



## CITY of REEDSPORT

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May 3, 2017

Honorable Senate Business and Economic Development Committee,

**RE: Opposition to House Bill 2902**

There is a threat to the economic recovery of the south coast that you can help prevent.

The communities on the south coast have struggled for decades to recover from the economic devastation caused by the loss of the timber industry. Nowhere is this more apparent than in Coastal Douglas County, where empty storefronts and blighted buildings litter our downtown area, constantly reminding us of what we used to be and all that has been lost. We have the highest unemployment rate in Douglas County and the lowest average household income on much of the coast. I gave testimony before your committee earlier this month for \$20,000 to keep our library from closing and we have another bill before ways and means to help repair our aging levee system before a flood destroys what is left of this community. The only industry we have, after the exodus of the large timber companies (including, International Paper (IP) -991 jobs, Champion Lumber -161 jobs and Bohemia Plywood -158 jobs), is our local shipyards. Despite the recession of 2008 they continue to grow and are singularly responsible for the small economic gains experienced by this community over the last decade. Because of the efforts of the Port of Umpqua, the City of Reedsport and the entire community of Coastal Douglas County over the last three years we are now finally in a position to make giant economic gains, but only if you give us the opportunity.

A few years back this community convinced one of our three area shipyards, as part of an economic development project, to take on a **9 million dollar (entirely private funds)** business expansion resulting in this company taking on massive debt and overhead costs (taxes last year were well over \$100,000 even with the Oregon Enterprise Zone tax abatements). This shipyard was reluctant, to say the least, to take on such a venture citing the declining number of boats to service (due to increasing government restrictions on the fisheries) and the limited number of new boat contracts available; however, we (the community) were able to convince them to take the risk assuring this business that we would stand behind him no matter what to insure his success, because our success as a community depends on it.

The first thing we did to demonstrate the importance of their operation and our sincerity in supporting their success was to aid in the application process for a 3.4 million dollar ConnectOregon grant, resulting in a recent award of funds (none of the awarded funds have been expended to date) as well as co-authoring a smaller industrial development grant. We are

Save our Shipyards

now working with our federal senators to help spotlighting this new massive state-of-the-art shipyard for large vessel government related contracts in an attempt to diversify this operation and make sure that the giant amount of overhead liability recently assumed can be managed and debts repaid. This shipyard and local government officials have even been working with the local high school and college to bring a marine job training program to this area to help maintain and grow our new local workforce having lost our last workforce at the close of the IP mill in 1999. These combined efforts have resulted in an **increase in employment of over 25% with 30 new jobs being added** to the area and job growth is still continuing. Representative Caddy McKeown said it best, "30 jobs in Reedsport is like 300 jobs in Portland," and we are very proud of our success.

This job growth was hard fought and the current gains are only based on the utilization of about one quarter of the capacity of the new site. With the massive ConnectOregon funding we will be able to utilize the entire 38 acre site and our job numbers will soar much higher (the proverbial game changer for our community). However, a recent cloud on our success has been cast by the redesign of a Port owned haul-out facility in Toledo that has rapidly been turned into a publicly operated shipyard. This government subsidized yard has started to hire welders, fabricators, pipefitters, painters and other tradesmen to be able to offer the exact same services as our shipyards but at a fraction of the cost. This entity's ability to offer lower cost services and higher wages is due, in part, to them being a tax exempt governmental entity with no personal property tax liability, to them having no income tax liability, to them having no real estate tax liability and to an 8 million dollar investment of state and federal funding. The resulting impacts already being experienced by the private shipyards on the south coast is the loss of about half a dozen boat contracts (each potentially worth several hundred thousand dollars) in just the last 8 months. To make things worse the information regarding this shipyards ability to pay higher wages is spreading up and down the coast, resulting in recent employee turnover here. While most companies would like to be able to offer higher wages, our shipyards cannot and still try and be somewhat competitive with a public shipyard given their massive tax liabilities.

As soon as we started to question the legitimacy of this new public competitor we inadvertently stumbled upon House Bill 2902, which had it not been for our local Port, we would not even have known the bill existed. This bill was designed without a public process or input from stakeholders. Directly after the discovery of the bill we attended a number of local Port meetings up and down the coast and were informed by the respective Port Commissions that they had no knowledge of this bill. The Commissioners at the Port of Bandon and the Port of Umpqua even going so far as to state their formal objection to it. Even Senator Roblan, who I contacted personally upon hearing of this bill's intent, and informed him of the potential economic side effects to this community for which he said, "That would not be good." We starting getting a better picture of why the bill was created and the intent of the three or four of Port managers' responsible for its creation based off a legal opinion provided by Legislative Council to Representative Caddy McKeown. This opinion makes clear that Ports authority to offer shipyard services is not defined by Statute and cautions of Ports overstepping their authority (submitted by Representative Gomberg to the current HB record)). While we take issue with the Port owned shipyard continuing to operate despite no clear authority; however, what's more to the question posed by the creation of this bill is, should the state allow it?

House Bill 2902 provides a prescriptive right to public agencies to directly compete with Oregon small businesses without consideration for need, opportunity, cost and benefit to the public and, most importantly, impact to existing businesses. Proponents will argue that Ports already operate ice plants, moorage facilities and RV parks therefore shipyards are no different but they fail to look at the matter at a regional level. While an ice plant may serve the fleet of the harbor in which they are located, shipyards provide services to fleets from North Alaska to Mexico and do not require a location in every port. These vessels will travel great distance for services based on two factors, reputation and cost. With the migration of our skilled labor to the public shipyards and their ability to offer lower cost services, our shipyards lose on both accounts. **This bill does not create jobs in Oregon** but rather supplants jobs and commerce from one region of the state to another, ultimately resulting in the demise of the entire private industry in Oregon.

Proponents of this bill are blurring the lines between a shipyard and a boat landing/boat haul-out facility to make you think that this is commonplace. They would like you to believe that there are lots of port operated shipyards currently up and down the coast, but this is simply not accurate but don't take it from a government official such as myself, Ask Giddings Boat Works, Reedsport Machine, Tarheel Aluminum, Fred Wahl Marine Construction, Western Machine, A and R Industry, Yaquina Boat, England Marine and any other boat repair business if the Ports operate shipyards. These are the men and women who travel to the port facilities for work and who take exception to public infringement in their industry. You will discover that the Port of Toledo is the only public port that currently operates a shipyard, having only recently converted to this type of facility. We don't dismiss the fact that they may have performed some services for vessels from time to time but they never offered the spectrum and scale of services that they started offering around 8 months ago. Contrary to statements made by that Port, we don't believe amending or rejecting this bill will shut down that operation, but rather it would force them to rethink their approach and make them work to the benefit of the private industry instead of going it alone purely for Port's benefit. This facility has been operating for years as a boat haul out facility whereby private welders, fabricators, pipefitters and painters had the opportunity to prosper and grow (all services now provided by the Port). If they cannot operate in this manner then maybe the market does not warrant their existence. At this point they are creating economic growth in their area by providing services below what the private sector can offer here in Oregon.

Oregon's private shipyard enterprises have had substantial success even in a challenging economy. From 2006 to 2016, there were 36 steel hull fishing boats over 50 feet in length manufactured on the west coast (none by Ports). Out of these 36, 21 were built on the Oregon Coast either in Reedsport or Charleston (the others: 1 in Alaska, 5 in California and 9 in Washington). If you watch the famous TV show *Deadliest Catch* you will see some of these fine Oregon vessels in auction: Time Bandit, Maverick, Cape Caution, Arctic Venture, Nuka Island, West Ling and Vixen. If Reedsport were to lose one new boat construction contract to a port our area work force will be reduced by over 40 employees and dozens of ancillary jobs and businesses would suffer. This is not conjecture but based on the fact that new vessel construction accounts for almost half the business activity of our shipyards. We also know that, based on the impacts of the one current public shipyard has had on the repair and maintenance business, that if one or two more of the ports decided to start this type of operation that we will likely lose this industry in Reedsport entirely.

Save our Shipyards

The Port of Coos Bay purchased a travel lift last October that is being operated at a fraction of the cost of other area boat lifts <http://www.portofcoosbay.com/travel-lift> shutting down two private lifts.

Charleston shipyard owner testimony regarding impacts of public shipyards <http://kcby.com/news/local/shipyard-owners-speak-out-against-bill-that-would-allow-public-ports-to-operate-shipyards>

Please consider the public policy that you will be creating by approving HB 2902 as it is drafted. We are about to launch the 42<sup>nd</sup> vessel built in Reedsport and we don't want it to be one of the last.

Thanks for your time.

Sincerely,



Jonathan Wright  
City Manager