

Ward: 3

Neighborhood Notification: Not Applicable

City Goals: Maintain the physical infrastructure to ensure a healthy, vital and safe City.

Comprehensive Plan: Not applicable

Zoning Code: Consistent

Living Wage/Job Linkage: Not Applicable

Background/Supporting Information

The City has owned and operated the Upper Harbor River Terminal (UHT) 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 operating agreement with RSI was renewed in 1992, 1995 and 2000. A new agreement was entered into in 2004. The new agreement makes the Operator responsible for all losses incurred at the Terminal.

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 and City approval is required before those expenses can be incurred. Items to be included in the estimated budget are identified in Section 6.01 and include those for normal operations, repairs and maintenance, building repairs and improvements, replacement of equipment, utilities, advertising and other necessary expenses. Additionally, the Operator is to submit an estimate of revenues from operation of the Terminal for the subject year.

In a letter dated November 18, 2005, submitting a requested Operating Budget for 2006, the president of River Services Inc. asked that stormwater fees be deleted as an operating expense for which RSI was responsible. As noted above, the Operating Agreement between RSI and the City, negotiated in 2004, makes RSI responsible for all losses associated with the UHT. However, at the time the agreement was negotiated neither City representatives nor RSI were aware of pending changes in City stormwater fees. These fee increases will lead to unanticipated utility costs of about \$60,000 in 2005 and possibly \$80,000 in 2006 (and for succeeding years). RSI maintains that they cannot absorb these costs, especially in light of projected losses of nearly \$200,000 in 2005 and \$100,000 in 2006 that do not include stormwater fees. RSI therefore submitted for approval by the City an Operating Budget for 2006 that did not include payment of stormwater utility fees. RSI also requested that the Operating Agreement be amended to remove the stormwater fee as an operating expense for which they are responsible. The requested amendment would be for the entire term of the contract (2005 thorough 2014) and would therefore be retroactive to the beginning of 2005.

CPED understands the argument put forth by RSI but does not concur with RSI's request that their responsibility to pay stormwater fees be excluded from the Agreement. CPED instead recommends that the Agreement be amended to remove

RSI's obligation to pay City overhead and staff costs (as defined in the Agreement in Article I, Section 1.01) and costs relating to the tow boat the Rose Bee (the subject of a separate report to the Council). City overhead and staff costs could reach \$40,000 annually and those costs and costs associated with the Rose Bee tow boat together total over \$50,000 annually. In addition, staff recommended to RSI that they pursue an appeal of the stormwater fee assessment. Elimination of City costs and tow boat costs, coupled with the possibility of a successful appeal of stormwater fees should reduce RSI's obligations to a level that approximates that agreed to when the Operating Agreement was originally entered into.

Exhibits to the report include an itemized 2006 Operating Budget recommended by CPED and an RSI estimate of the Terminal revenues for 2006. The Operating Budget estimate includes \$80,000 for stormwater assessments and elimination of responsibility for costs of the Rose Bee. Also included is an estimate of the net revenues (gross revenues minus operating costs and the management fee paid to RSI). It does not include City administrative expenses. The exhibits also present for comparison the revenues and expenses that were projected for 2005.

The proposed budget (Expenses and Projected Revenues) projects 2006 revenues from the Terminal will exceed operating expenses by about \$12,000. However, after deducting the Management Fee paid to RSI, losses at the Terminal in 2006 are projected to be about \$140,000. RSI has reported that they have intentionally prepared a conservative projection and will make every effort to make a profit in 2006.

Exhibit 1

**Upper Harbor Terminal
2006 Operating Budget**

	Expenses	
Expense	2006	2005
Payroll Wages and Taxes	833,615	716,792
Temporary Help	0	0
Pension Overhead and Gen. Admin.	125,042	123,655
Workers Comp	125,042	87,556
General Insurance	59,628	52,456
Health and Disability Insurance	87,280	75,224
Boat Insurance	0	4,120
Professional Services	33,996	34,980
Barge Surveying	9,000	10,000
Freight Charges	13,000	20,000
Supplies-office	13,992	12,000
Supplies-shop	9,000	4,980
Supplies-safety	8,000	7,980
Postage/Delivery	2,400	1,980
Travel/Auto Expense	3,600	3,480
Dues & Subscriptions	996	900
Licenses & Permits	6,540	5,505
Utilities	170,000	81,996
Telephone	9,600	9,996
Security	10,980	9,996
Rent-equipment	105,700	160,000
Repairs & Maintenance	326,944	311,605
Demurrage	10,000	19,998
Marketing	1,200	600
Bad Debt	0	0
Miscellaneous	996	6,000
Contingency	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$1,966,552	\$1,761,799

Exhibit 2

**River Terminal
2006 Operating Budget**

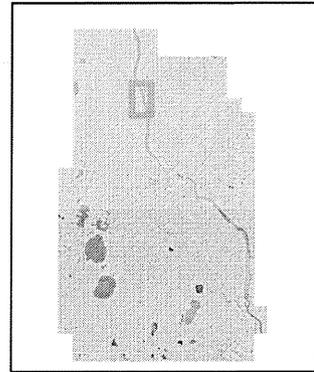
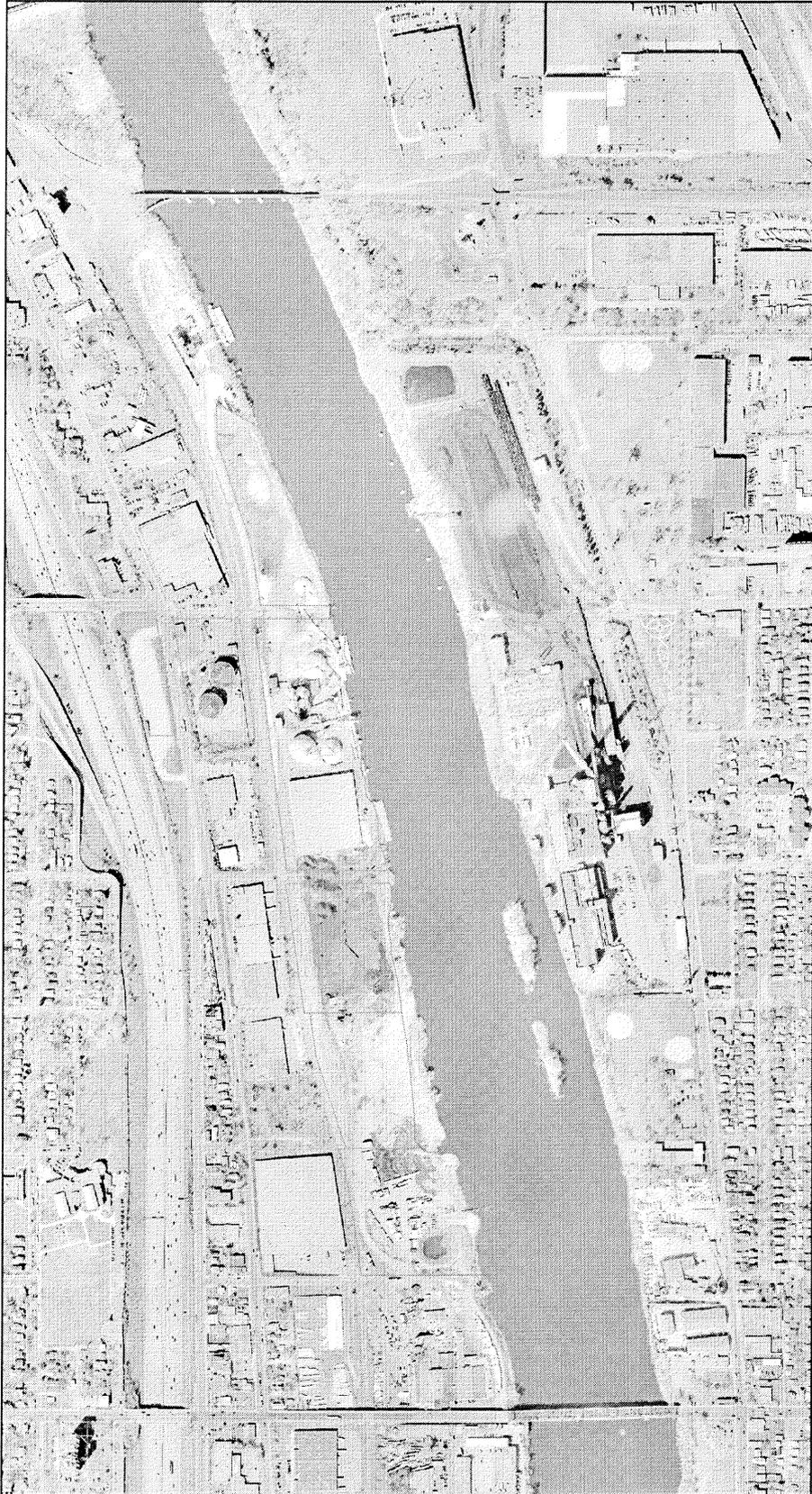
Projected Revenues

Commodity	2006	2005
Dredged Sand	99,995	50,000
Twine	200,000	200,000
Pipe/Granite	3,000	2,800
Steel	170,500	250,000
Fertilizer (direct)	0	0
Coal	350,000	320,000
Harbor Service	13,500	17,360
Grain Service	0	0
Rail Service	0	0
Magnetite	0	0
Elevator	0	0
Grain Direct	0	0
Salt	0	0
16&8 thousand ton storage domes	287,600	394,000
12&2 thousand ton storage domes	280,200	225,300
Miscellaneous Storage	256,300	52,200
Pig Iron	159,000	111,200
Aggregate	155,000	99,600
Miscellaneous	1,020	1,560
Truck Scale	<u>3,000</u>	<u>1,620</u>
TOTAL REVENUE PROJECTION	\$1,979,115	\$1,725,640

Exhibit 3
River Terminal

Projected
Revenues and Expenses
2006

	2006	2005
Gross Revenues	\$1,979,115	\$1,725,640
Operating Expenses	\$1,966,552	\$1,761,799
Management Fee (to RSI)	\$153,000	\$150,000
City Administration Expenses	0	\$40,000
Net Revenue	-\$140,437	-\$226,159



Minneapolis