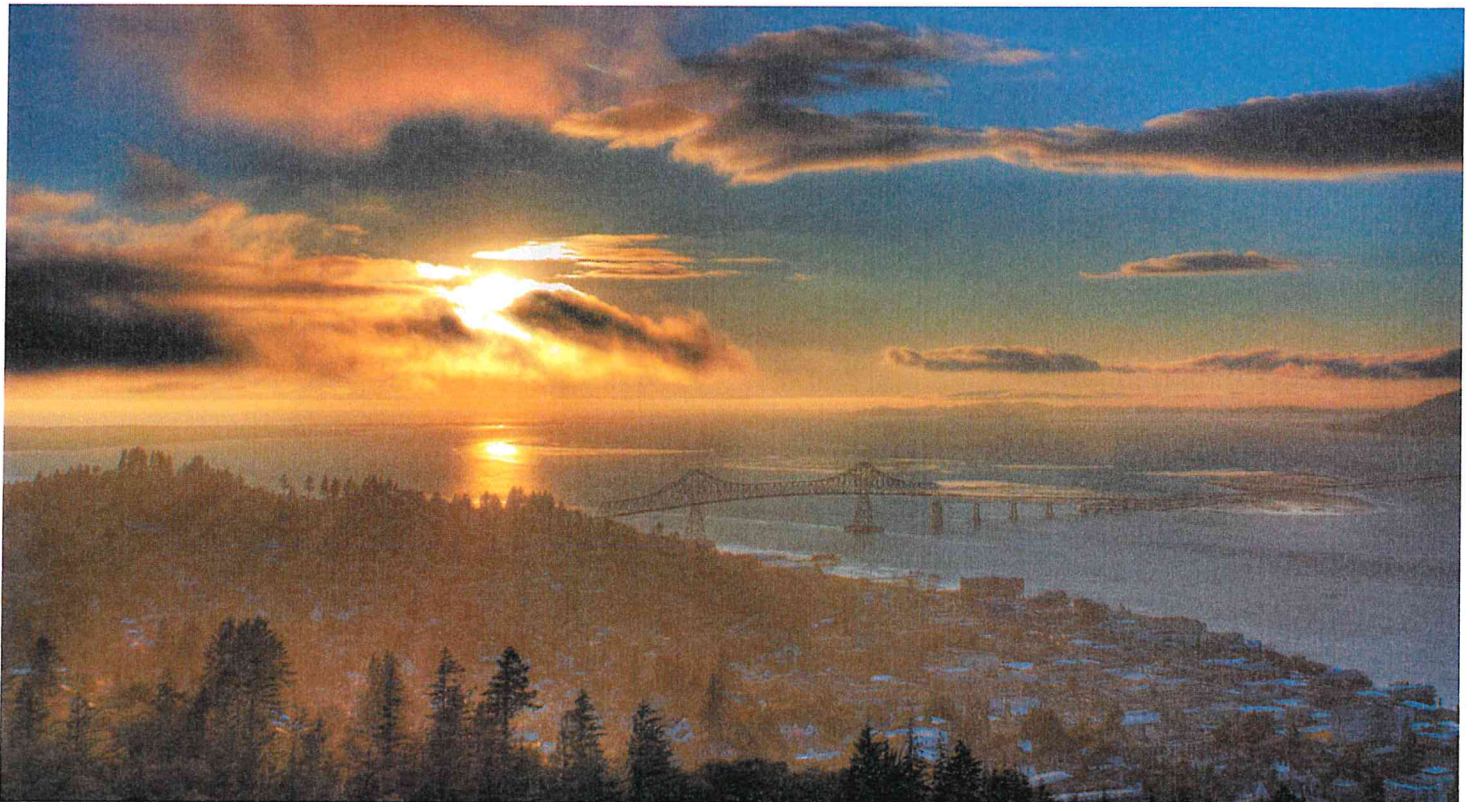




Budget Message for Fiscal Year July 1, 2018 - June 30, 2019



INTRODUCTION

I am pleased to present the budget proposal for FY 2018-19. In this fiscal year, constructing a balanced budget continues to be a significant challenge. We have several substantial items that remain unresolved and will influence the choices we make regarding our annual budget.

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1. The continued delays from our Federal Government in the final resolution of our 2015 storm damage claims to FEMA which amount to approximately \$10,000,000.
 2. The pending, final resolution of our approximately 17-year-old, AOC-4 dispute with the oil companies and their insurers;
 3. The final settlement of the Riverwalk Inn lawsuit;
 4. The determination of the appropriate course of action with regards to the causeway at the East Mooring Basin;
 5. Choosing the highest and best uses of our Skipanon properties;
 6. Determining how the Port will dredge our berthing areas in the future;
 7. The loss, for the foreseeable future - of the Oregon Department of Transportation, State-wide, "Connect Grant" funding –which is a critical source of funding for Ports and Airports.

These unresolved issues along with the Port's high debt load, failing infrastructure, significant dredge costs and limited cash reserves, demand careful and diligent management of our operating budget. The resolution of these issues will have both immediate and long-term impacts for the Port. While staff is confident that it will obtain positive outcomes in each of the unresolved issues, the timing of resolution for several items remains uncertain. It is likely, however, that these issues will be resolved during the coming fiscal year. The priorities in this budget focus our resources on critical infrastructure needs. Our focus should be the utilization of all available financial resources towards the infrastructure repairs that will create new opportunities for additional income and protect current revenue streams. We must carefully evaluate all Port properties as to their highest and best use and maximize the ability of each property to produce increased net revenue.

During this fiscal year, we must objectively evaluate the creation of new public-private partnerships, particularly with our properties at our East and West end marina properties. These partnerships may include the sales of Port buildings while maintaining land ownership to produce the best possible net revenue. The potential proceeds can generate the necessary capital needed to maintain primary revenue sources from our piers. Additionally, proceeds from the underperforming properties can be utilized for such things as the reconstruction of Pier 3. This reconstruction will expand our capacity for increased log vessel activity thereby creating additional jobs and important new revenues for the Port.

Due in part to the uncertainty accompanying the multiple pending issues listed at the beginning of this budget message, we must streamline our operations by reducing expenses and increasing revenues. We must take a strong look at evaluating our personnel costs; in particular, expenses associated with dredging and maintaining Port facilities. For example, annual personnel expense in our maintenance department is \$849,175 which accounts for 11.54% of our total operating expenses. This is not sustainable within the confines of our current financial condition. We must explore new, creative and efficient approaches to reducing maintenance expense while simultaneously maintaining Port facilities. It is important to note that if we are to meet our goals and objectives, new, creative approaches to reduce overhead and increase revenues are not just focused on our maintenance department but all Port operations.

BUDGET OVERVIEW

The general fund departments for 2017-18 remain the same as they were in 2016-17, with the exception of the Skipanon property – eliminated due to the termination of the DSL lease. Additionally, the Port of Astoria maintains a special revenue fund and a reserve fund.

Within the Port of Astoria's general fund, six departments have been established to track revenues and expenses related to the Port's operations and activities. These departments include the Astoria/Warrenton Regional Airport, Waterfront West (Piers 1, 2, 3 including the Boatyard, and properties west of Portway Street), Waterfront East (East/West Basins and properties east of Portway Street), Administration, Tongue Point and Security.

The proposed budget for 2018-19 anticipates total expenditures of \$11.2 million.

STAFFING

As the Executive Director, I appreciate very much our staff's commitment and determination to help us manage the Port. In particular, our new hires in environmental and property management have done an admirable job learning and managing their new responsibilities. Staff's primary activities, continue to be, dealing with the effects of significantly deferred maintenance, crumbling infrastructure and limited resources to address these issues. For example, nearly all of our tenants' roofs are showing significant signs of approaching failure. The recent contracting for a grant writer continues to give us hope for obtaining new grant funds. Several grant applications have already been submitted or are in the process of submission. Grant requests frequently require research, detailed budgets, planning and execution time-lines and multiple letters of support. The largest, most competitive and difficult grant that we will apply for will be the BUILD (Better Utilizing Investments to Leverage Development) Grant. This is a Federal Dept. of Transportation grant formerly known as the TIGER Grant. This will take months to develop but it is our best option for obtaining multiple millions of grant dollars for repairs and rebuilding of docks, roads, street and terminal lighting among other items.

The budget for the 2018-19 fiscal year includes budgeted FTEs of 33.75, equaling that of prior year. Total personnel services costs are budgeted at \$2.99 million, a small, 0.61% increase over prior year.

The following is a summary of the key challenges the Port must address in the coming fiscal year. These challenges are not listed by relative priority. Each of these priorities can have a significant impact on Port’s resources:

ENVIRONMENTAL ISSUES

AOC-4: Under the supervision of the Department of Environmental Quality (DEQ) during FY 2017-18 the Port and the “Potential Responsible Parties” (PRPs) narrowed the permanent solution down to primarily three options. This 17-year-old process is nearing conclusion. According to DEQ, they will be presenting their final decision in the next few months. Before that decision is finalized, I have asked and DEQ has agreed to present its findings to the Port at an upcoming Port Commission Meeting. DEQ expects to produce its final order before the end of 2018, bringing this long-standing dispute much closer to closure.

Central Waterfront Stormwater Treatment: Our new treatment facility is now fully operational. However, because of DEQ regulations, stormwater and environmental management is a Port-wide obligation and all Port tenants will be affected. Our next step is to review every Port lease, determine the total leased area of each tenant, determine the appropriate “Environmental Management Fee” that we will need to capture. Based on our tenants’ total leased area, this new fee will need to be implemented to help pay for the costs associated with our storm water systems and environmental management. This must be implemented in this coming fiscal year and evaluated on an annual basis. Nobody likes taxes and fees and our upcoming challenge will be to work closely with our tenants, understand their perspectives, hear their creative solutions towards addressing this issue and develop a fair and equitable approach to an ever increasing and costly obligation of environmental stewardship. The key to minimizing environmental management expense will be to create processes and procedures for all tenants that will prevent contaminants from entering our storm water systems.

AIRPORT/SKIPANON

We continue to have significant challenges maintaining our Airport facilities. Similar to other Port properties, Airport buildings and infrastructure require significant attention. What is difficult for us is that the total revenue of our airport does not meet our airport operating expenses. Adding to this predicament, the Port has the obligation to maintain airport operational functionality for the U.S. Coast Guard Air Station without any financial assistance from the Coast Guard. Additionally, because of prior agreements with several of our tenants, we must maintain buildings and infrastructure without the necessary revenue. This forces us to deflect financial resources from other Port operations. This is not sustainable. This current situation begs the question, “how did we get into this position?”

In 2003, the airport was operating with a positive annual operational cash flow of about \$60,000. Without judging by looking through the rear mirror, over the course of the next 10 years, several decisions were made that has significantly impacted the Ports ability to return to profitability:

2005 - The Lektro expansion added \$330,000 per year in debt service and the related cost of moving a fuel farm, while only adding \$180,000 in revenue, changing positive cash flow into a negative \$84,800 per year.

2007 – The Port added D Row hangars. This added \$25,000 in annual debt service but only \$20,400 in incremental revenue bringing the annual negative cash flow to \$88,700.

2012 – The Port added E Row adding \$38,000 in debt service and only \$26,500 in revenue bring the negative cash flow to \$99,300.

Currently, the operating (non-capital) revenue for the Airport is approximately \$636,000 annually. However, our debt load is \$393,000 annually and our operating expense is approximately \$342,000. With a nearly \$100,000 annual loss, we obviously need to increase our revenues to bring us back to a break-even or better condition.

While we consider our choices and fix on solutions, we must remember that the Airport assets have created and maintained over 400 family wage jobs. The Airport serves a vital regional role such as:

- ❖ The home for USCG Station Sector Columbia River
- ❖ The operating base for the Columbia River Bar Pilots
- ❖ Lektro, who continues to add good family wage jobs (now approximately 90-100)
- ❖ The regional base for Life Flight Networks who transports the critically injured to Portland/Longview regional hospitals
- ❖ The aviation support facility for Oregon’s National Guard’s Camp Rilea for training and operations of military aircraft (from which we derive approximately 40% of our annual jet fuel sales
- ❖ It is the home of 3 military helicopters; 3 civilian helicopters and 40 fixed-wing aircraft
- ❖ Daily UPS flights and regular flights for executives and staff for our regional companies such as Lektro, Fred Meyer, COSTCO, Pacific Seafoods, DaYang Seafoods, Hampton Lumber, Wauna Mills and Les Schwab.

In spite of being chronically underfunded, the Airport continues to be successful in its role for our community and or region. In comparison to 6 other regional airports (Aurora; Troutdale; Scappoose in Oregon, Shelton; Chehalis and Kelso in Washington), Astoria:

- ❖ Has the fewest daily operations
- ❖ 1st, by a factor of two in daily military operations
- ❖ 2nd to last in the number of “based aircraft”
- ❖ The only one with 2 runways, 1 of which is the longest of the 7 airports
- ❖ We are 2nd of the 7 in FAA funding for the planned 2017-21 in FAA’s National Plan for Integrated Airport Systems. If we added the \$5m for runway rehab in 2016, our total FAA funding is \$12m making Astoria the top FAA funded airport of the 7 airports and which is nearly more than the total of FAA funded Oregon Coastal Airports.

With careful planning and collaboration, the following positive steps can occur:

- ❖ Hangar revenues can grow by \$5700 annually
- ❖ Two new executive hangars will increase annual revenues by \$13,000

- ❖ The Stopwater lease will increase \$32,400
- ❖ These increases will improve revenues by approximately \$51,000 annually
- ❖ If we could only obtain \$.025/month on just ground rent at our Business Park that would increase airport revenues an additional \$65,000 annually.

These potential increases can bring us back to a much better financial position.

- We continue to have significant challenges maintaining our Airport facilities. Similar to other Port properties, Airport buildings and infrastructure require constant attention. What is difficult for us is, the total revenue of our airport does not meet our airport operating expenses. Adding to this predicament, the Port has the obligation to maintain airport operational functionality for the U.S. Coast Guard Air Station without any financial assistance from the Coast Guard. Additionally, because of prior agreements with several of our tenants, we must maintain buildings and infrastructure without the necessary revenue from those tenants which would enable us to maintain the infrastructure of their facilities. This forces us to deflect financial resources from other Port operations. This is not sustainable.
- We continue to develop a new lease with Life Flight which will culminate in the construction of a new Executive Hangar to be owned and operated by Life Flight.
- The Port is also wrapping up a new land lease for an additional new Executive Hangar for a private corporation that will house up to several aircraft in a new facility located near the existing Lektro manufacturing facility.
- We must determine the cause of and solution to, a dramatically greater volume of water entering the City of Warrenton's sanitary sewer system than the volume of water that the City delivers to our airport property. Our suspicion is ground water is penetrating a failing conveyance system which is multiple decades old. This must begin to address this within FY 2018-19.
- With the loss of Connect Oregon Grants, our future FAA grants will require the identification of other "grant matching dollar" resources. Our staff is fully engaged with Oregon Department of Aviation staff; our legislators; state-wide ACTS (Area Commissions on Transportation – the Port is a member of the NWACT which covers Columbia, Clatsop and Tillamook Counties) and others to develop resources to address this issue. This is one of the most important issues our organization must address for our airport. Without funding for the match requirements of future FAA grants, not only might we not be able to obtain FAA grants, we could ultimately lose FAA certification for continued operations as they now exist, which would be devastating to our customers, emergency response capabilities and our region.
- We will continue to pursue grant opportunities to study the feasibility of a business park development project at our Airport Business Park. Because of its low-lying location, riddled with wetlands, in earthquake, tsunami and inundation zones; within the airport zone guided by FAA regulations and guided by the City of Warrenton Building Codes, we must expend the necessary efforts to determine the feasibility of developing this property – regardless of the ultimate purpose of the business park. It may be determined through the process of determining feasibility of development, our business park is simply poorly situated for commercial development. If so, then we must explore other potential uses of the property.
- On our **Skipanon Properties** we must perform a comparative evaluation of various pathways towards the best use and highest potential value of our property. To simplify our options: **1.** Determine the feasibility of commercial development. **2.** Determine the feasibility and ultimate values of purposefully creating additional wetlands for estuarian habitat and the creation of a

Port-owned “Mitigation Land Bank”. We are reminded that the Port recently was obligated to purchase “Mitigation Credits” at the cost of approximately \$175,000 per acre. **3.** Consider the possibility of selling our property. **4.** Do nothing.

West Mooring Basin

Although somewhat successful, the recent West Marina Basin Dredge Project did not produce the results we had hoped for. We will have to request proposals from the dredging industry for the future dredging of our marina. We hope to incorporate this dredge project into the other areas of Port property that also require dredging.

Recent bathymetry indicates that the Port will still need to remove approximately 60,000 cubic yards of material. Initial responses last year indicated that it will cost roughly \$10.00 - \$12.00 per cubic yard to remove the sediments with a total cost of \$600,000 to \$720,000. The Port still cannot allocate these resources during one fiscal year and is therefore planning on dredging the Marina over the course of 2-3 years. The good news is that we already have the necessary permits in place for this project because of our efforts in 2017-18.

East Mooring Basin

Staff is finishing a new grant application for the Master Planning of the future development of our East Mooring Basin. It is extremely important that we perform detailed planning for the future development of this important and strategically located Port property. This planning process must begin with a comprehensive Master Plan. We must determine through a collaborative effort with the City of Astoria, our tenants (which are limited in number and primarily vessel owners and operators who moor their vessels in our marina), our adjoining neighbors to our property and our community members and stakeholders. We will look at former and any current strategies that have been developed over the years to avoid unnecessary expense and duplication of efforts. This investigative and visioning process will help us to determine how best to address:

- Appropriate property development and acceptable usages of our property;
- Repairs/replacement of the causeway;
- Resolving our conflicts with regards to the inundation of a seemingly ever growing pinniped population;
- Potential expansion of our marina to address the shortage of mooring slips for commercial and pleasure crafts;
- Expansion of our boat ramp;
- Traffic flow and the impacts of new development;
- Ingress, egress to and from our property;
- Parking, lighting, security;
- Increased quality of life experiences for our community and visitors alike;
- Quality amenities and services for all who visit, live and work at or nearby the mooring basin;
- Preservation of view corridors and increased opportunities to enjoy the magnificence of the Columbia River from and near the East Mooring Basin;
- How to increase the Port’s net revenue from prior and future investments from this property.

These are just a few of the anticipated benefits that can be realized from the proper design and utilization of this very important community asset. Due to the probable high cost of planning, designing, permitting and construction, it will be necessary for the Port to seek partnerships with competent, experienced and well-funded investors, willing to make the investments necessary to turn the East Mooring Basin into a site that our community will be proud of and that visitors from around the world will enjoy for decades to come. It is very fortunate that Governor Brown recently selected this portion of Astoria to be identified as an Oregon Opportunity Zone. This Federal designation will become an important tool in recruiting substantial investment dollars from the private sector. Now is the time to move this project to the forefront of the Port's property and community development strategies. Upfront and carefully considerate planning will be the key to our success.

CONCLUSION

At the beginning of this Annual Budget Message, I identified 7 substantial unresolved issues (as of the time of this writing) that will significantly impact the management of this 2018-19 fiscal budget. The following represents the importance of the outcome of each of these issues:

1. Resolution of our 2015 Storm Damage to FEMA: This was an emergency declared by our Governor and confirmed by the President of the United States. FEMA has an obligation to address our claims. After nearly 3 years and expenditures of tens of thousands of dollars in producing the FEMA-required documentation from highly qualified marine engineering and environmental companies to substantiate our claims, only a very small number of our claims have been resolved. Millions of dollars of our claims remain unresolved. Through frustration from the continuation of FEMA's slow responses and continued multiple requests for information previously provided by the Port, I have reached out to our Congressional Representatives for assistance. They have encouraged me in their willingness to step in and help. We can only hope for the best possible outcome. FEMA funding will provide the financial resources necessary for repairing the storm damaged facilities that continue to rapidly deteriorate and affect the Port and its tenants. This FEMA funding will also provide the funding for the matching requirements of our Pier 2 Connect VI Grant.

2. AOC-4 Resolution. It is important to note that DEQ determines the final solution for AOC-4. In the early years, the Port Commission insisted that the only appropriate solution was the total removal of all contaminated soils. This solution was determined by DEQ as unacceptable due to the high cost involved. During the last two years, the Responsible Parties (RP) consultants proposed a solution that was significantly less (by many millions). The Port countered with a solution that would create a new sea wall north of the current head of slip two. DEQ also rejected this solution as too expensive, although it remains a possibility that DEQ approves this solution but does not require the RPs to pay more than what would have been their responsibility. The difference in cost between the two solutions may be several million dollars. DEQ will be presenting their proposed final solution in the near future to our Commission. We need to remember that there remains a financial obligation to our attorneys for their services. We must be careful in discussing final solutions as the Port and the RP's have yet to come to a satisfactory cost-sharing of the solution, as we have been waiting for DEQ's final choice for solving AOC4. Those negotiations will begin when DEQ makes its decision. This most likely will occur during this upcoming fiscal year.

3. Riverwalk Inn final settlement. Our appeal of the court's decision on this case remains active. However, as the Commission is aware, negotiations are continuing with Param. The court ordered Param to reimburse the Port, the City of Astoria, the County, the IRS and others for the debts of the prior operator. For the Port, that amount is approximately \$400,000. Param is interested in a long-term relationship with the Port. The court ordered that Param was entitled to a 7-year lease with the Port, beginning in November of 2018 and pending the outcome of an appeal. The Port has temporarily stalled the appeal process to provide Param and the Port an opportunity to come to a satisfactory settlement outside of the Court Order. I anticipate that if there will be a satisfactory settlement it will happen within the next few months.

4. East Mooring Basin Causeway. Please refer back to my comments in the "East Mooring Basin" section previously outlined.

5. Skipanon. Please refer to my comments in the "Airport/Skipanon" section previously discussed earlier in this document.

6. Dredging. Due to high labor costs, maintenance and repairs, poor performance and aging and outdated equipment, we must make difficult choices to adequately maintain our water depths. Purchasing newer equipment will cost millions, but even if purchased, the utilization of our maintenance staff for operating and maintaining the equipment has proven to be costly and inefficient. To confirm these assumptions, the Port must first produce a thorough financial and operational analysis. To that end, we must obtain proposals from the private sector to establish a clear understanding of what dredging will cost using private companies. Staff is working towards the preparation of an RFP for distribution at our earliest opportunity. Until we receive responses and perform the financial and operational analysis, we should budget our dredging costs for the coming dredge season (November-February), using our existing equipment and staff. If the analysis dictates changes are in order than we will be prepared to act accordingly.

7. Loss of Connect Oregon Grants. The Port has two primary sources for funding the match requirement for FAA Grants: Connect Oregon Grants and COAR Grants. COAR grants (Critical Oregon Relief Program) statewide, has less than \$2 million annually for funding all of Oregon's critical airports of which Astoria-Warrenton Regional is one. Connect Grant funding for airports and ports has been discontinued for the time being with no change in sight. \$2m in COAR grant funding does not come close to meeting the States' airport needs. In the last grant cycle there more than \$6m in funding requests, with approximately 30 airports not submitting grant requests. We must work rapidly to either lobby for the reinstatement of sufficient Connect funding for our airports, dramatically increase the funding of COAR grants or find a new funding resource approved by our legislature to meet the growing needs of our airports. Our NWACT appointed me to the Department of Aviation's "Airport Review Committee" known as the ARC.

This committee has the regulatory obligation of recommending the approval of COAR grants. This committee works very close with the Department of Aviation staff. In the future, this committee may also be tasked with the recommendations for approval of all Department of Aviation grants. The ARC selected me as the Committee Chair last year and renewed my position earlier this year. Our committee, with the full support of all twelve regional Oregon ACTs has committed to developing industry and community partnerships for the purpose of finding better ways to communicate our urgent and soon to be desperate needs to our legislature. ODA staff have reported that they have no knowledge of any other initiatives in our State that addresses our important needs. The work of the ARC

is currently the only initiative actively pursuing increased funding for our Critical Airports. The ARC strongly believes that if we are not successful, airports will lose FAA funding for our major rehabilitation projects which will ultimately cause the loss of FAA certification for airport operations. This can have a potentially devastating impact on human safety and economic viability state-wide. Imagine the impact of natural disasters and the roles that our airports play in response to disaster. Unfortunately, for the preservation of our own regional airport, the work of the ARC is our best option for developing state grant opportunities at this time.

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Once again, I'm very appreciative of the hard work that the Port staff has put into developing this budget. Special recognition goes to Will Isom for managing this process and to the hard work that Matt McGrath has provided in accumulating vast amounts of research and data collection, which is once more, the backbone of this budget.

It can be disheartening and frustrating to fully realize the Port's needs yet lack the resources to do so. Prioritizing the application of Port resources is complicated work and subject to many opinions, including those of the Budget Committee, the Commission, our tenants, our stakeholders, community partners and finally our staff. I am very fortunate to have committed staff willing to work tirelessly with great enthusiasm day after day, to rise to every challenge and commit themselves to the success of the Port for the betterment of the citizens of Clatsop County, our region and the great state of Oregon.

It is only through the collaborative efforts of our entire organization - including this Budget Committee - that we will be able to best prepare a budget that will address our most important needs. I would like to remind us all that we will not be able to solve all the Port's problems with this budget. Most of these problems have existed for many years and in some instances, for many decades. This budget reflects what we can do now.

In spite of the numerous challenges that face us, I remain so very optimistic about the Port's future. I see how far we have come and how much has been accomplished. Our pier customer businesses are doing well while overcoming their own challenges. Our log export customer's business is growing. Were it not for difficulties in finding a stable workforce, our seafood processors would be prospering all the more, but they remain confident in our future as well. Our hotel has produced more revenue for the Port than what we've seen in a long time. Additionally, our tenants and staff have been cleaning and improving their areas - another sign of changing culture and respective commitment to the Port and our mutual future.

I see in our future a West Marina Village extending from the Astoria-Megler Bridge to Youngs Bay, capturing our ability to create a beautiful and productive working water-front. I can see increases in log volumes ships calling again at Pier 3. I see a growing ocean-going, cruise ships and river boats industry spreading to multiple locations on Port property. At the East End Marina, I can see a new and beautiful causeway, an expanded marina with shops, restaurants and fascinating places for our citizens to see, learn and enjoy while taking in the magnificence of the Columbia River.

I see our airport and our surrounding properties finding the resources necessary to not just survive, but flourish. I know we will find the right path that will attract businesses, scientists and entrepreneurs to help us create a perfect balance between a bustling airport and a thriving, estuarian environment.

I see that we are becoming the Port District for which our citizenry has hoped. I see that we are capable of facing and overcoming the approaching obstacles and challenges. I have come to see during my nearly 4 years here that it is the nature of this multi-generational community to help one another grow and prosper.

It remains my honor to serve the Port of Astoria and our Community as the Executive Director. I truly appreciate the opportunity to help guide the Port to a prosperous future and will work to the utmost of my ability to that end. I wish us the very best for the coming fiscal year.

Sincerely,

Jim Knight

Executive Director