



Special Public Budget Session of February 14, 2017

**Santa Cruz Port Commission  
MINUTES**

*Commissioners Present:*

Toby Goddard	Chairman
Dennis Smith	Vice-Chairman
Reed Geisreiter	Commissioner
Stephen Reed	Commissioner
Darren Gertler	Commissioner

**SPECIAL PUBLIC BUDGET SESSION – 7:00 PM**

Chairman Goddard brought the special public budget session to order at 7:00 PM at the Santa Cruz Harbor Public Meeting Room, 365 A Lake Avenue, Santa Cruz, CA 95062.

1. Pledge of Allegiance
2. Oral Communication (*There was no discussion during oral communication*)
3. Authorize emergency repair of the Workboat *Dauntless*, finding that an emergency exists that will not permit a delay resulting from competitive solicitation of bids, and that emergency work is necessary to respond to the emergency; and waiving the competitive bidding process; and authorizing the Port Director to enter into contracts for emergency work to repair *Dauntless* in an amount not-to-exceed \$200,000.

Discussion: Port Director Ekers reported that the starboard engine on the dredge tender *Dauntless*, suffered major engine failure due to a spun bearing (*the breakdown occurred on Thursday, February 9*). She stated it is not possible to conduct dredging operations in the entrance channel without a workboat.

Port Director Ekers reported that the Caterpillar engines on *Dauntless* are 1986 vintage, Tier 0 engines. They were rebuilt in 2013-14, with an expected life of 7 years. She pointed out that the breakdown occurred only 3 to 4 years into the rebuild cycle.

Port Director Ekers reviewed the quotes obtained from Peninsula Diesel:

- 1) Repair of the existing starboard engine (\$55,304); or
- 2) Replacement of both the port and starboard engines with new Tier III marine diesel engines (\$70,334 each; total \$140,669).

Port Director Ekers reported that the rebuild, though less costly, would take 4 weeks and does not include any work on the port engine.

Port Director Ekers stated that replacing both the port and starboard engines would meet current diesel emissions standards, and installation is estimated to take 3 weeks versus 4 weeks. Peninsula Diesel has the new engines in stock. Port Director Ekers stated that replacement of both engines is the recommended course of action, though it is a significant unanticipated budget expense in FY 17. She stated that while the harbor entrance is not officially closed, passage is dependent on favorable tide / sea conditions and deeper draft vessels are prevented from transit. The economic impact is estimated at \$200,000 to \$225,000 for each day the entrance is impassible, and that estimate does not include support for businesses like bait shops, marine supply and electronics shops. Port Director Ekers reported that she was contacted by the Small Business Administration today which is considering whether to implement a loan process for businesses impacted by the storm-related closure.

Facilities Maintenance and Engineering Manager (FME) Kerkes reported that the new engines have a horsepower rating of 285. The quote includes fabrication of a new engine bed and switches. He reviewed the repair plan and schedule.

A discussion ensued about what caused the engine failure. FME Kerkes stated the oil pan was dirty and the oil had plastic fragments in it. When draining the oil, the 1" drain kept plugging up. FME Kerkes stated that while he does not know the full maintenance history of the vessel, there appeared to be sizeable, quarter-sized gaps on the valves. It appears no major maintenance has been performed since the in-frame rebuild. FME Kerkes stated that based on his observations, he has concerns about the condition of the port engine. He does not recommend pursuing a starboard engine rebuild. FME Kerkes recommended engine replacement of both the port and starboard engines.

A discussion ensued about the John Deere Tier III marine engines, versus Caterpillar engines. FME Kerkes commented that both manufacturers produce high-quality engines. FME Kerkes fielded questions from the Commission on what is included in Peninsula Diesel's quote.

Commissioner Gertler questioned whether it's time to consider replacement of the workboat itself, since engines are typically the most costly element of a vessel.

A discussion ensued about expected life of the new engines. FME Kerkes reported that a new engine has an average life of 3,500 hours. *Dauntless* had

7,600 engine hours and is 36 years old – FME Kerkes estimated that the new engines could last 15 years or more.

Port Director Ekers recapped the efforts to locate a rental dredge tender to enable dredging operations to be conducted while *Dauntless* is being repaired. Numerous vendors, including local workboat captains, were contacted and bids were received, though not all vessels were compatible. Dutra is typically a good source for workboats, but had all hands outsourced to deal with the Oroville dam emergency response. The most appropriate vessel identified is *Sammy G* out of Long Beach, CA, which is 60' long, draws 6', and has a stern-mounted A-frame and comes with a captain who will work alongside District crew.

Port Director Ekers reviewed the rate proposal submitted for the *Sammy G* and discussed contracting and insurance requirements.

A lengthy discussion ensued about maneuverability of *Sammy G* in the shallow harbor entrance. Despite the cost and unknowns, it was generally agreed that it is better to try than not take any action at all, and attempt to get some dredging done while *Dauntless* is being repaired.

It was agreed that the amount on Resolution 17-04 should be increased to \$275,000, to ensure there is adequate funding for engine replacement (\$140,000), workboat rental (\$100,000) and other contingencies. Port Director Ekers pointed out that the emergency action requires the Commission re-confirm its action at each subsequent regular meeting. If *Sammy G* is not a good fit, the Commission can reconsider its action at the regular public session on February 28, 2017.

In response to a question posed by Commissioner Reed, Port Director Ekers explained that she has contacted Jim Christmann, captain of *Shana Rae*, about his ability to provide workboat services. Mr. Christmann does not like the backing aspect required (the crane is stern-mounted). Furthermore, his crane is rated for 1,500 lbs and Port anchors weigh as much as 4,000 lbs.

Audience member Eileen Sundet expressed concern at the captain's ability to safely navigate the coast in the storms predicted for this coming weekend, and questioned how the vessel will get through the shallow entrance channel.

Further discussion ensued about the potential risks and rewards of bringing in a rental workboat. Commissioners agreed it is worth trying. Commissioners directed staff to work with the workboat vendor to ensure they are comfortable with the existing conditions at Santa Cruz Harbor and ensure, to the extent possible, that the vessel is suitable for the work to be performed.

Chairman Goddard pointed out that bringing in a rental workboat puts pressure on the crew to work long days / weekends, and may create a scheduling issue for management staff.

Chairman Goddard questioned whether it's possible to incentivize the contract with Peninsula Diesel to get the work done more quickly than 3 weeks. Commissioners and staff agreed this is a good suggestion.

MOTION: Motion made by Commissioner Reed, seconded by Commissioner Geisreiter, finding that an emergency exists that requires the immediate expenditure of public funds to safeguard life, health and property without a competitive solicitation of bids to respond to the emergency; and authorizing the Port Director to enter into a contracts up to \$275,000 to address the emergency without a competitive solicitation for bids. Staff is authorized to incentivize the contract with Peninsula Diesel to get the work done as quickly as possible. Staff is directed to work with the rental vessel vendor to ensure the vessel is suitable for the work to be performed and existing conditions at Santa Cruz Harbor.  
- *Motion carried unanimously.*

#### 4. Review of Draft FY 18 Budget and 5 Year CIP

Discussion: Chairman Goddard thanked harbor staff for their time and hard work involved in preparing the FY18 budget. Commissioner Reed stated that he appreciates the transparency of the FY18 budget, commenting that it is one of the best budgets he has reviewed.

Port Director Ekers presented the FY18 Budget and highlighted the following:

- Unanticipated FY17 expenditures:
  - U Dock fire damage and cleanup (estimated \$45,000 to \$50,000)
  - *Dauntless* engine evaluation, repairs/replacements (\$100,000 to \$200,00)
  - Rental Dredge Tender (\$50,000 to \$100,000)
- Growth in FY17 revenues by approximately \$300,000
  - Concession rents increase by \$100,000, in spite of Aldo's closure
  - Parking revenue increase by \$200,000 due to improved oversight, maintenance and coordination, and oversight by a provisional parking coordinator
- Other FY17 personnel cost increases are related to dredging operations for overtime to address emergency conditions and construction of *Twin Lakes*

- Projected income \$1.2 million (prior to FY17 unanticipated expenditures)
- Revenues exceed budget by approximately \$294,000.
- Completion of Seabright Replacement Project with delivery of new dredge *Twin Lakes*

Port Director Ekers stated that the budget approach for FY18 will focus on the following:

- Address the needs of harbor users
- Ensure flexibility to allow responses to changing and competing priorities
- Continue all programs at current levels
- Reduce costs of recurring nature and ensure cost recovery where practicable
- Maintain adequate reserve levels to respond to external factors (natural disasters, fishing activity, local economy, etc.)
- Preserve capital assets

Port Director Ekers reviewed the FY18 Dredge Operations budget. She stated that a \$290,000 contribution from anticipated FY17 proceeds to the Dredge Intermediate Fund will help fund the following highlighted expenditures:

- \$27,000 for *Twin Lakes*
- \$37,500 for maintenance of *Dauntless*
- \$10,000 for hydraulic cooler and floor grates for *Squirt*
- \$110,000 for a used D-5 or D-6 dozer
- \$115,500 for other ancillary equipment (loader repairs, pipe, valve box replacement, used 4X4 truck)

Port Director Ekers reviewed projected FY17 revenues and expenses for the boatyard. She stated that though on track for a modest profit, a net loss is expected, due to an unanticipated expense for repair and maintenance of the filtration system.

Port Director Ekers reviewed recommended FY18 Capital Improvement Projects (CIP):

- Piling Replacement Program - \$90,000
- West Side Seawall Reconstruction - \$200,000
- Restroom Building Rehabilitation - \$10,000
- Walton Lighthouse Repainting - \$15,000
- Westside Walkway Retaining Wall & Railing - \$9,000

- Aeration System Upgrades - \$10,000
- Commercial Fishery/Marine Services Center Upgrades - *TBD*
- West Side Master Plan - *TBD*
- Twin Lakes Beachfront Improvements - \$12,000
- Harbor Security Infrastructure Upgrades – *TBD*
- West Jetty Walkway Project – *TBD*

Port Director Ekers stated that the total proposed CIP budget for FY18 is \$346,000. She stated that the CIP does not represent all projects occurring throughout the year, and staff does not anticipate completing every CIP project within this budget year.

Port Director Ekers stated that the draft FY18 budget does not include a proposed slip rent increase. Port Director Ekers stated that a 1% increase to slip fees equates to approximately \$47,000 in additional revenue. She stated that the harbor requires 30-day notice to all slip renters if a slip increase is adopted.

The Commission reviewed and discussed the proposed FY18 CIP budget.

Commissioner Geisreiter asked for an update on the Harbor Security Infrastructure project. Port Director Ekers stated that all shower facilities have been outfitted with the electronic card key access and funding has been allocated for the same equipment to be installed on all restroom facilities and dock gates. Port Director Ekers stated that approximately \$82,000 remains available for this project, which is scheduled for completion in FY18.

Chairman Goddard expressed concern that funding for pavement repair and maintenance has not been included in the FY18 CIP.

There was consensus among the Commission to approve the FY18 CIP as presented, requesting that emphasis be placed on the following two projects:

- West Side Seawall Replacement
- Harbor Security Infrastructure Upgrades – electronic key fobs at all harbor docks and bathrooms

In response to a question posed by Vice-Chairman Smith, Port Director Ekers stated that definitive costs for the Piling Replacement Project will remain unknown until the project is put out to bid. She stated that several pilings have failed, but have not significantly affected the function of their docks. She stated that the piling at AA dock is of primary concern, as it prevents hand-launching from the area, which has a negative impact on revenue.

A discussion ensued about the implementation of a slip fee increase. Port Director Ekers stated that approximately \$60,000 in additional revenue is needed to meet the District's Debt Service Ratio (DSR) covenant based on the draft budget. Port Director Ekers stated that it is imperative that the District meet its DSR (1.25% rate coverage and 1.40% liquidity coverage), and reiterated that a 1% increase to slip rent equates to approximately \$47,000. She stated that alternate options, aside from increasing slip rent, could easily generate the necessary funding needed to meet DSR requirements.

Commissioner Gertler stated that he is not supportive of a slip rent increase.

Commissioner Reed stated that a slip rent increase will be beneficial to the harbor, but due to the shoaled entrance conditions, it is his opinion that an increase is unwarranted. He suggested that if a slip rent increase is unavoidable, it should be adjusted by a small percentage, less than CPI (3.5%). He stated that a smaller adjustment will reduce rate shock in future years.

Commissioner Geisreiter expressed his support for a slip rent increase, noting that the increased revenue will help offset costs associated with the Aldo's Seawall Replacement project, *Dauntless* engine replacement, uncertainty of funding from US Army Corps of Engineers, the Port District's DSR covenant, and any unknown future expenses. He expressed his belief that a 3.5% CPI increase is too high, and suggested that the Commission consider a lower slip rent increase.

Commissioner Reed asked if there are other harbor fees that can offset implementation of a rate increase (e.g., parking fees, fuel sales and/or business leases). Port Director Ekers stated that all landside leases are assessed an annual CPI increase, noting that concession revenue has been impacted by the closure of Aldo's Restaurant. She stated that fuel sales are dependent on launching and fishing conditions, and both have been significantly impacted from the shoaling. Port Director Ekers stated that the boatyard is designed to break even and parking fees have increased to market conditions, but have the potential to increase seasonally.

Port Director Ekers stated that the automation of the concession parking lot is a potential revenue source, since it will collect fees 24hr/day instead of between the hours of 9a-9p. She stated that parking revenue has tripled in areas where pay stations have been installed.

Vice-Chairman Smith stated that he is supportive of a slip rent increase, noting that a small increase in slip rent is necessary to offset future costs and prevent rate shock in future years.

Chairman Goddard stated that a slip rent increase will be beneficial and bring rates more in line with CPI. He stated that the harbor always needs maintenance on infrastructure and this increase will help offset those expenditures. Chairman Goddard agreed that a small increase will help prevent rate shock in future years.

Slip renter Richard requested that the Commission not increase slip rents for FY18, commenting that the federal government did not grant social security recipients a cost-of-living increase this year. He added that the Port District is fiscally stable, and an increase is not warranted.

A majority of the Commissioners were supportive of imposing a 2% slip rent increase for the FY18 budget, with Commissioner Gertler opposing a rate increase.

Port Director Ekers stated that the final budget will be presented for approval at the Commission's February 28, 2017, meeting.

Chairman Goddard adjourned the special public budget session at approximately 9:23 pm.



---

Toby Goddard, Chairman