Port of Port Angeles
2012 Budget Variance Report
thru 4th Quarter
Preliminary

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Comprehensive Port Variances

Although total receipts are under budget creating a negative variance of ($838k), expenses are under budget by more than the shortfall in revenue, creating an overall favorable variance in net surplus of $82k. The net surplus is $2.4 million before depreciation of approximately $2 million. We are on track with the projected year-end net surplus of $2.3 million which was developed during the 2013 budget process.

This is a preliminary net surplus. We are reviewing potential adjustments to several work-in-process accounts that have accumulated over several years. From a best practice perspective, we plan to record several significant non-operating expense items ($500k environmental costs, $350k K-Ply grant funded expenses, and $150k airport services grant expenses and various other smaller expenses).

Costs savings were primarily in wages and benefits due to staffing being different than what was budgeted, capitalization of some labor and materials, and some maintenance that was rescheduled.

	Variance	**Explanation of Variance**
Operating Receipts	($715k) shortfall	• $37k higher in Marine Terminal due to wharfage and equipment rental • ($445k) under in Log Yard due to 23% decrease in total loads compared to budget related to weak domestic demand. This is a 32% decrease from 2011. • ($13k) under in Airport due to overall lower activity • ($105k) under in Marina moorage; part of the decrease was the removal of vessels due to the explosion at JWM • ($179k) under in Rental Properties due to tenant bankruptcies and lease changes

Operating Expenses	$920k cost savings	• $111k Marine Terminal: savings in wages, travel and dock repairs • $262k Log Yard: savings in wages due to retirement and less maintenance and savings in supplies due to less activity • $17k Airport: savings in most areas, slightly offset by increase in insurance • $87k Marinas: savings in maintenance by using on-hand materials and reclassifying some items as capital; savings in outside services and utilities • $13k Public Boat Ramps: Savings related to not performing major maintenance on floats, will replace floats instead • $80k Rental Properties: savings in outside services (capitalized heat pump replacement) plus small savings in other areas • $60k Mech Shop: savings in wages, did not hire 3rd mechanic; also savings in materials • $97k Facilities Maint: savings due to staff transition and the capitalization of some labor and materials; also capitalized vehicle • $90k Econ Dev: savings in most areas due to staff changes and reformulation • $101k Admin: savings in Misc Expense, capitalization of window replacement project and other savings in most areas
Operating Surplus	$205k	Cost savings were greater than the shortfall in revenues
Non-Op Surplus	($123k)	Shortfall in revenue is due to $74k lower interest earnings and $46k lower timber tax.

Divisional Variances

Marine Terminal – Positive Net Variance of $148k or 9%
(Higher Revenues plus Cost Savings)

The Marine Terminal receipts variance is $37k positive, which is 2%. It is due to $27k in equipment rental for forklift usage, $27k in wharfage and $15k miscellaneous income for bark cleanup service.

The Marine Terminal expenses variance is $111k positive, which is 18%. It is the result of $52k savings in wages/benefits and $34k savings in materials due to deferring terminal 1 dock repairs that will be included in an expanded capital improvement project. Also $28k savings utilities & supplies related to lower ship activity.

Log Yard – Negative Net Variance of ($194k) or (97%)
(Revenue Shortfall > Cost Savings)

The Log Yard receipts variance is ($455k) negative, which is (32%). The total loads were (23%) below budget. Log activity can vary significantly on the activity and timing of a few large customers. This is a 32% decrease in total log loads from 2011. The decrease is related to the weak domestic demand for wood products and higher log costs driven by the Chinese export market. There were fewer local timber sales which also resulted in lower timber tax revenues (see non-operating department). This decrease in loads is reflected in the following revenues: ($227k) reduced handling; ($199k) reduced rafting; ($45k) reduced banding charges; and ($13k) reduced round boom revenues. Round boom operations and associated revenues are seasonal and impacted by weather (March – Oct). The handling revenue was also affected by the cancellation of the Aquatic Storage Agreement with Dunlap Towing and reduced licensing fee from closure of PenPly. The shortfall in receipts was partially offset by a $47k positive variance in miscellaneous income for staging logs beyond the typical work flow.

The Log Yard expenses variance is $262k positive, which is 21%. It is the result of $148k savings in wages/benefits (retirement in August) and less labor maintenance. There was also $26k savings in maintenance materials and $78k positive variance in supplies (lower fuel and banding) related to lower activity. Banding supply expenses varies directly with round boom and rafting activity.

Airports – Positive Net Variance of $5k or 5%
(Cost Savings > Revenue Shortfall)

The Airport receipts variance is ($13k) negative, which is (4%). It is due to lower activity which is reflected in lower parking fees, landing fees and miscellaneous income.

The Airport expenses variance is $17k positive, which is 4%. It is the result of cost savings in utilities (budget anticipated an increase in fuel prices and there was lower diesel usage for snowplowing), supplies and maintenance (used existing materials), and outside services. This was partially offset by overages in insurance and a survey to mark the property.

Marinas (includes Boatyard) – Negative Net Variance ($17k) or (2%)
(Revenue Shortfall > Cost Savings)

The Marina and Boatyard receipts variance is ($105k) negative, which is (4%). It is due to lower moorage revenue overall. In addition, John Wayne Marina had lower occupancy when vessels were removed due to a vessel explosion. Utility sales were also lower by ($18k) because the combined sewer overflow (CSO) increase was budgeted high since it was unknown. There is a corresponding savings in expenses. The shortfall in moorage revenue was partially offset by $10k in miscellaneous income from the Boatyard for equipment rental and storage fees related to higher commercial vessel activity. There was also $26k positive variance in fuel handling, which reflects higher fuel prices. There is a corresponding cost increase for fuel expense.

The Marina and Boatyard expenses variance is $87k positive, which is 6%. It is the result of $75k savings in maintenance (includes the delayed seal coat for the Boatyard while other alternatives are researched; capitalizing the PABH waterline project; used on-hand materials for the JWM float repair); $20k savings from capitalizing a truck purchase; $27k savings in outside services (decided an in-water survey was not needed, plus other savings); and $25k savings in utilities (over budgeted due to unknown rate change). Savings were partially offset by($35k) overage in fuel costs due to higher prices; ($15k) overage in security wages due to security charged to BY and other small variances.

Public Boat Ramps – <u>Positive</u> Net Variance $14k or 48%
(Revenues on track + Cost Savings)

Public Boat Ramp receipts were on track with budget at $45k.

Public Boat Ramp expenses variance is $13k positive, which is 80%. It is a result of $10k savings in maintenance based on the decision that it is better to replace than repair the west Boat Haven launch ramp float. Staff has applied for grants, but this project doesn't score high against grant criteria. There was also a number of other small cost savings.

Rental Properties – <u>Negative</u> Net Variance ($99k) or (9%)
(Revenue Shortfall > Cost Savings)

The Rental Property receipts variance is ($179k) negative, which is (12%). Several changes resulted in a decrease: two companies did not complete their lease due to bankruptcy (PenPly and Harbor Action); a lease was renegotiated to a lower rental amount in exchange for the tenant making significant improvements (Blackball Ferry); a delay in occupancy related to the ramp up in the composite manufacturing lease (ACTI). Some of the revenue shortfall was partially offset by new leases.

The Rental Property expenses variance is $80k positive, which is 17%. It is the result of $56k savings in outside services (heat pump replacement was capitalized but was budgeted at an expense), $7k savings in miscellaneous expense, $7k savings in staffing being different from budget, $6k savings in utilities (over budgeted due to unknown rate change). There were also several other small variances.

Mechanic Shop Expenditures – Positive Variance $60k or 37%

The positive expenses variance is $41k in wages/benefits from not hiring the 3rd mechanic. There is also $18k savings in materials.

Facilities Maintenance – Positive Net Variance $97k or 37%
(Cost Savings > Revenue Shortfall)

The positive expenses variance is $100k which was slightly offset by ($3k) negative variance in Miscellaneous Income budgeted for Forklift training revenue that did not occur. The positive expense variance is the result of $36k savings in maintenance (some labor charged to cap projects and PenPly mothball) and $43k savings in salaries/benefits due to staff changes. There was also $31k for vehicle which was capitalized instead of expensed.

Economic Development Expenditures – Positive Variance $90k or 31%

The positive expenses variance is the result of cost savings of $26k in staffing being different from budget and $10k in travel and training. There is also savings of $29k in marketing and $19k in public information since only 1/3 of the costs of the new website occurred in 2012 (2/3 will carry over to 2013). There were also several other small variances.

Administrative & General Expenditures – Positive Variance $101k or 7%

The positive expenses variance is the result of cost savings of $53k in miscellaneous expense, $16k in outside studies, and $11k in travel and training. There was also $25k savings from capitalizing the window replacement project which was budgeted as an expense. The overall savings were partially offset by ($4k) in computer equipment and other small variances.

Non-Operating Receipts – Negative Variance of ($123k) or (29%)

The negative receipt variance is the result of being under by ($74k) or (31%) in interest earnings because we are not able to reinvest at the same interest rates of the bonds that were redeemed (reached maturity or were called). There was also ($46k) or (25%) in lower timber taxes.