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Minneapolis Community Development Agency

Request for City Council Action

Date: September 30, 2003

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by Jim Forsyth, Phone 612-673-

Approved by Lee Sheehy, MCDA Executive Director
Chuck Lutz, MCDA Deputy Executive Director ______________

Subject: Information report and Direction to Staff to Prepare a Draft Operating Agreement with River Services Inc.

Previous Directives: In 1991 the City Council authorized the MCDA to enter into an Operating Agreement with River Services Inc to manage and operate the City's Upper Harbor River Terminal. That contract was renewed in 1992, 1995 and 2000.

Ward: 3

Neighborhood Group Notification: Not Applicable

Consistency with *Building a City That Works:* Not applicable

Comprehensive Plan Compliance: Not Applicable

Zoning Code Compliance: Not Applicable

Impact on MCDA Budget: (Check those that apply)

___ No financial impact
___ Action requires an appropriation increase to the MCDA Budget
___ Action provides increased revenue for appropriation increase
___ Action requires use of contingency or reserves
_X_ Other financial impact (Explain): Unknown at this time. A final projection for 2003 will be brought to the Council in November

Living Wage / Business Subsidy: Not Applicable

Job Linkage: Not Applicable

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Affirmative Action Compliance: River Services Inc. the operator of the Terminal has an approved Affirmative Action Plan

RECOMMENDATION: It is recommended tat the City Council direct appropriate City staff to negotiate a draft operating agreement with River Services Inc. by March 31, 2004.

Background/Supporting Information

In 1991 the City entered into an agreement with River Services Inc (RSI) to operate the City's Upper Harbor River Terminal (UHT) located at 3750 Washington Avenue North. That agreement was renewed in 1993, 1995 and again in 2000. The current agreement with RSI expires at the end of 2004. That agreement makes RSI responsible for operation of the Terminal and RSI is paid a management fee ($160,212 for 2003) for providing that service. All revenues are paid to the City, and the City is responsible for all expenses. Since 2000 net revenues at the Terminal have been $320,000 in 2000, $310,000 in 2001 and in 2002 the Terminal experienced a loss of $160,000.

The agreement also requires that RSI provide mid year and year end projections of revenue and expenses. For 2003 RSI projects that total expenses associated with the Terminal will exceed revenues by approximately $195,000. Although revenues and operating expenses are expected to be nearly equal the management fee and city administrative costs ($40,000) will lead to the deficit.

Although the final determination of the 2003 revenue and expense situation at the Terminal will not be known until the end of the year the Operator is anticipating that events causing poor revenues and increasing costs at the Terminal will not radically change in 2004. RSI has therefore evaluated options that could be implemented to reduce costs. Although the potential changes will lead to a reduction in revenues RSI believes the changes will increase the Terminal's operating margins. In addition the operator is proposing an operating agreement that would guarantee set payments to the City.

RSI Evaluation and Proposal

RSI has been studying the trends of the business as well as the costs and revenues and is prepared to explore a new agreement with the city that could re-focus the core of the business at the terminal.

The most significant costs at the terminal are labor, maintenance and utilities (electric).

RSI proposes to reduce labor costs by implementing any or all of the following items:

a) Reduce crew sizes
b) Change scheduling procedures
c) Increase efficiencies through addition of some newer equipment
d) Re-visit administration costs
e) Change product blend if possible (less grain, more fertilizer as example)

Reduction in crew size and change in scheduling procedures will be made possible by River Services' acquisition of new equipment and change in product blend

RSI proposes to reduce maintenance costs by implementing any or all of the following items:

a) Change product blend possibly eliminating the need for some fixed assets (eg grain elevator) or rolling equipment (e.g. locomotive and tow boat).
b) RSI would make capital investments in new equipment such as an excavator and front end loader. A high maintenance loader could then be taken out of service and use of the high maintenance crane could be reduced significantly. This may also serve to reduce production costs by speeding barge unloading. RSI will evaluate use of State Port Assistance program grants for acquisition of the equipment and wants to work with the City to determine if that program is appropriate.
c) Although initially costly, RSI will attempt over time to perform more preventive maintenance and in so doing reduce the need for making emergency repairs. This would reduce down time for crews and equipment.

RSI proposes to lower fuel and electric costs by changing product blend leading to the possible elimination of the need to use some of the fixed assets (grain elevator) and adding some newer more fuel efficient equipment (loader and excavator).

RSI would guarantee the city a fee of $150,000 annually plus $40,000 per year to help offset MCDA administration costs.

RSI would retain all profits or be responsible for all losses the terminal would sustain through operations.

RSI is seeking a ten-year agreement with either party having the ability to terminate the arrangement without cause with a 180 day written notice.

RSI proposes to enter into a new operating agreement on January 1, 2005 that would reflect these changes.

The proposal anticipates that approximately 13 acres of Terminal property now the responsibility of RSI would not be needed for operations and would therefore be made immediately available for other non-Terminal activities.

Conclusion

Losses are anticipated at the Terminal in 2003. To reduce the potential for losses in future years RSI is proposing to eliminate the handling and storage of some commodities in order to reduce maintenance, labor and utility costs. These costs form about 90 % of the operating costs at the Terminal. In addition, RSI is proposing to acquire at their own expense equipment for use at the Terminal that would lead to reduced labor and maintenance costs. Finally, RSI is proposing a ten year agreement and annual payments to the City of $190,000. That amount would repay the principal of the loan to the Grain Belt Project that is to be repaid by Terminal revenues. In addition it would cover the City's administrative costs for the Terminal. In guaranteeing an annual payment RSI would for any losses and would retain any net revenues. The agreement proposed by RSI would contain the clause in the current agreement that allows either party to terminate the agreement without cause on 180 days notice.