

Minneapolis Community Development Agency

## Request for City Council Action

Date: November 25, 2002

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

Prepared by Jim Forsyth, Phone 612-673-5179

Approved by Chuck Lutz, MCDA Interim Executive Director \_\_\_\_\_

**Subject: Appropriation Amendment, River Terminal Fund ERT**

**Previous Directives:** In November of 1999 the City Council approved an Operating agreement with River Services Inc. (RSI) that obligated the City to reimburse RSI for expenses incurred in operating the Terminal and to pay RSI a fee to manage the facility. In December 2001 an Operating Budget for 2002 authorizing RSI to spend up to \$2,606,803 was approved.

**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
- Other financial impact (Explain):

**Living Wage / Business Subsidy:** Not applicable

**Job Linkage:** Not applicable

Crown Roller Mill,  
105 Fifth Ave. S., Suite 200  
Minneapolis, MN 55401-2534  
Telephone: (612) 673-5095  
TTY: (612) 673-5154  
Fax: (612) 673-5100  
www.mcda.org

**Affirmative Action Compliance: The operator of the Terminal, River Services Inc. has an approved affirmative action plan.**

**RECOMMENDATION:**

**The Interim Executive Director recommends that**

- 1. the City Council amend the 2002 MCDA Appropriation Resolution to increase the appropriation in Fund ERT (River Terminal) by \$300,000 from the existing fund balance and;**
- 2. Increase the River Terminal 2001 Annual Operating Budget by \$260,680 for a new total of \$2,867,483.**

**Background/Supporting Information**

The MCDA has been charged with management of the 48 acre, City owned River Terminal located at Dowling Avenue on the west bank of the Mississippi River. The City and MCDA have entered into an agreement with River Services Inc. (RSI) to operate the Terminal. Under the terms of the agreement with RSI, revenues from the River Terminal operation are collected by the Agency in Fund ERT (River Terminal) and disbursed to pay RSI operating costs and maintenance and to reimburse the MCDA for their approved administrative costs.

This is a request that the 2002 appropriation for the River Terminal Fund (Fund ERT) be increased by \$300,000 and that the Annual Operating Budget for the River Terminal be increased by \$260,680. The 2002 River Terminal Operating Budget approved by the Council in December 2001 was \$2,606,803 and the appropriation for the River Terminal Fund which included \$155,544 for the management fee paid to River Services Inc. and travel and membership expenses was \$2,763,901. The new fund total is \$3,063,901.

The increase in River Terminal operating expenses resulted primarily from an increase in maintenance, payroll and worker's compensation insurance costs. Maintenance cost increases relate to aging of equipment necessary to run the Terminal. Total maintenance for the Terminal was budgeted at \$691,540 and is now projected to be \$757,373. The primary causes for the increase were crane repairs which were budgeted for \$75,000 and actually required \$125,000 and the conveyor system for loading fertilizer which required \$40,000 in maintenance instead of the budgeted \$30,000. The payroll cost increase reflects an error in the initial budget for 2002. That budget should have shown a payroll cost \$78,000 greater than was requested. This error resulted from a transfer of the Terminal manager's salary and fringe benefits from the management fee paid to River Services Inc. to the operating budget of the Terminal. Although the management fee was reduced by \$78,000, the operating budget payroll line item was not increased by that amount. Worker's compensation insurance premium increases were the result of a change in State law that changed the way in which premiums are calculated. That change, (which was retroactive to 2001) increased premium costs by \$25,000.

The costs presented above show an increase in operating expenses at the Terminal of 7%, however the appropriation request that is recommended reflects an increase in the operating budget of 10%. The difference of approximately \$80,000 represents the need for the operator to be able to resolve any unanticipated emergencies that may arise between now and the end of the year.

Additionally, revenues for 2002 at the terminal are expected to be less than originally projected. Decreases occurred in all aspects of the operation and reflect the decline in the national economy. Commodities that were most affected were twine, steel, magnetite (a byproduct of the taconite industry), fertilizer and pipe. In sum, revenues in 2002 are projected to be about \$203,000 less than projected and expenses are expected to be about \$176,000 greater than projected.

At present we believe that cost issues of 2002 will not carry over to 2003 and it should be noted that in 2000 and 2001 revenues, both total and net, were greater than projected. In those 2 years Terminal revenues contributed \$300,000 to MCDA activities to implement the Upper River Plan.

Staff will evaluate closely the early trends in 2003 and will also search for sources of funds to help cover the equipment costs at the Terminal. A State Port Development Assistance Program, if funded by the Legislature, could meet 80% of the cost of new equipment. The Agency is a member of the Minnesota Ports Association that lobbies for the Port Development funds and will be active in efforts to fund that program in 2003.

The original appropriation and recommended appropriation amendment are presented in enclosure # 1 and enclosure # 2 presents both the Approved Annual Operating Budget (Original) and the requested amendment.