

<p>Meeting Date: September 13, 2016</p>	<p>Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun 660 Davis Street, San Francisco, CA 94111</p> <p>FINANCE COMMITTEE MEETING MINUTES</p>	<p>Page 1 of 8</p>
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Committee members present:

John Schneider, Chairman and Commissioner
 Captain George H. Livingstone, Commissioner
 Mike Jacob, Vice President-General Counsel, Pacific Merchant Shipping Association
 Ray Paetzold, Business Director-General Counsel, San Francisco Bar Pilots (SFBP)

Committee members absent:

None.

Staff present:

Allen Garfinkle, Executive Director
 Roma Cristia-Plant, Assistant Director
 Sigrid Hjelle, Office Technician

Members of the public:

Captain Peter McIsaac, SFBP President; Captain Dave McCloy, SFBP; and Julie Jones, SFBP.

OPEN METING

1. Call to Order and Roll Call. (Chairman Schneider)

Chairman Schneider called the meeting to order at 9:35 a.m. Chairman Schneider called the roll and confirmed a quorum.

2. Approval of minutes from the meeting held on June 7, 2016. (Chairman Schneider)

Assistant Director Cristia-Plant noted for the Committee that Mr. Paetzold had provided several amendments to the draft minutes for the meeting held on June 7, 2016, and that the Committee was provided with the edited minutes. There was no further proposed amendments or discussion of the minutes.

MOTION: Mr. Jacob moved to approve the minutes from the meeting held on June 7, 2016, as amended. Mr. Paetzold seconded the motion.

VOTE: YES: Schneider, Livingstone, Jacob and Paetzold.
 NO: None.
 ASBTAIN: None.

ACTION: The motion was approved.

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3. Review Board fund condition, revenue and expenditure projections and monthly data for all pilotage fees and vessel moves and their effect on:

Assistant Director Cristia-Plant reviewed for Committee the following:

- The Board’s final 2015-16 financial statements, covering the Board Operations and Training fund conditions, the revenues and expenditures for each fund, and contract encumbrances.
- The Board’s approved 2016-17 budget.
- An itemization of the Board Operations and Training 2016-17 budgets.

In response to a question from Mr. Jacob, Assistant Director Cristia-Plant confirmed that there will be additional contract disencumbrances post-fiscal year end, and that such disencumbrances completed after the year-end financial statements were finalized will impact this fiscal year’s financial statement as a Prior Year Expenditure Adjustment to the Beginning Fund Balance.

Mr. Paetzold and Assistant Director Cristia-Plant confirmed for Commissioner Livingstone that just less than \$200,000 of budgetary authority was moved from the Training budget to the Board Operations budget in fiscal year 2015-16 to fund the pilot fatigue study, but that the total budget amount for that fiscal year remained the same.

a) Board Operations Surcharge (currently at 3.0%). Possible recommendation to the Board to adjust the Board Operations Surcharge rate, if warranted. (Executive Director Garfinkle/Assistant Director Cristia-Plant)

The Committee reviewed the Board Operations Surcharge historical and current fiscal year projected analysis, and noted that if the pilotage activity for this fiscal year is similar to last fiscal year, the 3% surcharge rate is projected to result in approximately a \$1.3 million in Board Operations Surcharge fund balance by the end of this fiscal year. Chairman Schneider commented that the current Board Operations Surcharge rate appears to result in the one year fund balance target that the Committee would like to maintain. He noted the Committee should review the current year projections to determine if there is a need to increase the Board Operations Surcharge rate in January 2017. There was no further discussion of the Board Operations Surcharge by the Committee or the public.

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MOTION: Mr. Paetzold moved that the Committee recommend to the Board to maintain the Board Operations Surcharge rate at 3% of all pilotage fees. Mr. Jacob seconded the motion.

VOTE: YES: Schneider, Livingstone, Jacob and Paetzold.
NO: None.
ASBTAIN: None.

ACTION: The motion was approved.

b) Pilot Continuing Education Surcharge (currently at \$5/move). Possible recommendation to the Board to adjust the Pilot Continuing Education Surcharge rate, if warranted. (Executive Director Garfinkle/Assistant Director Cristia-Plant)

The Committee reviewed and discussed the Pilot Continuing Education Surcharge historical and current fiscal year projected data, and noted that the fund balance is reducing as expected at the current \$5/move rate. The Committee determined that the rate should remain at \$5/move, and that the rate should continue to be monitored for further reduction. There was no further discussion of the Pilot Continuing Education Surcharge rate by the Committee or the public.

MOTION: Mr. Paetzold moved the Committee recommend to the Board to maintain the Pilot Continuing Education Surcharge rate at \$5/move. Mr. Jacob seconded the motion.

VOTE: YES: Schneider, Livingstone, Jacob and Paetzold.
NO: None.
ASBTAIN: None.

ACTION: The motion was approved.

c) Trainee Training Surcharge (currently at \$12/trainee/move). Possible recommendation to the Board to adjust the Trainee Training Surcharge rate, if warranted. (Executive Director Garfinkle/Assistant Director Cristia-Plant)

The Committee reviewed and discussed the Trainee Training Surcharge historical and current fiscal year projected data. Assistant Director Cristia-Plant confirmed for Mr. Jacob that the Pilot Trainee Training Program selection examination scheduled for June 2017 is projected to cost approximately \$200,000. Mr. Paetzold commented that this surcharge is historically the most difficult to control due to the fluctuations of expenditures for the periodic trainee selection examination. He further explained that the examination costs are incurred every two to three years, and that he thought such costs should be amortized over a similar period.

The Committee reviewed the projected Trainee Training Surcharge rate sensitivity analysis prepared by Assistant Director Cristia-Plant, and discussed raising the rate to

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ensure a sufficient partial replenishment of the fund balance by fiscal year-end in keeping with a desire to avoid too large of a fluctuation in the rate. There was no further discussion of the Trainee Training Surcharge rate by the Committee or the public.

MOTION: Mr. Paetzold moved the Committee recommend to the Board to increase the Trainee Training Surcharge rate from \$12/trainee/move to \$14/trainee/move, effective October 1, 2016. Mr. Jacob seconded the motion.

VOTE: YES: Schneider, Livingstone, Jacob and Paetzold.
NO: None.
ASBTAIN: None.

ACTION: The motion was approved.

4. Review current Pilot Vessel Surcharge rate (currently at 2.62 mills - \$.00262), and the revenues, expenditures and reserve balance. Possible recommendation to the Board to adjust the Pilot Vessel Surcharge rate, if warranted. (Ray Paetzold, San Francisco Bar Pilots Business Manager—General Counsel)

Mr. Paetzold reported to the Committee that the balance due on the P/V DRAKE loan was \$1,280,480 as of August 31, 2016, and that the reserve in the money market account maintained by the SFBP for the Pilot Vessel Surcharge funds was at \$299,223 as of September 7, 2016, which reflected a slight decline from the previous account balance of about \$306,000 at the end of August.

He noted that at the previous Finance Committee meeting in June 2016, the Committee had recommended, and the Board subsequently approved, a reduction in the Pilot Vessel Surcharge rate from 3.27 mills to 2.67 mills effective July 1, 2016. He further noted the Committee's intent was to gradually reduce the money market reserve balance to about two months of principle and interest payments on the P/V DRAKE loan by the second quarter of 2017, and by then to assess the timing for paying off the loan and zeroing out the money market account. Based upon the current fiscal activity and the Committee's early loan payoff intent, Mr. Paetzold did not recommend any change to the current Pilot Vessel Surcharge rate.

There was no further discussion of the Pilot Vessel Surcharge rate by the Committee or the public.

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MOTION: Mr. Paetzold moved the Committee recommend to the Board to maintain the Pilot Vessel Surcharge rate at 2.62 mills (\$.00262). Mr. Jacob seconded the motion.

VOTE: YES: Schneider, Livingstone, Jacob and Paetzold.

NO: None.

ASBTAIN: None.

ACTION: The motion was approved.

- 5. Review of surcharge audit reports prepared for the calendar years 2014 and 2015, prepared by the State Controller’s Office (SCO) under contract with the Board. Possible recommendation to the Board to accept these reports in satisfaction of contract scope of work.**

Executive Director Garfinkle reported that the SCO audit report on pilotage rates and surcharges for the 2014 and 2015 annual years is not yet complete, and that he anticipated the report to be available for presentation at the next Finance Committee meeting.

- 6. Discussion of Board staff recommendation regarding establishing reasonable fund balance reserve targets for the Board Operations, Pilot Trainee Training Program and Pilot Continuing Education Program fund balances. Possible recommendation to the Board to establish reasonable fund balance reserve targets for the Board Operations, Pilot Trainee Training Program and Pilot Continuing Education Program fund balances.**

Executive Director Garfinkle reported that due to Board staff’s workload, staff were unable to complete a recommendation regarding the establishment of reasonable fund balance reserve targets for the Board Operations, Pilot Trainee Training Program and Pilot Continuing Education Program fund balances. He projected that staff would be able to complete this assignment and have a recommendation available for review at the next Committee meeting.

- 7. Possible development of recommendation to the Board for implementation and management of Navigation Technology Surcharge. Navigation Technology Surcharge takes effect on January 1, 2017. Possible recommendation to the Board on implementation and management of Navigation Technology surcharge.**

Mr. Paetzold provided the Committee with a brief overview of the new Navigation Technology Surcharge statute that will become effective on January 1, 2017, and handed out and read the new Harbors and Navigation Code section 1190.4 from Assembly Bill 1432. He also stated that the Board created an ad hoc Navigation Technology Committee for the prior navigation technology purchases in 2010, and that that committee along with the Finance Committee, made recommendations to the Board on the prior Navigation Technology Surcharge uses and rates, respectively.

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Mr. Paetzold provided the Committee with data on the historical Navigation Technology Surcharge rates from 2010, commented that similar to the Pilot Vessel Surcharge monies, the SFBP will establish a separate money market account for the Navigation Technology Surcharge monies, and stated that he estimated a movement fee of approximately \$37.50 beginning on January 1, 2017, would generate approximately \$1.2 million over a four-year period. He noted that a Board action by the December Board meeting would be necessary if the desire was to institute the new surcharge on the earliest possible date.

Captain McCloy provided the Committee with a handout that discussed the types of navigation technology and costs being considered by an SFBP navigation technology committee. He noted that the company who make the PilotMate equipment, Airinc, will no longer provide technical assistance for the four units currently owned by the SFBP after the end of the year, which may jeopardize the SFBP's ability to provide service to ultra large container vessels (ULCVs) next year if some of the equipment breaks down. Captain. McCloy stated that current estimates are approximately \$700,000 to acquire 62 new route portable piloting units to be carried by each pilot, and approximately \$200,000 to acquire 5 new precision independent systems for ULCV piloting.

Mr. Paetzold commented that the SFBP's committee has yet to determine how to hold title to the new technology. Mr. Paetzold responded to a question from Executive Director Garfinkle and stated that a decision to purchase or lease the new technology has not been completed yet, and that the SFBP is also looking into the tax consequences of the technology acquisition.

Mr. Jacob expressed a concern that the SFBP could make multiple requests to the Board for the acquisition of navigation technology, and recommended that the Board should consider emergency regulations similar to the Pilot Vessel Surcharge regulations that require a finding of reasonableness and necessity, along with a preliminary and final approval process. He also commented that while the new statutes provide flexibility for the acquisition of navigation technology, he would like to have the Board authorize the purchase before the Navigation Technology Surcharge is charged and collected. Mr. Paetzold stated that he is not sure of the necessity to have a regulation for this new surcharged, noted that there weren't any regulations for the prior Navigation Technology Surcharge, and that he did not want rulemaking to delay or hinder the acquisition of new navigation technology, especially in light of the ceasing of technology support for the currently-owned PilotMate equipment. Further, he commented that Board Counsel should be involved in any discussion of rulemaking for the new Navigation Technology Surcharge.

There ensued a discussion between Mr. Jacob and Mr. Paetzold of whether or not a finding of "reasonable and necessary" for the new navigation technology must be made before a Navigation Technology Surcharge could start to be billed and collected, or if these two issues were separate from each other. There was no consensus on this issue. Captain McIsaac

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reminded the Committee that there is a great concern that the SFBP will not be able to provide pilotage services to ULVCs if PilotMate equipment breaks down, and that time is of the essence on the Navigation Technology Surcharge.

The Committee agreed to inquire of Board Counsel about the necessity for Navigation Technology Surcharge regulations. Additionally, the Committee decided it was appropriate to request the Board President to reestablish the Navigation Technology Committee.

8. Public comment on matters not on the agenda.

Mr. Paetzold reported to the Committee that Hanjin shipping company went into receivership in South Korea and filed for bankruptcy in New Jersey earlier this month. He stated the company owes the SFBP approximately \$240,000 for July and August pilotage and surcharge billings. He noted that the bankruptcy court has prohibited seizure of vessels by creditors, has made available approximately \$14 million as of last Friday to pay for the offloading of cargo from Hanjin vessels at United States ports, and that as of the date of the Committee meeting, maritime businesses could start receiving a wire of funds in advance of providing inbound or outbound services to the company. He reported that the past due Hanjin billings involve nine different vessels, and that the SFBP was working with a international bankruptcy attorney to attempt to collect the past due amount.

Mr. Paetzold assured Mr. Jacob that Board Counsel is aware of the past due Board surcharge billings, which total approximately \$50,000-60,000, and that Section 219 of the Board's regulations require the pilots and the Port Agent to use all legal means to collect amounts owed the Board.

There was no further comment from the public.

9. Schedule next Committee meeting, and proposals for items on the next meeting agenda.

Executive Director Garfinkle recommended that agenda items 5, 6 and 7 be continued to the next Committee meeting agenda. There were no other suggestions for the agenda for the next Committee meeting. The Committee scheduled the next meeting on November 16, 2016, at 9:30 a.m.

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10. Adjournment.

There being no further business before the Committee, Chairman Schneider called for a motion to adjourn.

MOTION: Mr. Paetzold moved to adjourn. Commissioner Livingstone seconded the motion.

VOTE: YES: Schneider, Livingstone, Jacob and Paetzold.
NO: None.
ASBTAIN: None.

ACTION: The motion was approved, and the meeting adjourned at 11:44 a.m.

Submitted by:



Allen Garfinkle, Executive Director