



**Port of Toledo  
Ship/Boatyard Repair Facility  
Feasibility Study: Part 3**

**Ship/Boatyard  
Business Plan**

June 2009



**BST Associates**



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## Port of Toledo Ship/Boatyard Business Plan

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### Purpose

Acting upon findings in the Preliminary Business Plan<sup>1</sup> completed in July 2008, the Port of Toledo has taken initial steps to acquire the Fred Wahl Boatyard. So that the Commission and management are fully informed of the opportunities and risks associated with purchase and operations, this document presents a financial analysis and economic impact on the region.

The Port's motivation for considering the shipyard strategy is best described in this justification for the funding request to Oregon Economic and Community Development Department:

*Retaining the current commercial & recreational fleet through the support services provided by the Boatyard will retain and create jobs, which will in the long-term promote the long-term economic growth of the area. A publically owned Boatyard will offer the platform for private sector marine services; and through leases as well as income generated through services rendered will provide an income stream that will attain the Port's self sufficiency.*

A proposed General Obligation Bond, intended for acquisition, was defeated by the Port District voters in November of 2008. Then, in December 2008, the yard closed which adversely affected the region's commercial fleet as it is the only haul out facility for vessels over 70 ton in the Yaquina Bay Estuary. In 2009 the Port of Toledo signed a Purchase Agreement with the property owner for \$1.5 million, with the property owner donating the difference from the current Appraisal to the Port. The purchase is contingent on funding, and environmental studies.

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<sup>1</sup> Ship/Boatyard Repair Facility Feasibility Study: Phase 1 Findings Report; Preliminary Business Plan, July 2008

## As-Is

The analysis which follows is based on an “As-Is” acquisition with facilities and operations unchanged. This scenario is considered to be the best option for the Port considering overall adverse regional economic impacts if the boatyard is closed. Future services and business lines; construction of new facilities; and, regulatory<sup>2</sup> changes are not proposed or considered.

Public ownership of the boatyard by the Port offers an opportunity to match future grants. By leveraging this Port asset, facility improvements may be in the future that will further enhance economic performance and the Port’s position as a key marine industrial asset on the Pacific Northwest Coast.

A future marine rail haul-out is currently being considered by the Port (refer to Figure 2). This land use is allowed by the Lincoln County Zoning Code, and the Port has a current Joint Aquatic Resource Permits Application (JARPA) from the U.S. Army Corps of Engineers. A preliminary engineering study, JARPA documents and costs associated with this improvement can be reviewed in the Phase 1 Findings Report<sup>3</sup>.

The marine rail haul-out facility would attract vessels that otherwise would pass-by Yaquina Bay. For example, the distant water fleet - boats traveling to the Alaskan coast, Bristol Bay, and along the coasts of California and Washington – is characterized by vessels too large for current facilities. This fleet represents a potential income stream for the Port if the facility is operational.

A proposed upland boat work yard is in the planning stages. This facility is a low-cost, high-return improvement with immediate value to the commercial, charter and recreational boat owner. Development of the yard will require relocating overhead utility lines underground; sanitary sewer line extension; paving, water quality devices, vegetative buffers and swales, and power hook-ups.

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<sup>2</sup> Refer to Section 4: Findings for Due Diligence, pages 8-14, for a review of local, state and federal regulations.

<sup>3</sup> Appendix 5

## Financial Analysis

This section presents a pro forma financial assessment of the proposed boat yard in Toledo, Oregon.

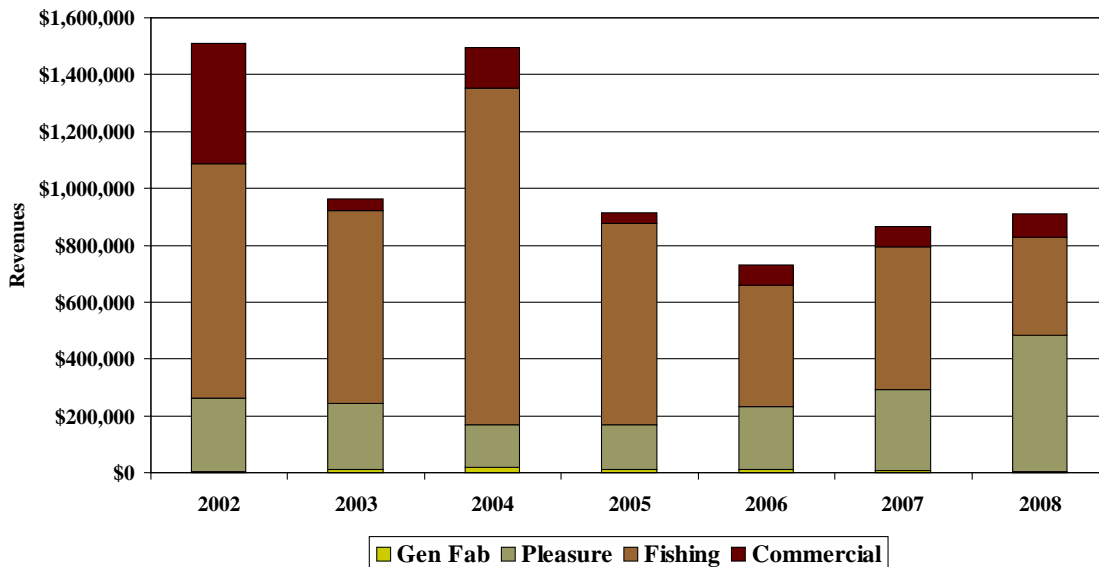
### *Review of Fred Wahl Boatyard Operations*

#### Financial Assessment

The revenues during Fred Wahl's operation of the Boatyard in Toledo are presented in Figure 1. During the past eight years, revenues ranged from a low of \$730,000 in 2006 to a high of \$1.5 million in 2004.

During the past three years (2006 to 2008), gross revenues averaged \$835,000. During this period, revenues from fishing boats and recreational boats (power and sail) represented 51% and 39% of gross revenues, respectively. General fabrication and commercial boats accounted for the remaining gross revenues.

Figure 1 – Gross Revenues from Fred Wahl Boatyard Operations



Fred Wahl Marine Construction, Inc. (Toledo yard) had a large and faithful market base, consisting primarily of boats homeported along the mid-Oregon coast as well as some boats from Northern California on the south to Alaska on the north. In earlier years (2001 to 2004), Fred Wahl Boatyard had several major rebuilds, which was the main reason for increased revenues relative to later years.

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Financial records were available to the consultant for 2007 and 2008. The Boatyard was profitable in 2008 but not in 2007. However, Fred Wahl (Toledo) had a substantial loan associated with acquisition of property and equipment and also paid property taxes. If these charges are removed from the expenses, the yard was profitable in 2007 and 2008. It should also be recognized that the yard operated without a general manager from 2005 through 2008, did little marketing and was scheduled for closure in 2008.

The following sections project the financial performance of the Boatyard under ownership by the Port of Toledo.

### Review of Operations

Fred Wahl Boatyard handled an average of 181 boats between 2006 and 2008, ranging from a low of 160 boats (2008) to a high of 203 boats (2007). It should be noted that 2008 was a partial year, with operations ceasing in November.

During this period, the Boatyard handled:

- Drydock operations accommodated 19 to 30 boats. The average length of these boats was 72 feet and the average invoice was \$15,000 per boat. These boats mainly included commercial fishing boats and government boats (NOAA et al).
- Travelift operations accommodated 85 to 101 boats with an average length of 42 feet and an average invoice of \$3,000 per boat. These boats mainly included recreational boats (power and sail) and charter boats.
- Other operations (dockside repairs, in which no lift was required) accommodated 58 to 81 boats with an average length of 49 feet and an average invoice of \$3,400 per boat. These operations included all types of boats.

**Table 1 – Number of Boats at Fred Wahl Boatyard**

Type	Number of Boats per year			
	2006	2007	2008	Average
Dry Dock	23	30	19	24
Travelift	85	101	88	91
Other (Dockside)	81	74	58	71
Total	181	203	160	181

Source: Port of Toledo, Fred Wahl Boatyard

In order to present a conservative estimate, the pro forma presented in this report is based upon the period from 2006 to 2008. The projections assume operations in an as-is condition and do not reflect potential increased revenues associated with facility improvements. Additional marketing efforts could also increase the

number of boats handled. However, it should be recognized that there is substantial competition from other boatyards and shipyards on the West Coast.

### ***Financial Pro Forma for Port of Toledo Boatyard***

This section provides a pro forma financial assessment for the proposed boatyard.

#### **Revenues**

Revenues are based upon the number of boats handled and expected charges, which are based upon actual operations at Fred Wahl Boatyard and/or competitive market rates.

- Haulouts
  - Travelift
    - The Port of Ilwaco charges \$5.00 per foot, Port of Astoria charges \$6.50 per foot. Reedsport Machine & Fabrication charges \$7.50 to \$8.50 per foot depending on the length.
    - The expected average rate is \$6.50 per foot (under the low scenario) to \$8.00 per foot (under the high scenario).
  - Dry Dock
    - Fred Wahl charged \$17.50 per foot for use of the dry dock in 2008.
    - The expected rate is \$15.00 (low) to \$17.50 per foot (high).
    - In addition, there are charges for dry dock preparation at \$65.00 per hour for an average 4.4 hour operation.
- Pressure wash
  - The Port of Ilwaco charges \$1.25 per foot; Fred Wahl charges \$60 per hour but is expected to raise rates for this service. Reedsport Machine & Fabrication charges \$65 per hour for pressure washing by its staff.
  - The expected rate is \$65 per hour under both low and high scenarios. The average hours of pressure wash operations are 2.2 for smaller boats (using the Travelift) and 7.9 for larger boats (using the dry dock).
- Moorage & Lay Days
  - Dry dock lay days range from 6.3 (low) to 9.5 (high) per boat at a rate of \$72 (low) to \$75 (high) per day.
  - Travelift lay days range from 6.2 (low) to 12.4 (high) per boat at a rate of \$42 (low) to \$45 (high) per day.
  - Use of the service dock or the transient moorage float ranges from 3.3 (low) to 6.6 (high) per boat. Use of the service dock is projected at a rate of \$49 (low) to \$72 (high) per day. The daily

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charge at the Newport Terminal is approximately \$72 (including electricity). Transient moorage is projected at approximately \$25 per day (i.e., at the transient rate at the Port of Toledo marina).

- Equipment rentals
  - Equipment rentals are to be charged at \$100 (low) to \$125 (high) per hour for cranes and forklifts. Astoria charges \$100 per hour for the crane. Newport charges \$40 per hour for a small forklift, \$55 for the large forklift and \$66 to \$125 per hour for the crane at Port facilities, depending on the facility.
- Charges to vendors
  - Reedsport Machine & Fabrication charges \$10 per hour for subcontractors using the yard.
  - The expected rate is \$6 per hour (low) \$10 per hour (high) for subcontractors. The number of hours is based upon actual operations at Fred Wahl Boatyard.
- Margin on materials – The Boatyard has traditionally bought materials (paint, zincs, and other supplies) at wholesale prices and charged a 25% to 40% markup for materials. This practice is expected to continue.

The gross revenues for the Port of Toledo operations are expected to range from \$508,000 (low) to \$602,000 (high) in year one of operations. Including expected revenues from vendors, the gross revenues at the Boatyard (public and private operations) would range from \$1.1 million (low) to \$1.2 million (high). This is comparable with competing boat yards, which generated between \$750,000 and \$1.1 million in the most recently reported year of operations or an average of approximately \$950,000. It is also comparable to revenues at Fred Wahl Boatyard in previous years.

**Table 2 – Reported Gross Revenues at Competing Boat Yards**

Name of Firm	# Employees	Estimated Revenues
Fashion Blacksmith, Inc	10	980,000
Reedsport Machine & Fabrication	10	973,836
Giddings Boat Works, Inc	10	750,000
Astoria Marine Construction Co	15	1,100,000
Average	11	950,959

Source: Dun & Bradstreet

Individual charges are projected to increase annually at 1.5% to 2.5% per year under low and high scenarios, respectively. In addition, the number of boats served is expected to increase at 1% to 3% per year under low and high scenarios, respectively

## Expenses

The expenses associated with the Port's operation of the yard include:

- Payroll:
  - Under both the low and high scenarios, there are 4 employees (2 laborers at \$15/hour, 1 clerical staff at \$15/hour, and 1/2 supervisor at \$22/hour.
  - Taxes and benefits include payroll taxes, health insurance, workers compensation and employee deferred comp plan. During the first year, employees will be on probation for the first six months. After the probation period, benefits will amount to 46%+ of wages.
  - Payroll expenses, which were calculated in the same manner as for existing employees at the Port of Toledo, are projected to be \$151,000 in the first year increasing to \$174,000 in the second year and increasing by 2.5% per year thereafter.
- Office/general expenses include telephone, utilities, fees & licenses, bank charges, general office expenses, freight & postage, and insurance.
  - These charges, which are based upon the actual expenses accrued to Fred Wahl Boatyard in 2008, are expected to range from \$71,000 (low) to \$76,000 (high) in the first year and grow at 2.5% per year under both scenarios.
  - Other expenses such as travel & meals, subscriptions & dues, donations and other potential expenses are not charged to the Boatyard. If they occur, they will be charged to general Port operations.
- Other expenses include: environmental expenses, inventory (cost of goods sold), DSL Lease, permits & licenses, repairs & maintenance.
  - These charges, which are also based upon the actual practices at Fred Wal Boatyard in 2008, are expected to be \$235,000 under both scenarios. Annual growth of 2.5% is projected for future years.

The expenses to operate the yard are expected to be \$458,000 (low) to \$463,000 (high) in the first year. Due to additional employee benefits expenses are expected to increase to \$489,000 (low) to \$500,000 (high) and grow at 2.5% for years three through five.

## Net Operating Income

The expected net operating income before depreciation in year one is expected to range from \$50,400 (low scenario) to \$139,400 (high scenario).

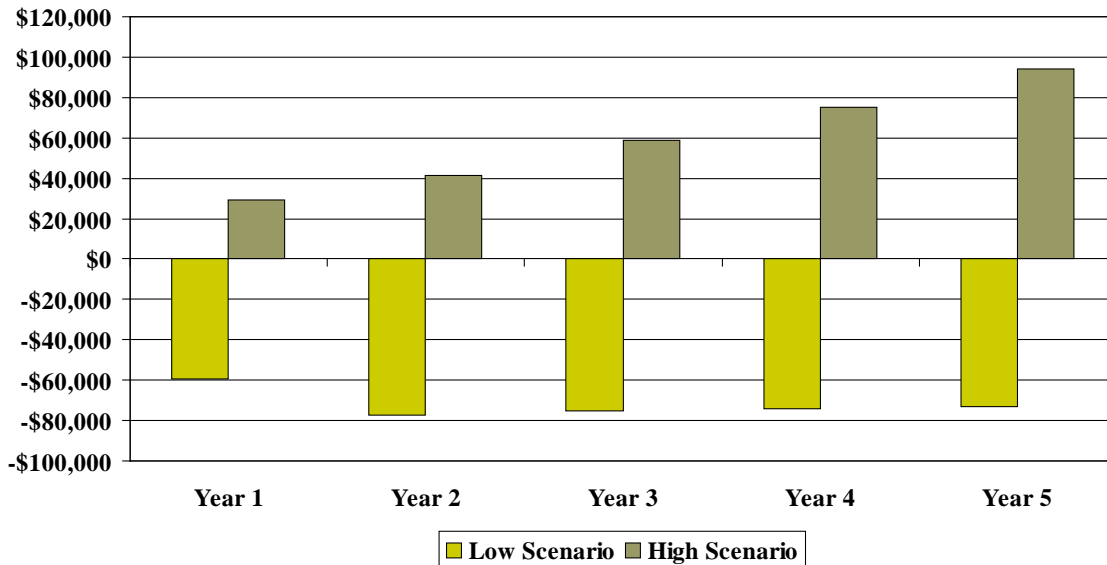
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The terms of the loan (\$1.55 million) are at a rate of 5.0% for 25 years, and would require an annual loan payment of \$110,000. These funds would be used for property acquisition (\$1.5 million) and improvements (\$50,000).

After the loan payment, the income (before depreciation) would be -\$59,600 under the low scenario and \$29,400 under the high scenario in year one.

There is risk associated with this venture. If demand declines, revenues decline and/or expenses increase, the financial results could deteriorate. Tables 3 and 4 present the low and high pro forma scenarios.

**Figure 2 – Net Operating Income from Port of Toledo Boatyard Operations**



**Table 3 – Port of Toledo Pro Forma – Low Scenario**

Item	Year				
	1	2	3	4	5
<b>Revenues</b>					
Dry Dock	245,000	252,000	260,000	268,000	276,000
Travelift	174,000	179,000	183,000	188,000	193,000
Dockside	81,000	82,000	85,000	87,000	89,000
Other (rent)	8,400	8,500	8,700	8,800	8,900
Subtotal	508,400	521,500	536,700	551,800	566,900
<b>Expenses</b>					
Labor	151,000	174,000	179,000	183,000	188,000
Office expenses	71,000	73,000	74,000	76,000	78,000
Other expenses	236,000	242,000	249,000	257,000	264,000
Subtotal	458,000	489,000	502,000	516,000	530,000

**Financial Performance**

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Income from Operations	50,400	32,500	34,700	35,800	36,900
Loan Payment	110,000	110,000	110,000	110,000	110,000
Income after Loan Payment	(59,600)	(77,500)	(75,300)	(74,200)	(73,100)

Source: BST Associates with data from Fred Wahl Boatyard, Port of Toledo

**Table 4 – Port of Toledo Pro Forma – High Scenario**

Item	Year				
	1	2	3	4	5
<b>Revenues</b>					
Dry Dock	280,000	296,000	313,000	330,000	348,000
Travelift	208,000	220,000	232,000	245,000	259,000
Dockside	106,000	127,000	134,000	140,000	148,000
Other (rent)	8,400	8,600	8,800	9,000	9,300
Subtotal	602,400	651,600	687,800	724,000	764,300
<b>Expenses</b>					
Labor	151,000	174,000	179,000	183,000	188,000
Office expenses	76,000	78,000	80,000	82,000	84,000
Other expenses	236,000	248,000	260,000	274,000	288,000
Subtotal	463,000	500,000	519,000	539,000	560,000
<b>Financial Performance</b>					
Income from Operations	139,400	151,600	168,800	185,000	204,300
Loan Payment	110,000	110,000	110,000	110,000	110,000
Income after Loan Payment	29,400	41,600	58,800	75,000	94,300

Source: BST Associates with data from Fred Wahl Boatyard, Port of Toledo

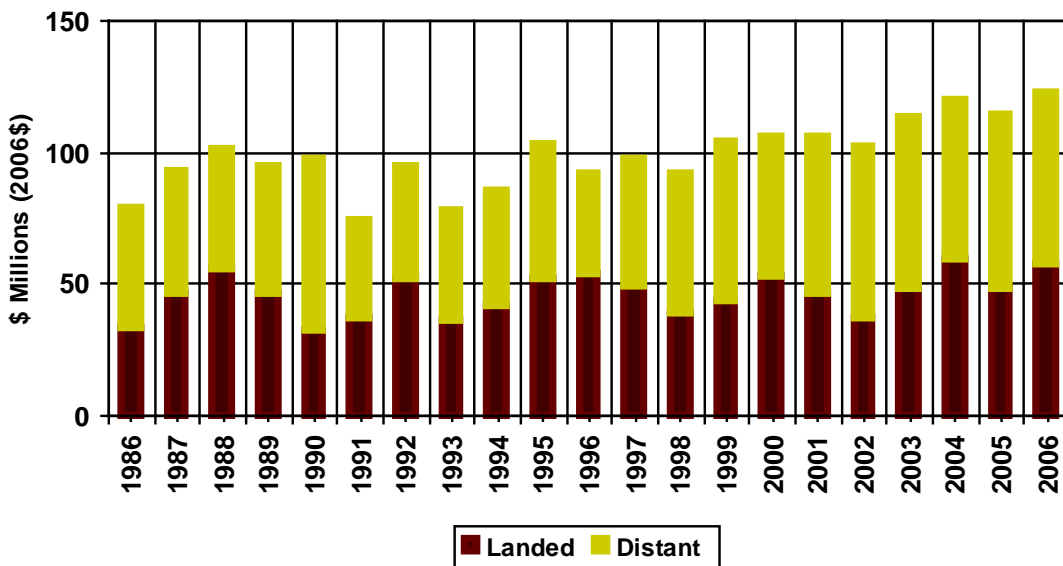
## Economic Impacts

### *Importance of the Commercial Fishing Fleet*

The economic contribution of the commercial fishing industry in the Newport Area (comprised of the communities of Newport, Oregon, Depoe Bay, Oregon and Toledo) is significant. Based on economic analysis done for the period 2005-2007 presented in Figure 3, this industry accounts for 15 percent to 16 percent of earned income and generates approximately 4,000 jobs in the Area.

In addition, slightly more than half of this activity is generated by the distant water fleet and the remainder by the local/regional fleet. A frequently cited economic concern for this industry is that the loss of key infrastructure, including but not limited to boat repair services, could result in a further decline in the Area's local fishing industry.

Figure 3 - Economic Contribution of Commercial Fisheries in Newport Area



\* Source: Oregon's Commercial Fishing Industry Year 2005 and 2006 Review and Year 2007 Outlook prepared by The Research Group for Oregon Department of Fish and Wildlife and Oregon Coastal Zone Management Association Inc., June 2007, page V-5

### ***Economic Impact of Port of Toledo Boatyard***

The proposed Port of Toledo Boatyard will have the following expected economic impacts:

- Direct sales of \$1.4 million including sales through the boatyard and through related private boatyard operations. The total impact is \$2.5 million, including direct, indirect and induced effects.
- Direct payroll associated with the boatyard and related private operations are projected to be \$350,000. Total income generated is projected at \$585,000 (direct, indirect and induced effects).
- There are expected to be 12 equivalent full time employees associated with the operation. The total jobs impacted are 29 in the State of Oregon.
- In addition, there will be approximately \$112,000 in state and local taxes.

**Table 5 – Economic Impacts of port of Toledo Boatyard**

Factor	Direct	Total
Sales	\$1,400,000	\$2,537,000
Payroll/income	\$350,000	\$585,000
Jobs	12	29

Source: BST Associates, Implan Model for multipliers

## Potential Funding Strategies

This analysis is based on an As-Is acquisition by the Port. Alternative strategies were discussed in the Preliminary Business Plan<sup>4</sup>. These included a Port operated Do-It-Yourself (“DIY”) Facility; Port Purchase and Private Party Lease; and, a Public/Private Partnership. Regardless of the business structure, potential acquisition, ownership and operation may require future capital improvements<sup>5</sup>.

Refer to Appendix 1 for a list of funding sources available from FHWA, Department of Transportation. These include EDA Grants for industrial and port development, and already familiar to the Port of Toledo.

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<sup>4</sup> Page 34-36

<sup>5</sup> “potential Compliant or Preferred Capital Improvements, Preliminary Business Plan, page 36

## Boatyard and Industrial Center<sup>6</sup>

The boatyard property contains roughly 20-acres; however the site is constrained by steep slopes and wetlands. With little flat usable land available and a long, narrow configuration, efforts must be taken to improve efficiencies and capitalize on opportunities where feasible. An important feature is the existing railroad right-of-way which could potentially provide rail access to interior sites. Portland & Western Railroad currently provides rail service between Toledo and the Willamette Valley. Feasibility for future service has been studied by the Port.

Figure 2 illustrates the existing work yard or “Core Area”. This area will have few short term changes; however, a rail lift may be added in the future when funds are available. Priority projects are sandblast improvement, efficiencies to enclosed work space, and a general yard rearrangement to gain better use of the limited space available.

Figure 3 illustrates the new “Boat Storage and Work Yard”. These improvements greatly enhance the Port’s marine industrial business lines in close proximity to the existing Industrial Complex<sup>7</sup>. These two separate properties offer business cluster opportunities and synergy which will expand the Port’s potential market.

Figure 3 also illustrates the realignment of Altree Lane, new boat parking in seventeen stalls (with flexibility for double “bow-to-stern “or single), security fencing and industrial building sites. Angled parking and a wider driveway will aid in efficient maneuvering of vessels, reducing haul-out time and minimizing traffic congestion. Existing overhead utilities will be placed underground.

A new sanitary sewer line would be extended from the bridge in Bay Boulevard. Engineering plans have been completed for the sewer line, construction of which would also benefit the Georgia Pacific plant and the Port’s Industrial Complex. Construction will require funding from existing Port sources, grants, and possible from operating income.

For all future improvements the Port will employ environmentally friendly practices. Figure 2 illustrates broad wetland<sup>8</sup> setbacks, a vegetated riparian buffer along Tokyo Slough, and stormwater facilities to treat surface runoff. In the Core Facilities shown on Figure 1, the Port will improve sandblasting procedures by eliminating airborne and surface runoff particulates. Overall site runoff will be treated in water quality facilities and oil-water separator catch basins here and in the Boat Storage and Work Yard.

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<sup>6</sup> Please refer to Figures 1, 2 and 3

<sup>7</sup> Small Business Units are available in the Industrial Complex Building. Located on N. Bay Road in Toledo, these units are suitable for beginning business space with electricity, and water. The units can also be upgraded to suit the business purpose

<sup>8</sup> Delineation of the subject wetland will be performed prior to final engineering of site improvements. The wetland illustrated in Figure 2 is approximate.

# Appendix 1

## Funding Opportunities