

<p>Meeting Date: November 16, 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>
---------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------

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
 Dennis Eagan, Board Counsel
 Luis Cruz, Staff Services Analyst
 Sigrid Hjelle, Office Technician

Members of the public:

None.

OPEN METING

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

Chairman Schneider called the meeting to order at 9:30 a.m. Staff Services Analyst Cruz called the roll and confirmed a quorum.

2. Approval of minutes from the meeting held on September 13, 2016. (Chairman Schneider)

There was no discussion of the minutes

MOTION: Mr. Jacob moved to approve the minutes from the meeting held on September 13, 2016. Mr. Paetzold seconded the motion.

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

ACTION: The motion was approved.

<p>Meeting Date: November 16, 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 2 of 8</p>
---------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------

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 statement of fund condition and forecasting assumptions for the accounting period ending September 30, 2017, including the current budget, projected revenues and expenditures and contract encumbrances for the Board Operations, Pilot Continuing Education and Pilot Trainee Training funds. .
- The historical and projected data for the Board Operations Surcharge, the Continuing Education and Trainee Training Surcharges.

Assistant Director Cristia-Plant stated that of the Board Operations Budget, beyond personnel costs, the next largest budget category is for consulting services. She stated that given projected savings in the Board Operations Budget, she has begun working with personnel at the California Highway Patrol (CHP) to assess the possibility of purchasing of new computers and telephones for the Board. She also mentioned that the budgeted increase in health care costs are reflected of the costs to prefund staff retiree health care.

Commissioner Livingstone noted for the Committee that upcoming pilot continuing education classes have been rescheduled to occur over two fiscal years to assist with budgeting the costs of the training.

Assistant Director Cristia-Plant answered a question from Mr. Paetzold regarding the budget for the Pilot Trainee Training Program, and stated that the budgeted 2016-17 amount for trainee stipends included two new trainees starting in January 2017, for a total of eight trainees through the end of the fiscal year. She also stated that this budgeted amount is likely high given that some of the current trainees are expected to graduate before June 30, 2017.

Executive Director Garfinkle, in response to a request from Commissioner Livingstone about marketing efforts for the upcoming Pilot Trainee Training Program selection examination, and stated that Board staff have mailed examination information directly to several maritime academies and unions, and have placed examination advertisements online and in print ads with several maritime publications. He confirmed the selection examination is scheduled to be held in June 2017.

The Committee discussed the fund balance for the Pilot Trainee Training Program, and noted that this fund balance is more difficult to plan for since selection examinations occur every two to three years, causing a cash-intensive outlay to pay for examination costs. Mr. Jacob commented that the Committee should plan to replenish the Pilot Trainee Training Program fund balance over the intervening years between selection examinations, and suggested that

<p>Meeting Date: November 16, 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 3 of 8</p>
---------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------

the Committee should consider increasing this surcharge towards this replenishment effort starting with the next quarter.

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

The Committee reviewed and discussed the Board Operations Surcharge, and determined that it should remain at 3.0%.

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, Jacob Livingstone, and Paetzold.
NO: None.
ASBTAIN: None.

ACTION: The motion was approved.

- b) Review Pilot Continuing Education Surcharge rate (currently at \$5/move), and the revenues, expenditures and reserve balance. 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, and determined that it should remain at \$5/move.

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

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

ACTION: The motion was approved.

- c) Review Trainee Training Surcharge rate review (currently at \$14/trainee/move), and the revenues, expenditures and reserve balance. 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 Executive Director Cristia-Plant confirmed

<p>Meeting Date: November 16, 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 4 of 8</p>
---------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------

for Mr. Paetzold that the projected expenditures of \$909,834 should cover all expenses in regards to the Trainee Training exam. Mr. Jacob expressed his concern over the Board's projected revenues of \$635,518 not being enough of a fund to cover 6 trainees. He stated that he would feel comfortable with increasing the Trainee Training Surcharge to \$20/trainee/move.

Mr. Jacob addressed a question from Mr. Paetzold, and stated historically the Trainee Training Surcharge rates have increased at the tail end of the period between selection examinations when there are fewer trainees in the program. He stated that increasing the Trainee Training Surcharge rate now would begin the process of building the trainee program fund balance sooner rather than later, resulting in less pressure to raise the surcharge rate later on.

Mr. Paetzold questioned if there was any information available from the Pilot Evaluation Committee (PEC) about recommending training program graduates to the Board in the near future. Executive Director Garfinkle stated that the PEC may have one recommendation at the upcoming November 2016 Board meeting, and another possible PEC graduation recommendation at the January or February 2017 Board meeting.

MOTION: Mr. Jacob moved the Committee recommend to the Board to increase the Trainee Training Surcharge rate from \$14/trainee/move to \$20/trainee/move, effective January 1, 2017. Mr. Paetzold seconded the motion.

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

NO: None.

ASBTAIN: None.

ACTION: The motion was approved.

4. Review 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 remaining balance of P/V DRAKE loan was approximately \$1.1 million as of the end of October 2016, and that the reserve in the Pilot Vessel Surcharge money market account maintained by the SFBP was at \$293,865 also as of the end of October 2016. He stated the Pilot Vessel Surcharge fund balance reflects a slight decrease as funds were over \$300,000 a quarter ago. He stated that reserves were intentionally reduced with the notion of closing out the P/V DRAKE loan in 2017.

Mr. Paetzold answered a question from Chairman Schneider, and responded that the target payoff date of P/V DRAKE is set at November 2017. Mr. Paetzold recommended to the

<p>Meeting Date: November 16, 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 5 of 8</p>
---------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------

Committee to keep the surcharge rate at the current rate, and that he projects to pay off the P/V DRAKE loan as planned using revenues received and on hand in the money market account.

MOTION: Mr. Paetzold moved that 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, Jacob Livingstone, and Paetzold.

NO: None.

ASBTAIN: None.

ACTION: The motion was approved.

5. Review of pilotage and surcharge audit report for 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 the report in satisfaction of contract scope of work.

Executive Director Garfinkle reported that SCO has not yet provided the audit report. He stated he anticipates the audit report to be completed and available for presentation during the first quarter of 2017.

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.

Assistant Director presented a staff report discussing staff's recommendations establishing a reasonable fund balance reserve targets for the Board Operations, Pilot Trainee Training Program and Pilot Continuing Education program fund balances. She provided a description of the three surcharges in the Harbors and Navigation Code, discussed that a fund balance is the difference between assets and liabilities in a governmental fund, and that staff is recommending to remain with the Committee's past practice to recommend to the Board to set surcharge rates that will result in a target fund balance of one year's budgetary expenditures for each fund. She also stated that such a recommendation is consistent with Government Finance Officers Association (GFOA) best practice for an unrestricted general fund balance reserve policy, and will ensure that the Board maintains sufficient resources to cope with uncertainties and contingencies and allow for smoother fluctuations in the surcharge rates that will aid forecasting and planning for shipping industry customers who pay surcharges. Mr. Cristia-Plant also commented that the GFOA best practice is to also set a time for replenishment of a reserve balance to the targeted amount, and that staff

<p>Meeting Date: November 16, 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 6 of 8</p>
---------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------

recommends a one-year replenishment horizon for the Board Operations and Pilot Continuing Education Program fund balances, and a slightly longer 2-3 year replenishment horizon for the Pilot Trainee Training Program fund balance since this program periodically has an intensive use of resources during years in which a selection examination is held.

Chairman Schneider stated that in his view the staff report was fantastic and reflected years of Committee discussions in a single document. Mr. Paetzold concurred with Chairman Schneider, adding that the staff report is helpful to the Committee, and provides documentation for the rate-setting process.

The Committee discussed whether or not to recommend a fund balance target reserve policy to the Board, or utilize the staff recommendation as guidance to support future surcharge rate recommendations to the Board, and decided that the latter was more appropriate.

MOTION: Mr. Jacob moved for the Committee to accept the staff report and recommended to present the staff report to the Board to document the guidance it will follow for future surcharge rate recommendations to the Board. Mr. Paetzold seconded the motion.

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

ACTION: The motion was approved.

Chairman Schneider called for a recess.

RECESS BEGAN: 11:04 a.m.
OPEN MEETING RESUMED: 11:10 a.m.

7. Possible development of recommendation to the Board for the implementation and management of a Navigation Technology Surcharge to take effect no sooner than January 1, 2017. Possible recommendation to the Board on implementation and management of Navigation Technology surcharge.

Mr. Paetzold reported that the SFBP is in the process of evaluating navigational technology equipment from three different manufacturers. He mentioned that since the manufacturers are based overseas, the SFBP are expecting delays in receiving demonstration models. He stated that Captain McCloy is hopeful to have a vendor recommendation by the middle of December 2016. He recommended the Navigational Technology Committee meet again before the December Board meeting and discuss any new information that may be available.

<p>Meeting Date: November 16, 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 7 of 8</p>
---------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------

Board Counsel Eagan stated that the Board may authorize a Navigation Technology Surcharge prior to January 1, 2017, and for the surcharge to become effective on that date. He stated that it is less clear if the Board has the authority to approve expenditures incurred prior to that date. Mr. Paetzold confirmed for Board Counsel Eagan that Booz Allen Hamilton, Inc. has now indicated that it is willing to continue support the PilotMate precision piloting equipment after the first of the year, so the urgency to buy new precision piloting equipment as soon as possible is not as strong as once was thought. He also confirmed that there is no urgency to purchase new portable piloting unit equipment.

Commissioner Livingstone stated that Captain McCloy is highly committed to making the best decision for SFBP in selection of the equipment vendor. Commissioner Livingstone added his opinion that it is important not to rush the navigation technology purchase process due to the importance of the technology to pilotage. Mr. Paetzold added that estimated shipping times of equipment from order is approximately two months.

Mr. Jacob commented that the Board has yet to establish a process for the navigation technology purchases or for setting the rate of the Navigation Technology Surcharge. He stated he would like the Board to consider emergency rulemaking to establish a process for the navigation technology purchases and rate setting. Mr. Paetzold stated that the SFBP intends to follow the pilot vessel acquisition/life-extending capital improvement two-step process of Board preliminary and final authorization. Board Counsel Eagan stated that the Board could promulgate emergency regulations, but is not required to do so for a one-off process.

There was further discussion between Board Counsel Eagan and Mr. Jacob regarding the establishment of a process for the navigation technology purchases and rates. Mr. Jacob indicated that there needs to be a balance between procedural rights and safety, and that discussions took place that confirmed a process similar to the pilot vessel purchase and rate setting process. Board Counsel Eagan stated that the navigation technology legislation did not include a process, and if the Board were to consider emergency regulations, the Board could likely not complete the emergency regulations in three weeks as Mr. Jacob suggested since the Transportation Agency would need to be included in any regulation process. Mr. Eagan stated that the Bagley-Keene Act provides a public process for the Navigation Technology purchases and surcharge rate setting.

The Committee discussed when it would be best to review and make a recommendation to the Board on a Navigation Technology Surcharge rate, and the general consensus of the Committee was that the rate-setting process would need to take place after the navigation technology purchases were made and the total amount was also known.

Chairman Schneider concluded that the Committee intends to make a Navigation Technology Surcharge rate recommendation to the Board after the Board has approved the costs for the

<p>Meeting Date: November 16, 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 8 of 8</p>
---------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------

navigation technology and any related financing costs. Mr. Paetzold reiterated that he would like to ensure that the SFBP will convey all of the necessary information to the Board, its committees and the shipping industry in order to facilitate well-informed decisions.

8. Public comment on matters not on the agenda.

Mr. Paetzold announced that Captain Joseph Long was elected as the new Port Agent, pending Board action, and that Captain Long has resigned as Board Commissioner effective November 2, 2016.

Mr. Paetzold provided the Committee with an update on the Hanjin bankruptcy, stating that SFBP filed a claim with the South Korean Bankruptcy Court, and are monitoring the situation in federal bankruptcy court. He also reported that SFBP was reviewing recent legislation involving workers' compensation to determine whether it applied to pilots; that the City of San Francisco completed a payroll audit for 2014 and 2015 which resulted in an agreed upon partial assessment of pilots' income based on ship traffic to/from San Francisco; and that SFBP completed negotiations for a new collective bargaining agreement with the Sailors' Union of the Pacific (SUP), which represents the pilot boat crews and dispatchers employed by the SFBP.

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

There was no discussion on agenda items for the next Committee meeting. The Committee scheduled the next meeting on March 14, 2017, at 9:30 a.m.

10. Adjournment.

There being no further business before the Committee, Chairman Schneider entertained a motion for adjournment.

MOTION: Mr. Paetzold moved to adjourn. Mr. Jacob seconded the motion.

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

NO: None.

ASBTAIN: None.

ACTION: The motion was approved, and the meeting adjourned at 12:16 p.m.

Submitted by:



Allen Garfinkle, Executive Director