

Patrick Higgins

*Humboldt Bay Harbor, Recreation and Conservation District Commissioner
Fifth Division Representative
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June 11, 2009

Mr. Dennis Hunter, Commission President
Humboldt Bay Harbor, Recreation and Conservation District Commission
601 Startare Drive
Eureka, CA 95502

Re: Comments on Humboldt Bay Harbor, Recreation and Conservation District 2009-2010
Budget and Call for Consideration of Shift from Marine Trade Emphasis

Dear Dennis,

These are my comments on the Humboldt Bay Harbor, Recreation and Conservation District (District) 2009-2010 budget in writing so that my views are clearly expressed and can be fully considered by my fellow Commissioners. Although the deficit has been substantially reduced since the first draft release in April, we are still losing money at an unsustainable rate. I do not see the fundamental shift in course that I think is necessary to achieve positive cash flow and slowly rebuild our fiscal health. We plan to continue spending heavily for staff in the marine trade sector that is not producing revenue. If that trade does not materialize, then our dedicated reserve funds will be depleted in two to three years. Within five years we will need to seek reorganization through bankruptcy under Chapter 9.

At the request of my fellow Commissioners, I am also laying out below a clear alternative path forward that is more fiscally sound and will better help us achieve our goal of stimulating the economy around Humboldt Bay. Our Commission needs to reconsider its commitment to development of the Redwood Dock for marine trade and instead explore alternatives that generate more jobs and good will in the community.

Unsustainable Budget Deficit and Underestimate for 2009-2010

The budget deficit increased dramatically for 2008-2009 from approximately \$500,000 to \$720,000 due to the closure of the Evergreen Pulp Mill in September of last year. Staff recommended a 2009-2010 budget in April that would have had a deficit of over \$550,000 and on April 9 our Commission requested that there be substantial reductions to reduce this negative cash flow. The current revised projection in the 2009-2010 budget of \$148,058 is not a true representation of our net income and expense. Specifically, there is a one time recoup of \$182,000 from the NCRA that is not likely to come to us in cash and secondarily the \$190,000 in revenue from fuel barge pilotage fees is speculative. When you add the three sums up, the actual deficit without the fuel barge surcharge is \$520,000 and approximately \$330,000 if the fees are collected beginning in July 2009. The loan pay back from the North Coast Railroad Authority of \$182,000 would be good news, but it really should be going back into funds that it came out of when the loan was made or used to rebuild other funds that we have previously depleted. Figure 1 shows surpluses and deficits for the District from 1992-1993 to 2009-2010.

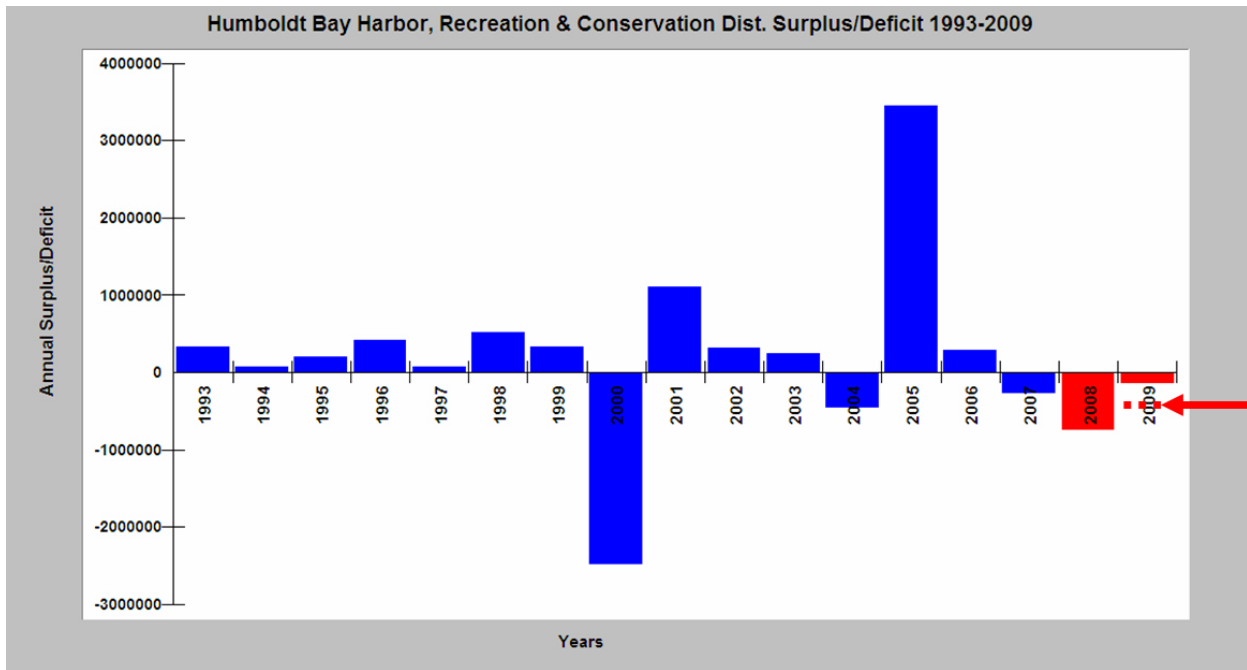


Figure 1. The District budget continues to run at a substantial deficit which is between \$330,000 to \$520,000 if one time revenue from NCRA and pilotage fees for fuel barges comes about. Red arrow and dotted line indicate possible adjustment to 2009-2010 deficit.

Fundamentals Business Emphasis Unsound

The Commission’s discussion of the early 2009-2010 budget draft included a request to reduce salaries and wages by at least \$300,000 and bar pilot costs and the position of Maritime Director were specifically mentioned. The personnel budget and related benefits constitute by far the greatest district expense (Figure 2). While the budget presented for this evening’s discussions indicates such a substantial reduction in personnel costs and benefits, the Commission has no specifics on whether overhead for non-productive sectors of the District overhead have been trimmed. There are indications that the Executive Director would retain our Maritime Director for \$100,000 when the position has generated no revenue. If this position is retained over the next 5 years and no large influx of marine trade occurs, it substantially shortens the time at which our District’s insolvency will occur.

I will cover the potential for international trade briefly in my remarks tonight, but the Commission knows my thoughts already on prospects for us to lure international shipping trade from last years budget and Redwood Dock discussions. The course we are now on was set at a different time when trade prospects seemed more plausible. We have to come to grips with the reality that we will never see such trade materialize due the world economic collapse and increased competition due to expansion of infrastructure at other ports, and the enlargement of the Panama Canal.

Projected Time to Insolvency on Current Course: 2012-2013

The actual difference between the revenue and expense for the current fiscal year is between \$330,000 and \$520,000 as described above. Figure 3 uses these ball park figures and tracks the District’s total capital in reserve funds projecting forward to 2014. Using this rough estimate,

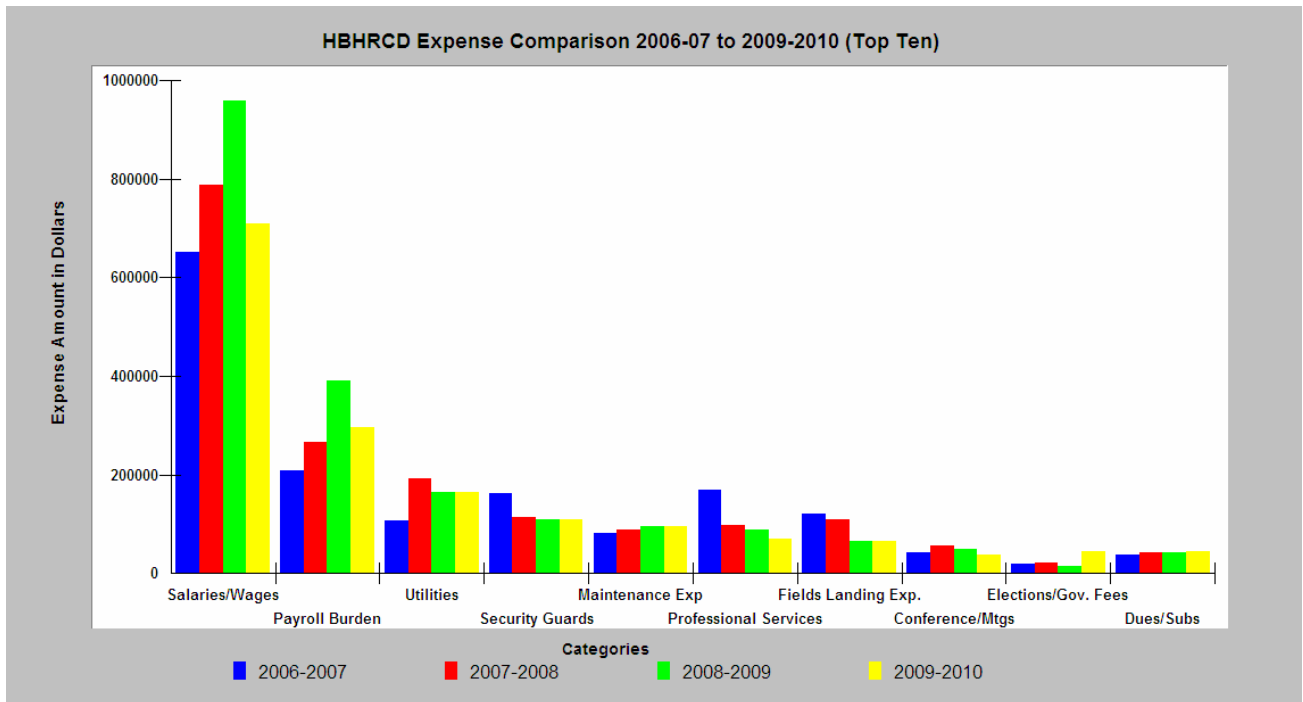


Figure 2. Salaries and benefits remain the highest expense of the District and even with current projected cuts we are substantially above 2006-007 levels.

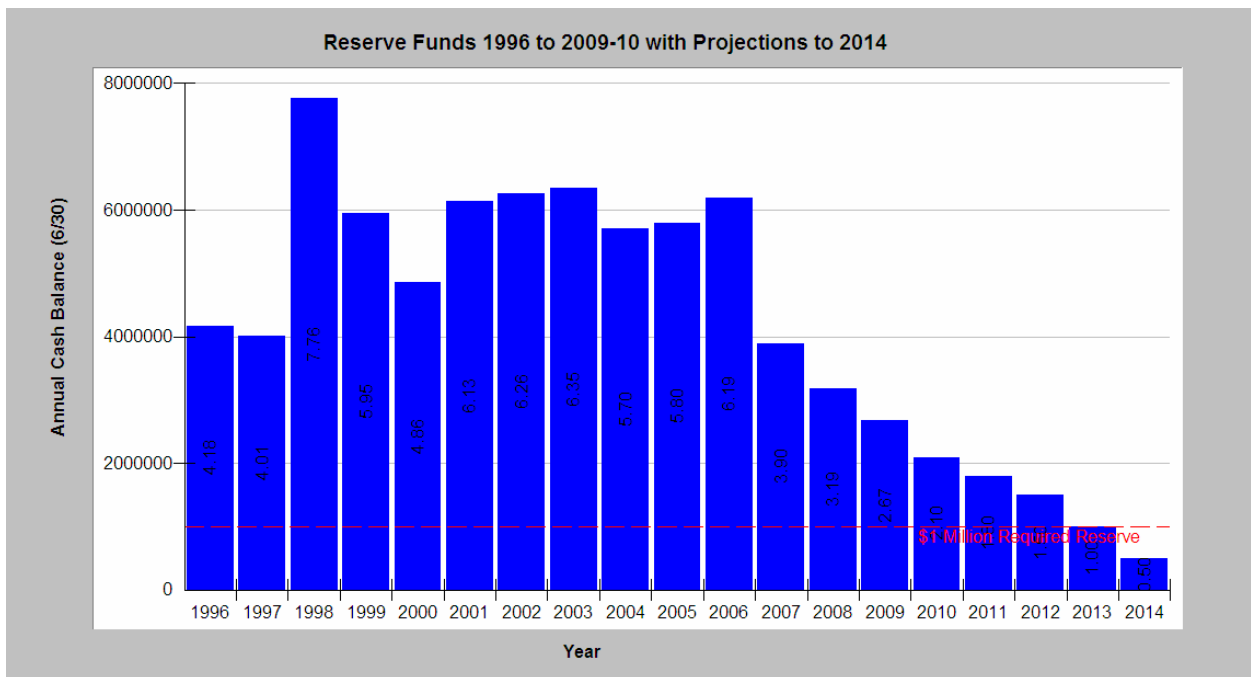


Figure 3. Reserve fund totals from 1996 through 2009-2010 from District audits or budget projections and rough estimates based on recent trends forecasting to 2014. The red line indicates the \$1 million cash reserves that the District is required to maintain as a condition of a loan.

it appears that the District will become insolvent between 2012-2013 and that we would likely have to reorganize under Chapter 9 at that time. The related problem is that dedicated reserve funds are being depleted to support deficit spending with the increasingly risky gamble that we can replenish them when revenue from shipping is generated (Figure 4).

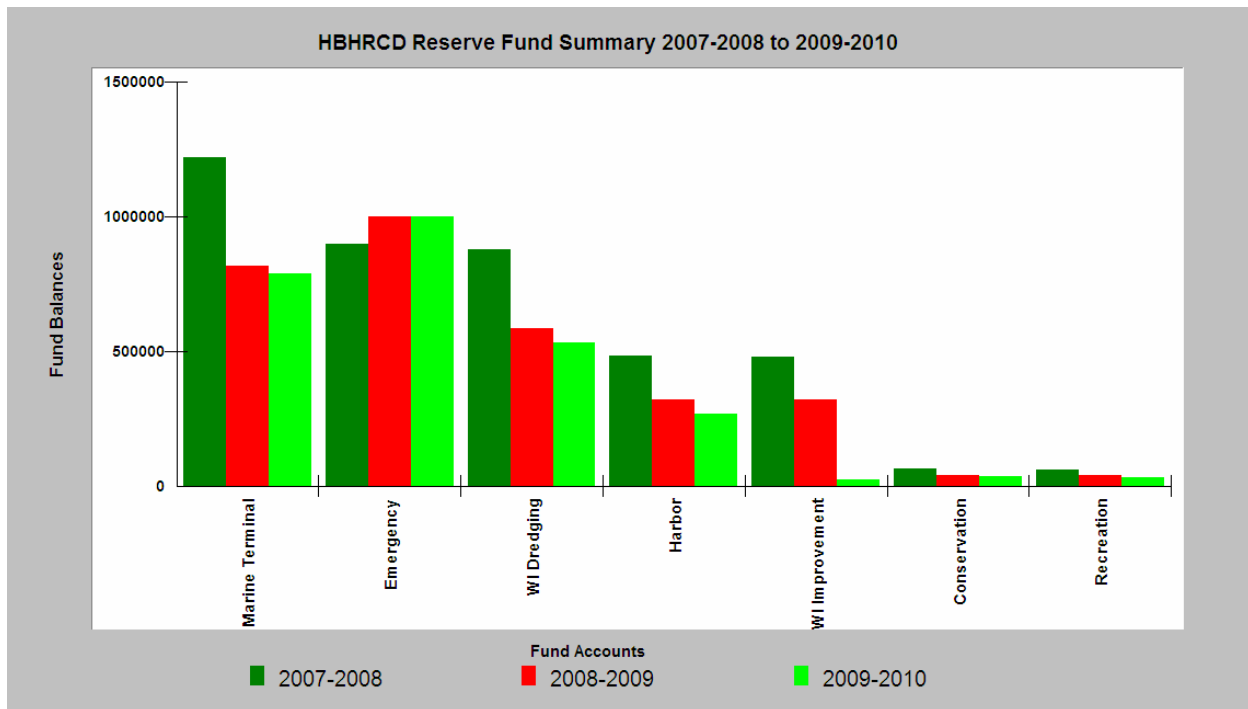


Figure 4. Reserve funds for dedicated purposes are being depleted to make up deficit between expense and revenue.

Time to Consider Change in Use for Redwood Dock

The Redwood Marine Terminal project is not feasible given current world trade conditions and our ability to compete. Existing private dock facilities go under-utilized or unutilized, so there is no apparent existing business for which to compete. TranSystems consultants never identified any trade potential and our own Maritime Director failed as well in his recent presentation to the Economic Development Committee.

There are major impediments to Redwood Marine Terminal development that should make us step back and consider other paths:

- Likelihood of EIR/EIS funding is a long shot
- Dredging side effects may prevent recreating deep water despite previous industrial use
- Likely no justification for luring capital
- Previous Goldman Sachs negotiations don't bode well for getting an equitable public-private partnership, even if capitalists are interested
- Bottom Line: Neither public nor private/public partnerships are likely to happen

CalPers is putting in a proposal of \$3.5 billion for cargo terminals in Virginia, which tells you where their business analysts think trade will go. Our Revitalization Plan and the Redwood Marine Terminal Business Plan both stress that we cannot build large scale shipping trade without reconstruction of the NCRA. Recent pronouncements from their chairman indicate no projections over the next decade for construction of the railroad through the Eel River canyon.

Plans to build a shorter link between South Fork and Samoa make no economic sense and the plan has previously been rejected.

New Financial Direction for the District

I request that our Commission use the Redwood Marine Terminal Request for Qualifications (RFQ) of consultants for design and environmental permitting as an opportunity to change direction. It makes more sense to explore development related to light industry, tourist related business and aquaculture that are more compatible with the historic town of Samoa and the Samoa Cookhouse and that can create more jobs.

I hope this analysis is helpful and can generate focused discussion so that we can ultimately balance our budget and structure an enterprise that is more fiscally sound.

Sincerely,

A handwritten signature in black ink, appearing to read 'Patrick Higgins', with a large, stylized flourish extending from the end of the signature.

Patrick Higgins