

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

Date: April 20, 2010

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 2010

Recommendation: Approve the attached Upper Harbor Terminal Operating Budget for 2010

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. On November 19, 2004, the City Council approved an Upper Harbor Terminal Operating Budget for 2005. On December 23, 2005, the City Council approved an Upper Harbor Terminal Operating Budget for 2006. On December 22, 2006 the City Council approved an Upper Harbor Operating budget for 2007 and on November 16, 2007 the City Council approved Upper Harbor Operating Budget for 2008.

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: The City's infrastructure will be well maintained

Sustainability Targets: Not applicable

Comprehensive Plan: Not applicable

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 2004. The new agreement makes the Operator responsible for all net losses incurred from operation of the Terminal (the "No City Loss Payment").

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 2010 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 2009 revenues and expenses that were projected originally.

Projected significant increases in storage dome revenues in 2010 are the result of a new contract for storage and handling of fertilizers. RSI has spoken with the customers of their freight services who believe business will increase this year. Due to the economy, construction business and the steel industry are down. Thus pig iron and aggregate revenues will decrease.

A review of the proposed Operating Budget for 2010 shows that RSI has projected that operating expenses at the Terminal will exceed revenues by \$134,901. However, after including the Management Fee paid to RSI, as required for calculating the No City Loss Payment, it is projected that the RSI No City Loss Payment will be \$300,513. 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 as in 2009, and that belief is the reason why they are willing to continue operation in 2010.

Subject to a final audit, 2009 had revenues of approximately \$1,411,315 and expenses of \$1,391,520. After including the management fee of \$162,360 it is expected that the No City Loss Payment for 2009 will be \$142,565. RSI fully understands that they are responsible for these costs and will reimburse the City as they have in 2004, 2005, 2006, 2007 and 2008.

**Exhibit 1
Upper Harbor Terminal
2010 Operating Budget**

Expenses

Expense	2009	2010
Payroll Wages and Taxes	\$570,000	\$643,705
Pension Overhead and Gen. Admin.	\$45,600	\$51,497
Workers Comp	\$51,300	\$45,059
General Insurance	\$48,000	\$48,000
Health and Disability Insurance	\$105,996	\$105,996
Boat Insurance	\$0	\$0
Professional Services	\$32,004	\$32,004
Barge Surveying	\$5,600	\$4,096
Freight Charges	\$16,496	\$12,000
Supplies-office	\$11,004	\$11,004
Supplies-shop	\$2,064	\$2,604
Supplies-safety	\$5,700	\$6,000
Postage/Delivery	\$3,000	\$2,496
Travel/Auto Expense	\$996	\$996
Dues & Subscriptions	\$996	\$996
Licenses & Permits	\$2,496	\$2,496
Utilities-electricity	\$80,004	\$80,004
Utilities, stormwater	\$78,180	\$163,944
Telephone	\$8,100	\$8,100
Security	\$14,496	\$15,000
Rent-equipment	\$36,600	\$13,006
Repairs & Maintenance	\$320,009	\$337,412
Demurrage	\$10,000	\$10,000
Marketing	\$1,200	\$996
Miscellaneous	\$0	\$456
TOTAL OPERATING EXPENSES	\$1,450,381	\$1,597,867

Exhibit 1 (continued)
Upper Harbor Terminal
2010 Operating Budget

Projected Revenues

Commodity	2009	2010
Dredged Sand	\$96,999	\$50,004
Twine	\$175,000	\$184,750
Pipe/Plate	\$0	\$0
Steel	\$27,001	\$0
Steel Scrap	\$0	\$92,400
Coal	\$431,675	\$395,825
Harbor Service	\$5,000	\$5,000
Top Soil	\$1,200	\$0
Elevator	\$0	\$0
Grain Direct	\$0	\$0
Salt	\$1,200	\$0
16&8 thousand ton storage domes	\$192,000	\$259,500
12&2 thousand ton storage domes	\$24,000	\$40,949
Miscellaneous Storage/Handling	\$174,000	\$233,064
Aggregate	\$131,000	\$76,475
Pig Iron	\$162,000	\$98,999
Truck Scale	\$12,000	\$26,000
Miscellaneous	\$0	\$0
Management fee	\$162,360	\$165,612
TOTAL PROJECTED REVENUE	\$1,595,435	\$1,628,578
Management Fee	-\$162,360	-\$165,612
REVENUE	\$1,433,075	\$1,462,966

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

	2009	2010
Revenue (total minus mgt. fee)	\$1,433,075	\$1,462,966
Operating Expenses	-\$1,450,381	-\$1,597,867
Operations Total*	-\$17,306	-\$134,901
Management Fee	-\$162,360	-\$165,612
Net**	-\$179,666	-\$300,513

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

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