

MINUTES
COMMISSION SPECIAL MEETING NOVEMBER 7, 2019
BUDGET STUDY SESSION

The Port of Tacoma Commission held a special meeting Thursday, November 7, as a study session regarding the 2020 budget. The Commission met in the Fabulich Center, 3600 Port of Tacoma Road, Tacoma, Washington. Commissioners Johnson, McCarthy, Marzano, Meyer and Petrich were all present.

CALL TO ORDER: Commissioner Petrich called the meeting to order at 12:04 p.m. and lead the Pledge of Allegiance.

PUBLIC COMMENT: None.

BUDGET STUDY SESSION: Prior to beginning the study session presentation, Commissioner Petrich invited commissioners to state their priorities and ideas for how to approach budget decisions.

Commissioner Johnson: There needs to be discussion on how the Commission wants to make decisions on projects overall. Examples of criteria include return on investment, defensive purchases, increased productivity.

Commissioner McCarthy: The Port will build its budget on the distributable income from The Northwest Seaport Alliance (NWSA). Commissioners have an obligation to scrutinize the NWSA budget. A systematic strategy for projects will be important moving forward.

Commissioner Meyer: Would like earlier discussion as part of the budget process. The budget is the Port's major policy document and would like to see it more outcome focused.

Commissioner Marzano: His first consideration in evaluating projects is to evaluate what type of jobs and economic vitality it will bring to the region. The strategic plan needs be monitored periodically so adjustments can be made. Timing of projects is important. He noted opportunities will arise, as long as the NWSA doesn't try to do in five years what can be done in six or seven.

Commissioner Petrich: Adherence to a strategic plan is important. Other important questions include:

- What should the role of the Port of Tacoma be in providing land for industrial development?
- What are ports designed to do and what does the Port of Tacoma do well?
- How does the Port want to approach private and public partnerships?

Commissioner Johnson: Added to his earlier comments stating that the strategic plan discussion should be taken out of the budget discussion. Commissioners should get together and discuss the ground rules of how decisions will be made. They should consider such things as what is on the table, how much money the Port has, how much it can go get, and what they are willing to do from debt and bond rate standpoints. They also need to consider how it can be distributed over a period of time.

After opening comments by the commissioners, The Port's executive director, Eric Johnson, offered his observation on the complexity of the budget. He explained his approach in delivery of the information to the commissioners. He then turned the discussion over to the Port's director of financial planning and treasury, David Morrison.

David Morrison thanked all those involved in the process. He then began his presentation.

The 2019 P&L forecast was discussed. Staff predicts to be ahead of the forecast by \$7.7 million driven primarily by higher NWSA revenue. Decreased intermodal maintenance and lower unplanned maintenance resulted in the Port being approximately \$4 million better than forecast for direct expenses. Staff explained that the administration category is higher because the Port budgets unfilled positions. Those positions are reflected in the administration category, but the vacancies can actually be all over the organization. Environmental, along with Ecology negotiated a new plan for Portac which will reverse a \$7 million expense. This is a non-cash improvement to the P&L. Staff corrected information contained in slide 5 which reflects non-operating changes due to Governmental Accounting Standards Board Pronouncement 87 (GASB 87). Impacts from GASB 87 will come in 2020.

The Special Item of \$22 million on the 2019 P&L represents the remaining portion of the Port's contribution to WSDOT for SR 167 if the Port chooses to recognize it this year.

2019 Capitalized project spending was budgeted at \$40 million. It is now forecast at \$17 million for several reasons including: the full Thorne Road stormwater and design not taking place this year, money budget for land acquisition did not get used, rail infrastructure has not required significant spending, the auto terminal came in under budget, and money budgeted toward Arkema has not been spent.

The Cargo Forecast mainly impacts the NWSA, but it does impact the Port for the new auto terminal for maintenance of way. The Port of Tacoma's revenue is now mainly fixed through real estate. It was noted that the Maytown sale has not been recognized, the Frederickson sale has. Commissioner Meyer said it is important to note these are large swings.

The presentation then moved on to the CIP. The five-year 2020-2024 CIP for the Port of Tacoma only, is approximately \$200 million dollars. The grand total including the NWSA 50% is \$417 million. Staff reported that per \$1 billion spent on capitalized projects, there are approximately 16,000 jobs created from a construction standpoint. A breakdown of 2020 Port only CIP spending was provided.

It was noted that the Blair Tribal Dredge is an obligation that has been in the budget since 2009 and is always put at the end of the 5-year period. It has moved out every year and it has gone up in cost recently. That obligation absorbs \$45 million out of the Plan of Finance every budget cycle. This obligation could be recognized somewhere else, for example issuing bonds, put cash away, reserve tax levy. That is a discussion for the strategic plan.

The long tracks along SR 509 construction project mainly supports the NWSA's ability to provide a competitive rail product. The project is considered infrastructure "outside the fence" therefore per the NWSA charter is to be funded by the homeport, Port of Tacoma. Flexibility exists to discuss funding with the NWSA.

A decision package regarding the administration building design and construction project is expected to be presented to the Commission within the next couple of months.

Staff reported that 25% of the Port's 2020-2024 budget is assigned to environmental projects - \$48 million.

Staff recommends the SR 167 contribution and associated expense be recognized in 2019. The 2019 financials are strong, and the Port net income will still be positive and above budget. Commissioner McCarthy noted that the Governor has halted all DOT project that have not started.

State law allows tax levy dollars to be used for paying general obligation debt and "general port services" The Port's policy is to use remaining tax levy after paying general obligation bond debt service for: GO bond debt retirement, road and rail infrastructure, environmental projects and land purchases. Staff identified several eligible projects that could be funded with tax levy.

The 2019 proposed tax levy for 2020 collection was then discussed. Without the tax levy, the Port will have a positive net income of approximately \$2 million for 2020. One of the Port's guiding principles is that net income before taxes is to be positive.

Commissioner Meyer stated he does not advocate doing away with the tax levy, but he takes issue with a rate of increase greater than the rate of inflation. In his opinion the tax levy should be managed by the rate of inflation not assessed home values. He does not want to see double-digit increases and referenced written material submitted by citizen John Miles.

Commissioner Marzano noted that the Port does not tax at its maximum ability. Staff noted the Port could have collected \$198 million more than it did over the last 25 years.

The presentation moved onto the 2020 Operational Budget. GASB 87 will impact operating income by moving \$8 million from property rental to interest income in non-operating – net income remains the same.

Staff the went into details of expenses to the Port of Tacoma after allocation to the NWSA by categories of the Budgeting Accounting and Reporting System (BARS).

Commissioner McCarthy asked about the decrease in "other revenue" from 2019 to 2020. Staff answered that net income from the NWSA will go down due to depreciation, but there is more cash. In future presentations staff will include cashflow. Revenue from the NWSA is down, cash is constant or up. Commissioner McCarthy asked about options for increasing distributable income from the NWSA if needed for a Port opportunity. A discussion amongst commissioners took place. Discussion also took place regarding maintenance priorities.

Staff reported on the results of the refunding of bonds authorized by the Commission in July 2019.

The presentation moved on to memberships. Per the Master Policy, memberships above \$10 thousand require authorization from the Commission. The three over \$10 thousand budgeted for 2020 are the Washington Public Ports Authority, the Puget Sound Regional Council and the Tacoma Pierce County Chamber. A complete list all memberships was provided.

The Promotional Hosting budget is essentially flat from 2019 to 2020.

The 2020 Statutory Cash Budget reflects beginning cash at \$218.2 million, with projected ending cash and investments at \$168.8.

Income before levy is positive in all years except 2021. Debt service coverage ratio is above 2x in all years except 2021. Staff budgeted what the Port approved in April 2019, it reflects that the second phase of Terminal 5 happens in 2024. That is a risk as it adds \$14 million (\$7 million is the Port's portion) in revenue in 2024 than if phase 2 does not take place.

The Port's debt was discussed. Repayments of principle in 2020 of \$14.8 million will bring the debt to \$582.4 million. One commissioner noted that debt was once at \$680 million.

The Port started 2019 with \$40 million more in cash than the 2019 Budget Plan of Finance predicted. The reasons for that were discussed. Staff provided a reconciliation of what has changed for the four-year period 2019-2023. Commissioners would like a budget focused meeting half-way through the year.


COMMISSIONER COMMENTS:

Commissioner Meyer: Said that he believes it is a good plan. He does not like the 29% increase in administration costs and does not accept the tax levy.

Commissioner McCarthy: Upon his deliberation and review he may have more questions.

ADJOURNMENT:

The meeting ended at 3:04 p.m.



Clare Petrich, President
Port of Tacoma Commission

Attest:



John McCarthy, Secretary
Port of Tacoma Commission



Juliet Campbell, Clerk of the Port
Port of Tacoma

PUBLIC TESTIMONY

Port of Tacoma Commission Meeting of November 7, 2019

Submitted: 10/31/19

Thanks for the heads-up, Judi.

As I've expressed in past emails and testimony, I typically can't come to daytime meetings, because I have a full-time job. I would appreciate the commissioners' consideration of my previous emails and testimony, in which I request a reversal of the property tax increases of the last several years. My port property tax increased 60% in three years; this is outrageous.

Commissioner Don Johnson told me at the meeting at which I testified that every taxing district holds their mill rate steady; it's just the way it's done. This is not true. Here are the percentage changes in the mill rates of the property taxing districts in Tacoma from 2016-19:

ConsFut	-21.29
FloodCZ	-23.76
POT	0.39
MetroParks	-21.44
TacomaE	-16.64
PC	-21.29
WA	-14.64
Tacoma	-21.91
TacomaB	-28.05
MetroPB	-17.14
SchB	-20.71
SchL+WA	-48.80
SchCapL	70.10

Please notice that the port's is the only one that remained steady. All of the others went down substantially, with the exception of the school capital projects fund, which went up substantially. Even with a new Sound Transit property tax, my overall rate decreased by 23%, while my overall tax increased by just 23%.

I am willing to give the commissioners the benefit of the doubt that they just don't understand this, but I believe it's important that they learn about it. Please pass along these comments to the commissioners. I would appreciate it if this information were entered into the record of public testimony if allowed.

Thank you,

John Miles