Expenses	-\$1,569,752	-\$1,613,461
Operations Total*	-\$68,970	-\$130,163
Management Fee	-\$168,924	-\$172,308
Net**	-\$237,894	-\$302,471

***Revenues resulting from operations at the UHT**

****No City Loss payment to the City**