



***2017 Forecast Update  
&  
2018 – 2022 Budget  
Study Session***

***Commission Meeting  
November 2, 2017***



# Agenda



2018 Budget Schedule

2017 Key Messages & Forecast Update

2018 Key Messages

2018 - 2022 Budget

- Capital Improvement Plan
- Tax Levy
- Operating Budget
- Plan of Finance
- Financial Measures

# Budget Schedule



## November 2

### **Study Session to review the proposed:**

- 2017 Forecast Update Summary
- 2018 – 2022 Capital Improvement Plan
- 2018 Tax Levy
- 2018 Operating Budget
- 2018 Statutory Operating Budget
- 2018-2022 Plan of Finance

## November 14

- Public Hearing
- Adopt 2018 Statutory Operating Budget & 2018 Tax Levy
  - Includes Joint Venture revenue from the NWSA operating budget
- Approve Inter Local Agreements between the Port and NWSA

# 2017 P&L Forecast

(\$ millions)



|                                   | 2016<br>Actual | 2017<br>Budget | 2017<br>Forecast | Better<br>/ (Worse) |
|-----------------------------------|----------------|----------------|------------------|---------------------|
| Port Revenue                      | \$ 22.0        | \$ 21.7        | \$ 21.3          | \$ (0.4)            |
| Significant 1-Time Revenue        | 1.5            | \$ -           | \$ -             | \$ -                |
| <u>Joint Venture Revenue</u>      | <u>61.6</u>    | <u>46.7</u>    | <u>51.3</u>      | <u>4.6</u>          |
| Total Revenue                     | 85.1           | 68.4           | 72.6             | 4.2                 |
| <u>Total Operating Expenses</u>   | <u>43.0</u>    | <u>48.0</u>    | <u>44.8</u>      | <u>3.2</u>          |
| Income from Operations            | 42.2           | 20.4           | 27.8             | 7.4                 |
| <i>Return on Revenue</i>          | 49.6%          | 29.8%          | 38.3%            | 8.5%                |
| Other Income (Exp)                | (15.9)         | (18.2)         | (14.7)           | 3.5                 |
| <i>Net Income before Tax Levy</i> | 26.3           | 2.2            | 13.1             | 10.9                |
| Tax Levy                          | 15.0           | 16.6           | 16.6             | -                   |
| G.O. Interest                     | <u>(7.2)</u>   | <u>(5.4)</u>   | <u>(5.2)</u>     | <u>0.2</u>          |
| Net Income                        | \$ 34.1        | \$ 13.4        | \$ 24.5          | \$ 11.1             |
| Debt Service Coverage Ratio       | 2.7            | 2.2            | 2.2              | 0.0                 |
| Return on Assets                  | 2.5%           | 1.0%           | 1.7%             | 0.7%                |

## 2017 FCST to Budget

### Increased Revenue -

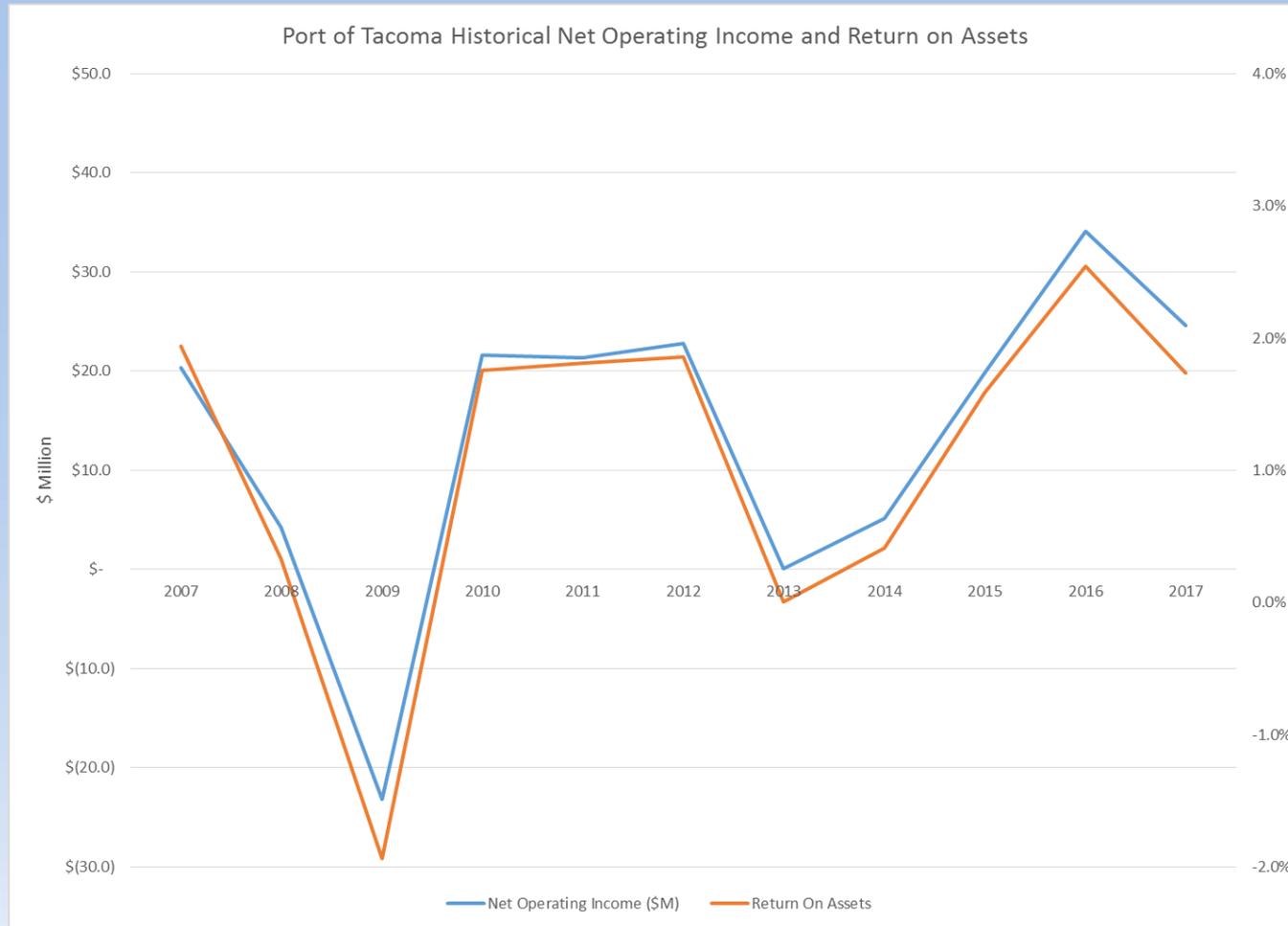
- POT: lower security income and timing of new leases
- NWSA

### Decreased Expenses –

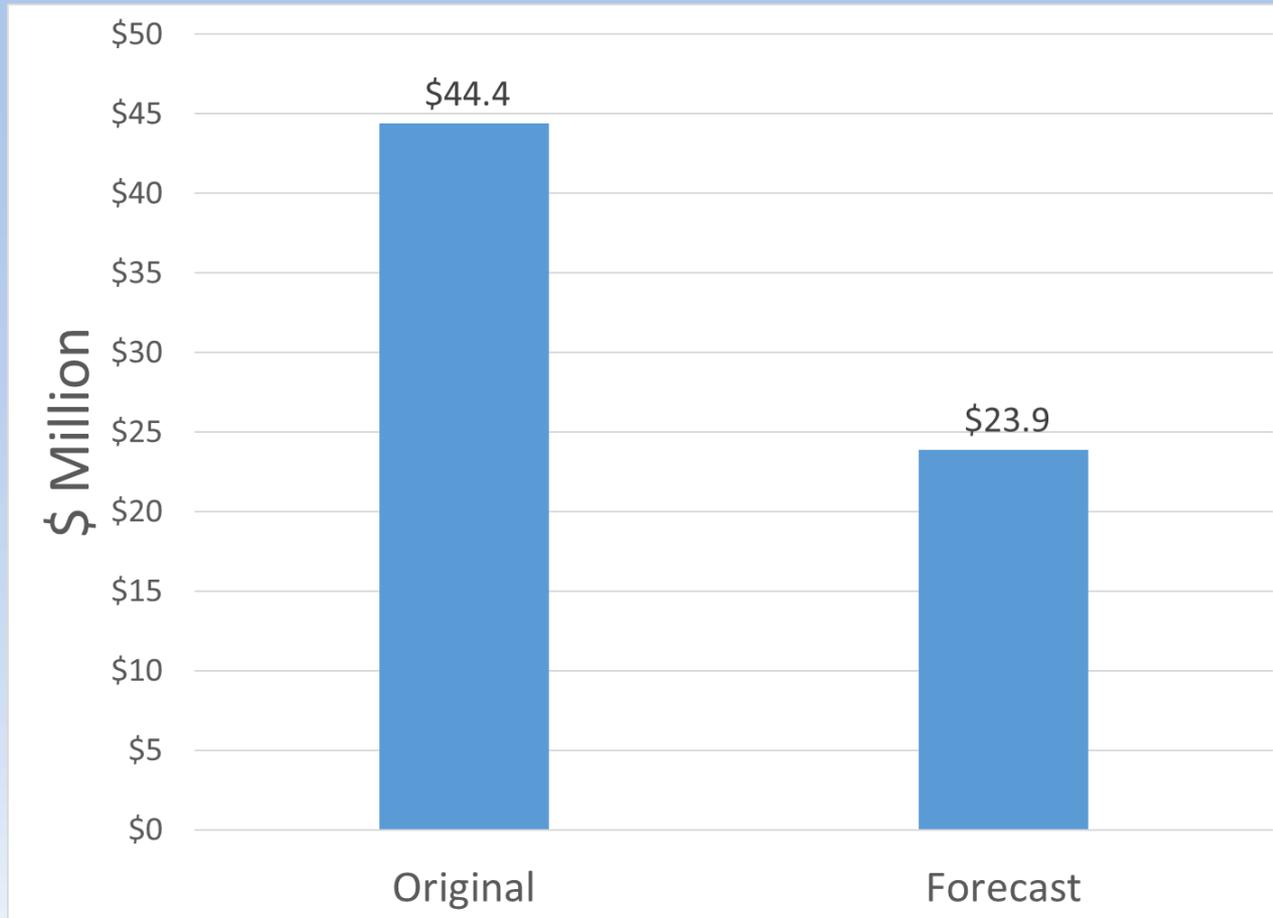
- Staffing expenses due to hiring delays
- Delays in technology projects
- Maintenance costs higher due to terminal repairs offset by cost effective solutions to other maintenance issues
- Increased investment earnings offset by grant deferrals

2017 forecasted results subject to change

# Historical Net Operating Income and Return on Assets



# 2017 Capitalized Project Spending



# 2017 Capitalized Spending Forecast

(\$ millions)



| Type              | 2017 Forecast | Major Projects                                                                             |
|-------------------|---------------|--------------------------------------------------------------------------------------------|
| Building and Land | \$11.4        | Land acquisitions and building demolitions                                                 |
| Environmental     | \$2.0         | Upper Clear Creek, Arkema Mound, Marine View Drive demolitions and Parcel 99 investigation |
| Rail              | \$6.3         | North Lead design & construction and rail track switch replacement                         |
| Other             | \$4.2         |                                                                                            |
| <b>Total</b>      | <b>\$23.9</b> |                                                                                            |

Note: May not foot due to rounding

# Cargo Forecast



- The cargo forecast for containers, autos, breakbulk, and the majority of intermodal volumes was presented as part of The Northwest Seaport Alliance budget presentation
- The Port of Tacoma revenue is now mainly fixed through real estate leases. Variable revenue for Port of Tacoma includes:
  - Tariff at the Gypsum dock
  - Industrial intermodal volume (non-container)
  - Auto short-term storage revenue on Port property not licensed to the NWSA

# **Capital Improvement Plan (CIP) Review**

# Five Year Planned CIP 2018 - 2022 (Total View)



| \$ Million                    | 2017          |               | 2018 - 2022   |               |               |               |                |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
|                               | Forecast      | 2018          | 2019          | 2020          | 2021          | 2022          | Totals         |
| <b>POT Only</b>               |               |               |               |               |               |               |                |
| Capitalized                   | \$23.9        | \$35.3        | \$9.9         | \$11.3        | \$38.3        | \$5.8         | \$100.6        |
| Operating Expense             | \$5.7         | 6.1           | 6.0           | 14.0          | 8.0           | 16.2          | 50.3           |
| Non-Operating Expense         | \$0.8         | 3.5           | 2.9           | 2.8           | 3.1           | 0.7           | 13.0           |
| <b>Grand Total - POT only</b> | <b>\$30.4</b> | <b>\$44.9</b> | <b>\$18.8</b> | <b>\$28.1</b> | <b>\$49.4</b> | <b>\$22.7</b> | <b>\$163.9</b> |

| \$ Million                          | 2017          |                | 2018 - 2022    |               |               |               |                |
|-------------------------------------|---------------|----------------|----------------|---------------|---------------|---------------|----------------|
|                                     | Forecast      | 2018           | 2019           | 2020          | 2021          | 2022          | Totals         |
| <b>POT + 50% NWSA</b>               |               |                |                |               |               |               |                |
| Capitalized                         | \$67.7        | \$111.5        | \$83.9         | \$66.1        | \$81.7        | \$7.4         | \$350.5        |
| Operating Expense                   | \$10.0        | \$12.1         | \$17.5         | \$23.0        | \$13.5        | \$19.4        | \$85.3         |
| Non-Operating Expense               | \$0.8         | \$3.5          | \$2.9          | \$2.8         | \$3.1         | \$0.7         | \$13.0         |
| <b>Grand Total - POT = 50% NWSA</b> | <b>\$78.5</b> | <b>\$127.1</b> | <b>\$104.2</b> | <b>\$91.9</b> | <b>\$98.2</b> | <b>\$27.5</b> | <b>\$448.8</b> |

Note: May not foot due to rounding

## Capitalized:

- Assets that depreciate over time
- Non-depreciating land purchases

## Operating/Non-operating expense

- Included in the budget as spending

# 2018 POT CIP Spending

(Does not include NWSA CIP)

(\$ millions)



| Type              | 2018 Budget   | Major Projects                                                                                        |
|-------------------|---------------|-------------------------------------------------------------------------------------------------------|
| Land              | \$17.4        | Potential land acquisition, Thorne Rd stormwater improvement, Arkema manufacturing area investigation |
| Rail              | \$7.3         | Rail track, rail equipment and switch replacements                                                    |
| Technology        | \$2.5         | Servers and security costs                                                                            |
| Environmental     | \$4.8         | Parcels 2 & 15 remediation; environmental sustainability initiatives and monitorings                  |
| Road Contribution | \$2.8         | Puyallup River Bridge, SR 99 turn lane contributions and roadway infrastructure funding placeholder   |
| Others            | \$10.1        |                                                                                                       |
| <b>Total</b>      | <b>\$44.9</b> |                                                                                                       |

Note: May not foot due to rounding

# 2018 - 2022 POT CIP

(Does not include NWSA CIP) (\$ millions)



| Type                   | 2018 - 2022 Budget | Major Projects                                                                                                             |
|------------------------|--------------------|----------------------------------------------------------------------------------------------------------------------------|
| Land                   | \$29.6             | Potential land acquisition. Arkema manufacturing area investigation & interim action                                       |
| Terminal Development   | \$28.0             | Widening of the Blair Waterway                                                                                             |
| Rail                   | \$19.3             | Rail track, rail equipment and switch replacements                                                                         |
| Technology             | \$4.9              | Servers and security costs                                                                                                 |
| Environmental          | \$19.3             | Parcels 2 & 15 remediation; environmental sustainability initiatives and monitorings                                       |
| Road Contribution      | \$10.8             | Taylor Way heavy haul, Puyallup River Bridge, SR 99 turn lane contributions and roadway infrastructure funding placeholder |
| Unanticipated Projects | \$21.5             | \$14M capitalized projects and \$7.5M operating expenses                                                                   |
| Others                 | \$30.5             |                                                                                                                            |
| <b>Total</b>           | <b>\$163.9</b>     |                                                                                                                            |

# SR 167 Investment



## Port contribution to SR 167

- Local funding cash payment expected to start 2023 and complete by 2029
- Timing of Port contribution of 11+ acres with an estimated value of \$3.5 to \$4 million is unknown
- Fill and associated grading for ramp of \$3 to \$4 million
  - Subject to construction of Parcel 14 mitigation site

# **2017 Proposed Tax Levy for 2018 Collection**

# Tax Levy Usage



State law allows tax levy dollars to be used for paying general obligation debt and for “...general port services.”

Port of Tacoma policy is to use remaining tax levy after paying annual GO bond debt service for “governmental” purposes.

- Debt retirement
- Road and rail infrastructure
- Environmental projects
- Land Purchases

# 2018 Tax Levy



|                                             | <b>2017 Forecast</b> | <b>2018 Budget</b> |
|---------------------------------------------|----------------------|--------------------|
| Assessed Valuation*                         | \$90,713,390,689     | \$101,406,430,390  |
| Target Millage Rate (per \$1,000 valuation) | \$0.18365            | \$0.18365          |
| Total Port Tax Levy **                      | \$16,659,514         | \$18,623,291       |
| Debt Service on G.O. Bonds ***              | \$11,849,566         | \$9,711,419        |
| Remainder for Governmental Projects         | \$4,809,948          | \$8,911,872        |

\* 2018 Preliminary assess valuations as of September 2017

\*\* Based on 2018 preliminary valuations and targeted millage rate

\*\*\* Post September 2017 refundings.

# Port Millage Rate for Single Family Residences



| Tax Collection Year             | 2016       | 2017       | 2018       |
|---------------------------------|------------|------------|------------|
| Avg. Assessed Value             | \$ 232,666 | \$ 260,538 | \$ 291,848 |
| Port Millage Rate (per \$1,000) | 0.18365    | 0.18365    | 0.18365    |
| Annual Tax Levy                 | \$ 42.73   | \$ 47.85   | \$ 53.60   |
| Monthly Tax Levy                | \$ 3.56    | \$ 3.99    | \$ 4.47    |
|                                 |            |            |            |
| Tax Levy if at Maximum Rate     | \$ 68.04   | \$ 68.54   | \$ 71.77   |
| Monthly Tax Levy at Max Rate    | \$ 5.67    | \$ 5.71    | \$ 5.98    |

# Tax Levy Eligible Projects

*(\$ millions)*



| <b>Description</b>                                   | <b>2018 Budget</b> |
|------------------------------------------------------|--------------------|
| Potential Land Acquisitions                          | \$10.4             |
| Rail Equipment & Existing Infrastructure Replacement | \$7.2              |
| Stormwater Improvements                              | \$6.5              |
| Environmental Monitoring & Remediation               | \$3.2              |
| Environmental – Clean Truck Program                  | \$1.1              |
| Roadway Infrastructure                               | \$2.0              |
| All Other                                            | \$11.0             |
| <b>Total Government Projects</b>                     | <b>\$41.4</b>      |

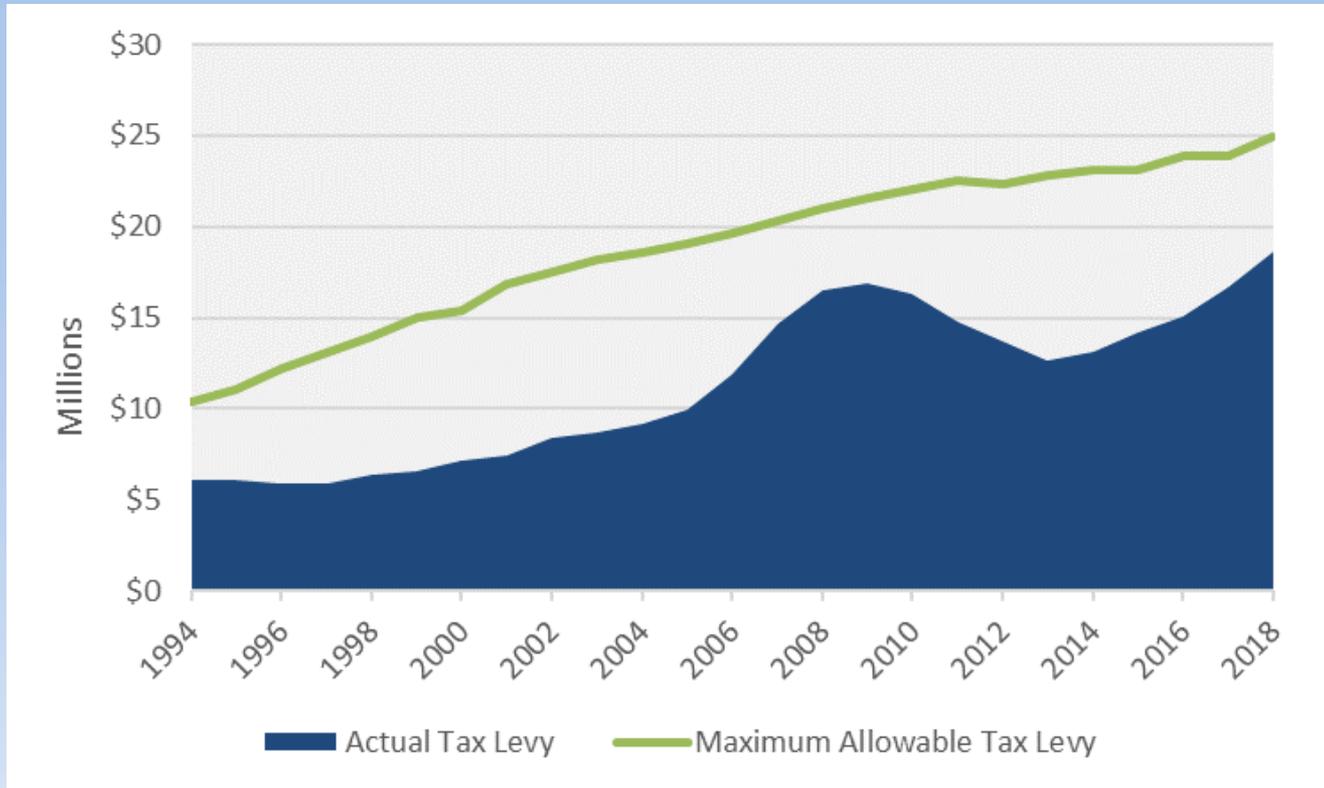
# Tax Levy



## 2018 Recommendation

- Budget \$18.6 Million for 2018
  - Covers 100% of GO bond interest payment (\$6.1M)
  - Covers 100% of GO Bond principal payment (\$3.5M of total principal payment)
  - \$8.9 for Governmental projects
  - Maintains millage rate consistent with 2017 rate at \$0.18365 per thousand dollars of valuation

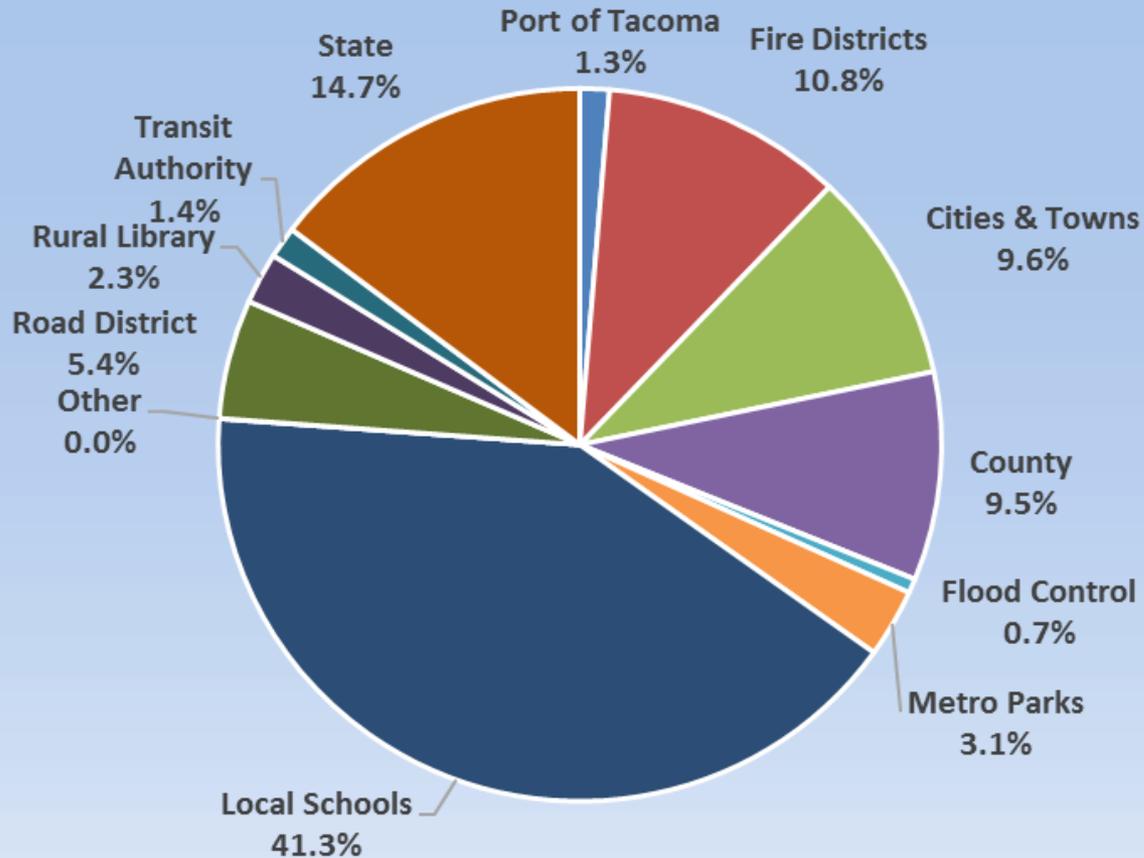
# Tax Levy history



\* 2018 Preliminary assess valuations as of September 2017

\*\* Based on 2018 preliminary valuations and targeted millage rate

# 2016 Tax Levies by Taxing District



Source: Pierce County Assessor

# 2018 Operational Budget

# 2018 Key Assumptions



- Revenues are based on NWSA, POT real estate and other POT businesses.
  - Split NWSA Distributable Income (Net Income) 50/50 = \$45.7 million for the Port of Tacoma
  - Real Estate and Bulk based on existing leases and cargo forecast
  - Intermodal revenue based on industrial rail traffic
- New Real Estate Revenue
  - New revenue from potential land purchases included in the budget
- 2018 environmental expenses include \$2.0 million recognition of future liabilities

# NWSA

Based on feedback from the Managing Members during the October 24<sup>th</sup> meeting, Staff is revising the proposed NWSA budget to decrease expenses.

The NWSA budget presented here is identical to the numbers shown on October 24<sup>th</sup>.

Staff will identify changes to the NWSA when we return on November 14<sup>th</sup>.

# 2017 Budget vs 2018 Budget

(\$ millions)



|                                   | 2017<br>Budget | 2018<br>Budget | Better<br>/ (Worse) |
|-----------------------------------|----------------|----------------|---------------------|
| Port Revenue                      | \$ 21.7        | \$ 23.6        | \$ 1.9              |
| <u>Joint Venture Revenue</u>      | <u>46.7</u>    | <u>45.7</u>    | <u>(1.0)</u>        |
| Total Revenue                     | \$ 68.4        | \$ 69.3        | \$ 0.9              |
| <u>Total Operating Expenses</u>   | <u>48.1</u>    | <u>47.5</u>    | <u>0.6</u>          |
| Income from Operations            | 20.4           | 21.8           | 1.4                 |
| <i>Return on Revenue</i>          | 29.8%          | 31.5%          | 1.6%                |
| Other Income (Exp)                | (18.2)         | (21.2)         | (3.0)               |
| <i>Net Income before Tax Levy</i> | 2.2            | 0.6            | (1.6)               |
| Tax Levy                          | 16.6           | 18.6           | 2.0                 |
| G.O. Interest                     | <u>(5.4)</u>   | <u>(4.9)</u>   | 0.5                 |
| Net Income                        | \$ 13.4        | \$ 14.3        | \$ 0.9              |
| Debt Service Coverage Ratio       | 2.2            | 2.2            | 0.1                 |
| Return on Assets                  | 1.0%           | 1.1%           | 0.1%                |

# 2017 Forecast vs 2018 Budget

(\$ millions)



|                                   | 2017<br>Forecast | 2018<br>Budget | Better<br>/ (Worse) |
|-----------------------------------|------------------|----------------|---------------------|
| Port Revenue                      | \$ 21.3          | \$ 23.6        | \$ 2.3              |
| <u>Joint Venture Revenue</u>      | <u>51.3</u>      | <u>45.7</u>    | <u>(5.6)</u>        |
| Total Revenue                     | \$ 72.6          | \$ 69.3        | \$ (3.3)            |
| <u>Total Operating Expenses</u>   | <u>44.8</u>      | <u>47.5</u>    | <u>(2.7)</u>        |
| Income from Operations            | 27.8             | 21.8           | (6.0)               |
| <i>Return on Revenue</i>          | 38.3%            | 31.5%          | (6.8%)              |
| Other Income (Exp)                | (14.7)           | (21.2)         | (6.5)               |
| <i>Net Income before Tax Levy</i> | 13.1             | 0.6            | (12.5)              |
| Tax Levy                          | 16.6             | 18.6           | 2.0                 |
| G.O. Interest                     | <u>(5.2)</u>     | <u>(4.9)</u>   | 0.3                 |
| Net Income                        | \$ 24.6          | \$ 14.3        | \$ (10.3)           |
| Special Items                     | <u>0.0</u>       | <u>0.0</u>     |                     |
| Increase (decrease) in Net Assets | \$ 24.6          | \$ 14.3        | -42%                |
| Debt Service Coverage Ratio       | 2.2              | 2.2            | 0.0                 |
| Return on Assets                  | 1.7%             | 1.1%           | (0.6%)              |

# 2017 vs 2018 Expenses Comparison



(\$ millions)

|                                                    | 2017<br>Budget | 2018<br>Budget | Better<br>/ (Worse) |
|----------------------------------------------------|----------------|----------------|---------------------|
| Port Labor and Fringes                             | \$33.6         | \$36.2         | \$2.6               |
| Maintenance & Repair                               | 8.2            | 8.2            | (0.0)               |
| Direct Expenses (Revenue Expenses)                 | 1.6            | 1.8            | 0.2                 |
| Outside Services                                   | 7.4            | 7.4            | 0.0                 |
| Environmental Compliance                           | 4.9            | 5.3            | 0.4                 |
| Utilities                                          | 1.6            | 1.7            | 0.1                 |
| Staff Expenses                                     | 1.4            | 1.5            | 0.2                 |
| Marketing & Global Outreach                        | 0.9            | 1.2            | 0.3                 |
| Internal Allocations                               | (40.6)         | (43.3)         | (2.7)               |
| <b>Total Operating Expense before Depreciation</b> | <b>19.0</b>    | <b>20.0</b>    | <b>1.0</b>          |
| Depreciation                                       | 29.0           | 27.4           | (1.6)               |
| <b>Total Operating Expense</b>                     | <b>\$48.0</b>  | <b>\$47.5</b>  | <b>(\$0.5)</b>      |

May not foot due to rounding

# 2017 vs 2018 Expense Comparison Salaries & Benefits



| Total Port                               | Budget 2017       | Budget 2018       | Increase/<br>(Decrease) | Budget<br>vs<br>Budget |
|------------------------------------------|-------------------|-------------------|-------------------------|------------------------|
| <b>Total Wages</b>                       | <b>22,856,112</b> | <b>24,130,165</b> | 1,274,053               | 6%                     |
| <b>Total Benefits</b>                    | <b>10,670,598</b> | <b>12,056,913</b> | 1,386,315               | 13%                    |
| %                                        | 46.7%             | 50.0%             |                         |                        |
| <b>Total Wages &amp; Benefits</b>        | <b>33,526,710</b> | <b>36,187,077</b> | <b>2,660,368</b>        | <b>8%</b>              |
| Existing Employees budgeted 3% Increase  |                   |                   | 446,000                 |                        |
| New Employee Wages                       |                   |                   | 827,000                 |                        |
| Total Budget to Budget Wages Increase    |                   |                   | <b>1,274,000</b>        |                        |
| Increases to Existing Employees Benefits |                   |                   | 972,000                 |                        |
| New Employee Benefit Increase            |                   |                   | 414,000                 |                        |
| Total Budget to Budget Benefit Increases |                   |                   | <b>1,386,000</b>        |                        |

# Non Operating

(\$ millions)



| \$ Million             | 2017<br>Budget | 2018<br>Budget | Better<br>/ (Worse) |
|------------------------|----------------|----------------|---------------------|
| Net Interest Income    | \$2.6          | \$3.5          | \$0.9               |
| Investment Gain/(Loss) | 0.0            | 0.0            | 0.0                 |
| Other Non-Op Income    | 0.2            | (3.9)          | (4.1)               |
| Grants                 | 2.3            | 1.8            | (0.6)               |
| Non Operating Revenue  | \$5.1          | \$1.3          | (\$3.8)             |
|                        |                |                |                     |
| Revenue Bond Expense   | 18.8           | 19.1           | (0.3)               |
| Election Expenses      | 0.8            | 0.0            | 0.8                 |
| Other Non Operating    | 3.8            | 3.5            | 0.3                 |
| Non Operating Expense  | \$23.4         | \$22.6         | \$0.8               |
|                        |                |                |                     |
| Net Non Operating      | (\$18.2)       | (\$21.2)       | (\$3.0)             |

May not foot due to rounding

# 2018 Memberships over \$10k



| <b>POT Memberships over \$10,000</b> | <b>2017</b>       | <b>2018</b>       |
|--------------------------------------|-------------------|-------------------|
| WA Public Ports Assoc. (WPPA)        | \$ 210,000        | \$ 210,000        |
| Puget Sound Regional Council         | 44,000            | 44,000            |
| Tacoma/Pierce Co Chamber             | 25,000            | 25,000            |
| Executive Council for Greater Tacoma | 14,000            | 14,000            |
| <b>Total</b>                         | <b>\$ 293,000</b> | <b>\$ 293,000</b> |

- Other Port memberships all less than \$10,000 per year.
- Membership costs subject to small variations based on fees tied to 2017 actual results

# 2018 Major Community Contracts



|                            | 2017       | 2018       |
|----------------------------|------------|------------|
| World Trade Center         | \$ 120,000 | \$ 120,000 |
| Economic Development Board | 120,000    | 120,000    |
| Total                      | \$ 240,000 | \$ 240,000 |

# 2018 Promotional Hosting



RCW 53.36.120 & 130 requires that Port expenditures for Industrial Development, Trade Promotion, and Promotional hosting be specific budgeted items

The 2018 statutory budget includes \$152,000 for promotional hosting

- Includes POT's 50% portion of NWSA hosting
- 2018 Statutory limit based on Port revenue is \$336,131

# 2018 Statutory Cash Budget



| <i>(\$ Million)</i>                                       | <b>2018</b>               |
|-----------------------------------------------------------|---------------------------|
| <b>Beginning Cash &amp; Investments</b>                   | <u>\$208.5</u>            |
| <br><b><u>Projected Sources of Funds</u></b>              |                           |
| <b>Revenues</b>                                           | 69.3                      |
| Expenses                                                  | (19.5)                    |
| Memberships                                               | (0.3)                     |
| Promotional hosting POT                                   | (0.1)                     |
| Promotional hosting NWSA (POT share)                      | (0.1)                     |
| <b>Funds Provided by Operations</b>                       | <u>49.3</u>               |
| <br>Interest Income                                       | <br>3.5                   |
| NWSA Depreciation cash                                    | 3.7                       |
| Other, Net                                                | (1.8)                     |
| Ad valorem tax revenue (net)                              | 18.6                      |
| <b>Projected Sources of Funds</b>                         | <u>73.3</u>               |
| <br><b><u>Projected Uses of Funds</u></b>                 |                           |
| Investment in Northwest Seaport Alliance                  | 76.2                      |
| Debt Payments (Principal and Interest) - GO Bonds         | 9.7                       |
| Debt Payments (Principal and Interest) - Revenue Bonds    | 29.7                      |
| Debt Payments (Principal and Interest) - General Fund     | -                         |
| Debt Payments (Principal and Interest) - Commercial Paper | 0.3                       |
| Additional Retirement of G.O. Bonds                       | -                         |
| Additional Retirement of Revenue Bonds                    | -                         |
| Capital Spending - Planned Projects                       | 34.1                      |
| <b>Projected Uses of Funds</b>                            | <u>149.9</u>              |
| <br><b><u>Projected Borrowing</u></b>                     |                           |
| Commercial Paper Borrowing                                | 0.0                       |
| <b>Total Borrowing</b>                                    | <u>0.0</u>                |
| <br><b>Projected Ending Cash &amp; Investments</b>        | <br><u><u>\$131.8</u></u> |

# **2018 -2022 Plan of Finance**

# 2018-2022

# Plan of Finance Assumptions



## Revenues

- Includes POT portion of NWSA operating income
- Based on business forecast & existing leases

## Expenses

- Mild inflation 2.5%
- Real Estate and operating expenses, mainly fixed costs

## Non-Operating

- Revenue and GO Bond interest expense
- Investment income
- Road contributions
- Demolition of buildings and asset disposal
- Election expenses (odd numbered years)

# 2018-2022

## Plan of Finance Assumptions



Capital totaling \$350.5 million

- Includes POT portion of NWSA CIP
  - Capitalized projects of \$250 million (50% of NWSA capitalized projects totaling \$500 million)
- Includes POT specific Capitalized projects of \$100 million

Debt Management

- All publicly traded bonds have been refunded
- Normally scheduled GO and Revenue Bond debt payments
- Utilize \$60.4 million of Commercial Paper for required borrowing in 2020 and 2021
- Retire \$20 million of Commercial Paper in 2022

# 2017-2022 Budget Forecast - Plan of Finance



(\$ millions)

|                                    | 2017    | 2018    | 2019    | 2020    | 2021    | 2022    |
|------------------------------------|---------|---------|---------|---------|---------|---------|
| Port Revenue                       | \$ 21.7 | \$ 27.4 | \$ 31.1 | \$ 28.4 | \$ 27.2 | \$ 27.6 |
| Joint Venture Revenue              | 50.9    | 41.9    | 38.0    | 40.7    | 45.6    | 46.2    |
| Total Revenue                      | 72.6    | 69.3    | 69.1    | 69.1    | 72.8    | 73.8    |
| Operating Expenses                 | 44.3    | 47.5    | 46.3    | 53.6    | 46.8    | 52.5    |
| Income from Operations             | 28.28   | 21.86   | 22.79   | 15.49   | 26.00   | 21.28   |
| <i>Return on Revenue</i>           | 39.0%   | 31.5%   | 33.0%   | 22.4%   | 35.7%   | 28.8%   |
| Non-Operating (expense), Net       | (15.1)  | (21.2)  | (23.1)  | (19.7)  | (19.8)  | (16.2)  |
| <b>Net Income, Before Tax Levy</b> | 13.2    | 0.6     | (0.3)   | (4.2)   | 6.2     | 5.1     |
| Tax Levy (@ constant millage)      | 16.6    | 18.6    | 18.9    | 19.2    | 19.7    | 20.2    |
| G.O. Interest                      | (5.2)   | (4.9)   | (4.8)   | (4.7)   | (4.5)   | (5.7)   |
| <b>Net Income</b>                  | \$ 24.6 | \$ 14.3 | \$ 13.8 | \$ 10.3 | \$ 21.4 | \$ 19.5 |
| Debt Service Coverage              | 2.2     | 2.2     | 2.3     | 2.1     | 2.4     | 2.1     |
| Return on Assets                   | 1.7%    | 1.1%    | 1.1%    | 0.8%    | 1.5%    | 1.4%    |

## Percentage of 2018 Revenue:

- NWSA 64%
- Real Estate 30%
- Other 6%

# 2018 Minimum Cash Calculation



|                                | <i>(\$ millions)</i> |
|--------------------------------|----------------------|
| 6-months operating expenses    | \$10.0               |
| Prorated Revenue bond payments | 2.5                  |
| Prorated G.O. bond payments    | 0.8                  |
| Required Reserves              | <u>48.8</u>          |
| Required Minimum Cash          | <u>\$62.1</u>        |

Does not include \$25.5 million in working capital contribution to the NWSA

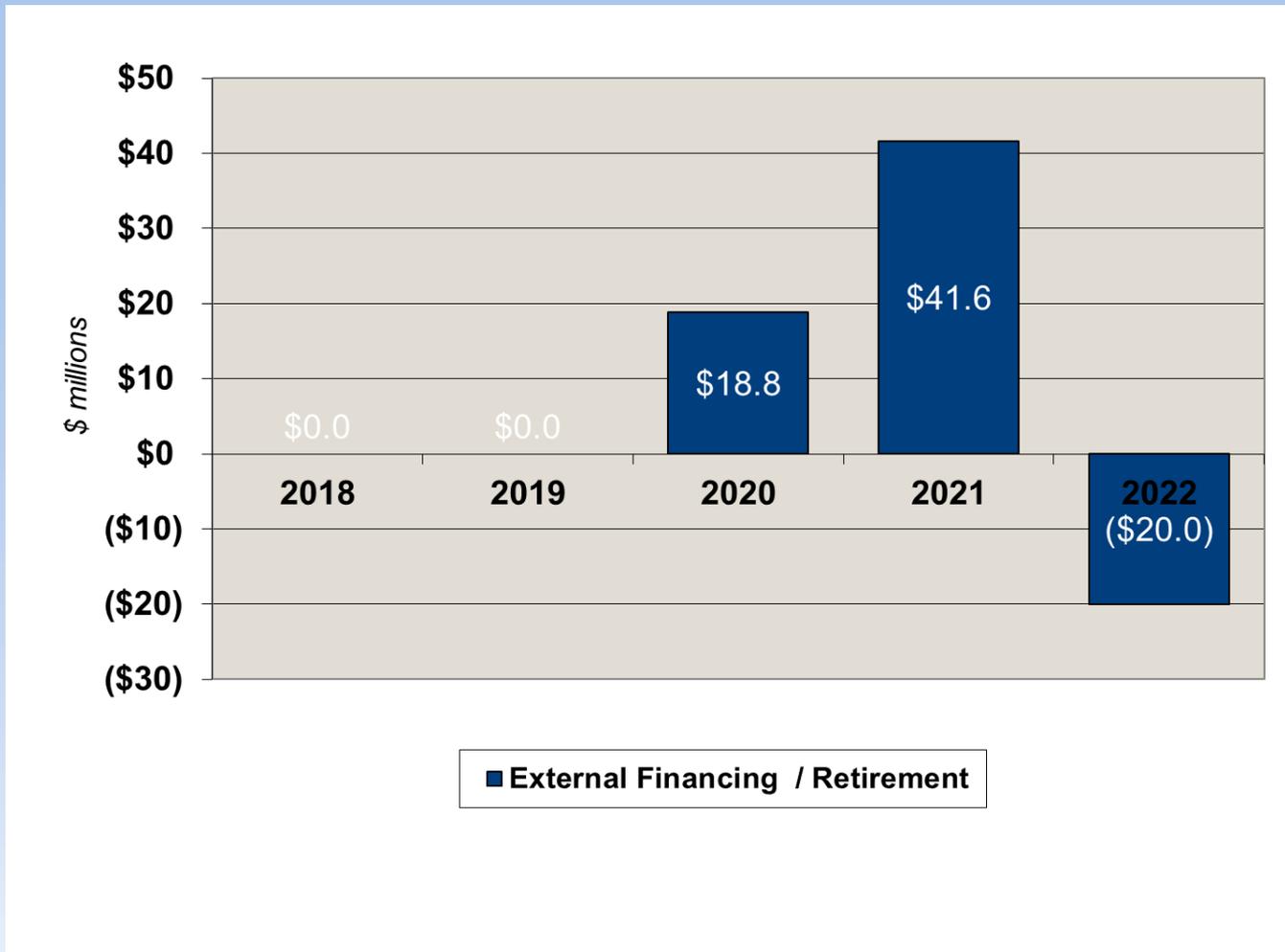
# Debt: Outstanding & Projected Principal



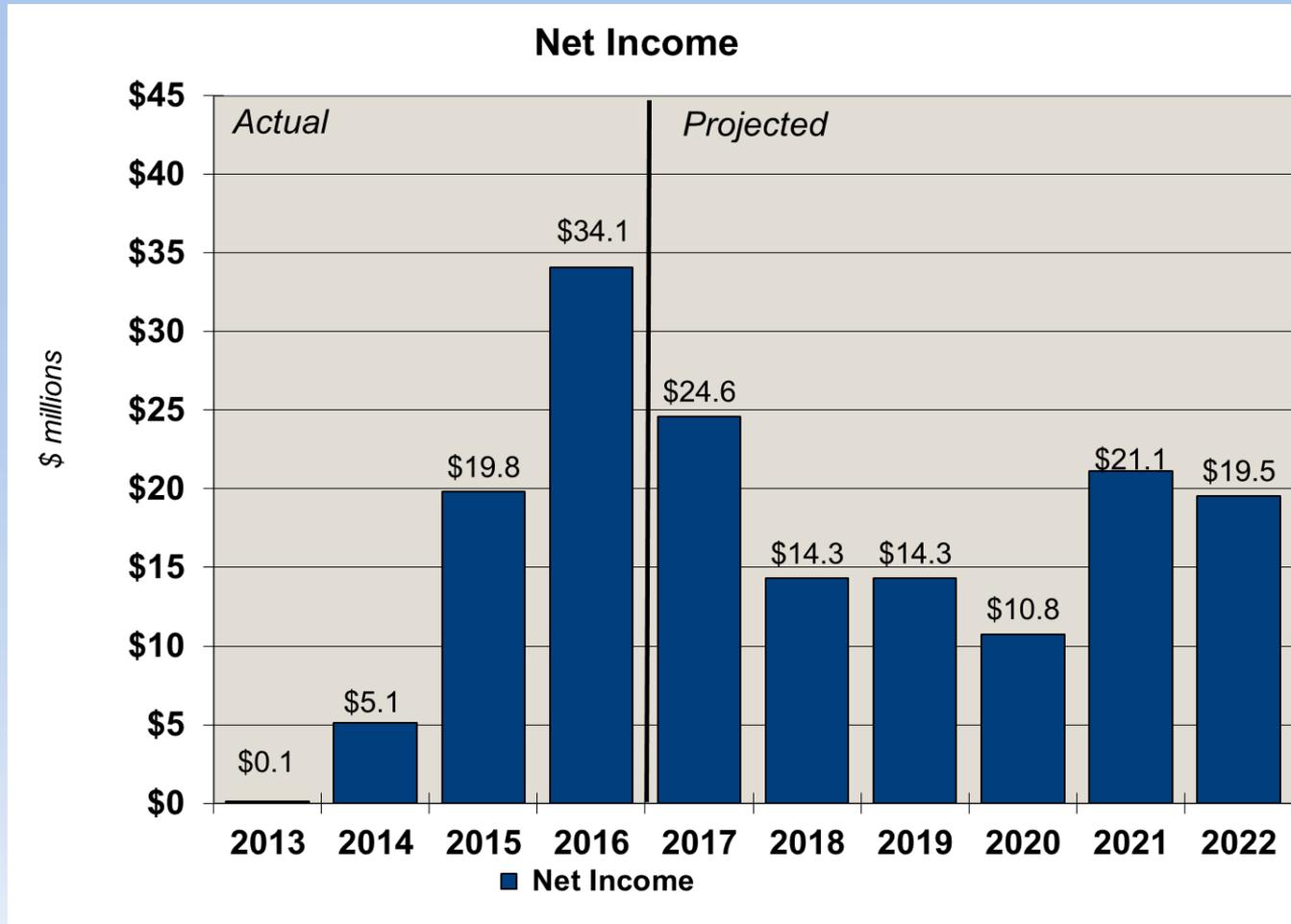
*(\$ millions)*

|                   | Balance<br>12/31/2017 | 2018<br>Issues | 2018<br>Repayments | Balance<br>12/31/2018 |
|-------------------|-----------------------|----------------|--------------------|-----------------------|
| G.O. Bonds        | \$ 154.0              | \$ -           | \$ (3.5)           | \$ 150.5              |
| Senior Rev. Bonds | 178.8                 | -              | (5.0)              | 173.9                 |
| Sub. Rev. Bonds   | 274.6                 | -              | (5.1)              | 269.5                 |
| Commercial Paper  | 25.0                  | -              | 0.0                | 25.0                  |
| <b>Total</b>      | <b>\$ 632.4</b>       | <b>\$ -</b>    | <b>\$ (13.6)</b>   | <b>\$ 618.8</b>       |

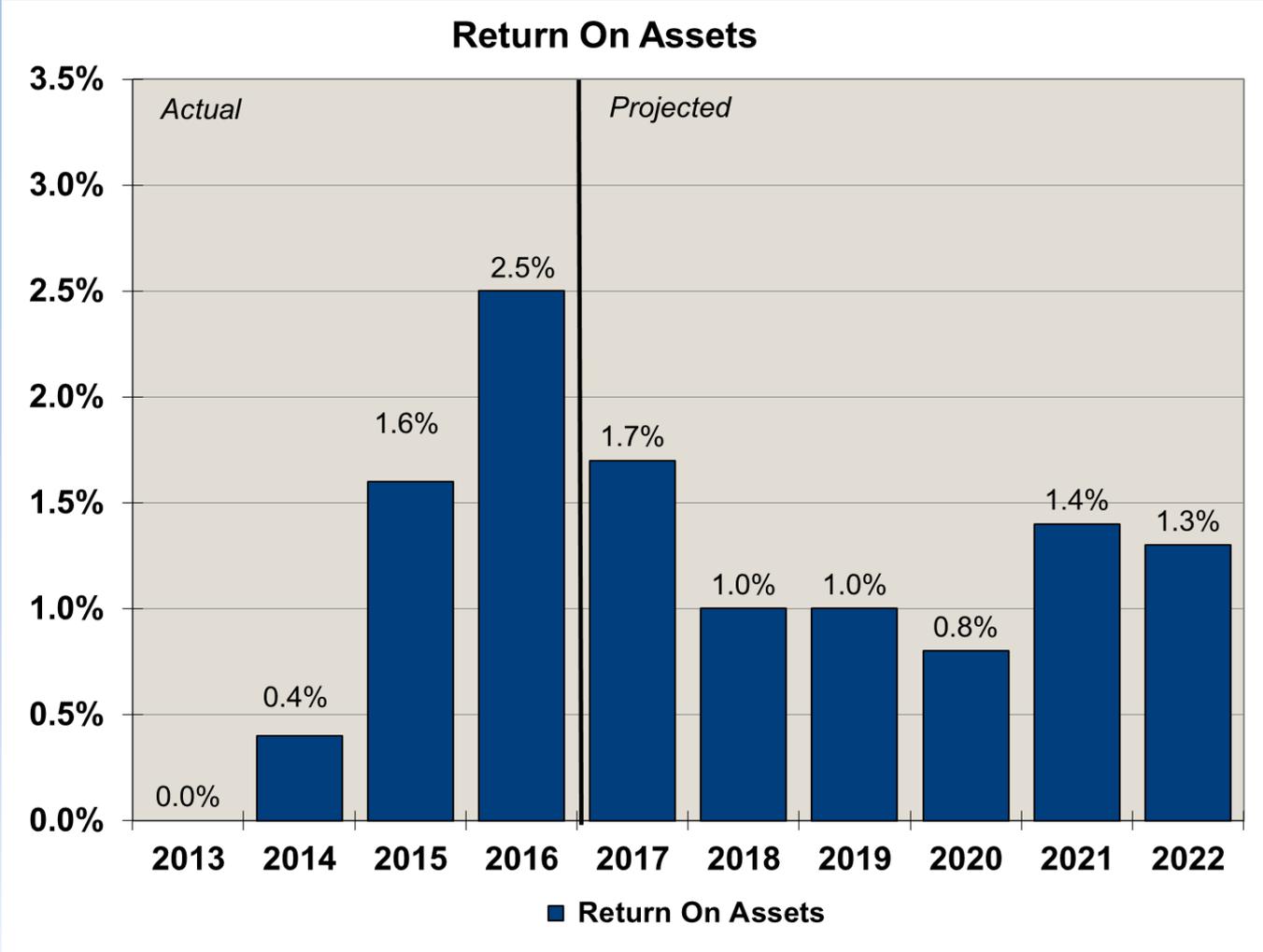
# Debt: Required Borrowing



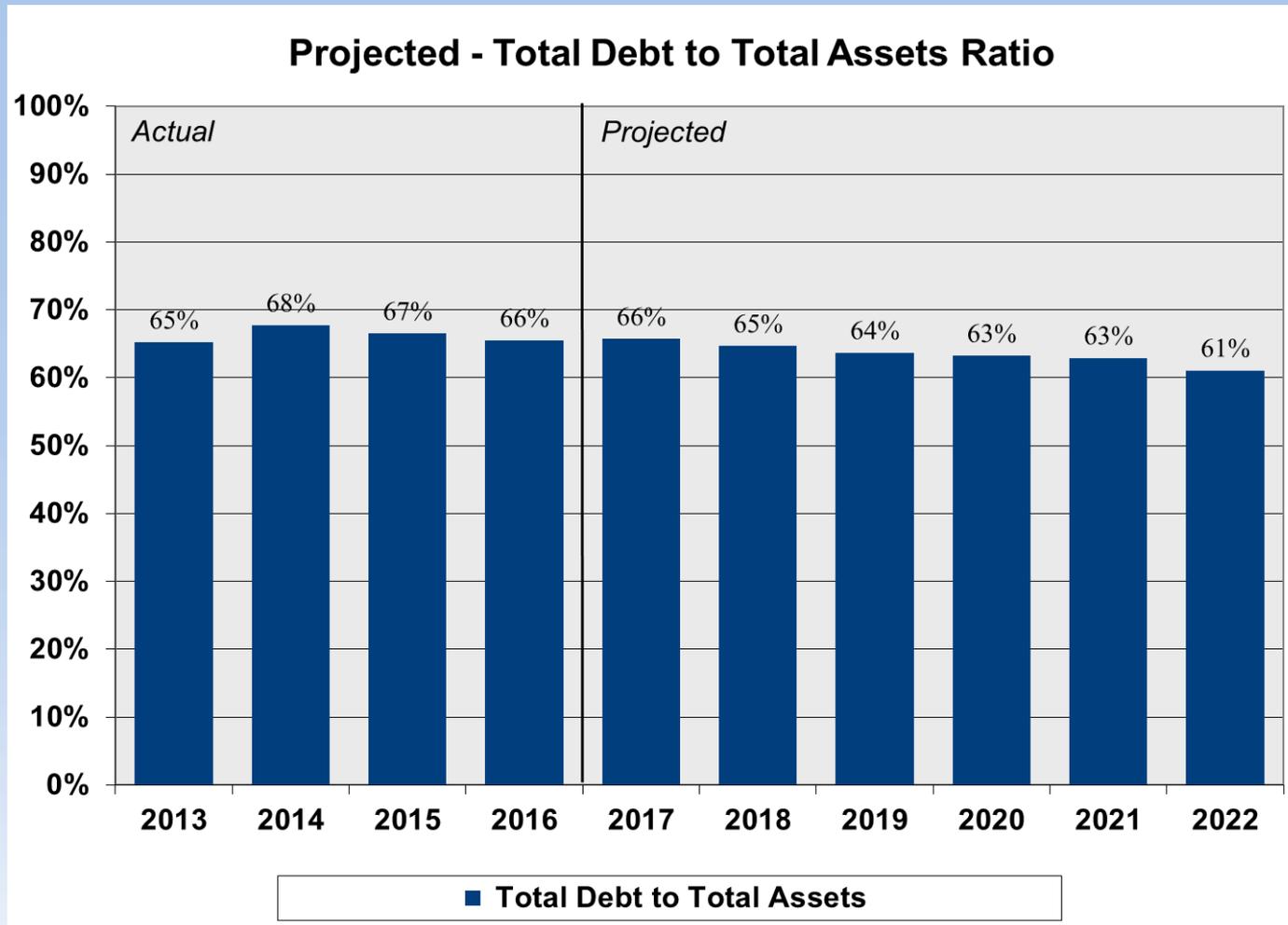
# Financial Measure: Net Income



# Financial Measure: Return on Assets



# Financial Measure: Debt to Asset Ratio



# 2017 Key Messages



- Strong operating income at \$27.8M, \$7.4M higher than budget:
  - Increased Revenue
    - \$5.6M incremental NWSA revenue
    - \$0.7M lower real estate revenue due to lower auto storage
  - Decreased Expenses
    - \$2M lower staffing related expenses
    - \$1M lower environmental expenses
- Net income before tax levy positive at \$13.1M
- Net income of \$24.5M

# 2018 Key Messages



- Healthy operating income of \$21.8 million
- Net income of \$14.3 million
- Proposed tax millage rate same as 2017
- Capital investments include land purchases to expand the Port's real estate portfolio, waterway widening, and rail investments
- Debt service above commission policy of 2x

# Backup

# 2017 NWSA Operating Budget

| \$ Million                                   | 2018<br>Budget |
|----------------------------------------------|----------------|
| <b>Revenue</b>                               | \$ 188.4       |
| <b>Expenses</b>                              |                |
| Operations                                   | \$ 43.8        |
| Administration                               | 25.3           |
| Maintenance                                  | 19.3           |
| Security                                     | 4.8            |
| Air & Water Environmental                    | 4.0            |
| <b>Total Operating Expenses before Depr.</b> | \$ 97.2        |
| <b>Income from Operations</b>                | \$ 91.2        |
| Depreciation                                 | 7.4            |
| <b>Operating Income</b>                      | \$ 83.8        |
| <b>Non Operating</b>                         | \$ 7.5         |
| <b>Net Distributable Revenue</b>             | \$ 91.3        |
| <i>Return on Revenue</i>                     | 48.5%          |
| <b>Distributable Cash</b>                    | \$ 92.1        |

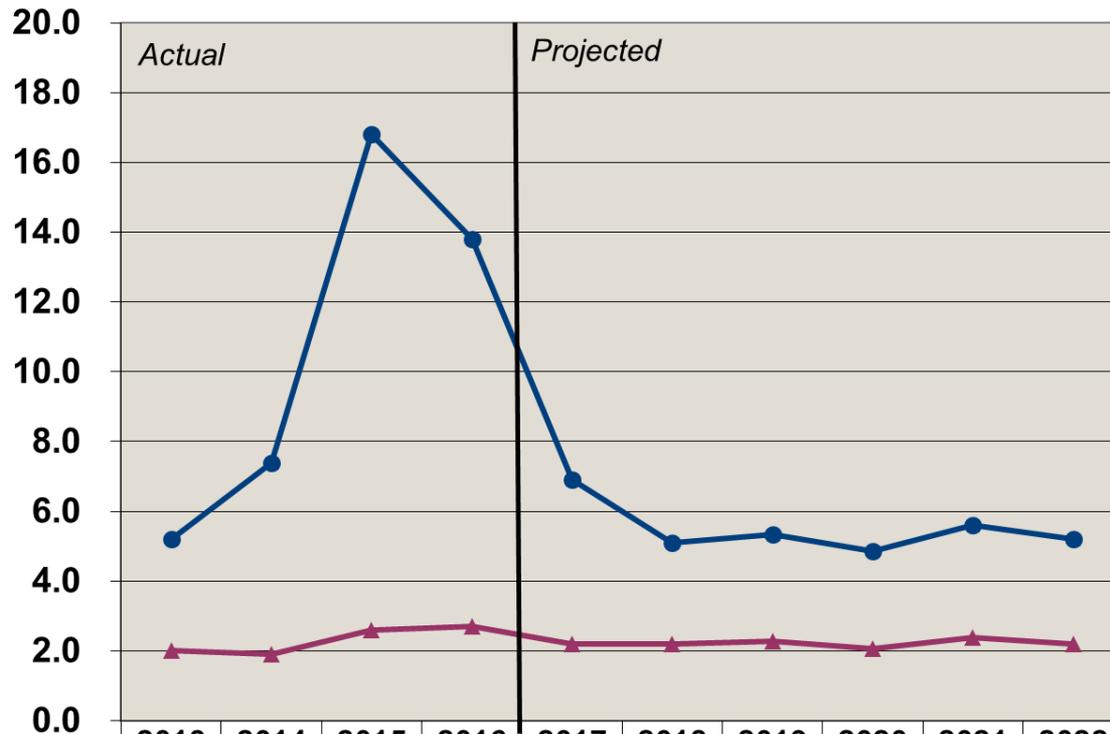
- The Port of Tacoma 2017 operating budget includes \$45.7 million from the NWSA (50% of \$91.3 million)



# Financial Measure: Revenue Bond Coverage



Revenue Bond Coverage

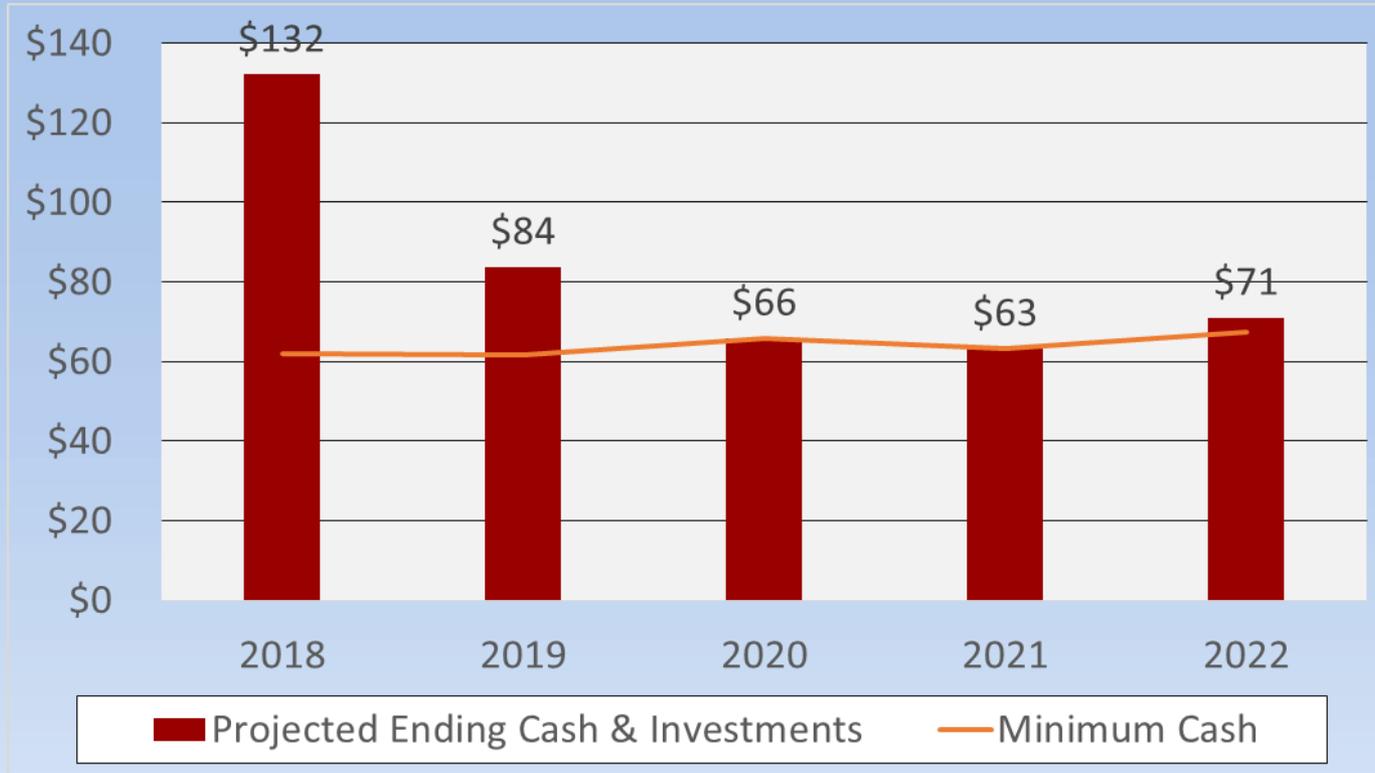


|                 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-----------------|------|------|------|------|------|------|------|------|------|------|
| ● Senior Lien   | 5.2  | 7.4  | 16.8 | 13.8 | 6.90 | 5.1  | 5.4  | 4.9  | 5.6  | 5.2  |
| ▲ Fully Diluted | 2.0  | 1.9  | 2.6  | 2.7  | 2.20 | 2.2  | 2.3  | 2.1  | 2.4  | 2.2  |

# 2018-2022 Ending Cash

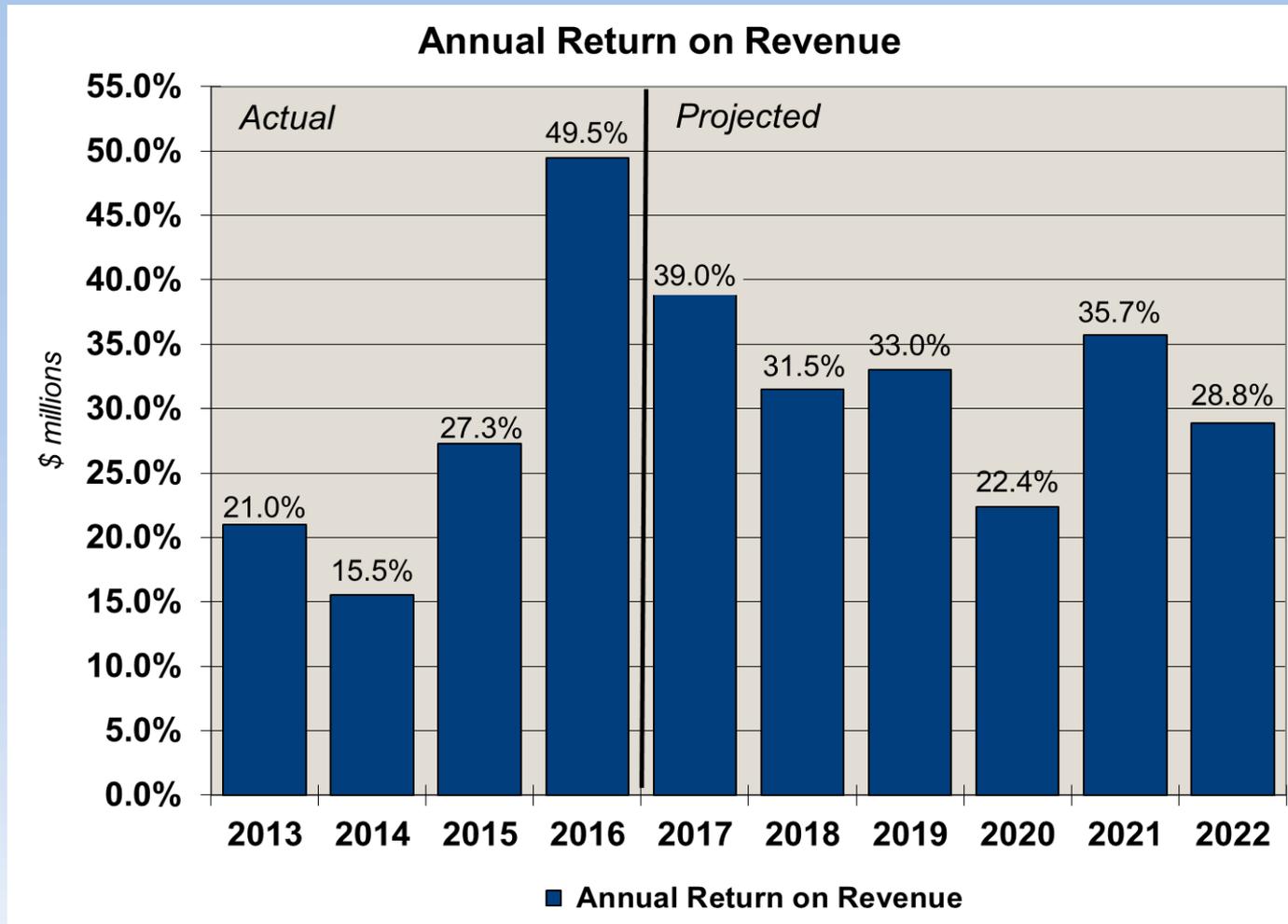


(\$ millions)

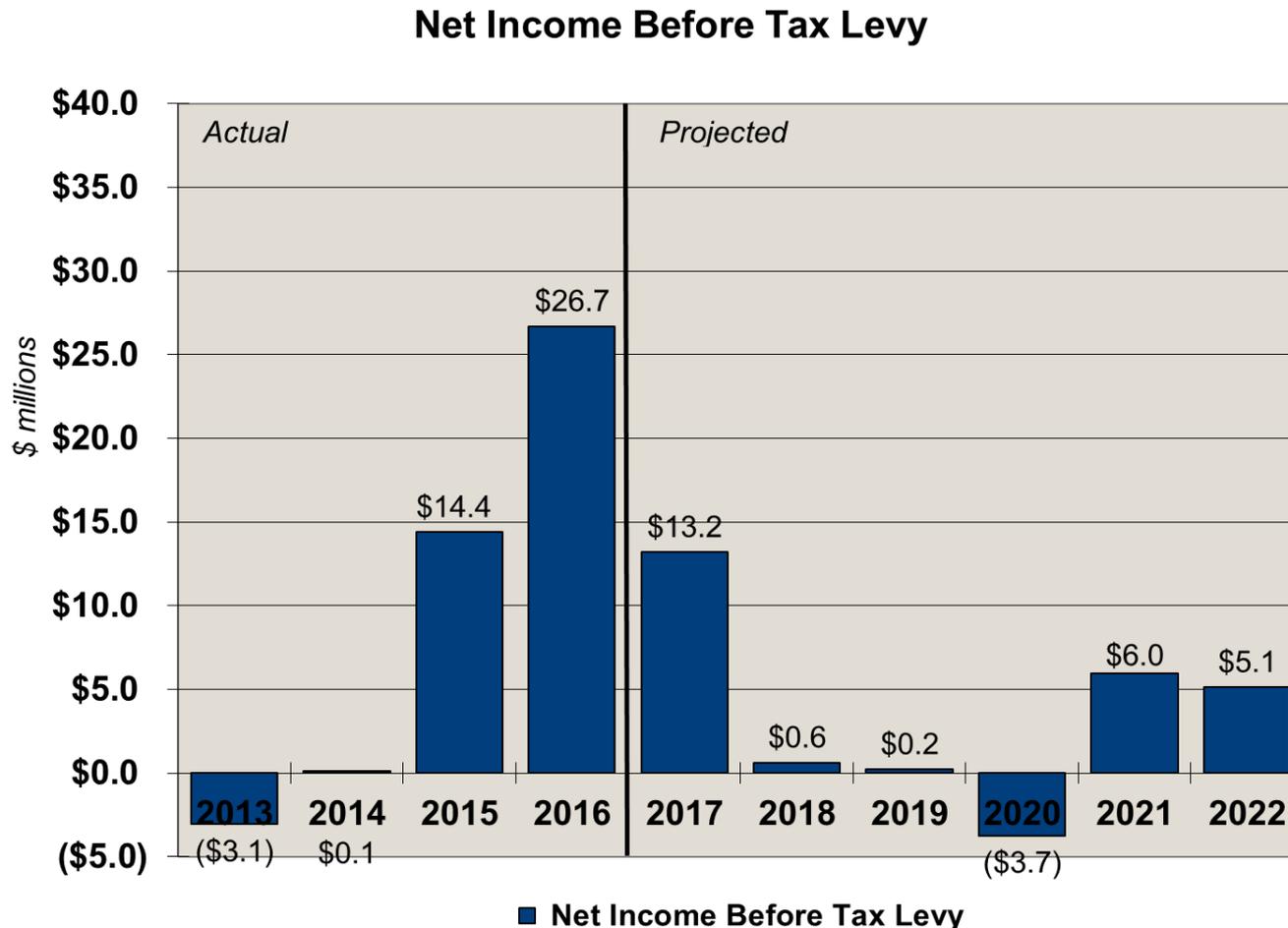


- Port forced to borrow in 2020-2021 to meet minimum cash and investments
- 2022 reflects \$20M retirement of Commercial Paper

# Financial Measure: Return on Operating Revenue



# Financial Measure: Net Income before Tax Levy





# Administrative Expenses



Net Changes 2017 Budget vs 2018 Budget

*(\$ millions)*

|                              |      |
|------------------------------|------|
| IT Consulting & Services Net | 1.1  |
| Communications Advertising   | 1.0  |
| Allocations                  | 0.4  |
| Executive Travel & Training  | -0.2 |
| Salaries & Benefits          | -0.2 |
| Other                        | -0.1 |
| Net Increase in Admin Exps   | 2.0  |

# Allocations and Direct Charges

(\$ millions)



|                                               | 2017<br>Budget | 2017<br>Forecast | 2018<br>Budget |
|-----------------------------------------------|----------------|------------------|----------------|
| <b>Direct Charges</b>                         |                |                  |                |
| Maintenance to projects                       | \$16.5         | \$15.5           | \$17.8         |
| Facilities Development to Projects            | 3.8            | 3.5              | 4.7            |
| Security to NWSA LOB                          | 0.7            | 0.7              | 0.7            |
| <b>Total Direct Charges</b>                   | <b>\$21.1</b>  | <b>\$19.7</b>    | <b>\$23.2</b>  |
| <b>Service Agreement Allocations</b>          |                |                  |                |
| POT to NWSA                                   | 20.9           | 18.4             | 21.5           |
| NWSA to POT                                   | 1.3            | 1.1              | 1.4            |
| <b>Net Allocations</b>                        | <b>\$19.5</b>  | <b>\$17.3</b>    | <b>\$20.1</b>  |
| <b>Total Allocations &amp; Direct Charges</b> | <b>40.6</b>    | <b>37.0</b>      | <b>43.3</b>    |

May not foot due to rounding

# Items to note in 2018



- \$9M of remediation in 2020 at Parcel 1 and 2
- \$11M of remediation in 2022 for Portac Parcel 15
- \$2M/year for roadway infrastructure
- \$1.5m/year for unanticipated repairs + \$500k/year rail repairs
- Local community investment \$250k/year
- \$280k for centennial project: \$100K museum, \$180k publications/advertising/video
- Acct 6920 includes \$2M environmental liability

# 2018 Key Assumptions

Expenses will be greater than 2017 forecast by \$6.6M

Non Operating Revenue lower by \$5M

- Grant income decreases by \$3.5M to \$2.3M in 2017
- Gain on land sale at Frederickson offset by write off of assets
- No budgeted asset impairments
- No budgeted market adjustments for investments

Non Operating Expenses higher by \$1.6M

- Decreased revenue bond interest expenses of \$2.1M
- Election expenses of \$750k in 2017
- FAST corridor contribution of \$2M for SR 516 (Willis road)
- Building demolition costs of \$500k

# 2018 Local Economic Development



- Budget for LED has been increased to \$250,000 from \$35,000
- Government Affairs is developing criteria for use of these funds

# 2017 vs 2018 Expenses Comparison

## Salary and Wages



| Total Port                        | Budget 2017       | Forecast 2017     | Budget 2018       | Better/<br>(Worse) | Bud 18<br>vs Fcst | Better/<br>(Worse) | Budget<br>vs<br>Budget |
|-----------------------------------|-------------------|-------------------|-------------------|--------------------|-------------------|--------------------|------------------------|
| Salary Wages                      | 8,898,296         | 8,373,516         | 9,606,853         | 1,233,337          | 15%               | 708,557            | 8%                     |
| Hourly Wages                      | 12,086,216        | 11,731,761        | 12,856,455        | 1,124,694          | 10%               | 770,239            | 6%                     |
| OT Wages                          | 1,871,600         | 1,170,495         | 1,666,857         | 496,362            | 42%               | (204,743)          | -11%                   |
| <b>Total Wages</b>                | <b>22,856,112</b> | <b>21,275,772</b> | <b>24,130,165</b> | <b>2,854,393</b>   | <b>13%</b>        | <b>1,274,053</b>   | <b>6%</b>              |
| F.I.C.A.                          | 1,545,426         | 1,629,038         | 1,779,792         | 150,754            | 9%                | 234,366            | 15%                    |
| S.U.I.                            | 5,400             | 25,800            | -                 |                    |                   |                    |                        |
| Medical Benefits                  | 5,510,982         | 5,171,332         | 6,116,855         | 945,523            | 18%               | 605,873            | 11%                    |
| Other Benefits                    | 1,107,141         | 961,771           | 1,130,222         | 168,450            | 18%               | 23,080             | 2%                     |
| Employee Pension                  | 2,501,648         | 2,437,283         | 3,030,044         | 592,761            | 24%               | 528,396            | 21%                    |
| <b>Total Benefits</b>             | <b>10,670,598</b> | <b>10,225,224</b> | <b>12,056,913</b> | <b>1,831,689</b>   | <b>18%</b>        | <b>1,386,315</b>   | <b>13%</b>             |
| %                                 | 46.7%             | 48.1%             | 50.0%             |                    |                   |                    |                        |
| <b>Total Wages &amp; Benefits</b> | <b>33,526,710</b> | <b>31,500,996</b> | <b>36,187,077</b> | <b>4,686,082</b>   | <b>15%</b>        | <b>2,660,368</b>   | <b>8%</b>              |

- Budget to Budget increase of total wages of \$1,274k
  - \$446k due to 3% budgeted annual increase for existing employees
  - \$827k for 8 new employees
- Budget to Budget increase of total benefits of \$1.386k:
  - \$414k due to new employees
  - \$972k due to increases in existing employee expenses