
MEMORANDUM

TO: Commission President - Frank Spence
FROM: ad hoc Finance Committee Chair – Walt Postlewait
SUBJECT: ad hoc Finance Committee Final Findings and Recommendations
DATE: 5/3/2019

This memo summarizes the ad hoc Finance Committee's findings and recommendation to the Port of Astoria's Board of Commissioners concerning the financial state of the Port and financial policies and procedures currently in place.

The Port's current financial condition is the result of many years of mismanagement and neglect of infrastructure. The current list of unfunded maintenance needs is overwhelming. While our Committee does make recommendations to sell off high-maintenance or underperforming properties, these actions will not address the Port's problems in the long-term. It is highly unlikely that the Port will be able to overcome its financial challenges on its own. Additional state or federal public investment will be required.

Our top recommendations to the Port are:

- 1) Acknowledge that the Port cannot solve these problems on their own
- 2) Ensure that the Port is in full compliance and qualifies for state and federal assistance
- 3) Reestablish credibility and rebuild relationships with state and federal decision makers
- 4) Formalize a strategic plan that recognizes current problems and provides a realistic path forward
- 5) Make the case that significant public investment is needed to protect jobs and preserve strategic infrastructure on the Columbia River

This effort will require humility by the Board and Port management. Inward fighting and dysfunction must stop. The Board and Port management must work with each other rather than against each other. Information needs to flow freely between staff and the Board and there must be complete honesty and transparency with all state and federal agencies, and the citizens of Clatsop County.

The current outlook is dire. We must face reality, seek expert help and chart a path forward. This is what the Board was elected to do, what the Port executive director was hired to do and what stakeholders of the Port expect.

Other recommended actions from the Committee are as follows:

Finalize the Strategic Plan

- 1) Completion of the revised strategic plan is critical to securing future funding and should be given the highest priority. The Board should read the existing strategic plan, and review a draft of the revised plan within the next 30 days. A clear timeline for adoption of the plan needs to be created and made public.
- 2) The Port's mission statement should be edited or restated to acknowledge current difficulties and the need for fiscal improvement, balanced with the Port's role in creating opportunities for economic development of Clatsop County.

- 3) All stakeholders and/or users of the Port should be identified along with the assets critical to each user group. The impact on each group should be formally assessed when allocating Port resources over a certain threshold. Resources are finite and every yes is a no to something else.

Reduce the Port's Maintenance Exposure

- 4) Make a list of all major assets (i.e. buildings, infrastructure, land, equipment, stock) and determine the following:
 - a) Annual financial impact on the Port
 - b) Asset marketability
 - c) Economic development opportunity lost if sold to a private party
- 5) Maintain a complete list of deferred maintenance needs (grouped by major asset) and determine the expected timeline to address each need based on the Port's current financial condition. Create a list of items that are unlikely to be addressed within a 5-10 year timeframe. These findings should be presented to the Board along with staff's assessment of the economic impact of each unaddressed maintenance item.
- 6) At least every 3 years, the condition of all Port assets should be evaluated for maintenance needs and the overall condition documented. Income, expense and economic development impact should be assessed. Maintenance should be prioritized and a determination made as to retain or liquidate the asset. All upgrades or maintenance performed should be documented. Assets that have unmanageable deferred maintenance costs should be thought of as liabilities rather than assets. This formal review of Port assets should be presented to the Board.
- 7) Seek to reduce the \$25m+ of maintenance liabilities by selling assets rather than repairing them. All buildings should be considered for potential sale. The sale of assets should follow the Port's adopted policies. In general, the Port should hold land and sell buildings as the Port has shown that it cannot keep up with the required building maintenance.
- 8) Standard Operating Procedures need to be drafted and approved addressing the marketing of Port assets, the sale of Port assets, and the allowable uses for sale proceeds.
- 9) Prioritize the sale of the Riverwalk Inn, Seafare Restaurant and Chinook buildings and invest proceeds in critical infrastructure (i.e. Pier 2).
- 10) Consider selling/leasing East Mooring Basin to a private party. Obligations to other vested Federal and/or State agencies must be considered in this evaluation. However, this property continues to deteriorate and it seems highly unlikely the Port will ever have the cash necessary to make required improvements to make this a useable community asset. The sale of significant assets should only be considered when the proceeds from the sale can be invested into assets.
- 11) Have an understanding that reducing the number of assets also reduces the ongoing maintenance requirements of the Port. A reduction of maintenance liabilities will only fully be realized when there is a corresponding reduction in Port overhead.

Assess the Contribution of Each Port Asset

- 12) Develop a better understanding of how each dollar of revenue is generated and each expense dollar is spent. At a minimum the Port should be able to break down profitability by Geographic area (East, West, Airport). Ideally each Port property and/or operation would show its contribution/impact on the bottom line.
- 13) Review all current leases and compare current lease rate vs current market rate vs the Ports full cost (including deferred maintenance). Rents that are under market should be adjusted when lease renewal allows. Present summary findings to the Board. The public deserves to know what properties are leased at below market rates and the amount of economic development supported by the Port.
- 14) The full cost of each property (including property maintenance and dredging) should be passed along to those that benefit from the asset. When possible this should be included in lease payments. However, the Port should consider assessing new user/activity fees as needed to fully recoup these costs.
- 15) Evaluate a possible special assessment on all tenants (similar to an HOA) for Port common areas and general services provided by the Port (i.e. security, roads, water treatment, etc.) that are not currently billed to tenants.

Improve the Quality and Flow of Financial Information

- 16) Month end closing procedure completed within 10 days of month end with results presented to the Commission within 30 days of each month end. This will require certain financial estimates to be made, which can be true-up the following month.
- 17) Financial packet to Commission members (available to the public) may include items such as:
 - a) One-Page Executive Summary from Finance Director
 - b) 5 key metrics used to measure current condition and assess improvement/deterioration
 - c) YTD Budget vs Actual
 - d) Projected Profit and Loss for 12 Month ended June 30
 - e) Summarized Profit and Loss by Department/Area/Operation with:
 - i) All Port expenses allocated to a revenue center (including overhead cost)
 - ii) Pass-through items shown separate from standard labor and material expenses
 - f) A reconciliation of pass-through items (rebilled utilities, rebilled labor/equipment, fuel sales)
 - g) Schedule showing where Port labor was invested during the period
 - h) Cash forecast
 - i) Major expenditures during the recent period (grouped by asset/project)
 - j) Large upcoming expenditures, why they are needed and how they will be funded
- 18) Financial packet information should be presented monthly by the Port's Finance Director. Whenever possible, Department heads should make presentations to the Board directly rather than the Executive Director. Hearing from and directly asking questions of subject experts provides greater competency and transparency. It also limits opportunity for selective information sharing.
- 19) Port management should discuss current budget shortfalls and necessary spending cuts so that expenses match revenues. The Board should hold management accountable for balancing the budget.

Create and/or Follow Existing Policies and Procedures

- 20) The Board, Port management and staff need to stay up to date on policies and resolutions that the Port is required to abide by. A systematic training schedule for all parties should be established, including an annual update that summarizes recent policy changes and an annual ethics training. Proper governance builds credibility and is a key component in obtaining the support and confidence of state and federal agencies, and other stakeholders in the County.
- 21) Existing statutes and resolutions should be organized and made available to both the Board and Port staff. Staff should identify and reference relevant policy when actions are being considered to ensure that the Port stays in compliance.
- 22) Create and/or follow existing policies and procedures that will trigger a budget revision when significant revenue or expense lines differ from the budget. There should have been a redraft of the budget when it became apparent that the 2018-2019 revenue line item for Dockage and Vessel Services was going to be missed by 15% or more
- 23) Create and/or follow existing policies and procedures for the sale of assets. The sale process should be public with the Board being the executing party. A third party expert should be used to determine the value of the asset. When an asset's sale price is below the third party assessment the asset should be publicly marketed via a formal RFP process. When competing offers exist, priority should be given based on overall financial strength and expected economic development impact. We recommend that proceeds from the sale of assets be first re-invested into existing assets by addressing deferred maintenance needs. Acquisition of new assets should only be considered once the maintenance schedule is current.
- 24) Create and/or follow existing policies and procedures for establishing and renewing leases. Leases should be written based upon a standard template constructed by legal and/or real estate experts and approved by the Board. All future lease negotiations should include a schedule of expected future maintenance costs over the lease term and should address how these costs are accounted for in the lease. Consider funding a reserve for these maintenance costs rather than spending funds on existing projects.

Increase Transparency and Public Communication

- 25) Create a permanent Finance Committee to meet no less than quarterly to discuss financial condition of the Port, operational performance and items that may impact future financial results. Committee should be made up of the following- Port Executive Director, Port Director of Finance, three budget committee members, and three Clatsop County citizens. A memo summarizing the Committee's meeting should be passed along to the Board at a regular Port meeting where the public can make comments.
- 26) Establish an anonymous feedback loop to help facilitate better communication between staff, the executive director and Board members. This mechanism would allow all parties to express satisfaction, concern and/or ideas to improve efficiency and limit waste. At a minimum, an annual survey should be utilized seeking this feedback. Results should be presented to the Board along with the raw data set of the survey. The Board should ensure that feedback received is not filtered by Port management or staff.
- 27) Contract with a third party to assess all staffing levels, functions, job descriptions, and effectiveness of all Port staff. Confirm that staffing levels, functions and skill sets are appropriate for the Ports size and complexity. Make staffing adjustments and annual operating budget based on the audit recommendations.

- 28) Consider reviewing the financial packet as part of “work meeting” outside of the regular Board meeting. This would allow for a more informal back and forth between staff and Commissioners. An abbreviated financial summary could then be presented in the regular Board meeting. All work meetings should be open to the public, and the financial packet made available to the public.
- 29) Closed door meetings of the Board and Port management should be limited to topics required by statute
- 30) Assemble a panel of experts from the State and/or other regulatory bodies that can provide an outside perspective to both the Board and the general public on what public money may be available to the Port and what strings will come attached with future funds. Receiving an assessment directly from these officials and allowing the public to ask questions will help restore public trust.
- 31) Once the strategic plan has been completed, schedule a public town hall meeting to provide the public an opportunity to hear and comment on the plan.