

Item No.: 4B

Date of Meeting: October 29, 2019



2020 Budget Study Session

Managing Member Meeting
October 29th, 2019

Agenda

- **Budget Schedule**
- **2019 Forecast and Key Messages**
- **2020-2024 Capital Investment Plan**
- **2020 Budget and Key Messages**
- **Discretionary Items and prioritization**
- **2020 Budget and 2020-2024 Operating Forecast**



Budget Schedule

- **October 29**
 - Cargo Forecast
 - Budget study session
- **November 14**
 - Approve 2020 operating budget
 - Approve 2020-2024 Capital Investment Plan
 - Approve distribution of Lease interest cash



NW Seaport Alliance Scorecard

September 30, 2019



CARGO VOLUME

	2019 YTD Actuals	2019 Target
<u>Containers (TEUs)</u>		
International	2.4 M	3.1 M
Domestic	0.6 M	0.7 M
Break Bulk (Metric Tons)	201 K	181 K
Autos (Units)	119 K	183 K



JOB CREATION

	2019 YTD Actuals	2018 Actuals
ILWU Hours	3.6 M	4.7 M



FINANCIAL RETURNS

<i>\$ in millions</i>	2019 YTD Actuals	2019 Budget
Operating Income <i>(Before Depreciation)</i>	\$79.5	\$79.5
Return on assets	7.3%	6.5%



ENVIRONMENTAL STEWARDSHIP

	2019 Actuals	2019 Target
Water Quality <i>(Improve Source Control)</i>	195 Acres (135 Acres West Sitcum, 56 Acres TCT, 4 Acres E. Sitcum)	53 Acres
Air Quality <i>(Reduce Greenhouse Gas Emissions)</i>	15% Terminals Executed Fuel Efficiency Plans	36% Container Terminals Executed Fuel Efficiency Plans

NWSA Objectives

- **The objectives of this budget are:**
 - Increase the gateway cargo volumes to support the local economy and increase family-wage jobs
 - Complete the construction of T5 so that both of the strategic terminals are available to support the largest ships in the Pacific trade lane
 - Maintain a diversified business portfolio
 - Achieve required financial performance
 - Reduce the NWSA's impact on the environment through effective environmental policies



Accounting Standard Change

- **The NWSA budget reflects the adoption of an accounting standard known as GASB 87 which deals with long term leases**
- **The impact of GASB 87 is a reduction in operating revenue offset by an equal increase in the non-operating interest income**
- **In Summary**
 - Operating Revenue will be reduced compared to historical values
 - Non Operating Revenue will be increased compared to historical values
 - Net Income is not impacted at all.



Key Financial Terms

Three important terms used on several slides

1. **Net Distributable Revenue** – The “Net Income” that is split 50/50 between the home ports
 - After all expenses including depreciation
2. **Distributable Cash** – Per the charter, the “operating” cash per the Cash Flow Statement that is distributed 50/50 back to the home ports
 - Excluded depreciation and other cash flows not included in definition in the Charter
 - Requesting additional distribution of cash for GASB 87 as will be discussed later
3. **Bond Income**
 - Minimum level of net income required for homeports to meet current bond rate covenants – defined in Charter
 - Excludes depreciation, capital grants and non operating expenses

Historical Budget Performance

- Four year history comparing actual / forecast performance to the original budget.
- **NWSA has out-performed by \$66M**
 - 1 time revenue such as Foss in 2016 and APMT termination in 2017
 - Management of expenses and projects
 - Non operating grants

\$ Million	2016 - 2019		2016-2019		Actual	
	Actual/Forecast	Budgets	Bettter/	(Worse)	Variance	%
Revenue	\$ 783	\$ 769	\$	13		2%
Expenses before Depr	\$ 339	\$ 377	\$	38		10%
Depr.	\$ 20	\$ 24	\$	4		16%
Total Expense	\$ 359	\$ 401	\$	42		10%
Operating Income	\$ 423	\$ 368	\$	55		15%
Non Operating	\$ 21	\$ 9	\$	12		125%
Net Income	\$ 445	\$ 379	\$	66		17%



2019 Forecasted Operating Results

(\$ millions)	2018 Actual	2019 Budget	2019 Forecast
Property Rental	\$40.7	\$43.3	\$40.7
Sale of Utilities	1.0	1.0	1.1
Services Marine Terminals	124.2	127.2	131.0
Equipment Rentals	16.7	18.3	17.7
Other Revenue	10.0	9.8	9.5
Operating Revenue	192.6	199.4	199.9
Home Port Services Provided	20.4	23.6	22.8
Port Salaries & Benefits	10.2	10.0	9.6
Outside Services	5.2	7.2	8.0
Longshore Labor & Fringe	10.4	10.4	11.6
Direct Expenses	11.4	11.1	11.5
Marketing & Global Outreach	0.6	0.8	0.6
Travel & Hosting	0.5	0.7	0.5
Maintenance	15.7	25.3	19.1
Office Equipment & Supplies	0.3	0.4	0.3
Utilities	4.4	4.8	4.6
Other Employee Exp	0.2	0.1	0.1
Other Expenses	1.3	1.0	1.4
Environmental	2.3	3.7	2.2
Total Operating Expenses before Dep.	82.8	99.3	92.2
<i>Operating Income before Depr.</i>	<i>109.7</i>	<i>100.2</i>	<i>107.6</i>
Depreciation & Amortization	6.3	13.5	11.2
Total Operating Expenses	\$89.1	\$112.7	\$103.4
Operating Income	\$103.4	\$86.7	\$96.5
<i>Return on Revenue</i>	<i>53.7%</i>	<i>43.5%</i>	<i>48.3%</i>
Non Operating Revenue and Expenses	8.5	1.1	3.7
Net Assets Before Special Items	112.0	87.8	100.2
Increase in Net Assets	\$112.0	\$87.8	\$100.2
Bond Income	\$115.5	\$102.1	\$109.9
Distributable Cash + Lease Interest C:	\$113.7	\$104.5	\$112.0

2019 Forecast vs budget

Revenue – T5 & T46 lower by \$4M
offset by higher Breakbulk revenue
of \$3M and auto of \$0.7M

Expenses

Outside Services – Slight increase
due to paving at T18 offset by
many projects under spending

Longshore – Due to increased BB
revenue

Maintenance – lower due to T46
\$2M and Husky \$1M, lower crane
and strad maintenance costs

Non-Operating – delayed T5 permit
requirement spending and
investment gains



2019 Forecasted Project Spending *(\$ million)*

Project	Amount	Description
T5 Berth Modernization Construction	\$40.2	Phase 1 (1450' north)
Pier 4 Container Crane Acquisition	36.3	
T46 Dock Rehabilitation	8.2	
Husky Tenant Improvements	5.1	
Husky Panamax Container Cranes Acquisition (4)	4.9	
West Sicum Stormwater Treatment	4.3	
Surplus Crane Removal North Harbor - T18/T46 IHI Cranes (4)	3.7	
2810 Marshall Ave Roof Replacement	3.4	
Others	25.3	91 projects
Total	\$131.4	

Original 2019 CIP budget was \$172.1 million

2020

- **The 2020 budget assumptions**
 - Fixed revenue based on negotiated leases
 - Variable revenue based on conservative volume forecasts
 - Allocated general and administrative costs are based on support services agreements developed by both homeports
 - Capturing impact of major investments
- **Bond Income exceeds minimum revenue required as calculated by the charter and each homeport bond documents**



2020 – 2024 CIP

- **This forecast includes significant investments**
 - Redevelopment of T5 in N. Harbor \$286M
 - T18 Full Dock Rehabilitation starting with \$18M in 2024 (Total of \$69 million with \$18M in the five-year horizon)
- **These investments impact the operating income through additional costs (depreciation, equipment maintenance, etc.) and where applicable, improve revenue**
- **Bond Income exceeds minimum revenue required as calculated by the charter and each homeport bond documents**



Five Year Capital Investment Plan

(\$ million)

	2019	2020 - 2024					
	Forecast	2020	2021	2022	2023	2024	Totals
Capitalized	\$118.6	\$124.8	\$104.3	\$71.5	\$38.7	\$29.0	\$368.2
Operating & Non Op. Expense	\$12.8	\$21.2	\$28.4	\$8.5	\$7.4	\$7.4	\$72.9
Grand Total	\$131.4	\$145.9	\$132.7	\$80.0	\$46.0	\$36.4	\$441.1

- **Capitalized**
 - Assets that depreciate over time
- **Operating expense**
 - Included in the operating budget
- **Projects need to be approved individually by the Managing Members or delegation via Master Policy**
 - Inclusion in the budget does not mean that the projects are authorized



2020 - 2024 Container Terminal Projects

(\$ million)

Project	Amount	Description
T5 Berth Modernization Construction	\$261.4	Develop N. Harbor strategic terminal required to achieve 3M TEU capacity & accommodate Ultra Large Container Ships (ULCSs)
T18 Dock Rehabilitation	18.0	Rehabilitate maritime asset for continued use
T30 Dock Rehabilitation	9.0	Rehabilitate maritime asset for continued use
T46 Dock Rehabilitation	8.4	Rehabilitate maritime asset for continued use
T18 Stormwater Utility Upgrade	8.0	
Husky Tenant Improvements	6.7	
Others	56.4	44 other projects
Total	\$367.9	



2020 - 2024 Non Container Terminal Projects

(\$ million)

Project	Amount	Description
EB1 Yard Reconfiguration	\$1.9	Support improved breakbulk operations by relocating gate and reconfiguring yard, including additional paving.
Others	\$1.8	7 projects
Total	\$3.8	



2020 - 2024 Other Projects *(\$ million)*

Project	Amount	Description
Contingency/Unallocated	\$28.0	Capital contingency at \$3M/year, expense at \$2M/year for emergent issues
NW Ports Clean Air Strategy	6.50	Reduce diesel particulate matter (DPM) by 80% by 2020 and Green House Gases (GHG) by 15% by 2020
T106 NH CBP Office & Facility Improvements	6.30	Estimated cost ranges from \$1M to \$6.3M
SH CBP Office Improvements	2.40	
NWSA Clean Truck Program	2.20	Est. cost ranges from \$1.8M to \$4.8M (domestic terminals). 2007 or newer trucks reduce DPM emissions by up to 85%
Others	\$24.0	35 projects
Total	\$69.4	



2020 Operating Budget Key Assumptions

- **Conservative Cargo forecast**
- **Lease revenue per contract**
- **Volume revenue per tariff and contracts**
- **TIGER grants and repair of T46**
- **Continuation of shared support services between the home ports and the NWSA**



2020 Preliminary Budget

(\$ millions)

	2018	2019	2019	2020
	Actual	Budget	Forecast	Budget
Property Rental	\$40.7	\$43.3	\$40.7	(\$6.1)
Sale of Utilities	1.0	1.0	1.1	1.2
Services Marine Terminals	124.2	127.2	131.0	129.3
Equipment Rentals	16.7	18.3	17.7	16.3
Other Revenue	10.0	9.8	9.5	9.1
Operating Revenue	192.6	199.4	199.9	149.9
Home Port Services Provided	20.4	23.6	22.8	25.6
Port Salaries & Benefits	10.2	10.0	9.6	10.3
Outside Services	5.2	7.2	8.0	10.9
Longshore Labor & Fringe	10.4	10.4	11.6	11.0
Direct Expenses	11.4	11.1	11.5	11.0
Marketing & Global Outreach	0.6	0.8	0.6	0.7
Travel & Hosting	0.5	0.7	0.5	0.7
Maintenance	15.7	25.3	19.1	20.3
Office Equipment & Supplies	0.3	0.4	0.3	0.3
Utilities	4.4	4.8	4.6	4.7
Other Employee Exp	0.2	0.1	0.1	0.1
Other Expenses	1.3	1.0	1.4	1.1
Environmental	2.3	3.7	2.2	2.3
Total Operating Expenses before Dep.	82.8	99.3	92.2	98.9
<i>Operating Income before Depr.</i>	<i>109.7</i>	<i>100.2</i>	<i>107.6</i>	<i>51.0</i>
Depreciation & Amortization	6.3	13.5	11.2	15.4
Total Operating Expenses	\$89.1	\$112.7	\$103.4	\$114.3
Operating Income	\$103.4	\$86.7	\$96.5	\$35.6
<i>Return on Revenue</i>	<i>53.7%</i>	<i>43.5%</i>	<i>48.3%</i>	<i>23.7%</i>
Non Operating Revenue and Expenses	8.5	1.1	3.7	47.4
Net Assets Before Special Items	112.0	87.8	100.2	83.0
Increase in Net Assets	\$112.0	\$87.8	\$100.2	\$83.0
Bond Income	\$115.5	\$102.1	\$109.9	\$102.5
Distributable Cash + Lease Interest C:	\$113.7	\$104.5	\$112.0	\$103.8

Impact of
GASB 87



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2020 Budget vs '19 Forecast

Revenue – Essentially flat excluding GASB 87 impact. T46 reduction of \$4M and TCT Reduction of \$4M offset by increases of \$3M at T18 and \$3M at Husky and Intermodal revenue

Expenses

Home Port Services –planned filling of vacant positions and technology projects including Cyber security that did not occur in 2019

Payroll – Flat to budget, increase to forecast due to filled staffing. 1 new position, NWSA Lawyer

Outside Services – \$3M increase at T46 for paving and \$2M at Husky for crane removal. Includes \$0.6M for strategic plan update and \$0.6M for technology

NWSA Payroll

	2018	2019 Budget	2019 Forecast	2020 Budget	Var from Forecast	% Var	Var from Prior Budget	% Var
Salary Wages	6,482,912	6,644,028	6,454,032	6,998,670	544,638	8%	354,642	5%
Hourly Wages	149,564	79,198	94,174	78,196	(15,978)	-20%	(1,001)	-1%
OT Wages	14,094		9,248	8,000	(1,248)	-16%	8,000	NA
Total Wages	6,646,571	6,723,226	6,557,454	7,084,867	527,413	7%	361,641	5%
F.I.C.A.	452,047	462,291	487,827	474,785	(13,042)	-3%	12,495	3%
S.U.I.	447	14,932	12,473	14,470	1,997	14%	(461)	-3%
Medical Benefits	1,445,415	1,590,760	1,434,054	1,475,451	41,397	3%	(115,309)	-7%
Employee Pension	816,241	856,303	832,727	901,247	68,520	8%	44,944	5%
Other Benefits	887,861	346,345	321,720	342,149	20,430	6%	(4,196)	-1%
Total Benefits	3,602,010	3,270,631	3,088,801	3,208,103	119,302	4%	(62,528)	-2%
<i>Benefits % of Total</i>	<i>54.2%</i>	<i>48.6%</i>	<i>47.1%</i>	<i>45.3%</i>				
Port Salaries & Benefits	10,248,581	9,993,857	9,646,255	10,292,969	646,714	6%	299,113	3%

- **\$149,123** for annual pay increases for salaried employees starting April.
- **\$17,544** for annual recognition paid to salaried employees in April.
- **\$17,544** for marketplace adjustment for salaried employees during the year.
- Hourly employees will receive a **3%** raise in April per contract.
- **Average Salary of \$123,115. Benefits of 45%**



Budget Non Operating

(\$ millions)

	2018	2019	2019	2020
	Actual	Budget	Forecast	Budget
Grant Income				
Capital Grant Income	3.6	3.8	4.3	2.9
Non-Capital Grant Income	0.3	0.5	0.1	2.4
Interest Income				
Lease Interest Income	0.0	0.0	0.0	47.5
Interest Income	1.4	1.7	1.8	1.8
Premium Discount	(0.2)	(0.2)	(0.2)	(0.1)
Non Operating Income				
Purchase Discounts Taken	0.0	0.0	0.0	0.0
Misc Non Op Inc	4.2	0.0	0.1	0.0
Investment Gain Loss				
	0.0	0.0	0.4	0.0
Non Operating Revenue	9.4	5.8	6.5	54.4
Other Non Operating Expense				
Lease Interest Expense	0.0	0.0	0.0	0.3
Bank Service Fee	0.0	0.0	0.0	0.0
Public Expense/LEDIF	0.0	4.4	2.4	5.9
Misc Non Op Exp	0.8	0.2	0.4	0.8
Non Operating Expense	\$0.8	\$4.6	\$2.8	\$7.1
Non Operating Revenue and Expenses	\$8.5	\$1.1	\$3.7	\$47.4

GASB 87

T5
public
expense



Discretionary Capital Projects in Budget

- **There are 40 capitalized projects in the budget. Staff considers “required” projects to be those (1) required by a contract (2) required by law or order and (3) required to maintain an existing facility in usable condition.**
- **Budgeted items with spending in 2020 that could be removed to reduce the amount of cash provided by the homeports to the NWSA:**
 - WUT Fender replacement \$3.8M in 2020, \$3.8M total
 - EB1 Yard reconfiguration \$1.9M in 2020, \$1.9 M total
 - T46 central lighting control \$1.5M in 2020, \$1.5M total
 - T46 N. substation #1 replacement \$1.2M in 2020, \$1.2M total
 - Husky Shore Power \$1.2M in 2020, \$5.4M total
 - 10 other projects under \$1M each totaling \$4.2M



Discretionary Expenses in Budget

- **There are hundreds of line items in the budget. There are some large dollar items that were included. Other opportunities already reduced include travel expenses, subscriptions to data services, IT support and development**
- **Budgeted items that could be removed to improve financials**
 - Unanticipated expense reserve \$1,000,000 (down from \$3M)
 - Rail Incentive expense \$900,000
 - Gateway Strategic Plan \$500,000
 - T46 bulkhead repair \$500,000 (Moved \$1.5M to 2021)
 - Breakbulk billing system replacement \$400,000
 - Clean truck program \$190,000 (down from \$290,000)
 - Auto terminal grant sealing (\$200,000) and Husky paving (\$100,000)
 - Auto incentive increase \$150,000
 - NWSA website upgrades \$140,000
 - WUT fender maintenance \$100,000



Discretionary Expenses in Budget (continued)

- **Budgeted items that could be removed to improve financial performance**
 - Clean Air Program (reduced from \$879,000 to \$500,000)
 - Clean Truck Program (reduced from \$290,000 to \$190,000)
 - NIM Rail Technology optimization moved \$150,000 to 2021



Discretionary Items Not in Budget

- **Budgeted items that were removed, excluded or delayed to improve financial performance or that are not recommended at this time**
 - Removal of IHI crane at T7 for \$1M – removed
 - Removal of 2 crane at Husky – \$2M moved to 2021
 - Husky agreed to allow 2 cranes to remain beyond lease terms
 - 2 Crane are in budget to be removed in 2020 per Lease agreement
 - Log Dock assessment and repairs \$1M
 - Port community system \$1.5 M in 2020, \$3M overall
 - Removed Climate Smart program of \$0.4M
 - East Sitcum Pile Cap Repairs for \$28M



T5 Permit Conditions opportunity

- **Opportunity to move approximately \$3.5M payment to Seattle City Light for the T5 electrical substation from 2020 to 2019**
 - Reduce 2019 forecasted Net Income by \$3.5M to \$96.1M from \$99.6M
 - Increase 2020 Budgeted Net Income by \$3.5M to \$86.5M from \$83.0M
 - Does not change the overall cost of the T5 project
 - Staff recommends pursuing this opportunity



MEMBERSHIPS

MM approval of NWSA Memberships over \$10,000 required per NWSA Master Policy

Organization	2019 Dues	2020 Dues
American Association of Port Authorities	\$50,000	\$55,000
Pacific Northwest Waterways Association	28,000	30,000
WA Council on International Trade	20,000	20,000
Green Marine	11,000	11,000
All Other Memberships under \$10,000	44,000	61,796
Total NWSA Memberships	\$153,000	\$177,796

Actual amounts paid may vary slightly as some dues are calculated based on fiscal year financial results.

Updated 10/10/2019

NWSA Service Level Agreements

- **For 2020, both home ports will continue to provide some level of services to the NWSA**
 - POT Adjustments:
 - Government Affairs increasing from 28% to 36% (total \$'s decrease but allocation percentage increased)
 - Commercial Real estate increased from 15% to 16%
 - POS corporate allocation increased from 3.2% to 3.6%
 - Driven by Police and environmental departments
 - standard corporate allocation decreased from 2.5% for 2019 to 2.3% for 2020
 - NWSA to POT adjustments:
 - Executive decreased from 20% to 16% with POT ED and NWSA Legal staff
 - Planning/environmental increased from 25% to 33% charge to POT



NWSA Service Level Agreements

- **Service level agreements are reviewed annually during the budget process and are in effect for one year.**
- **The NWSA Master Policy delegates approval of service level agreements to the NWSA CEO**



Direct Charges and Allocations

(\$ Millions)

	2018 Actual	2019 Budget	2019 Forecast	2020 Budget
Port of Tacoma to NWSA	\$28.3	\$35.0	\$32.4	\$34.2
Port of Seattle to NWSA	\$8.5	\$8.4	\$8.5	\$9.3
NWSA to Port of Tacoma	\$1.2	\$1.4	\$1.2	\$1.3



NWSA 2020 Budget and Four Year Forecast

<i>\$ millions</i>	2019	2020	2021	2022	2023	2024
Operating Revenue	\$199.9	\$149.9	\$159.2	\$168.0	\$176.4	\$192.7
Total Operating Expenses before Dep.	92.2	98.9	109.2	97.3	99.8	101.9
Depreciation & Amortization	11.2	15.4	21.1	22.8	22.3	27.8
Total Operating Expenses	103.4	114.3	130.3	120.1	122.2	129.6
Operating Income	96.5	35.6	28.9	47.8	54.3	63.1
Grant Income	4.4	5.3	1.6	0.5	0.0	0.0
Lease Interest Income	0.0	47.5	45.4	43.1	40.7	38.2
Other Non Operating Net Income	(0.7)	(5.4)	(5.1)	0.2	1.5	1.5
Non Operating Income	3.7	47.4	41.9	43.8	42.2	39.7
Net Distributable Revenue	\$100.2	\$83.0	\$70.8	\$91.7	\$96.5	\$102.8
Distributable Cash + Lease Interest Cash	\$112.0	\$103.8	\$97.0	\$114.2	\$117.3	\$129.1
Bond Income	\$109.9	\$102.5	\$97.0	\$115.4	\$119.0	\$130.7



GASB 87

- **Amendment 2 of the charter updated the definition of Distributable cash but we did not know the impact of GASB 87 at that time**
 - Expected the lease interest to be included in operating cash
- **Based on the new accounting standard, staff will request Managing Member approval to distribute the Lease interest cash on a monthly basis.**
- **Changes will be made to definition of distributable cash the next time the Charter is updated**



Budget Messages

- **2019 Net Distributable Revenue is projected to be \$95.9 million, \$9.4 million above budget level of \$86.5 million**
- **2020 and 2021 are years impacted with investments in infrastructure to support future growth**
- **All years are projected to achieve required bond income**
- **All years except 2021 are projected to provide over \$100M in cash to be split by the two homeports**

