Todd Zilbert
Attorney at Law

1300 SW Fifth Avenue, Suite 3400
Portland, OR 97201

503-548-6104
toddzilbert@gmail.com

I CERTIFY THAT THIS IS A TRUE COPY OF THE ORIGINAL

Administrator

16 May 2019

HAND DELIVERED

Leslie Goss, Chair
Oregon Board of Maritime Pilots
Portland State Office Building
800 NE Oregon Street, Suite 507
Portland, OR 97232

Re: COLRIP Special Purpose Financial Statement

Dear Leslie:

Pursuant to OAR 856-025-0050, the Columbia River Pilots (COLRIP) submits its 2018 Special Purpose Financial Statement. The purpose of this letter is to provide what COLRIP believes is necessary context for understanding the financial statement. There are two sections, one about automatic adjustments, and one about comparison to pilot incomes elsewhere.

Automatic Adjustments

The rule establishing Board review of the pilot group financial statements, OAR 856-025-0055(3)(b), requires "a notation of the current target net pilot income, as adjusted pursuant to any automatic adjustments ordered . . . ." COLRIP would like to make two points about the rule.

First, "Automatic adjustments" should not be confined to cost of living adjustments. Adjustments to rates made to reflect increased workload were also intended by the Board to be automatic, and they are a necessary part of the context for understanding pilot incomes.

Between 2006 and 2009, COLRIP provided services to a low of 1,407 vessels (2009) and a high of 1,889 vessels (2007), for an average of 1,714.5. Because of the economic downturn in 2008 – 2009, COLRIP projected only 1,410 vessels in 2010. (BP9, p. 4.) The ALJ estimated 1,443 vessels and 4,040 assignments for each of 2010 and 2011. All parties agreed that a complement of 43 licensed pilots was "reasonable and sufficient" to handle the projected demand with minimal delays. (BP9, pp. 6-7). The Board found that the "target per pilot per year assignment workload" should be set at 106 (BP9, p. 7), and that 43 pilots were adequate to meet that demand. (BP9, p. 12.)

The Board further found, however, that changes in the number of per-pilot assignments due to increases in vessel traffic should be provided for with tariff adjustments. Thus, if the actual number of assignments exceeded 1,037 per quarter for two consecutive quarters, the tariff would be revised to reflect the increase, generating for COLRIP an additional full time equivalent (FTE). An equal adjustment would be made each time COLRIP experienced a 27-assignment increase in each of two consecutive quarters. (BP9, p. 7.)

BP9 was issued 19 May 2010. The new Oregon Pilotage Tariff No. A-10 was issued 1 June 2010, superseding No. A-9. Note 5 sets forth five "automatic adjustments" provided for in the tariff:

> 5. **Automatic Adjustments.** There are four [sic: five] automatic rate adjustment mechanisms:
>
> - *Inflation.* Board Order 09-01, 10-01 and 10-02 continue an annual automatic rate adjustment that started September 1993, to reflect changes in the Consumer Price Index (CPI). This adjustment will continue to apply to most tariff items each September as long as this tariff remains in effect.
> - *Fare-box Benefit Expenses* . . . .
> - *Fuel Pass-Through Cost* . . . .
> - *Number of Pilots/TGI:* Board Order 10-02 continues a quarterly adjustment mechanism for the Columbia River Bar pilotage ground . . . .
> - *Traffic-Related Increases:* Board Orders 10-01 and 10-02 implement a sliding scale for increasing tariff rates when vessel transit projections exceed certain levels.

Although the Tariff says there were "four automatic rate adjustment mechanisms," the five bullet points under the heading "Automatic Adjustments" indicates that all five were automatic. As calculated, the traffic-related adjustment for the Columbia and Willamette River Pilotage Ground is, indeed, mechanical: If the projected number of vessels in any two consecutive quarters exceeds the preceding quarter by 27, then an FTE is automatically assigned. No review, approval, or deliberation is required. Thus, FTE adjustments fall under OAR 856-025-0055(3)(b) and should be considered with CPI adjustments in evaluating pilot net incomes.

Second, workload adjustments should be included in updating the 2010 target net income to reach "current target net income," as used in OAR 856-025-0055(3)(b) to ensure accuracy. "Target net income" was set in Final Order 10-01 ("BP9"). The ratemaking process requires the Board to project a net income for each pilot, fix the number of pilots to provide adequate pilotage services, and then allow for expenses associated with providing the services. (BP9, p. 3.) But "[t]he level of TNI (and the resulting target gross income) **almost never equates to the actual income** that a pilot earns in a given year." (BP9, p. 3, emphasis added.) This is because the number of working pilots; the number, size, and drafts of vessels; and the number of assignments generated by each vessel, always vary. So "target net income" is a bit of a misnomer. It is less a target than it is a tool for rate setting, with the expectation that actual pilot incomes will differ. Further, unless workload adjustments are included, the term "current target net income" is actually misleading. It implies that "normal" pilot incomes set in 2010 can be brought "current" without accounting for fluctuations in, and resulting choices about, workload.

While the Board has broad authority to regulate pilotage to achieve efficiency and safety (see, e.g., ORS 776.115(2)), COLRIP has always had the right and responsibility to conduct the business aspects of piloting in the manner that best serves its members. The Board wisely has not attempted to manage pilot work schedules, vacations, illnesses, disabilities, and lifestyles. As long as the mandates of safe and efficient pilotage are met, the day-to-day operations and the business considerations of piloting are properly left to the pilot organizations.

Too much emphasis on controlling pilot net incomes would reduce efficiency. Pilot net income can easily be reduced just by increasing the number of pilots, but this would come at a cost. More pilots would mean more variable costs, including benefits, to be borne by the pilotage tariff. If the core objectives of efficiency and safety can be met with fewer pilots, it is more efficient to increase average pilot workload and compensation than it is to reduce average compensation by licensing more pilots. It is also prudent to do so: Demand for pilotage varies over time and reducing the number of pilots is far more difficult and disruptive than temporarily increasing workload and compensation.

Since Tariff A-10 was adopted 1 June 2010, the tariff for the Columbia and Willamette River Pilotage Ground has received two automatic workload adjustments: fourth quarter 2010 (2.889 FTE), and first quarter 2014 (7.333 FTE), for a total of 10.222. The "current target net pilot income" OAR 856-025-0055(3)(b) for COLRIP should reflect these tariff adjustments in addition to COLA.

Starting with the 2010 Rate Order TNI of $214,447, COLRIP submits that its "current target net pilot income," correctly calculated, is $324,929, as follows:

Year Ending:	2010	2011	2012	2013	2014	2015	2016	2017	2018
COLA:	0.0159	0.0257	0.0253	0.0218	0.0257	0.0343	0.0172	0.0442	0.0355
FTE:		0.0516				0.1312			
Adjusted TNI:	217,857	234,975	240,920	246,172	252,499	295,425	300,507	313,789	324,929

COLRIP's 2018 Special Purpose Financial Statement states net cash available for distribution to pilots of $17,587,912. If the "current target net income" were the main goal, it could be achieved simply by increasing COLRIP pilot membership from 45.69 to 54.13. Put another way, if as a result of increased workloads in 2010 and 2014 COLRIP's 2010 membership of 43 had increased by 10.222 pilots instead of just 2.69, the reported net cash available for distribution of $17,587,912 would have been divided among 53.222 pilots, for an average net distribution of $330,463. But because COLRIP has neither violated fatigue rules nor delayed service to any vessel, taking on more pilots would not have benefited industry or the public, it would only have increased the overall cost of Columbia and Willamette River pilotage.

Comparison to Other Pilot Incomes

The Board's requirements for ratemaking include reference to compensation of pilots in Puget Sound and San Francisco. OAR 856-030-0000(2). As such, they are appropriate comparisons for COLRIP's financial report.

According to the Supplementary Information to the 2018 Special Purpose Consolidated Financial Statements of the Puget Sound Pilots, the average net income for a Puget Sound Pilot for the year ending 2018 was $402,219 (Supplementary Information, p. 22, "Balance of Pilotage Revenue Pooled Per Pilot"). According to the San Francisco Bar Pilots Consolidating Financial Statements for year-end 2017, the average net pilot income for a San Francisco Bar Pilot was $495,726. (Consolidating Financial Statements, Year Ended December 31, 2017, p. 6.) At $384,940, COLRIP's reported average net distribution for 2018 is below the net earnings of both of the two comparison groups.

Conclusion

If as a result of automatic FTE rate increases in 2010 and 2014, COLRIP had increased its membership by 10.222 pilots instead of just 2.69, its average net distribution would have been $330,463 instead of the $384,940 reported for 2018. The increased average compensation reflects increased average workload. Further, at an average net distribution of $384,940, the average net income of COLRIP pilots is below the net incomes of the Puget Sound Pilots and San Francisco Bar Pilots. COLRIP's 2018 financial statements should be considered with both points in mind.

Very truly yours,

Todd Zilbert

Copies to:
Board Members
Marc Warren
Katharine Disalle
Darien Loiselle (email)
Michael Haglund (email)
Client

COLUMBIA RIVER PILOTS

SPECIAL PURPOSE

FINANCIAL STATEMENT

Year Ended December 31, 2018

with

Independent Accountants' Review Report

COLUMBIA RIVER PILOTS

Table of Contents

HOFFMAN,
STEWART
& SCHMIDT, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

3 Centerpointe Drive, Suite 300 • Lake Oswego, Oregon 97035-8663
Telephone: (503) 220-5900 • Facsimile: (503) 220-8836

Independent Accountants' Review Report

The Members
Columbia River Pilots

We have reviewed the accompanying special purpose financial statement of Columbia River Pilots for the year ended December 31, 2018, and the related notes to the special purpose financial statement. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the special purpose financial statement as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the special purpose financial statement in accordance with the financial reporting provisions of Oregon Administrative Rule (OAR) 856-025-0050 promulgated by the Oregon Board of Maritime Pilots. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a special purpose financial statement that is free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the special purpose financial statement for it to be in accordance with the financial reporting provisions of OAR 856-025-0050. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying special purpose financial statement in order for it to be in accordance with the financial reporting provisions of OAR 856-025-0050.

Basis of Accounting

We draw attention to *Note 1* of the special purpose financial statement, which describes the basis of accounting. The special purpose financial statement has been prepared in accordance with the financial reporting provisions of OAR 856-025-0050, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the regulatory requirement referred to above. Our conclusion is not modified with respect with this matter.

Restriction on Use

Our report is intended solely for the information and use of the managements of Columbia River Pilots and Oregon Board of Maritime Pilots and is not intended to be, and should not be, used by anyone other than these specified parties.

Hoffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
May 15, 2019

COLUMBIA RIVER PILOTS

Special Purpose Financial Statement

(See Independent Accountants' Review Report)

Year Ended December 31, 2018	
Income:	
Gross pilotage revenue	**$ 28,864,463**
Expenses:	
Operating expenses *(Note 2)*	3,230,677
Payments to retirees	2,200,283
Pilot continuing professional development expenses	184,383
Pilot expense reimbursements	216,771
Oregon Board of Maritime Pilots operations fee	74,300
Total expenses	**5,906,414**
Total cash available for distribution to Pilots	**22,958,049**
Pilot benefits:	
Pension *(Note 3)*	3,277,558
Medical insurance	1,002,202
Disability and life insurance	349,299
Sick leave	613,678
Equipment	127,400
Total Pilot benefits	**5,370,137**
Net cash available for distribution to Pilots	**17,587,912**
Number of Pilots	45.69
Net cash available for distribution per Pilot	**$ 384,940**

The accompanying notes are an integral part of the financial statement.

COLUMBIA RIVER PILOTS

Notes to Special Purpose Financial Statement

1. Organization and Summary of Significant Accounting Policies

Organization - Columbia River Pilots (COLRIP) is an association organized for the mutual benefit of its individual members facilitating the pilotage of vessels on the Columbia River and the distribution of the income realized there from.

The significant accounting policies followed by COLRIP are described below to enhance the usefulness of the special purpose financial statement to the reader.

Basis of Accounting - COLRIP has prepared the accompanying special purpose financial statement to present net cash available for distribution per pilot pursuant to the financial reporting provisions of Oregon Administrative Rule 856-025-0050 promulgated by the Oregon Board of Maritime Pilots, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The regulation specifies that COLRIP prepare the special purpose financial statement in which gross pilotage revenue and certain expenses and pilot benefits are presented on the cash basis of accounting. This basis of accounting differs from GAAP primarily because revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred.

2. Related-Party Transaction

The Astoria living quarters, Astoria office, Astoria training room, Portland office, and all equipment and vehicles are leased from Tonquin Resources, Ltd. (Tonquin), which is owned 100 percent by members of COLRIP, with lease terms through July 1, 2019. Subsequent to year end, COLRIP entered into certain agreements to extend the leases through June 30, 2024.

3. Pension and Retirement

COLRIP offers pension and retirement benefits to pilots and employees who meet certain eligibility requirements. Eligible pilots and employees may also make voluntary contributions. Total pension and retirement expense of COLRIP was $2,414,167 for the year ended December 31, 2018.

4. Subsequent Events

Management has evaluated subsequent events through May 15, 2019, the date the special purpose financial statement was available for issue.