**OREGON INTERNATIONAL PORT OF COOS BAY**
**Coos Bay, Oregon**
**SECOND BUDGET COMMITTEE MEETING**
**1:00 p.m., Wednesday, June 2, 2021**
125 Central Avenue, Coos Bay, Oregon 97420
Zoom Meeting

**ATTENDANCE**

**Commission:**
David Kronsteiner, President; Eric Farm, Vice President; Bob Garcia, Secretary; Brianna Hanson, Treasurer; and Kyle Stevens, Commissioner.

**Budget Committee:**
Richard Dybevik; Nick Edwards; Lou Leberti; Maeora Mosieur; and Steve Scheer.

**Staff:**
John Burns, Chief Executive Officer; Lanelle Comstock, Chief Administrative Officer; Megan Richardson, Director of Finance and Accounting; Brandon Collura; Charleston Harbormaster; Margaret Barber, Director of External Affairs and Business Development; Mike Dunning, Director of Maritime Operations and Asset Management; Rich Lopez, General Manager, Coos Bay Rail Line; Mary Green, Fiscal Support Technician; and Krystal Moffett, Administrative Assistant.

**Media & Guests:**
Dave Wright; Rex Leach; Ty Cutting; Tom Estes; and Josh Whaley.

## 1. CALL MEETING TO ORDER

President Kronsteiner called the meeting to order at 1:06 p.m.

## 2. INTRODUCTIONS

## 3. PUBLIC COMMENT

**Dave Wright,** stated at Bandon Pacific in Charleston and Pacific Shrimp in Newport, both facilities process over 75 million pounds per year. Mr. Wright stated his understanding that when the rebuild was expedited costs ran away, but also Charleston has the largest ice facility on the West Coast. There are two ice facilities in Charleston; one being Hallmark who produces ice for processing and shipping their products, or as a tool for procurement of their products. Charleston Ice is a high-cost standalone facility. Mr. Wright shared his thoughts to first have the best quality ice with a proper amount of salinity, a cold, thick flake, 5 degrees or less in the holding tank with a good delivery system; this would bring tremendous value to the fishing community. Second, Mr. Wright suggested charging $80 per ton May through September to the loyal fleet as an incentive. Most of the ice sales to salmon, tuna, shrimpers, trawlers, and others would be during this 5-month period. Then, in September review what worked and ask whether the trust of the fleet had been earned on both quality and price. Potentially October through April, ice sales would slow and then the rate could be increased. Mr. Wright suggesting communicating with Hallmark Fisheries about when they shut down, to capitalize on and be prepared for the added ice sales. Mr. Wright stated communication is key to earning the trust of the fleet.

**Rex Leach,** stated he is a life-long fisherman with three vessels in Charleston fishing year-round for shrimp, ground fish, and crab, all utilizing dock space, the Shipyard, and buying ice. Times are tough with the pandemic and the lowest prices in decades. Mr. Leach stated he would like to see the price kept to a minimum on ice, then raise it over time as things improve.

**Ty Cutting,** stated he is a fifth-generation fisherman in Charleston and is representing his family's boats: Bernadette, Cape Foulweather, and Stormie C. Currently, the Stormie C is self-sufficient and making its own ice. Mr. Cutting stated at these prices, they are looking to also make the Bernadette self-sufficient. The Bernadette on average purchases 320 tons every year that the Port would be losing. If the cost of ice could be reduced to $80 per ton, it would be more feasible.

**Tom Estes,** stated he is a 30-year commercial fisherman and owner-operator utilizing the Port of Coos Bay and local businesses, while fishing for pink shrimp and offloading in Coos Bay and Winchester Bay. Mr. Estes stated he agrees with the other fishermen that the price of $91 per ton is extremely high. The quality of the Ice Plant is state of the art, but the ice is not cold enough. Mr. Estes stated on a recent trip his vessel ran out of ice at 75,000 pounds, whereas previous trips were 100,000 pounds. So it is not just the cost of the ice to be considered here, it is also the greater quantity needed. These issues could be worked out on the production side with the new equipment. Mr. Estes shared appreciation for the new facility and stated Coos Bay is a home away from home port with many needed services and amenities.

**Josh Whaley,** stated he is a third-generation fisherman on the Miss Emily which was built in Charleston. Mr. Whaley stated the current price of $91 will likely be passed over. Prices up and down the coast give options other than the $91 price per ton.

Nick Edwards asked Mr. Cutting if he would be more likely to purchase ice from Charleston at the reduced rate of $80 per ton rather than putting in an onboard ice machine. Mr. Cutting confirmed.

## 4. ICE PLANT RATE DISCUSSION

John Burns thanked all for being here today and encouraged the group to be mindful of the Port's statutory obligations to have the budget approved no later than June 30. While it may seem like there is a month to do this, the reality is that due to the need for a second meeting the budget hearing will need to be pushed back or a special meeting held to accommodate publication deadlines with the World Newspaper.

Staff have examined the budget further and concluded there were production costs not included in previous estimates. Staff have determined costs are about $132 per ton to make ice. The sale price of $91 per ton was established when the Port applied with the IFA to borrow $6 million for reconstruction, as proof that the loan could be repaid. With production price of $132 per ton and a sale price of $91 per ton, this is essentially a 31% subsidy. To drop that price further to $80 would be nearly a 60% subsidy. From a business standpoint this is not sustainable, even though the Port is in a different position than a private business would be.

Staff have examined the sales projections, and whether it could be pushed to 4,000. The price differential of selling 4,000 tons at the reduced rate is equivalent to selling 3,300 at the current rate. A possible solution was to have assurances that the 4,000-ton projection would be reached, but this solution was not viable, so staff had to look at alternatives.

Brandon Collura stated on December 20, 2019 at approximately 8:00am, the Ice Plant burned to the ground in a catastrophic loss after having stood for 50 years of service. From that Friday until the plant officially reopened in September of 2020, over a period of 40 weeks there were weekly meetings both internally and with industry partners. Everyone came together to pull off this project in a record amount of time. The Port heard from the fleet and the community on the need for the ice plant and how important it is to the community and to the entire coast of Oregon. This is one of the only public ice facilities on the coast. The demand to rebuild was great, and the project was completed in record time.

Lanelle Comstock stated insurance has only reimbursed the Port for "like kind" replacement costs for the building and dock. There were significant code, ordinance, permitting and engineering requirements that increased the costs. Per the insurance policy, these were only reimbursed 25%, if at all. There were also increased costs due to enhancing the equipment to better serve the fleet, which were not reimbursed. Overall, the insurance has only reimbursed about one-third of the cost to rebuild the Ice Plant building and dock. The Port had to seek additional funding from loans.

Mr. Collura stated the Ice Plant is available for the entire community, including the commercial and recreational fishing fleet. When the Port was looking to rebuild and examined the benefits to the fishermen, it was determined to double production time from 2.5 tons per hour to 5 tons and increase capacity from 115 tons to 158 tons. Quality of ice was addressed in the public comment, and this can be easily rectified with the new state of the art equipment.

Mr. Collura stated that although Community Ice in Newport has a lower price point, they also only have an 80-ton capacity and the lead time is 24 hours. In Charleston there is no wait time; there will rarely be a reservation list longer than the amount capable of being produced.

Mr. Collura stated the average travel time from Charleston to Newport is about 8-10 hours round trip. With an average burn rate of 5 gal/hour at current market prices, fuel would cost $240-$300. An average ice purchase of 20 tons at $91 per ton would cost $1,820 or if the price were reduced to $80 per ton it would cost $1,600, a difference of $220 per trip. The savings on ice by traveling further is a less than the cost of fuel, let alone crew time and wear and tear on the vessel.

With the Charleston Ice Plant there are no quid pro quo agreements. Many ice manufacturers connected to processing facilities are able to sell their ice cheaper by adding it into the price they buy the fish for. Those agreements are in place before the season begins. Charleston does not have these agreements and production costs are fixed.

Megan Richardson spoke about the historical data which led to the budgeted 3,300-ton projection. In fiscal year ending 2017, there was a total of 3,815 tons sold (of those 3,406 were sold to current customers). Port staff have identified the boats who have left and any customers without billable activity this fiscal year were not included in the projection. In fiscal year ending 2018, there were 3,374 tons total sold (3,119 from the current customer base). For fiscal year ending 2019, the total was 4,247 (3,335 from the current customer base). This is an average per fiscal year of just under 3,300 tons. Within the costs of operations, there are variable and fixed costs. The fixed costs include insurance, fire monitoring, phone, permits, and debt service totaling $346,538. This is already more than projected revenue, so without any of the variable costs added ice is being produced at a loss. The variable costs include labor, utilities, and maintenance; these costs increase the more the facility is used. Expenses budgeted versus revenue projected comes in at a loss of $135,895.60 or about $132.18 per ton to produce and then sell for $91.

Mr. Collura stated one of the suggested solutions from the first Budget Committee meeting was to reduce the price from $91 to $80 per ton. It was suggested to achieve similar revenue projections, then 4,000 tons would need to be sold versus the currently budgeted 3,300. The current revenue projection at 3,300 tons sold at $91 is $300,300. After expenses, the net result is a loss of $135,895.60. If the historical sales figures were to remain the same, and the Port sold 3,300 tons at the reduced rate of $80 per ton, the loss would increase to $172,195.60 or an additional $36,300. If the greater sales of 4,000 tons were reached at the reduced rate of $80 per ton, the net result would be a loss of $135,600.96. This is only a difference of approximately $295. If greater sales were not achieved, then the loss would need to be recovered elsewhere. One option would be to increase moorage another 4.8% (for a total increase of 7.8%). Another option would be to eliminate or reduce other projects or expenses such as staff, pilings, or building rehab.

Mr. Collura stated sampling looked at the top 10 customers by volume, from 328.5 tons sold to 90.0 tons, multiplied out to show what was spent at the old rate of $75, the current rate of $91, and then the suggested rate of $80. The difference to the highest volume customer at 328.5 tons would be an additional $3,613.50 or about $301 per month.

Ms. Richardson presented a second suggested solution, where a tiered rebate would be offered to customers who purchased larger quantities. For customers who purchase less than 150 tons per year, the rate would remain at $91 per ton. Customers who purchase more than 150 tons but less than 200, would be eligible for a discounted rate of $85. Those that purchase more than 200 tons would be eligible for the $80 rate. At sales of 3,300 tons with the current rate and no rebate, the loss per ton is $41.18. For the same volume (3,300 tons) with the suggested rebate program, the loss per ton increases to $46.15 or an overall increased loss of $16,406.93. If greater sales were achieved with the rebate program, the loss would be less. At the 3,300 volume sales, the additional $16,406.93 loss would have to be recovered from somewhere to balance the budget. Total expenses at the higher volume sales increase as well.

Mr. Burns thanked staff for the presentation and stated the suggested rebate program will provide an incentive for customers to buy more and then save. Either the money needs to be taken from elsewhere in the budget or a mechanism created to generate a greater source of revenue. Mr. Burns tuned the meeting back over to Commissioners and Budget Committee members for questions or further discussion.

Mr. Edwards stated the cost overrun of the project included items such as engineering and the sprinkler system. Mr. Edwards stated at the meeting in early 2020, it was asked whether the price would go up and stated his understanding that assurances had been made that the price would remain at $75 per ton. Mr. Burns stated this is a public meeting and it is being recorded. To set the record straight, at the meeting in February of 2020 there were no assurances made; what was said was that staff hoped it could be done (rebuild the Ice Plant without raising the rate) but did not know what would be faced and assurances could not be made.

Commissioner Farm asked Mr. Edwards for help in understanding the context of the increase to a fishing vessel's operating budget. There is data for the amount of ice purchased by larger vessels, but it is unclear what total percentage of operating costs that accounts for. Mr. Edwards stated his ten-year average from both Hallmark and Charleston Ice is about $18,150 per year for ice. If all ice were purchased from Charleston Ice and not Hallmark, it would be an extra $11,375 on top of the $18,150. Commissioner Farm again asked for the percentage of operating costs that accounts for, stating if other high priority projects are going to be set aside in order to lower the price of ice, it helps to have the context of that percentage. Mr. Edwards stated fuel is probably 10% and ice is half that, or a little less at 3.5-4%.

Commissioner Hanson stated a marketing effort to get information out and working together with the fishing community could be helpful to get to the 4,000-ton goal, and stated it is a good idea to look at trends later in the year and if sales have not made the mark, then have projects lined up that could be cut. Commissioner Stevens stated the Port cannot continue losing money after building a brand-new facility. The discussion here is not whether to pull money from a profit margin; money is being lost for every ton sold. Mr. Edwards stated his belief that at the current price the 3,300-ton projection would not be met and the subsidy would be larger than anticipated.

President Kronsteiner stated that in looking at ice as a percentage of cost, if it is 4% the annual costs is about $450,000 (although it is likely more), the increase of $2,600 between the $91 and $80 rates is less than one-half of one percent of the operating costs. President Kronsteiner reiterated this discussion is not about cutting profit margins, it is about paying more money out of the budget to subsidize even more than has already been done. This must be looked at as a business decision and the price should not be cut.

Ms. Mosieur stated the difficulty with any budget is trying to guess what will happen in the next 12-month window. There are some fixed expenses as well as variable and those change as the productivity changes. The question is how many tons would be sold at $91 and how many would be sold at $80. There is no guarantee that 3,300 tons would sell at $91, but there is also no guarantee if the price were reduced that 4,000 tons would be sold.

## 5. PRESENT THE MOTION TO RECOMMEND THE BUDGET TO THE PORT COMMISSION FOR ADOPTION, OR SCHEDULE A FOLLOW UP MEETING

President Kronsteiner motioned to approve the proposed budget for fiscal year 2021/22 and recommend to the Board of Commissioners for adoption. Commissioner Farm seconded.

Mr. Leberti stated he cannot vote for a motion to pass the budget if something is not done to lower the price to $80 for the commercial fishermen, at least for a short time.

Steve Scheer stated the Port's projection of 3,300 tons based on historical data was based on a lower price point at $75 per ton. The increase in price needs to be considered when projecting sales; otherwise, tons sold will be lower and may not even cover the loan costs. Mr. Scheer stated the percentage of the operating costs for ice may be small but small amounts can add up into larger amounts. Mr. Scheer also shared his belief the Ice Plant was overbuilt for the market in Coos Bay.

Mr. Edwards asked for clarification of the motion on the table. Ms. Mosieur stated it is the motion as presented on the agenda. Mr. Edwards stated he is not in favor of the motion unless the ice issue is addressed. Commissioner Farm stated the rebate incentive is an optimistic assumption and Commissioners need to see data throughout the year to ensure sales are on track. Commissioner Farm recommend amending the motion to include the tiered rebate incentive program.

Mr. Edwards asked for clarification on how customers would be eligible for the rebate program. Ms. Richardson stated it would be per the fiscal year of July 1, 2021 to June 30, 2022.

Upon a motion by Eric Farm (second by Brianna Hanson), the Budget Committee members voted to approve the proposed budget for fiscal year 2021/22 and recommend to the Board of Commissioners for adoption, with amendment to include the price structure as presented for the tiered ice rate rebate incentive program. Budget Committee members Lou Leberti and Steve Scheer opposed the motion. **Motion Passed.**

## 6. ADJOURN MEETING

President Kronsteiner adjourned the meeting at 2:44 p.m.