

January 23rd, 2009

MEMORANDUM

TO : Commissioners

FROM : Bob McChesney

SUBJECT : Budget Revenue Analysis

During discussions about revenue projections in the 2009 Operating Budget the Commission expressed a strong desire to hold the line on expenses wherever possible, and further directed Staff to look at specific revenue categories that could be adjusted to provide relief for the Port's customers.

On the expense side, the typical process has been to increase wages and salaries for Port Staff to whatever the CPI index has been for that fiscal year. This year the full CPI would have been 4.9%, which was an unusually large jump from last year's 2.8%, and well above the average over the past several years where CPI has been relatively stable at about 3% (+/-). This year, instead of taking the full 4.9% CPI increase the Commission directed Staff to hold wages and salaries to the same increase as last year; 2.8%. The projected savings in 2009 is \$40,000. Since the budget has already been adopted Staff has continued to look for savings. For example, we're programmed to purchase three new trucks for Facilities and Maintenance this year, but we think we can get by with only two and maybe one without compromising safety or efficiency. We're looking at all expense line items, and will continue to do so throughout the year.

On the revenue side, in our budget deliberations the Commission asked Staff to consider various alternative scenarios that might hold the line on rate increases; that is to say no increase over 2008. At the last Commission meeting Staff was asked to take another look at the revenue projections and report back to the Commission with any recommendations for additional relief on rates. The general idea is that what appears as revenue to the Port is a cost to someone else, and in these seriously challenging economic times the Port has an obligation to our customers and stakeholders to be price sensitive.

From a budget perspective, as with expenses, revenue line categories are usually adjusted for CPI each year. In the case of leases, this is contractual.

Based on previous discussions, the 2009 budget already forecasts that revenues will be held flat in two areas: 1.) log yard, and 2.) boat launch fees. The reasoning went something like this. The log yard was identified as a suitable candidate operation for holding rates flat against 2008 because these are not contractual; rather they are what we call in the industry "thru-put rates". The rates are fixed and the total annual revenue is based on volume. The nature of timber sales requires some cost predictability and price consistency through the supply chain. If prices are set well in advance of delivery, then any serious unanticipated cost increase cannot be passed on to the customer and someone else in the system gets stuck with it. This increases risk to the timber producer and potentially destabilizes a critically important market for our Port District, and by

extension jeopardizes the jobs that depend on it for survival. The revenue impact to the Port from holding these rates flat in 2009 was approximately \$41,700.

On boat launch fees, part of the Port's mission is to encourage recreational boating beyond marina operations. The Port owns and operates three boat launches; two at PABH and one at JWM. With drastic increases in the price of gas, many boaters can't absorb any more cost to get their boat in the water. If these boats stay dry to avoid paying for gas and launch fees, local area economic activity that relies on them loses more cash opportunity which further weakens an already challenged retail sector. The revenue impact of holding the line on boat launch fees is approximately \$2,000.

Meanwhile, the 2009 budget assumes that leases can't be held flat without increase because CPI adjustments are contractual. Marine Terminal dockage went up 7.4% to reflect CPI plus 2.5% in order to re-capture the nearly \$3million invested last year in new fenders and on-dock power. In addition, in Staff's opinion this revenue is a small fraction of the terminal expense from ship activities paid by absentee owners, and would not have a negative effect on terminal utilization. In other words, even with the terminal rate increase POPA remains price competitive with the market for these vessel services.

Marina rates are a different deal. Four years ago the Commission approved a five (5) year rate schedule for Port Angeles Boat Haven. This year Boat Haven rates were increased by 7.2%. These rates were carefully calibrated to produce just enough incremental income to pay debt service on the bonds required to finance the recently completed improvements. In 2006 the Port sold \$5million in LTGO bonds. The bond covenants specifically reference the moorage rate increase as revenue to support the debt service. Meanwhile the improvements actually cost \$6million. The difference is what the Port must carry with tax levy and general revenue, so it's difficult to make a recommendation to keep the rates at Boat Haven flat.

Although the rationale was somewhat different and perhaps more complex, a similar moorage rate analysis was conducted for John Wayne Marina in 2006. Without going in to all the details, arguments and counter-arguments, the Commission approved a five year rate schedule that anticipated annual rate increases of CPI plus 6%. This did create some confusion and controversy with our customers at JWM. The technical financial arguments both for and against the increase have been well documented and yet remain in disagreement between the Port and the user groups.

If we just look at three simple factors, established moorage rates at JWM would appear completely justified. First, our experience is that marina operating expenses in our area have been increasing at an annual rate greater than CPI. At the same time, Reid Middleton, our marina engineers, advises that marina construction costs have been escalating at annual rates 2-3% higher than CPI. Because of this we always seem to be behind the cost curve, and our rates reflect that condition. Indeed, we think JWM moorage rates have been lower than they should be, for longer than what would otherwise be prudent, given the facts.

A second metric for JWM rates is the annualized "cash-on-cash" return on investment. This year will be the first time JWM has produced net positive cash flow since the very beginning, almost twenty years ago. The total capitalized investment at JWM is \$10.1million. With the projected gross revenue from moorage in 2009 of \$1.27million, this generates positive cash flow of \$109,668; net of expenses and debt

service. That's a cash-on-cash return of 1%. The Port averages 3% with a low risk investment portfolio, so 1% seems rather slim by comparison.

Perhaps the most compelling argument of all is the market. Table-1 shows a representative sample of market rates in the Puget Sound boating region. Narrowing the market further and comparing JWM rates to Port Townsend demonstrates rough parity in the local market area. Indeed, moorage rates at Point Hudson marina operated by the Port of Port Townsend are significantly higher than JWM. On an average basis, JWM rates are on par with other similar facilities in the market. Thus, it's difficult for Staff to justify any rate relief at JWM and we think rates should remain as previously approved and budgeted.

Port	Boat Length				
	20'	30'	40'	50'	60'
Bellingham	6.09	6.09	6.09	6.09	6.09
Bremerton	8.01	8.01	8.32	9.09	9.86
Edmonds	7.32	7.98	9.26	10.15	11.72
Everett	4.64	6.87	7.96	9.81	9.81
PABH	5.40	5.69	5.98	6.27	6.56
Pleasant Harbor	7.00	7.00	7.00	8.00	8.00
Point Hudson	7.37	7.81	8.28	8.78	9.31
Port Townsend	5.72	6.24	6.62	7.01	7.45
Shilshole	8.23	9.33	10.16	11.03	11.88
John Wayne Marina	6.50	7.11	7.71	8.32	8.32
Marina Survey Average	6.64	7.22	7.74	8.47	8.96
JWM % of Average	98%	98%	100%	98%	93%

From an enterprise point of view, the Port is in a difficult situation. Although we are controlling both our direct operating expenses and administrative overhead as previously noted, the revenue picture is not encouraging for 2009. Table-2 illustrates the

Operating Division	Rate Increases				
	0.0%	2.8%	4.9%	7.2%	10.9%
PABH	(73,800)	(45,100)	(23,575)	0	N/A
JWM	(93,736)	(69,657)	(51,598)	(31,819)	0
Marine Terminal	(37,810)	(23,106)	(12,078)	0	N/A
Rental Properties	(9,400)	(4,029)	0	N/A	N/A
Total	(214,746)	(141,892)	(87,251)	(31,819)	-

revenue impacts resulting from various decreases. If the Port holds all rates to Zero increase, the result is an additional \$214,746 decrease in total revenue. This is a difficult proposition to recommend.

From an enterprise point of view, the already adopted 2009 budget forecasts only a mere \$5,450 in operating income. This is not sufficient contribution to fund the Port's Strategic Capital Improvement Program. As Table-3 shows, this year the commission has authorized \$2.2million for capital improvements. This included \$1million for marine terminal improvements; \$100,000 for JWM float improvements; and \$200,000 for Harborworks. Plus there's K-Ply, PABH west parking lot and other capital projects; not even to mention the NOAA facility if we're successful getting that award. The point is, none of these projects will generate new incremental revenue for

Balance, Jan 1, 2009	\$15,250,000
Operating Surplus	5,450
Tax Levy Receipts	1,304,813
Capital Projects Expense	(2,245,000)
Debt Service	<u>(919,243)</u>
Balance, Dec 31, 2009	\$13,396,020

2009, and all capital investments this year are funded out of reserves.

From a fiscal management point of view I cannot recommend the Commission to further dilute 2009 projected revenues in any categories by rolling back the increases anticipated by the budget as approved. The idea of “borrowing from reserves” to help alleviate rate distress by our customers would show the Port’s empathy and support in a suddenly difficult period of general economic adjustment. But it’s a slippery slope because the re-funding or payback mechanism in future years is not a certainty, so in my view there is a real danger of serious revenue shortfall in the out years. Basically, I think the short term benefits will soon be forgotten when in future years the Port is trying to fund additional capital projects. It’s sort of like eating your seed corn. As the Port’s asset managers, and from my own management perspective, the long term fiscal health of the Port as a viable enterprise for creating jobs in the community must not be compromised for short term benefits to address circumstances beyond the Port’s control.

2009 Monthly Permanent Moorage Rate Survey (cost per foot per month)

Port	<----- Boat Length ----->				
	20'	30'	40'	50'	60'
Bellingham	6.09	6.09	6.09	6.09	6.09
Bremerton	8.01	8.01	8.32	9.09	9.86
Edmonds	7.32	7.98	9.26	10.15	11.72
Everett	4.64	6.87	7.96	9.81	9.81
PABH	5.40	5.69	5.98	6.27	6.56
Pleasant Harbor	7.00	7.00	7.00	8.00	8.00
Port Hudson	7.37	7.81	8.28	8.78	9.31
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Shilshole	8.23	9.33	10.16	11.03	11.88
John Wayne Marina	6.50	7.11	7.71	8.32	8.32
Marina Survey Average	6.64	7.22	7.74	8.47	8.96
JWM % of Average	98%	98%	100%	98%	93%

**Sensitivity Analysis - Revenue Reductions in 2009
Budget at Various Levels of Rate Increases**

Operating Division	Rate Increases				
	0.0%	2.8%	4.9%	7.2%	10.9%
Port Angeles Boat Haven	(73,800)	(45,100)	(23,575)	0	N/A
John Wayne Marina	(93,736)	(69,657)	(51,598)	(31,819)	0
Marine Terminal - Dockage	(37,810)	(23,106)	(12,078)	0	N/A
Rental Properties - less tenant improvements	(9,400)	(4,029)	0	N/A	N/A
Total	(214,746)	(141,892)	(87,251)	(31,819)	-

2009 Budget - Summary of Total Reserves

Balance, Jan 1, 2009	\$15,250,000
Operating Surplus	5,450
Tax Levy Receipts	1,304,813
Capital Projects Expense	(2,245,000)
Debt Service	<u>(919,243)</u>
Balance, Dec 31, 2009	\$13,396,020

2009 Permanent Moorage Rate Comparison

(per foot per month - does not include 12.84% LHT)

Length	John Wayne Marina	Port Townsend Boat Haven	Port Townsend Pt. Hudson
20' - 24'	\$6.50	\$5.72	\$7.37
25' - 29'	6.50	5.89	7.37
30' - 39'	7.11	6.24	7.81
40' - 49'	7.71	6.62	8.28
50' - 52'	8.32	7.01	8.78
53' - 60'	8.32	7.45	9.31
61' - 70'	8.32	7.89	9.87
71' - 90'	8.32	8.36	10.45
91' - 110'	8.32	8.87	11.08
111' - 130'	8.32	9.40	11.76

**Port of Port Angeles
Analysis of Budget Revenue Adjustments
January 26, 2009**

At the January 12, 2009 meeting, the Port Commission directed staff to analyze adjustments to the 2009 Budget adopted in November 2008.

The Commission directed staff to examine the impact of various alternate rate increase at the following facilities:

Port Angeles Boat Haven	2009 Budget Increase: 7.2%
John Wayne Marina	2009 Budget Increase: 10.9%
Marine Terminal - Dockage	2009 Budget Increase: 7.4%
Rental Properties	2009 Budget Increase: 4.9%

These increases reflect the following assumptions/previous Commission actions:

Port Angeles Boat Haven	Budget Increase reflects previous Commission action after rate hearings
John Wayne Marina	Budget Increase reflects previous Commission action after rate hearings
Marine Terminal - Dockage	Budget Increase reflects adjustment for major facility upgrade
Rental Properties	Budget Increase for some tenants is higher to reflect amortization of tenant improvements; basic rate increase in 2009 Budget was 4.9%

A. Sensitivity Analysis - Revenue Reductions in 2009 Budget - Various Levels of Rate Increases

Operating Division	Rate Increases				
	0.0%	2.8%	4.9%	7.2%	10.9%
Port Angeles Boat Haven	(73,800)	(45,100)	(23,575)	0	N/A
John Wayne Marina	(93,736)	(69,657)	(51,598)	(31,819)	0
Marine Terminal - Dockage	(37,810)	(23,106)	(12,078)	0	N/A
Rental Properties - less tenant improvements	(9,400)	(4,029)	0	N/A	N/A
Total	(214,746)	(141,892)	(87,251)	(31,819)	-

As background for this analysis, the following summary of Total Reserves (Cash plus Investments) is presented below. These sections were developed from the 2009 Budget; the reduction of Total Reserves represents approximately 12%.

B. 2009 Budget - Summary of Total Reserves

Balance, Jan 1, 2009	\$15,250,000
Operating Surplus	5,450
Tax Levy Receipts	1,304,813
Capital Projects Expense	(2,245,000)
Debt Service	(919,243)
Balance, Dec 31, 2009	\$13,396,020

As further background of the Port's Total Reserve position, the following long-term chart for the period 1999 through 2009 is presented. Notations of significant increases/decreases for this 10 year period have been added.

C. Total Reserves - 10 Year Period

