

2018 Forecast Update & 2019 – 2023 Budget Study Session

***Commission Meeting
November 8, 2018***



Agenda



2019 Budget Schedule

2018 Key Messages & Forecast Update

2019 Key Messages

2019 - 2023 Budget

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

Budget Schedule



November 8

Study Session to review the proposed:

- 2018 Forecast Update Summary
- 2019 – 2023 Capital Investment Plan
- 2019 Tax Levy
- 2019 Operating Budget
- 2019 Statutory Operating Budget
- 2019-2023 Plan of Finance

November 29

- Public Hearing
- Adopt 2019 Statutory Operating Budget & 2019 Tax Levy
 - Includes Joint Venture revenue from the NWSA operating budget
- Approve Inter Local Agreements between the Port and NWSA

2018 P&L Forecast

(\$ millions)



\$ millions	2017 Actual	2018 Budget	2018 Forecast	Better/ (Worse)
Port Revenue	\$21.7	\$22.8	\$23.2	\$0.4
Joint Venture Revenue	54.9	46.6	47.8	1.1
Operating Revenue	76.6	69.4	71.0	1.6
Total Operating Expenses	44.9	47.5	42.6	4.9
Operating Income	31.7	21.9	28.4	6.5
<i>Return on Revenue</i>	41.4%	31.5%	40.0%	8.5%
Non Operating Income (Expense)	(15.8)	(21.2)	(4.3)	16.9
Income Before Tax Levy & Expenses	15.9	0.6	24.0	23.4
Ad Valorem Tax Levy	16.6	18.6	18.6	(0.0)
GO Interest	(5.5)	(4.9)	(4.9)	0.0
Net Income	\$27.1	\$14.3	\$37.7	\$23.4
Debt Service Coverage Ratio	2.3	2.2	2.3	0.1
Return on Assets	2.0%	1.0%	2.8%	1.8%

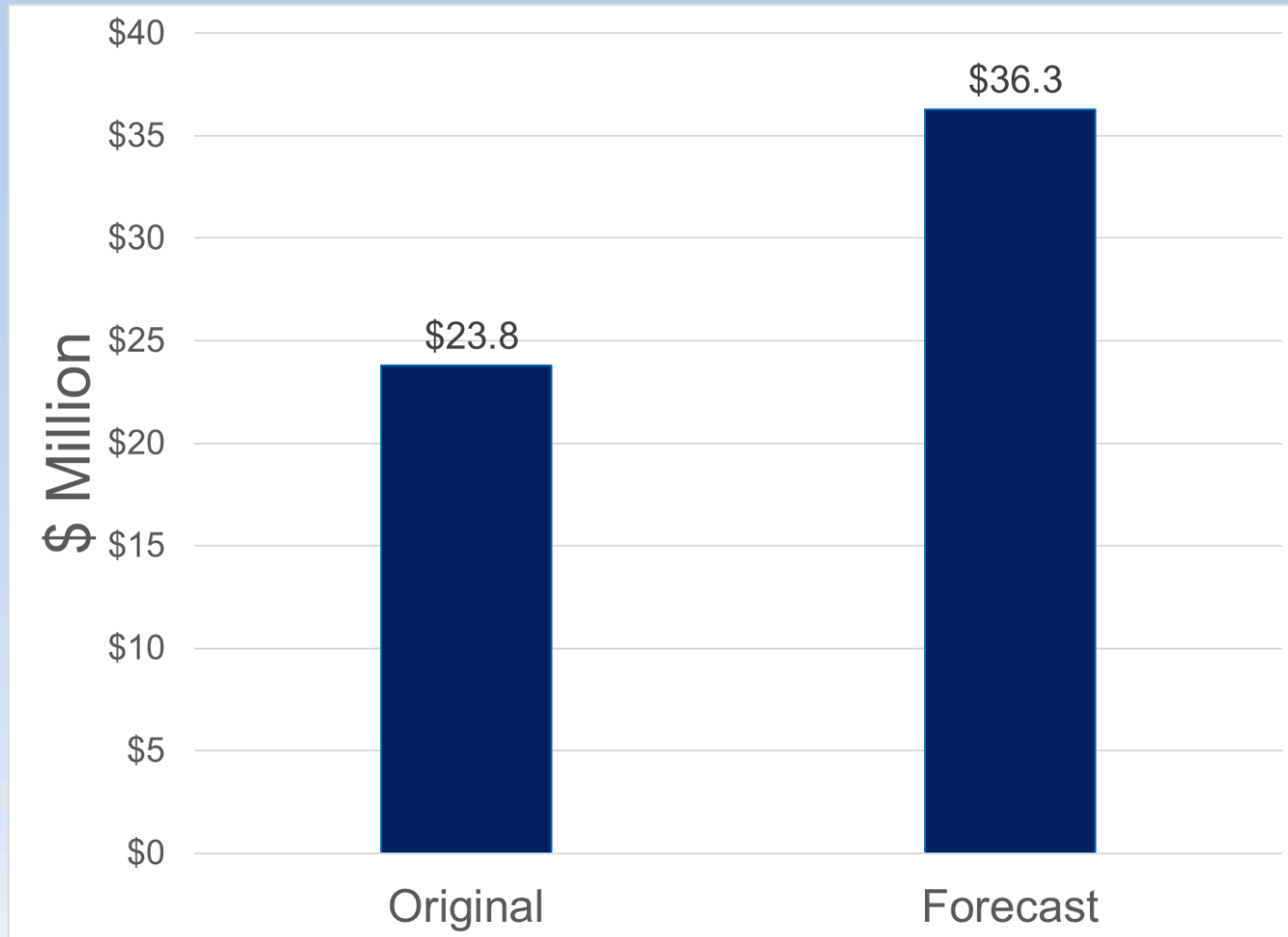
Essentially flat POT and NWSA revenue

Lower Envr. liability and staffing

2018 forecasted results subject to change

- Maytown lawsuit \$8.6M
- Frederickson Sale \$2.8M
- Assets not written off \$3.9M
- Kaiser grant of \$2.3M

2018 Capitalized Project Spending



Taylor Way
Auto terminal
not in
original
budget

2018 Capitalized Spending Forecast

(\$ millions)



Type	2018 Forecast	Major Projects
Auto Term.	\$20.3	Auto terminal development
Rail	\$2.8	Rail track, rail equipment and switch replacements
Technology	\$2.3	Servers and security costs
Building & Land	\$8.6	Potential land acquisition & UCC site expansion
Others	\$2.3	
Total	\$36.3	

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 May include:
 - Volume above Minimum Guarantee at the new Taylor Way Auto Facility
 - Tariff at the Gypsum dock
 - Industrial intermodal volume (non-container)
 - Auto short-term storage revenue on Port property not licensed to the NWSA

Capital Investment Plan (CIP) Review

Total View: Five Year Planned CIP 2019 - 2023



<i>\$ Million</i>	2018	2019 - 2023					
POT Only	Forecast	2019	2020	2021	2022	2023	Totals
Capitalized	\$36.3	\$40.4	\$14.3	\$13.1	\$8.8	\$51.3	\$127.9
Operating Expense	5.0	7.9	6.7	6.8	9.7	18.6	49.6
Non-Operating Expense	3.4	7.0	1.2	1.5	1.2	1.2	12.1
Grand Total - POT Only	\$44.7	\$55.3	\$22.2	\$21.3	\$19.6	\$71.1	\$189.7

<i>\$ Million</i>	2018	2019 - 2023					
POT + 50% NWSA	Forecast	2019	2020	2021	2022	2023	Totals
Capitalized	\$89.1	\$121.8	\$70.4	\$59.6	\$28.8	\$53.9	\$334.4
Operating Expense	10.6	15.5	16.4	13.2	13.2	21.9	80.3
Non-Operating Expense	4.7	9.3	6.6	1.6	1.2	1.2	19.8
Grand Total: POT & 50% NWSA	\$104.4	\$146.5	\$93.3	\$74.4	\$43.1	\$77.1	\$434.5

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

2019 Port of Tacoma CIP Spending

(Does not include NWSA CIP)

(\$ millions)



Type	2019 Budget	Major Projects
Terminal Development	\$13.5	Auto terminal development
Land	\$7.9	Potential land acquisition. Arkema manufacturing area investigation
Road Contribution	\$6.0	SR 167 contributions and roadway infrastructure funding
Environmental	\$4.2	Parcel 15 investigation & remediation; environmental sustainability initiatives and monitorings
Rail	\$2.5	Rail track, rail equipment and switch replacements
Technology	\$2.5	Servers and security costs
Unanticipated Projects	\$4.5	\$3M capitalized projects and \$1.5M operating expenses
Others	\$14.2	
Total	\$55.3	

Note: May not foot due to rounding

2019 - 2023 Port of Tacoma CIP

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



Type	2019 - 2023 Budget	Major Projects
Land	\$27.1	Potential land acquisition. Lower Wapato Creek combined habitat. Arkema manufacturing area investigation & interim action
Terminal Development	\$58.5	Auto terminal dev. & widening of the Blair Waterway
Rail	\$12.5	Rail equipment and existing infrastructure replacement
Technology	\$5.8	New system implementation, servers and security costs
Environmental	\$37.7	Parcels 1b, 2 & 15 remediation; environmental sustainability initiatives and monitorings
Road Contribution	\$10.0	SR 167 contribution and roadway infrastructuring funding
Unanticipated Projects	\$22.5	\$15M capitalized projects and \$7.5M operating expenses
Others	\$15.6	
Total	\$189.7	

SR 167 Investment



- Cash payment expected to start 2018 for \$3M and 2019 at \$5M for 70th Street Overpass. Total contribution of \$30M
 - Non cash expense for contribution in year donated
- Future cash contributions expected to start beyond 2023 and be spread over many years
- 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

2018 Proposed Tax Levy for 2019 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

2019 Tax Levy



	2018 Forecast	2019 Budget
Assessed Valuation*	\$101,406,430,390	\$114,011,707,624
Target Millage Rate per \$1000 valuation	\$0.18635	\$0.18365
Total Port Tax Levy**	\$18,623,291	\$20,938,250
Debt Service on G.O. Bonds***	\$9,711,419	\$10,046,522
Remainder for Governmental Projects	\$8,911,872	\$10,891,728

* 2019 Preliminary assess valuations as of September 2018

** Based on 2019 preliminary valuations and targeted millage rate

*** Post September 2018 refundings.

Port Millage Rate for Single Family Residences



Tax Collection Year	2017	2018	2019
Avg. Assessed Value	\$ 260,538	\$ 293,485	\$ 326,925
Port Millage Rate (per \$1,000)	0.18365	0.18365	0.18365
Annual Tax Levy	\$ 47.85	\$ 53.90	\$ 60.04
Monthly Tax Levy	\$ 3.99	\$ 4.49	\$ 5.00
Tax Levy if at Maximum Rate	\$ 69.94	\$ 72.18	\$ 71.56
Monthly Tax Levy at Max Rate	\$ 5.83	\$ 6.01	\$ 5.96

Tax Levy Eligible Projects

(\$ millions)



Description	2019 Budget
Stormwater Improvement	\$7.2
Environmental Monitoring & Remediation	\$6.6
Potential Land Acquisitions	\$5.0
SR 167 contributions	\$5.0
Rail Equipment & Existing Infrastructure Replacement	\$2.5
Roadway infrastructure funding	\$2.1
Others	\$5.4
Total	\$33.8

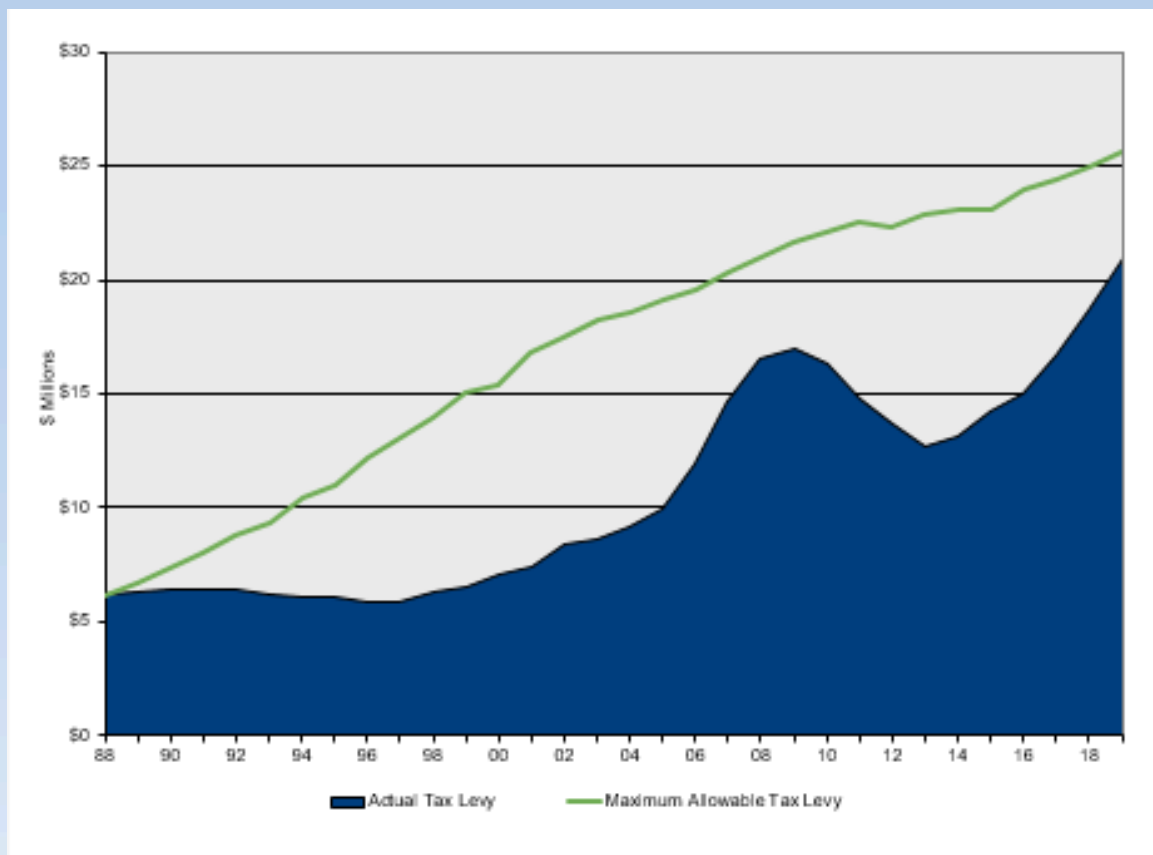
Tax Levy



2019 Recommendation

- Budget \$20.9 Million for 2019
 - Covers 100% of GO bond interest payment (\$5.9M)
 - Covers 100% of GO Bond principal payment (\$4.1M of total principal payment)
 - \$10.9M for Governmental projects
 - \$22.9M of Governmental projects remain funded by operations
 - Maintains millage rate consistent with 2018 rate at \$0.18365 per thousand dollars of valuation

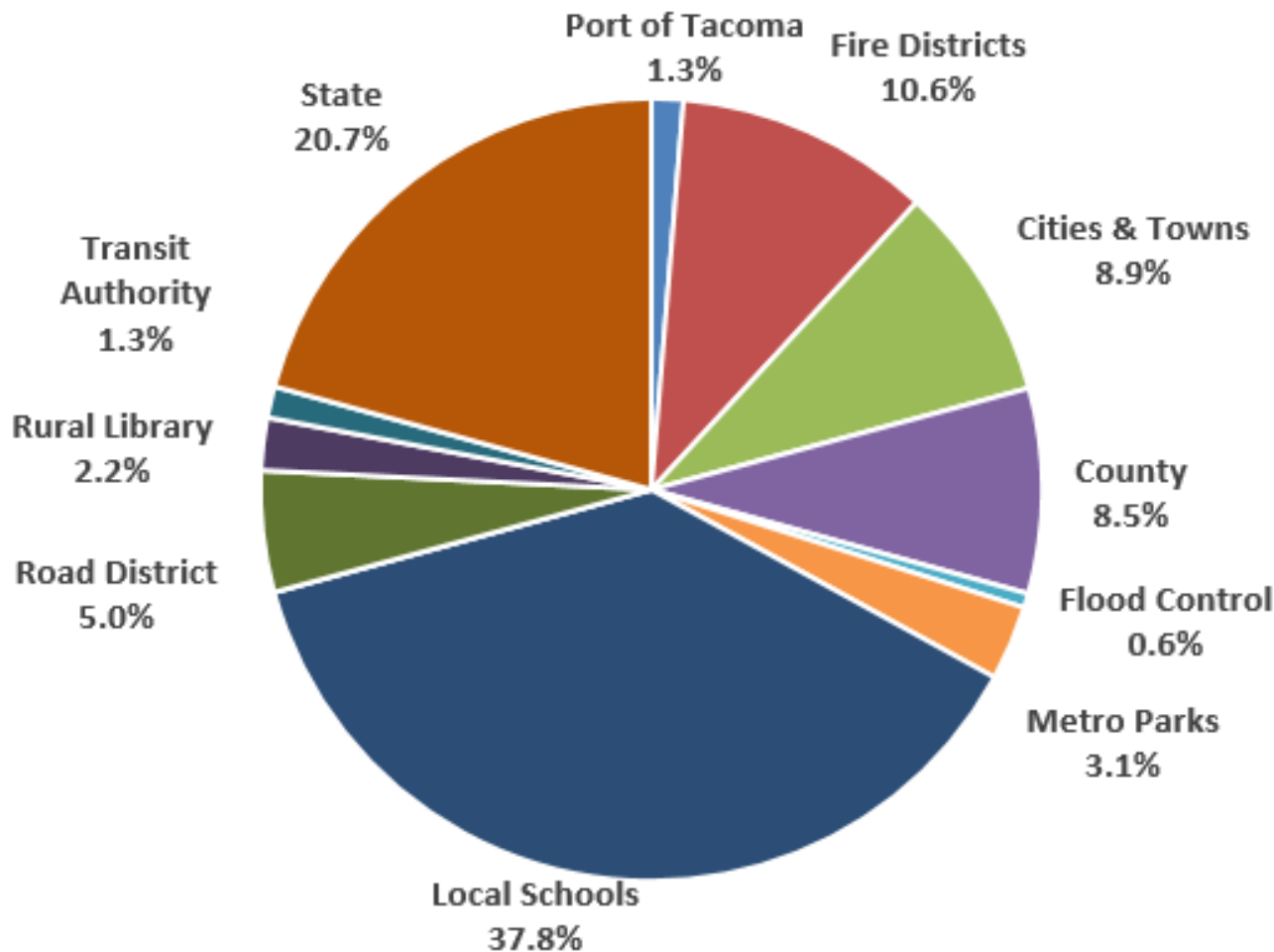
Tax Levy history



* 2019 Preliminary assess valuations as of Sept. 2018

** Based on 2019 preliminary valuations and targeted millage rate

2017 Tax Levies by Taxing District



Source: Pierce County Assessor

2019 Operational Budget

2019 Key Assumptions



- Revenues are based on NWSA, POT real estate and other POT businesses.
 - Split NWSA Distributable Income (Net Income) 50/50
 - Real Estate and Bulk based on existing leases and cargo forecast
 - Intermodal revenue based on industrial rail traffic

2018 Budget vs 2019 Budget

(\$ millions)



\$ millions	2018 Budget	2019 Budget	Chg from CY Budget
Port Revenue	\$22.8	\$25.2	\$2.4
Joint Venture Revenue	46.6	43.9	(2.7)
Operating Revenue	69.4	69.1	(0.3)
Total Operating Expenses	47.5	48.2	(0.6)
Operating Income	21.9	20.9	(1.0)
<i>Return on Revenue</i>	31.5%	30.3%	-1.2%
Non Operating Income (Expense)	(21.2)	(23.1)	(1.9)
Income Before Tax Levy & Expenses	0.6	(2.2)	(2.9)
Ad Valorem Tax Levy	18.6	20.9	2.3
GO Interest	(4.9)	(4.8)	0.1
Net Income	\$14.3	\$13.9	(\$0.4)
Debt Service Coverage Ratio	2.2	2.3	0.1
Return on Assets	1.1%	1.0%	-0.1%

2018 Budget vs 2019 Budget Expenses Comparison



(\$ millions)	2018 Budget	2019 Budget	Chg from CY Budget
Port Salaries & Benefits	\$36.2	\$35.4	\$0.7
Outside Services	7.4	7.5	(0.1)
Direct Expenses	1.8	1.9	(0.2)
Marketing & Global Outreach	1.2	1.0	0.2
Maintenance	8.3	8.5	(0.2)
Utilities	1.7	1.8	(0.1)
Environmental	5.3	4.0	1.3
Staff Expenses	1.5	2.5	(1.0)
Allocations	(43.3)	(42.5)	(0.8)
Total Operating Expenses before Dep	20.1	20.1	(0.0)
Depreciation	27.4	28.1	(0.6)
Total Operating Expenses	\$47.5	\$48.2	(\$0.6)

POT employs 228 Full time jobs with an average pay of \$94,000

2018 Forecast vs 2019 Budget

(\$ millions)



\$ millions	2018 Forecast	2019 Budget	Chg from CY Frctest
Port Revenue	\$23.2	\$25.2	\$2.0
Joint Venture Revenue	47.8	43.9	(3.9)
Operating Revenue	71.0	69.1	(1.9)
Total Operating Expenses	42.6	48.2	(5.5)
Operating Income	28.3	20.9	(7.4)
<i>Return on Revenue</i>	39.9%	30.3%	-9.7%
Non Operating Income (Expense)	(4.3)	(23.1)	(18.8)
Income Before Tax Levy & Expenses	24.0	(2.2)	(26.2)
Ad Valorem Tax Levy	18.6	20.9	2.3
GO Interest	(4.9)	(4.8)	0.1
Net Income	\$37.7	\$13.9	(\$23.8)
Debt Service Coverage Ratio	2.3	2.3	(0.0)
Return on Assets	2.8%	1.0%	-1.8%

May not foot due to rounding

2018 Forecast vs 2019 Budget Expenses Comparison



(\$ millions)	2018 Forecast	2019 Budget	Chg from CY Frctest
Port Salaries & Benefits	\$34.4	\$35.4	(\$1.0)
Outside Services	6.2	7.5	(1.3)
Direct Expenses	1.8	1.9	(0.1)
Marketing & Global Outreach	0.7	1.0	(0.3)
Maintenance	7.8	8.5	(0.7)
Utilities	1.7	1.8	(0.1)
Environmental	2.4	4.0	(1.5)
Staff Expenses	1.2	2.5	(1.3)
Allocations	(40.4)	(42.5)	2.1
Total Operating Expenses before Dep	15.8	20.1	(4.3)
Depreciation	26.8	28.1	(1.2)
Total Operating Expenses	\$42.6	\$48.2	(\$5.5)

2018 vs 2019 Expense Comparison

Salaries & Benefits



(\$ in millions)	2018 Budget	2018 Forecast	2019 Budget	Var from Forecast	% Var	Var from Prior Budget	%Var
Salary Wages	\$9.6	\$8.8	\$9.0	(\$0.1)	-2%	\$0.6	6%
Hourly Wages	12.9	12.3	12.8	(0.5)	-4%	0.1	1%
OT Wages	1.7	1.8	1.5	0.3	19%	0.1	9%
Total Wages	24.1	23.0	23.3	(0.3)	-1%	0.8	4%
F.I.C.A.	1.8	1.8	1.8	0.0	1%	0.0	2%
Medical Benefits	6.1	5.9	6.4	(0.5)	-8%	(0.3)	-5%
Employee Pension	3.0	2.7	2.9	(0.1)	-5%	0.1	5%
Other Benefits	1.1	1.0	1.1	(0.1)	-10%	0.0	2%
Total Benefits	12.1	11.4	12.2	(0.7)	-6%	(0.1)	-1%
Benefits % of Total	50.0%	49.7%	52.2%				
Port Salaries & Benefits	\$36.2	\$34.4	\$35.4	(\$1.0)	-3%	\$0.7	2%

May not foot due to rounding

Non Operating

(\$ millions)



\$ millions	2018 Budget	2018 Forecast	2019 Budget	Chg from CY Budget	Chg from CY Frcast
Interest Income	\$3.5	\$4.1	\$5.0	\$1.5	\$0.9
Investment Gain Loss	0.0	(1.4)	0.0	0.0	1.4
Capital Grant Income	1.5	4.8	0.9	(0.6)	(3.9)
Non-Capital Grant Income	0.3	0.7	0.2	(0.0)	(0.5)
Other Non Operating Income	(3.9)	11.6	(1.2)	2.7	(12.8)
Non Operating Revenue	1.3	19.7	4.8	3.5	(14.9)
Revenue Bond Interest Expense	19.1	20.1	19.8	(0.7)	0.3
Election Expense	0.0	0.0	0.9	(0.9)	(0.9)
Other Non Operating Expense	3.5	4.0	7.3	(3.8)	(3.3)
Non Operating Expense	22.6	24.0	28.0	(5.4)	(3.9)
Non Operating Revenues (Expense)	(\$21.2)	(\$4.3)	(\$23.1)	(\$1.9)	(\$18.8)

May not foot due to rounding

2019 Memberships over \$10k



POT Memberships over \$10,000	2018	2019
WA Public Ports Assoc. (WPPA)	\$ 210,000	\$ 210,000
Puget Sound Regional Council	44,000	50,000
Tacoma/Pierce County Chamber of Commerce	25,000	25,000
Executive Council for Greater Tacoma	14,000	14,000
Total	\$ 293,000	\$ 299,000

- Other Port memberships all less than \$10,000 per year.
- Membership costs subject to small variations based on fees tied to 2018 actual results

2019 Major Community Contracts



	2018	2019
World Trade Center	\$ 120,000	\$ 122,500
Economic Development Board	120,000	120,000
Total	\$ 240,000	\$ 242,500

2019 Promotional Hosting



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

The 2019 statutory budget includes \$180,650 for promotional hosting

- Includes POT's 50% portion of NWSA hosting
- 2019 Statutory limit based on Port revenue is \$447,015

2019 Statutory Cash Budget



(\$ Million)	2019
Beginning Cash & Investments	\$212.0
<u>Projected Sources of Funds</u>	
Revenues	69.1
Expenses	(19.5)
Memberships	(0.3)
Promotional hosting POT	(0.1)
Promotional hosting NWSA (POT share)	(0.1)
Funds Provided by Operations	49.0
Interest Income	5.0
NWSA Depreciation cash	6.7
Other, Net	(4.5)
Ad valorem tax revenue (net)	20.9
Projected Sources of Funds	77.1
<u>Projected Uses of Funds</u>	
Investment in Northwest Seaport Alliance	81.4
Debt Payments (Principal and Interest) - GO Bonds	10.0
Debt Payments (Principal and Interest) - Revenue Bonds	30.5
Debt Payments (Principal and Interest) - Commercial Paper	0.6
Capital Spending - Planned Projects	40.7
Projected Uses of Funds	163.2
<u>Projected Borrowing</u>	
Commercial Paper Borrowing	0.0
Total Borrowing	0.0
Projected Ending Cash & Investments	\$126.0

2019 -2023 Plan of Finance

2019-2023

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)

2019-2023

Plan of Finance Assumptions



Capital totaling \$346.2 million

- Includes POT portion of NWSA CIP:
 - Capitalized projects of \$206 million (50% of NWSA capitalized projects totaling \$412M)
- Includes POT specific Capitalized projects of \$100M

Debt Management

- All publicly traded bonds have been refunded
- Normally scheduled GO and Revenue Bond debt payments
- No additional borrowing is required
 - Starting with \$75M more in cash on 1/1/19 than modeled 1 year ago
- Does not retire \$25 million of Commercial Paper in 2023

2018-2023 Budget Forecast - Plan of Finance



<i>\$ millions</i>	2018 Forecast	2019 Budget	2020 Budget	2021 Budget	2022 Budget	2023 Budget
Port Revenue	\$23.2	\$25.2	\$26.1	\$27.3	\$28.1	\$28.6
Joint Venture Revenue	47.8	43.9	39.1	42.7	48.0	51.0
Operating Revenue	71.0	69.1	65.2	70.0	76.1	79.6
Total Operating Expenses	42.6	48.2	46.3	45.6	45.5	55.9
Operating Income	28.3	20.9	18.9	24.5	30.6	23.7
<i>Return on Revenue</i>	39.9%	30.3%	28.9%	34.9%	40.2%	29.8%
Non Operating Income (Expense)	(4.3)	(23.1)	(17.1)	(18.1)	(15.6)	(15.8)
Income Before Tax Levy & Expenses	24.0	(2.2)	1.7	6.3	15.0	8.0
Ad Valorem Tax Levy	18.6	20.9	21.2	21.6	22.1	22.7
GO Interest	(4.9)	(4.8)	(4.7)	(4.5)	(5.7)	(4.1)
Net Income	\$37.7	\$13.9	\$18.3	\$23.4	\$31.4	\$26.6
Debt Service Coverage Ratio	2.3	2.3	2.3	2.5	2.7	2.5
Return on Assets	2.8%	0.7%	1.3%	1.7%	2.3%	1.9%

2019 Minimum Cash Calculation



for 2019

(\$ Millions)

Minimum Port of Tacoma Cash & Investments

Port cash and investments to cover 6 months operating expenses	\$10.0
Prorated revenue bond payments	2.5
Prorated G.O. bond payments	0.8
Revenue bond reserves	46.4
Industrial insurance reserve	0.4
Self insurance reserve	1.0
Minimum Port of Tacoma cash & investment balance	<u>\$61.1</u>

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

Debt: Outstanding & Projected Principal



(\$ millions)

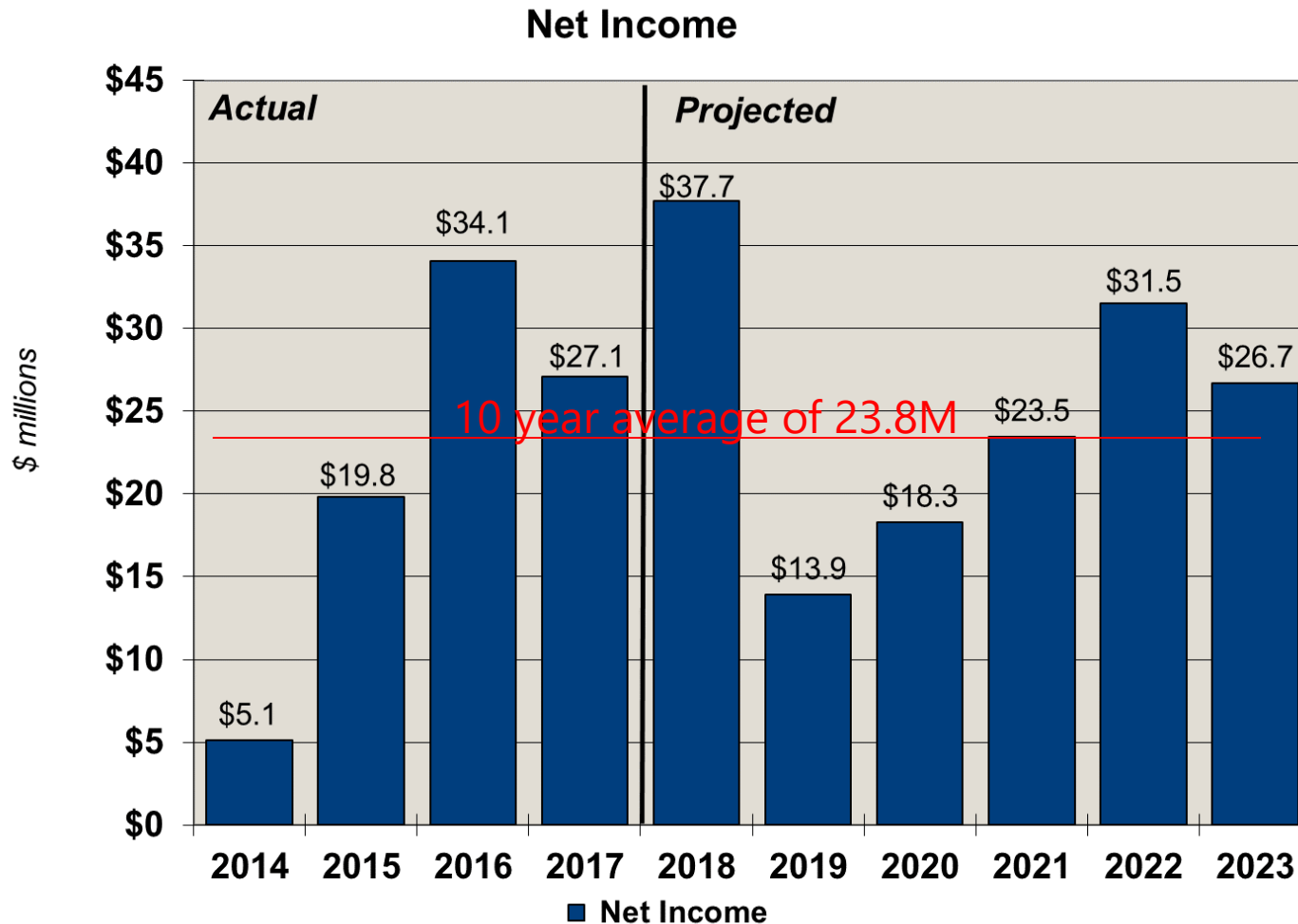
	Balance 12/31/2018	2019 Issues	2019 Repayments	Balance 12/31/2019
G.O. Bonds	\$ 150.5	\$ -	\$ (4.1)	\$ 146.3
Senior Rev. Bonds	173.9	-	(5.1)	168.8
Sub. Rev. Bonds	269.5	-	(5.3)	264.2
Commercial Paper	25.0	-	-	25.0
Total	\$ 618.8	\$ -	\$ (14.6)	\$ 604.3

Debt: Required Borrowing

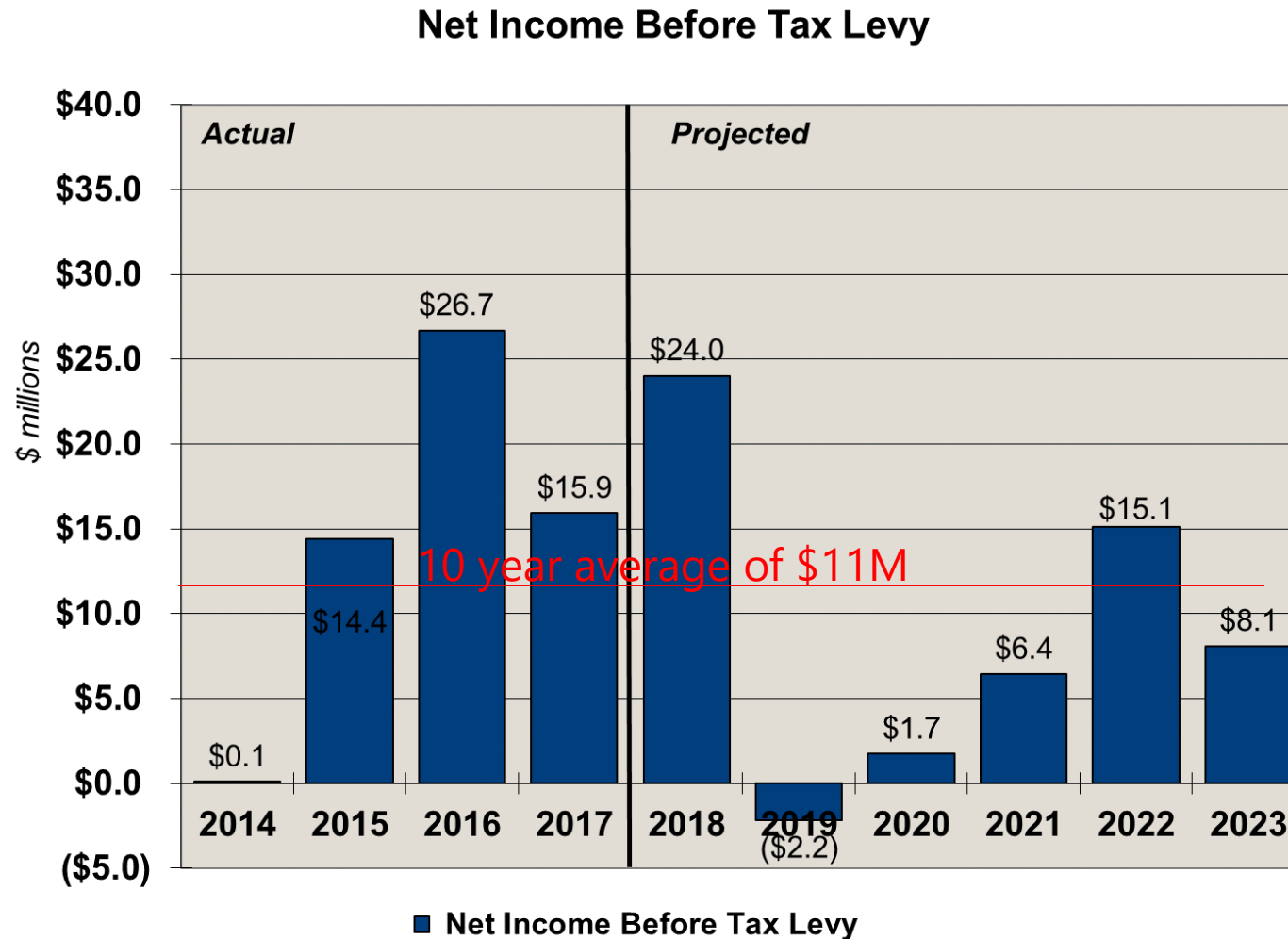


None

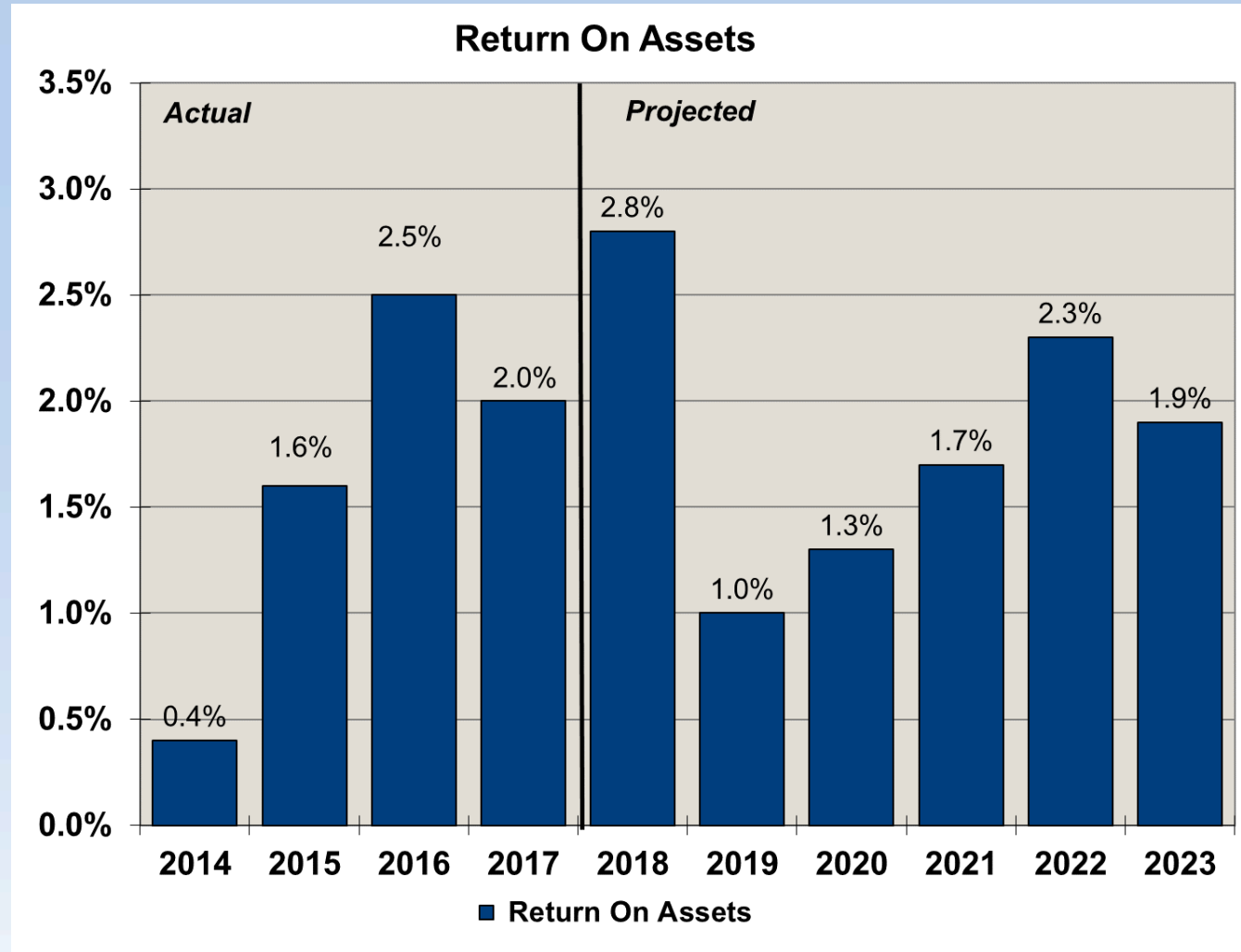
Financial Measure: Net Income



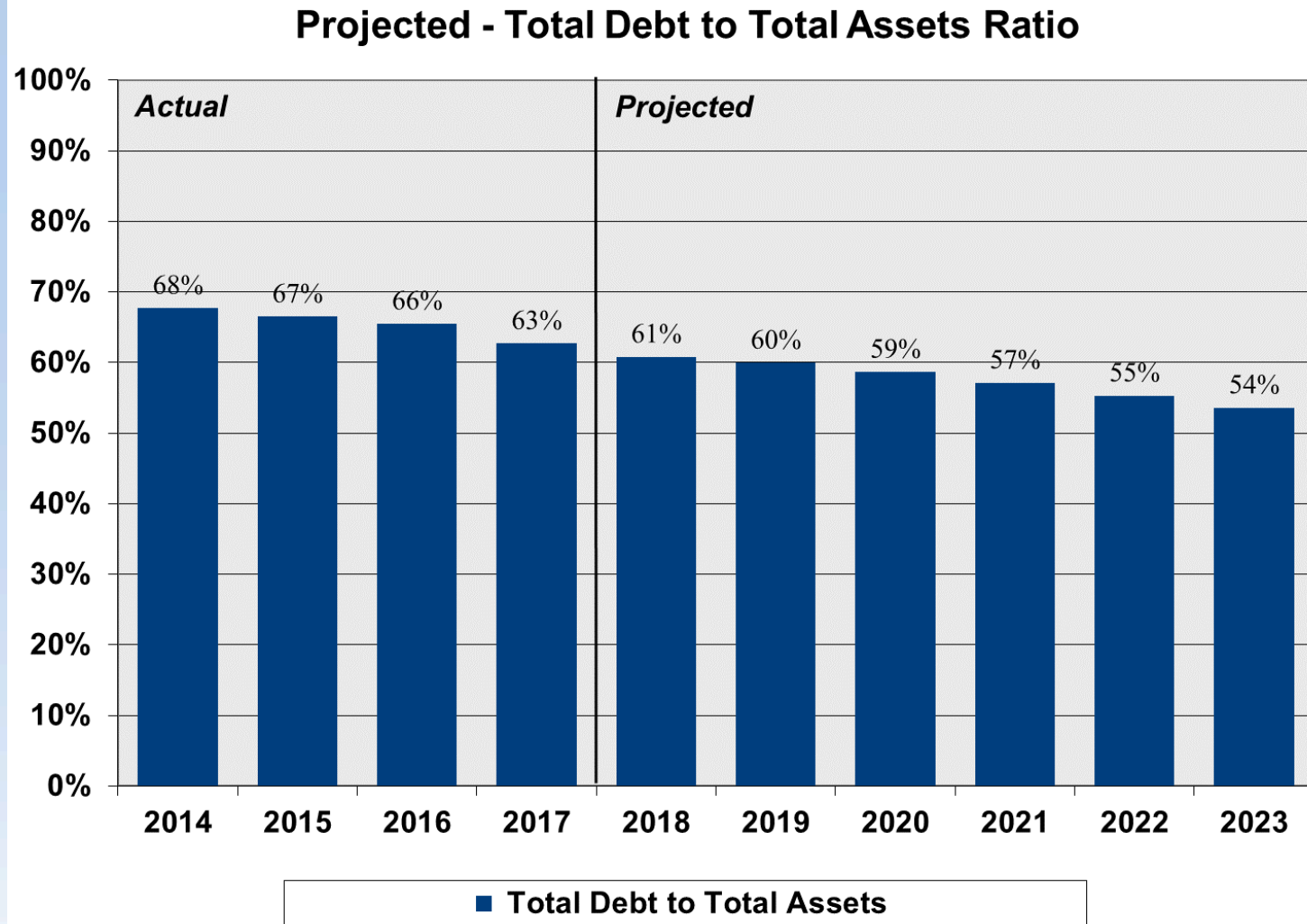
Financial Measure: Net Income before Tax levy



Financial Measure: Return on Assets



Financial Measure: Debt to Asset Ratio



2018 Key Messages



- Strong operating income at \$37.7M, \$23.4M higher than budget:
 - Revenue essentially flat
 - Decreased Expenses
 - Reduced environmental liability and reduced staffing costs
 - Non operating revenue up significantly due to 1 time events
 - Maytown \$8.6M, Frederickson Sale \$2.8M, Kaiser Grant \$2.3M, assets not written off \$3.9M
- Net income of \$37.7M

2019 Key Messages



- Healthy operating income of \$20.9 million
- Net income of \$13.9 million
- Proposed tax millage rate same as 2018
- Capital investments include land purchases, waterway widening, and rail investments
- Debt service above commission policy of 2x