

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

Date: November 17, 2008

To: Council Member Paul Ostrow, Chair, Ways and Means/Budget Committee

Referral to: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: Approval of Upper Harbor Terminal Operating Budget for 2009

Recommendation: Approve the attached Upper Harbor Terminal Operating Budget for 2009

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: Jim Forsyth, Senior Project Coordinator, 612-673-5179

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

Catherine A. Polasky, Director Economic Policy and Development _____

Presenter in Committee: Jim Forsyth

Financial Impact

No financial impact

Action is within the Business Plan

Community Impact

Neighborhood Notification: Not applicable

City Goals: Premier destination

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) a commercial navigation oriented 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 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 2009 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 2008 revenues and expenses that were projected at the end of July this year.

Significant increases in revenues in 2009 are projected for sale of dredged sand because in late 2008 and for the first time in four years the Army Corps of Engineers has dredged sand to provide clearance for nine foot raft barges. The 60,000 cubic yards of dredged sand were placed at the Terminal and will be sold by the operator. Increases in storage dome revenues in 2009 will be the result of a new contract for storage and handling of fertilizers. Expenses for barge surveying and freight are projected to increase as a result of the increases in fertilizer and aggregate business. Both of these expenses are initially billed to the Terminal and subsequently re-billed to the customer.

A review of the proposed Operating Budget for 2009 shows that RSI has projected that operating expenses at the Terminal will exceed revenues by \$17,306. 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 \$179,666. RSI has reported this projection is very conservative and is based on current customer commitments. They are comfortable that additional customers will be found, and that belief is the reason why they are willing to continue operation in 2009.

RSI has, as required in the Operating Agreement, provided a mid-year projection of revenues and expenses for 2008. The projections anticipate revenues of \$1,145,266 and expenses of \$1,460,616. After including the management fee of \$159,180 it is expected that the No City Loss Payment for 2008 will be \$474,530. RSI fully understands that they are responsible for these costs and will reimburse the City as they have in 2004, 2005, 2006 and 2007.

**Exhibit 1
Upper Harbor Terminal
2009 Operating Budget**

Expenses

Expense	2009	2008
Payroll Wages and Taxes	\$570,000	\$584,486
Pension Overhead and Gen. Admin.	\$45,600	\$49,683
Workers Comp	\$51,300	\$49,681
General Insurance	\$48,000	\$53,366
Health and Disability Insurance	\$105,996	\$96,441
Boat Insurance	\$0	\$0
Professional Services	\$32,004	\$34,320
Barge Surveying	\$5,600	\$2,492
Freight Charges	\$16,496	\$8,082
Supplies-office	\$11,004	\$12,000
Supplies-shop	\$2,064	\$2,496
Supplies-safety	\$5,700	\$5,794
Postage/Delivery	\$3,000	\$2,400
Travel/Auto Expense	\$996	\$1,800
Dues & Subscriptions	\$996	\$996
Licenses & Permits	\$2,496	\$2,496
Utilities-electricity	\$80,004	\$90,492
Utilities, stormwater	\$78,180	\$74,460
Telephone	\$8,100	\$7,667
Security	\$14,496	\$14,150
Rent-equipment	\$36,600	\$48,502
Repairs & Maintenance	\$320,009	\$307,873
Demurrage	\$10,000	\$10,000
Marketing	\$1,200	\$1,200
Miscellaneous	\$0	\$37
TOTAL OPERATING EXPENSES	\$1,450,381	\$1,460,616

Exhibit 1 (continued)
Upper Harbor Terminal
2009 Operating Budget

Projected Revenues

Commodity	2009	2008
Dredged Sand	\$96,999	\$11,250
Twine	\$175,000	\$172,271
Pipe/Plate	\$0	\$0
Steel	\$27,001	\$50,001
Steel Scrap	\$0	\$0
Coal	\$431,675	\$404,000
Harbor Service	\$5,000	\$5,000
Top Soil	\$1,200	\$5,383
Elevator	\$0	\$0
Grain Direct	\$0	\$0
Salt	\$1,200	\$1,556
16&8 thousand ton storage domes	\$192,000	\$0
12&2 thousand ton storage domes	\$24,000	\$30,001
Miscellaneous Storage/Handling	\$174,000	\$172,320
Aggregate	\$131,000	\$140,882
Pig Iron	\$162,000	\$140,000
Truck Scale	\$12,000	\$12,603
Miscellaneous	\$0	\$0
Management fee	\$162,360	\$159,180
TOTAL PROJECTED REVENUE	\$1,595,435	\$1,304,446
Management Fee	-\$162,360	-\$159,180
REVENUE	\$1,433,075	\$1,145,266

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

	2009	2008
Revenue (total minus mgt. fee)	\$1,433,075	\$1,145,266
Operating Expenses	-\$1,450,381	-\$1,460,616
Operations Total*	-\$17,306	-\$315,350
Management Fee	-\$162,360	-\$159,180
Net**	-\$179,666	-\$474,530

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

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