

OREGON INTERNATIONAL PORT OF COOS BAY
Coos Bay, Oregon
REGULAR COMMISSION MEETING
Thursday, October 16, 2008
7:00 p.m.
Port's Commission Chambers

ATTENDANCE

Commission: David Kronsteiner, President; Caddy McKeown, Vice President; Dan Smith, Secretary; Brady Scott, Treasurer; Jerry Hampel was absent

Staff: Jeffrey Bishop, Executive Director; Martin Callery, Director of Communications and Freight Mobility; Donna Nichols, Director of Finance and Administration; Aaron Simons, Marina Facilities Manager; Mike Stebbins, Port Counsel; Andrea Wall, Executive Assistant; Mike Gaul was absent

Media & Guests: Alexander Rich, *The World*; Gordon Young, Channel 14; Ken Messerle, Coast Consulting; Jan Dilley; Steve Pickering; William Braisted; George K Ahuna; Dana Gaab; Jody McCaffree; Camby Collier; Marvin Caldera and Frank Williams, ILWU

1. The meeting was called to order at 7:15 p.m.
2. President Kronsteiner said he would dispense with introductions and Public Comment tonight because it had already been a very long day for the Commission. He also noted a few minor changes to the Agenda.
3. CONSENT ITEMS:
 - A. Minutes: September 18, 2008 Regular Commission Meeting
 - B. Approval of September/October 08 invoices totaling \$315,694.95
 - C. Ratification of Umpqua Bank Loan Fees of \$15,000.

Upon a motion by Commissioner Scott (second by Commissioner Smith) the Board of Commissioners approved the September 18, 2008 Meeting minutes, the September/October 2008 invoices totaling \$315,694.95 and the Ratification of the Umpqua Bank Loan Fees of \$15,000.

The President made an announcement about videos of the meetings which are posted on the Port's website. CD's of the meeting are available in the Administration office for \$5.00 a few days after the meeting.

4. MANAGEMENT REPORTS:

A. Executive Director: Jeff Bishop

Mr. Bishop had three ratifications to present to the Board. There was an invoice from Don Breazeale and Associates in the packet which was over and above the contract amount formerly agreed upon. Mr. Bishop said that originally the contract was presented as a "not to exceed". However, there was a materials and services clause which he failed to note. In order to accomplish the task, Mr. Breazeale worked a number of hours in excess of the original budgeted hours. Mr. Breazeale has agreed to split the difference since it was a bit of a surprise. The amount being authorized for ratification is \$26,462.50.

Upon a motion by Commissioner McKeown (second by Commissioner Scott) the Board of Commissioners approved the ratification of an additional \$26,462.50 to the Don Breazeale & Associates contract.

Commissioner Scott made the comment that in contrast to other Port studies we had done 5-6 years ago, the information we received from Don Breazeale and Associates was more complete and rather exciting to contemplate.

Mr. Bishop then brought two Professional Service Agreements before the Board for ratification. Both of these contracts are with Don Breazeale and Associates. The first is a contract for preparation and completion of a Railroad Rehabilitation and Improvement Financing Loan (hereinafter "RRIF") with the Federal Railroad Administration. The second contract is to provide consulting services to assist the Port in the negotiation of Collective Marketing Agreements (hereinafter "CMA") for Class I railroads for operation of the railroad if we are successful in obtaining it. Each of the contracts is for \$32,500.

Upon a motion by Commissioner Smith (second by Commissioner McKeown) the Board of Commissioners approved the ratification of two Professional Services Agreements with Don Breazeale and Associates to provide consulting services on CMA and on RRIF for \$32,500 each.

B. Deputy Executive Director: Mike Gaul was absent due to a PNWA conference.

C. Director of Communications and Freight Mobility: Martin Callery

At the request of Mr. Bishop, Mr. Callery has been working closely with Don Breazeale and Jack Finholm. He also attended the University of Oregon Annual Economic Forum which he has not attended before. The Forum was focused on Transportation. Mr. Callery attended the Port of Portland's annual conference and Jim Young, CEO of Union Pacific was one of the keynote speakers. It was interesting to hear what UP is planning in their western operations and how they plan to put more of their infrastructure development funding into other things. UP realizes there are some constraints in other parts of their system and as it is possible, they will be opening up the Cascade route tunnels for double stack trains. Peter DeFazio was the morning session keynote speaker. He spoke regarding the lame duck session and the new Congress that will start after the first of the year. Peter and others are looking at an economic stimulus package but they want it to be different than the last one. They want it to be focused on infrastructure, a lot of it on transportation infrastructure. It was too soon to talk numbers but Rep. DeFazio said it was not out of the possibility of \$300-400 Billion. This funding would authorize a lot of projects that are pending, that have been talked about in transportation for a number of years; projects that are on the drawing board and in most cases have completed plans. It would be a precursor to the next reauthorization bill to the Surface Transportation Board. Peter and his colleagues are looking at it as a more viable stimulus package than the last one.

D. Director of Finance and Administration: Donna Nichols

Ms. Nichols did not have any additions to her written management report.

E. Marina Facilities Manager:

Mr. Simons gave an update on Marina projects. He reported that the new Marina Basin Restroom project did not get completed as stated in his last report but the contractors plan on finishing up everything on Tuesday so this new facility can be opened to the public.

The Tarheel Aluminum Roof project is ongoing. All the old material has been removed and the new metal is ready to start being applied this weekend.

The F-Dock project is ongoing. It is in the engineering stage still; they are doing the draft drawings and as soon as Mr. Simons gets them, he and staff will look it over and if acceptable will approve it and go from there.

5. ACTION ITEMS/REPORTS:

A. Section 203 Dredging Project: Mr. Bishop said that earlier the Board authorized some contracts for Don Breazeale and Associates to do some additional due diligence on the container market and the way the shipping lines viewed Coos Bay given the recent downturns etc. Mr. Bishop wanted to do that prior to moving forward to the next step of the Section 203 Dredging study because the next steps will be considerably more expensive than what we have been through to date. Don Breazeale and Associates have completed the study and Mr. Finholm gave a public presentation on the conclusions of that effort. Don Breazeale and Associates were open to a small number of questions and answers after the presentation. Mr. Bishop will then have a recommendation on the 203 process.

Don Breazeale and Jack Finholm of Don Breazeale and Associates (DBA) were introduced and they presented a report on what they have been doing for the Port. Mr. Breazeale started with some background information for both he and Mr. Finholm, giving their extensive credentials in international business and Global Logistics, intermodal rail, ocean carriers and container ports.

The Port asked DBA for some clarity of the decision making process with regard to the development of a major container port to/from north America and Asia. DBA worked on determining if certain facts regarding the intentions to develop a major container port, Class I railroads, terminal operators and ocean carriers were accurate.

DBA researched all relevant documents provided by the port and also expanded that research to include other documents and information they had at their disposal such as HDR Report, minutes of recent Port Commissioner meetings in which acquisition and container projects were discussed; 2005 International Trade and Trends Impact; Ron Widdows (Chairman of APL-NOL) presentation of Transpacific; Steve Rothberg, Vessel Service Patterns for Asia-North America Trade, and several others. They interviewed most of the major ocean carriers doing business in the Transpacific, the two Class I railroads serving the region, and select ocean terminal operators and developers.

Most of the carriers they interviewed were very interested in a viable alternative to the port situation in Los Angeles and some of the reasons were stated: There has been a sharp increase in the cost of doing business in the Los Angeles basin due to legislative actions, environmental concerns and congestion; there are pier pass fees; per container fees; green truck fees; increase in time from the open ocean to pier side because of congestion and environmental concerns leading to slower vessel speed; there are also problems with militant labor; attitudes of the port; and market conditions which are directing traffic to the east coast and the southern ports.

DBA listed the following as potential advantages which apply to this project:

- Low cost land available for terminal development
- Forty five minutes from deep water to berth
- One day closer sailing from Far East than ports in Southern California
- Carriers will be able to eliminate one vessel from a string and fuel savings on that alone would be \$150,000 per sailing a day.
- No accessorial charges such as those being levied in California which could escalate charges to approximately \$400-\$500 per container.
- Landside property available on dock intermodal which would possibly allow operator to stage longer trains.
- An opportunity to create collaborative relationship with BNSF and UPRR which may lead to access to northern and southern tiers provided it creates an opportunity for both Class I railroads to derive a benefit from such a collaborative approach
- Less militant labor anticipated
- No congestion
- A unique opportunity to create a secure system consistent with the aims of Homeland Security and US Customs and Border Patrol.

DBA feels that since the Port is committed to acquiring the railroad and are only waiting for the STB ruling, the Port should proceed. DBA feels that there is sufficient reason, based on the input from the ocean carriers, APM, and the railroads to consider a large container project. However, further study is highly recommended. The Port could also develop more mixed use space for commodities such as automobiles. Given the current and projected market for container growth between North America and Asia, developing container terminal capabilities should be considered. All of this opinion is based on the information developed in this study and the knowledge of the industry.

DBA feels a phased approach would be best; revenue must support the cost. A fully developed Feasibility Study/Project Analysis should be implemented to determine in detail what the best phased approach is. This report should deviate from such normal studies to include action items such as the negotiations with railroads, developing funding etc. It should be an active Business and Strategic Plan and an Implementation Plan to support the business case. DBA suggests a Project Manager should be appointed so redundancy and costs can be controlled and minimized.

DBA suggests that for a port that will handle both mixed use and possibly container traffic, the Port should make a strategic decision to compete with all other ports along the Western perimeter and then develop a *Marketing and Sales* approach that will compliment this decision. DBA further recommends that the Port initially develop a *Marketing and Sales* program that targets auto carriers and specialized terminal operators for autos that might be interested in bringing their business to the Port. (Pasha might be an excellent choice as a terminal operator who can bring automobile business to the Port.)

DBA feels the target market should include other types of commodities which might be attracted by low land cost, a soon to be improved rail connection to UP and possibly BNSF, and a channel that will handle deeper draft vessels. The Port should be able to accommodate more of the mixed use operations once they have repaired the Coos Bay Line from here to Eugene. Developing this type of

business will allow the Port to develop additional revenues to offset the costs of dredging and developing both the mixed use and container terminal (s).

The *Marketing and Sales* effort should have the real objectives of the Port – to develop current business to a level that will provide revenues to support the costs of dredging and landside development while providing a platform to achieve the goal of developing a container terminal or terminals.

Given the comments from the ocean carriers, the willingness of BNSF to cooperate so the Southern Tier might be developed and the willingness of UPRR to at least enter into discussions with BNSFS regarding access, which in turn will provide the Port with a unique rail service for the Pacific Northwest, and considering the current and projected growth in North America to/from Asia market, it is DBA's opinion the Oregon International Port of Coos Bay has every reason to believe it will succeed as a Port with both mixed purpose and container capabilities.

Given the facts and recommendations above, DBA further recommends:

- Move forward with the rail acquisition
- Develop the Feasibility Study/Project Analysis and as a outflow from that Study develop a realistic Business and Strategic Plan, Implementation Plan and Marketing and Sales Plan
- Proceed with the dredging initiative now and use 8500 (max 10,000) TEU vessels as the norm; and
- Correspondingly develop Funding Initiatives appropriate to the Phased strategy to be developed.

Commissioner McKeown commented that the information DBA has provided is invaluable and she appreciates what they have done.

There were some audience questions about the value of land in Coos Bay in comparison to Los Angeles (land value is less in Coos Bay – it's very competitive); the size of ships coming in here (smaller than those discussed before); how the financial crises we are in affects all of this (Trade will fluctuate but over the long term it will not slacken in the US, India, China or Singapore – the market will shift but not go away. Coos Bay can compete with Seattle and Portland)

Mr. Bishop said that the Port has time to consider the report findings thoroughly before moving forward with the Section 203 Dredging Project, so staff does not have anything for the Board to consider tonight. Mr. Bishop plans on bringing something back to the Commission at the first of the new year. Right now staff needs to focus on rail.

B. Net Liquidated Value of the Rail: Mr. Bishop then said that he wanted to submit a new net liquidated value for the rail tomorrow. What he has seen is the price of scrap steel has fallen since October 1st, from a high of \$610/ton to \$275/ton today, and we suspect the net liquidated value today of the rail is under \$3 million. We want to submit a revised net liquidated value to the Surface Transportation Board in the amount of about \$3.4 million.

The STB will rule at the end of October on the abandonment and at the same time will probably rule on the Feederline Application. One of the benefits of this economic downturn is the value of scrap metal, but also the price of repairs which use steel and the cost of fuel can work to the positive for us.

Upon a motion by Commissioner McKeown (second by Commissioner Scott) the Board of Commissioners approved Mr. Bishop's submission of a new Net Liquidated Value of the rail of \$3.2 million to the STB.

C. **Amended Contract – Don Breazeale & Associates:** The amended contract was covered in Mr. Bishop's management report.

6. **OTHER:**

7. **INFORMATION ITEMS:**

A. Proposed Alternate Pipeline Route

8. **COMMISSION COMMENTS:** There were no Commission comments.

9. **NEXT MEETING DATE:** Thursday, November 20, 2008

10. **ADJOURN:** The meeting was adjourned at 8:25 p.m.