



SPECIAL MEETING

MINUTES

APPROVED 6/16/2009

Date: Monday, June 8, 2009 at 5:00 p.m., Port of Tillamook Bay office, 4000 Blimp Boulevard, Tillamook, Oregon.

1. Call to Order by Board President

The Meeting was called to order by Board President Jerry Dove at 5:20 p.m.

2. Recognition of Persons Present; Public Comment

Commissioners: Jerry Dove – President; Arthur Riedel – Vice President; Ken Bell – Secretary; Joe Meyer – Treasurer; and John Ficher – Commissioner.

Port Staff: Michele Bradley – General Manager; Aaron Palter – Project Coordinator.

Public: Jim Young – Commissioner Elect; Gary Trinetti – Garick Corporation; Ken Zwald and Heather Zwald – Zwald Trucking.

Jerry Dove commented that he recently spoke with Sen. Betsy Johnson and his feeling is that there is a 99% chance that the Port will be receiving matching funds for the FEMA monies.

3. Discussion of Agreement with Gary Trinetti, Garick Corporation.

Mr. Trinetti discussed the history of the agreement with the Port for the operation and management of the Hooley Digester and the work performed over the last few years. Garick and all involved have come to the conclusion that a major retrofit is needed and would be good for the community.

Garick's recommendation at this point is to terminate the existing agreement and propose a partnership in whatever capacity would provide value to the Port. They believe they have and could continue to add value where the Port would see Garick fitting.

Dove indicated the Port still has not made up its mind; there has been no official motion. If the Port terminates the agreement, we need to go forward with Garick. We should come up with a price for Garick. However, if the farmer is not made whole, there may be no need for Garick. Dove stated that personally he did not feel the farmer has been made whole in this process. The Port has spent money it cannot recoup; and it will continue to invest a lot of money into this project. We need expertise on how to put the project together.

Meyer asked about the match money for FEMA monies. Dove responded he is 99 percent sure matching funds will be located. Bell responded he is not so sure. We will know in two weeks' time. There was a brief discussion held regarding FEMA monies and matching funds.

Trinetti stated that Garick can play a role here, whether through the providing of matching funds, bidding assistance, project design, marketing, or tax credits. We know where the project is and where it can go. The economic model was discussed. Trinetti said the farmers are getting a very fair price for the fiber. Tipping fees have been minimized. The Port from a cash flow standpoint is at least neutral for the future, while the project is being built.

Ficher stated he did not recall seeing a return to the Port in the model as presented. Trinetti responded the return to the Port is no negative cash flow to the Port.

Meyer stated that depreciation and maintenance of the project needs to be built into the model and that it has been extraordinarily difficult to get maintenance of the facility; there were things not happening. He suggested the possibility of setting up a fund for this purpose. Trinetti responded that decisions regarding maintenance were made with the knowledge of the ultimate demise of the digester, knowing there would be a replacement project being undertaken.

Riedel stated his feeling of the need to strike a deal for project construction and if operation is included that would be fine. Trinetti agreed. Garick can take these steps, through design/build or whatever, then operations. In the end, engineers would be installing, living and working on the project. Riedel agreed that there should be a rebuilding and/or operations manager; this would be the perfect scenario. There was further discussion regarding different scenarios towards the project as it would move forward.

Ficher asked for Garick's experience in the building of a digester. Trinetti responded that Garick has been involved in the composting business, operating business and engineering phases of running digesters. He referenced Market Street Energy and a partnership with Duke Energy. John Gundlach has an 18-year background and has been in charge of building digesters with IEUA (Inland Empire Utilities Agency) in California. Ficher continued that we need expertise; it needs to be right the first time.

Meyer discussed biomass generators with digesters for excess fiber on the same facility. Trinetti responded the whole market is expanding. There was a discussion of energy from organics, gasification of mortalities and ethanol versus waste streams.

Dove asked what would happen if the tax credits were to go away. Trinetti responded they are set to expire in 2012. We are trying to do this project in the worst economy since the Great Depression. Cap and trade was discussed. Carbon is huge coming up. This should displace biomass tax credits. We could be more successful selling other product when the economy comes back. The model was a conservative as we could have made it; a lot of stuff was not included in it.

Meyer discussed the Port's participation in tax credits. Trinetti responded that in the first year, 40 percent went to the farmers, 40 percent went to Garick and 20 percent went to the Port. In the second year, 50 percent went to the farmers and 50 percent went to Garick. Now all of the tax credits are being used to offset revenue against expenses. A discussion was held about the model and the offset of the tax credits for hauling costs. The future of these tax credits would be dependent on who is running the digester. Meyer discussed a one-third split of the tax credits going forward. Trinetti responded there are certain things that can incentivize a future operator. Meyer said the Port needs that incentive.

Young discussed the farmers as partners of the digester and inquired as to why they were not treated as customers of the Port. The farmer is the supplier; the Port is taking the material off their hands. This will become a more serious problem for the farmers down the line, getting rid of the biomass. We need to say to the farmers that we want them to be our customers of the digester. The digester generates the customers. Ficher responded that the tax credits are for the transportation of the manure from the farms to the digesters. The farmers get nothing from the digestion process.

Heather Zwald stated that other farmers will not sign up without the tax credits being available to them. There was a brief discussion of these alternatives. Ken Zwald stated that as the trucking provider, he considers himself a partner. Transportation of the manure is the most expensive cost in this process. The return from the digester is not comparable. He discussed the cost of transportation to the farmer needing to go away. The digester can produce the product for free. Farmers who have participated should get more for their history; this can be negotiated. Heather Zwald continued that the core farmers have shown this can work.

Ficher said he would like to see the digester continue and he does not believe in preferential treatment. Dove said that if the farmers are made whole, there is no profit for the private individual. Trinetti responded this does not mean a negative

cash flow, just less of a return on investment. The model was further discussed. The model includes a haul. If the haul goes away, where is the return on investment. The goal was to get the farmers down to nothing and preventing a negative cash flow to the Port. If the digester works well, there will be profit.

Bell commented that he would like to see a local person individual of the Port being the operator of the digester. He has someone in mind. The hands-off approach has not worked. The project needs a good businessman.

There was a discussion about a potential operator and whether Garick would be available on a fee basis. Trinetti responded there would be value here. Young discussed equipment and its installation. We do not need more research and development; we are behind that.

Trinetti said he would have John Gundlach send information to the Port regarding the digester projects he has been involved with. Some of the issues as he recalls were dealing with the farmers and wastewater flows and creating energy from biosolids.

Dove asked for the Board's pleasure regarding the agreement. Trinetti proposed going forward on an item by item basis. He suggested the date of June 30, 2009 for the termination of the current agreement, with all fiber on the ground on July 1, 2009 reverting to the Port. He can have his attorney draft a walk-away agreement. There are a lot of things in the current agreement which do not work. He would like to stay involved and continue on with a reasonable fee and continue as the Port desires.

Riedel made a motion to accept the proposal of Garick to terminate the agreement effective June 30, 2009 with all fiber on the ground on July 1, 2009 reverting to the Port. Bell seconded the motion. Discussion: Bradley provided the Board with her understanding of the outstanding issues with the digester and how the Board would like to handle those. These included issues with the boiler, flare meter and mixer. Commissioners voting aye: Dove, Riedel, Bell, Ficher and Meyer. Garick's attorney will produce a written mutual no obligation cancellation of the agreement.

Ken Zwald asked who he would be working for after July 1. The answer was the Port. Zwald stated that he had certain issues with a trailer which would need to be worked out. He would want something from the Port to keep working. A discussion was held regarding how to handle invoicing. Trinetti stated that Zwald has been doing a great job. He suggested increasing and improving the rolling stock and that there should be a contract with the farmers. The agreement for the trucking could come after that.

Dove thanked Trinetti for coming and asked for a brief recess.

(A brief was recess taken from 6:27 p.m. to 6:33 p.m.)

Commissioner Dove said that an executive session has been requested. Commissioner Bell stated that no one was here so we could keep the meeting in open session, but the Board should go into executive session anyway. Aaron Palter was excused.

(The meeting was recessed into Executive Session per ORS 192.660 2(b) to consider the employment of a public officer, employee, staff member or individual agent.)

(The special meeting was reconvened at 6:53 p.m. Aaron Palter not present in the meeting room.)

4. Commissioner Comments

Bell stated he had a conversation with Dick Carr and Dan Patsula. They are concerned of where we go from here. He wants staff to explain this to them. He said Oregon Solutions has gotten answers from FEMA and have seemed to get around this process. Bradley responded she has not heard about this. Bell said that we want to go through the chain of command. He indicated the best source would be Richard Krikava and the Port might be able to retain him after June 30 to assist with this.

Dove stated his belief that Bunkers was supposed to get back to the Port ASAP on the bond package. Bell responded the bonding does not show if the FEMA funding does not show. We need to start the process. Bradley stated the Port is not eligible to apply for the alternate projects until the funding is approved.

Dove asked if the farmers had been notified of this meeting. Bradley responded the meeting was posted publicly but that no special effort was made beyond that.

Bradley discussed her upcoming vacation with the Board June 29 to July 6. The supervisors will be in charge of their own departments during her absence.

Meyer said that the Board was advised by counsel at the last meeting to obtain bond counsel from Ann Sherman prior to proceeding with the bonding and the Board decided to go forward without that counsel. He questioned the liability of the Port in this regard. Dove responded that all the Board did was to proceed with the financing package.

5. Adjournment

The meeting was adjourned at the hour of 7:03 p.m.

Respectfully submitted by Aaron Palter, Project Coordinator