



Development of FY 2016 Operating and Capital Budgets

Budget Update #2

Board of Port Commissioners Meeting

May 28, 2015

The preliminary summary budget information contained in this presentation is disclosed publicly for general information relating to the Port only. The information and figures herein include projections and forecasts that are based upon certain assumptions and involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance or achievements to differ materially from those expressed or implied by such projections and forecasts. The information and figures herein are subject to change without notice after the date thereof, and may differ from the information and figures contained in the Port's final adopted budget. The overall cost of the Port's capital projects is subject to change, and the variance from the cost estimates reflected herein could be material. The Port is not obligated to and does not plan to issue any updates or revisions to this preliminary summary budget information.

Anticipated Schedule

March 26	Board Update #1 – Overview, Key Factors, Objectives and Assumptions
May 14	Board Update #2 – Preliminary Budget Numbers
June 25	Request Board adoption of FY 2016 Operating and Capital Budgets
July 6	Submit Adopted FY 2016 Budget to City

Purpose of Presentation

1. Review key factors influencing development of FY 2016 Budget
(discussed at Budget Update #1)
2. Review key budget objectives and assumptions
(discussed at Budget Update #1)
3. Present preliminary Port budget for FY 2016

Factors Influencing Development of FY 2016 Budget

- ❑ The Port's financial condition has improved significantly since the lows of 2009
- ❑ However, financial pressures continue:
 - Significant pressure on Maritime revenues and business activity
 - Pension and health care costs are expected to continue to experience significant rate increases
 - Expenses have increased at a rate faster than revenues for the past two years, and expected to continue to do so
 - The 5-year capital improvement program remains constrained and many unfunded needs remain
- ❑ Port staff must closely manage, prioritize, and be prudent with expenditures and focus on revenue maintenance and enhancement

Key Budget Objectives

- ❑ Support and maintain day-to-day operations
- ❑ Continue progress on 6 major capital projects
 - OAB redevelopment
 - Terminal 1 renovations
 - Runway safety area
 - BART Connector (payments)
 - Perimeter dike
 - Runway 11/29 rehabilitation
- ❑ Maintain and improve financial health; increase revenues
- ❑ Allocate staffing resources efficiently
- ❑ Support strategic plan

Key Budget Assumptions

Revenue Projections	<input type="checkbox"/> Based on existing and anticipated contracts, industry outlook, competition
Staffing Level	<input type="checkbox"/> Hold as flat as possible; seek efficiencies through management initiatives
Non-Personnel Expenses	<input type="checkbox"/> Hold as flat as possible; seek efficiencies through management initiatives
Capital Expenses	<input type="checkbox"/> Initial capital budget limited to projects already contractually obligated; in progress <input type="checkbox"/> Additional “Pipeline” projects to be brought to the Board for approval during the course of the fiscal year
Bond Debt Repayment	<input type="checkbox"/> \$98 million; as obligated
Commercial Paper Debt Repayment	<input type="checkbox"/> \$4 million
Additional Debt <i>to fund Airport Capital Projects; Secured by PFC Revenues*</i>	<input type="checkbox"/> Approximately \$29 million in FY 2016 for PFC-eligible projects (Terminal 1) anticipated. Of this amount, \$7 million is for FY 2016 Pipeline projects that are anticipated to be brought to the Board for approval during the course of the fiscal year.

* The Port’s CP program (secured by general revenues) is anticipated to be used in the interim until a long term bond take-out occurs. Over the next 5 years, approximately \$95 million is estimated to be borrowed for PFC-eligible projects. This amount includes required financing reserves as well as the take-out of approximately \$19 million of outstanding CP Notes used for prior PFC-eligible costs through June 2015.

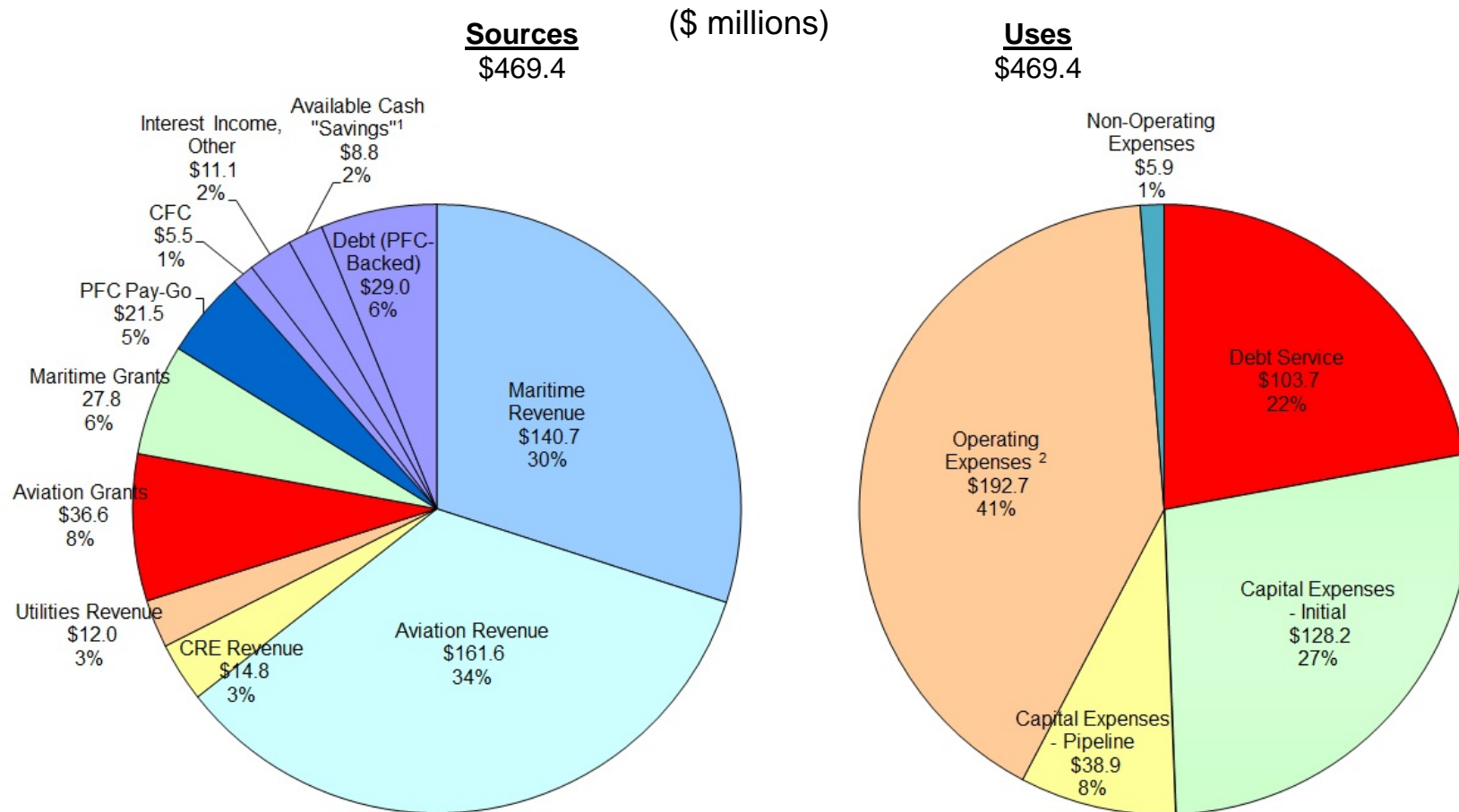
Key Budget Assumptions (cont'd)

Debt Service Coverage Ratio <i>(Operating Revenues less Operating Expenses divided by Total Debt Service)</i>	<input type="checkbox"/> Target minimum 1.35x in order to provide minimum operating financial cushion; provide funds for capital improvements; maintain positive cash flow; and preserve credit ratings
Target Cash Balance <i>as of June 30, 2016</i>	<input type="checkbox"/> Minimum \$100 million
Board Established Reserves	<input type="checkbox"/> Maintain per Board Policy at \$69 million
Unfunded Liabilities	<input type="checkbox"/> Pension – continue paying 100% of annual amount as determined by CalPERs actuary (contractual) <input type="checkbox"/> Retiree Medical – continue paying 100% of annual amount as determined by Port actuary

FY 2016 Projected Activity Levels

	FY 2014 Actuals	FY 2015 Anticipated	YoY Growth	FY 2016 Preliminary	YoY Growth
Airport Passengers	9,890,000	10,730,000	8.6%	11,159,000	4.0%
Seaport Full TEUs	1,833,000	1,725,000	-5.9%	1,768,000	2.5%

Sources and Uses of Port Funds FY 2016 Preliminary Budget

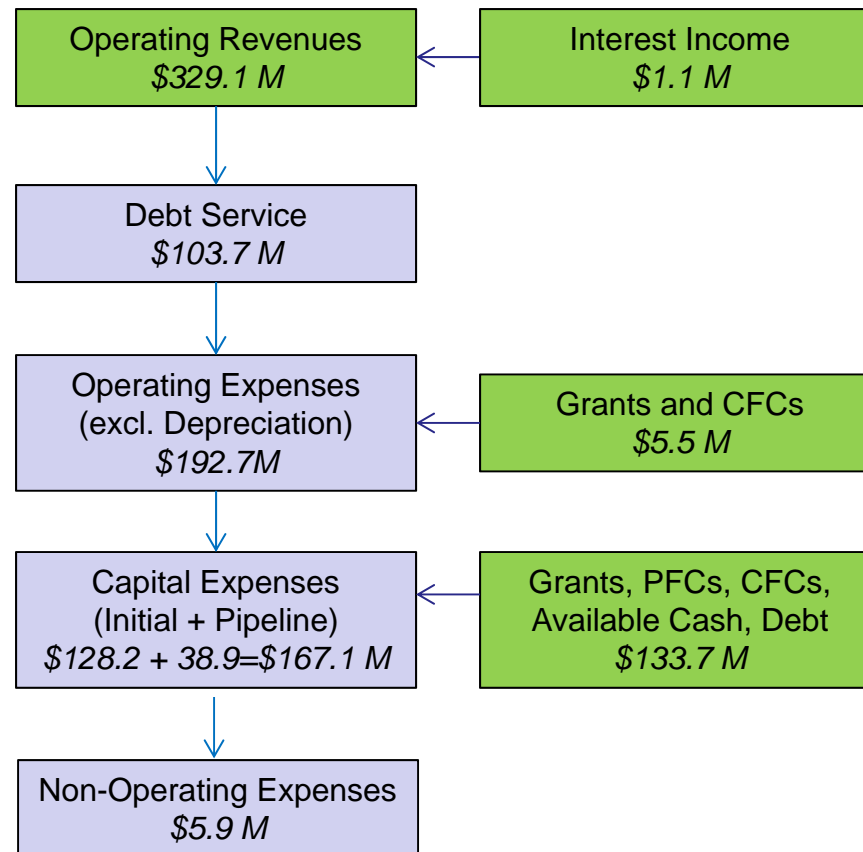


1. Includes \$10 million remaining payment for Oak-to-Ninth (Brooklyn Basin) transaction.

2. Excludes depreciation; \$102 million or 53% of operating expenses is personnel costs.

Sources and Uses of Port Funds

FY 2016 Preliminary Budget



FY 2016 Operating Revenues

(\$ millions)

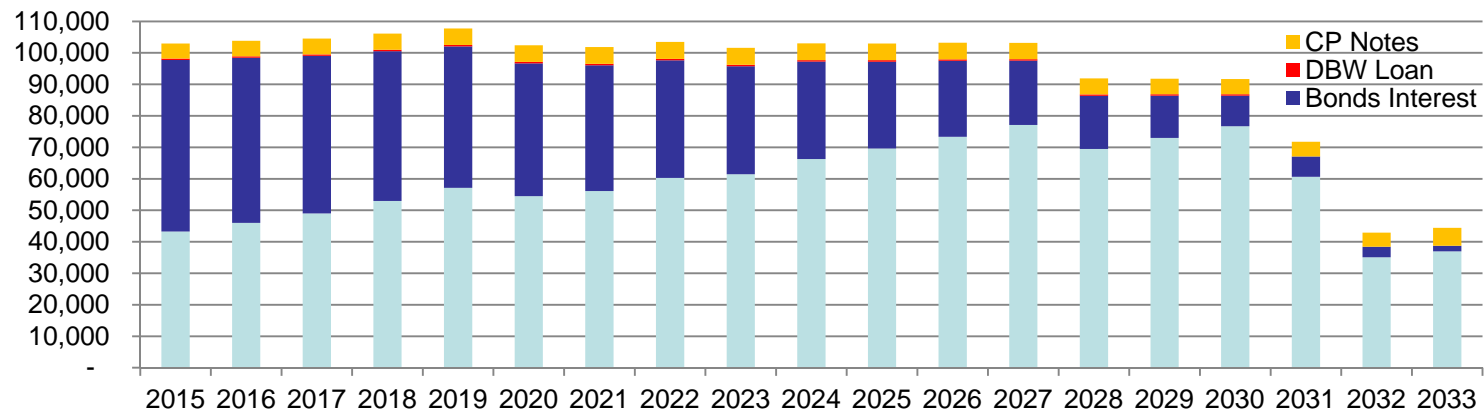
	FY 2014 Actuals	FY 2015 Anticipated*	FY 2016 Preliminary	FY16 v FY15 \$ Variance	FY16 v FY15 % Variance
Aviation	\$153.0	\$158.1	\$161.8	\$3.7	2.3%
Maritime	146.7	145.5	140.9	(\$4.6)	-3.3%
CRE	13.1	14.3	14.8	\$0.5	3.5%
Utilities	10.1	13.3	12.1	(\$1.2)	-10.2%
Bad Debt	0.1	(0.4)	(0.4)	\$0.0	0.0%
Total	\$323.0	\$330.7	\$329.1	(\$1.6)	-0.5%

- ❑ In comparison to FY 2015 anticipated revenues, FY 2016 Port-wide revenues are anticipated to be flat; higher Aviation and CRE revenues are offset by lower Maritime and Utility revenues.

* FY 2015 Budgeted Revenues for Aviation, Maritime, CRE, and Utilities is \$151.7, \$139.8, \$13.7 and \$10.1 million, respectively. FY 2015 Anticipated Revenues projected to be \$15.9 million higher than budgeted.

FY 2016 Debt Service Payments (\$millions)

Type of Debt	FY 2016 Debt Service Payments	Outstanding Debt as of 5/1/15
Bonds	98.4	1,075.6
DBW Loan	0.5	4.9
CP Notes	4.7	74.4
Total	103.7	1,155.0



- ❑ The Port has \$1.2 billion of debt outstanding with annual debt service payments of more than \$100 million.

FY 2016 Operating Expenses

(\$millions)

Operating Expenses (excl. Depreciation)	FY 2016 Preliminary	% of Total	% Change from FY 2015B
Personnel Costs	\$102.0	53%	+2%
Police, Fire and Other Security	26.5	14%	+5%
Administrative	19.3	10%	0%
Parking, Rental Car, Ground Transp, Truck Parking	18.2	9%	+7%
Repairs & Maintenance	17.6	9%	-5%
Insurance, Utilities, Environmental	12.0	6%	+3%
Utility Cost of Sales	7.1	4%	+24%
Labor and Overhead to Capital Expense	(10.0)	-5%	-12%
Total Operating Expenses (excl. Depreciation)	\$192.7	100%	+3%

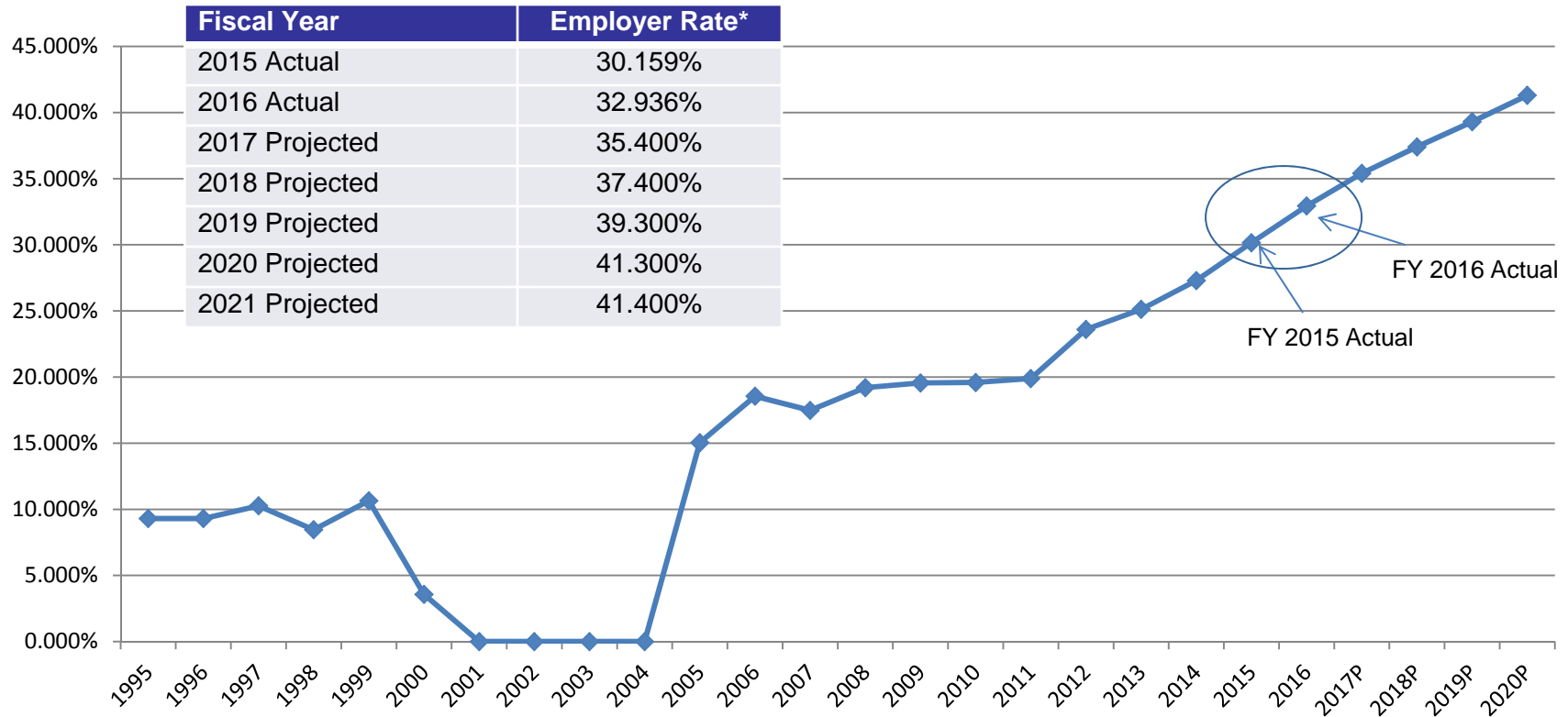
FY 2016 Operating Expenses – Personnel

(\$millions)

Personnel Costs*	FY 2016 Preliminary	% of Total
Salaries and Wages	\$53.1	52%
Pension	17.9	18%
Health Care – Retirement	13.0	13%
Health Care – Active	8.9	9%
Overtime	2.9	3%
Workers Compensation	2.4	2%
Vacation/Sick Leave – Unused/Owed	1.5	1%
Medicare	0.8	1%
Life, Disability, Accident Insurance	0.6	1%
Training and Education	0.5	1%
Other	0.3	0%
Total Personnel Costs	\$102.0	100%

	FY15	FY16
FTEs	497	497
Vacancy Factor	25	30

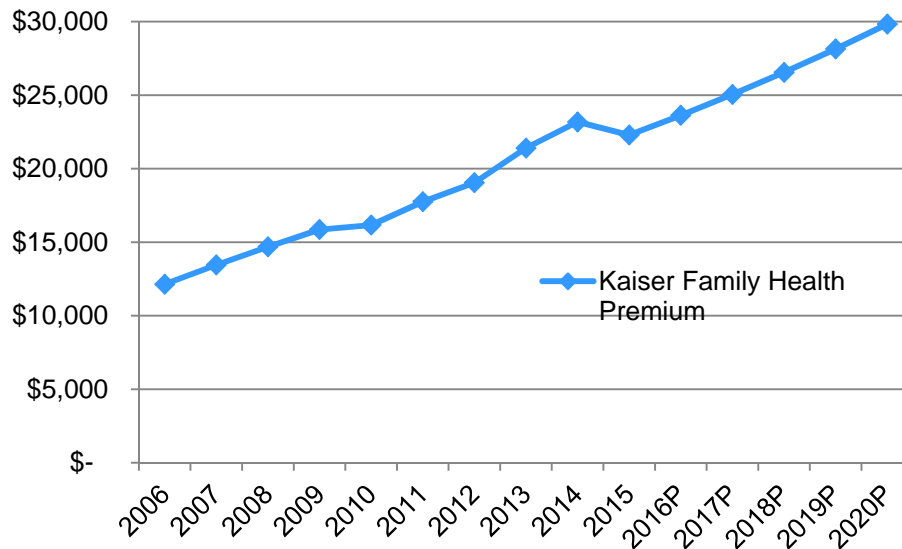
Port's Employer Pension Contribution Rate



- ❑ Based on current payroll, pension costs will increase \$1.4 million in FY 2016 due solely to the rate increase.
- ❑ In addition, Port employees pay 8% for a total pension rate in **FY 2016 of 40.936%** of payroll.

* Provided by CalPERS report dated October 2014.

Kaiser Family Health Care Premium



- ❑ The Kaiser Family health care premium rate as of January 1, 2015 is \$22,290; \$10,146 or 184% more than 2006.

Calendar Year	Annual Premium	% Change
2006	\$12,144	10%
2007	13,452	11%
2008	14,685	9%
2009	15,859	8%
2010	16,161	2%
2011	17,752	10%
2012	19,046	7%
2013	21,401	12%
2014	23,175	8%
2015	22,290	-4%
2016P	23,627	6%
2017P	25,045	6%
2018P	26,548	6%
2019P	28,141	6%
2020P	29,829	6%

2006-2015

Total Growth = **184%**

Average Annual Growth = **7%**

* Projections do not include any potential impact of Affordable Health Care Act tax.

Operating Expenses vs Operating Revenues Growth Rate

	FY 2014 Actual	FY 2015 8 mos YTD Actual	FY 2016 Projected*
Operating Revenues	+2.4%	+3.0%	-0.5%
Operating Expenses (excl. Depreciation)	+11.2%	+7.5%	+3.4%

- ❑ Operating expenses are growing at a rate faster than operating revenues.

* FY 2016 Projected growth in Revenues is compared to FY 2015 Anticipated Revenues. FY 2016 Projected growth in Operating Expenses is compared to FY 2015 Budgeted Operating Expenses.

FY 2016 Non-Operating Expenses and Other Payments

(\$millions)

Non-Operating Expense	FY 2016 Preliminary
City General Services	\$1.2
Lake Merritt Maintenance	1.1
Retroactive Pension Payments for Prior Port Safety Workers	0.8
Demolition of FAA Control Tower	0.2
Debt Fees – Rating Agency, Letter of Credit	1.9
Deposit to Board Established Operating Reserve	0.7
Total Non-Operating Expenses and Other Payments	\$5.9

FY 2016 City Payments

(\$millions)

City Payments	FY 2016 Preliminary
Aircraft Rescue and Fire Fighting Services	\$6.02
General Services	1.23
Lake Merritt Maintenance	1.09
Maritime, JLS & Contingent Police Services	1.04
Landscape Lighting Assessment District	0.70
Treasury Services	0.37
Personnel, City Clerk, KTOP Services	0.29
Jack London Improvement District	0.11
Edgewater Median Maintenance*	0.06
Fireboat/OPD Patrol Boat Maintenance	0.04
Total	\$10.95
Parking Taxes	7.92
Total incl. Parking Taxes	\$18.87

* A payment to the City is not made. Instead, the Port incurs this cost on behalf of City-owned property.

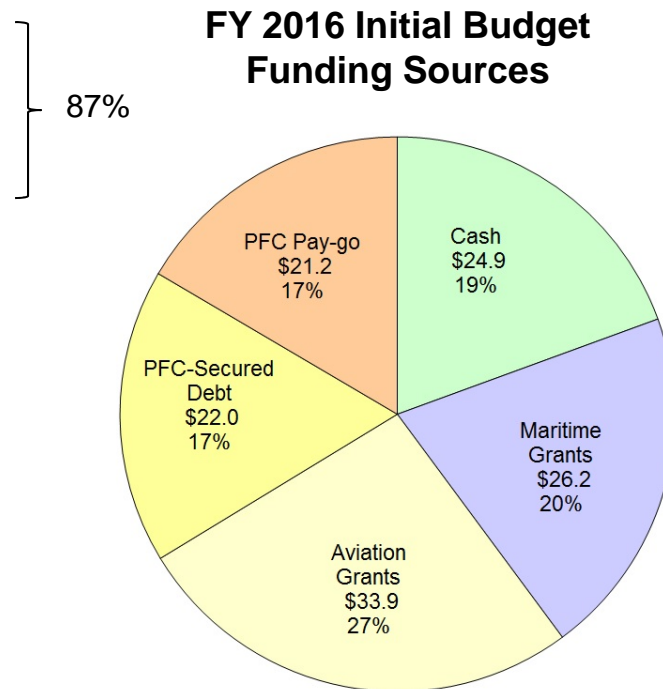
Capital Expenses

- Approval of the FY 2016 Capital Budget is only for projects already in progress or for which a contractual obligation exists; plus a small amount for pre-development work and miscellaneous facility replacement
- All additional projects require Board approval during the course of the year (FY 2016 Pipeline Projects)

FY 2016 Capital Expenses – Initial Budget

(\$millions)

Business Line	Projects	FY 2016 Preliminary
A	Runway Safety Area	\$ 37.0
A	Terminal 1 Renovations	33.9
M	Oakland Army Base Redevelopment	32.3
A	BART Connector Payment	8.0
A	TSA Recapitalization EDS	4.3
M	B33-34 Fire Water System	2.8
M	-50 ft Dredging Reimbursement	2.0
A,M	Various Capital Equipment	1.2
A	Upgrade CCTV Head End	0.8
A	Replace Pump House 6	0.7
M	Security Projects	0.6
M	MHSP Elevator Replacement	0.4
A	Lift Station Sewer Improvements	0.4
C	Environmental Remediation Union Pt	0.4
A	Airfield Ramp Control	0.4
M	B55-59 Chemcrete Treatment	0.4
M	Roadway LED Installations	0.2
M	Sanitary Sewer Compliance Upgrades	0.2
M	IT System Resiliency	0.1
A,M	Pre-Development	0.8
A,M,C	Misc. Facilities Replacement Projects	1.4
	Total	\$ 128.2



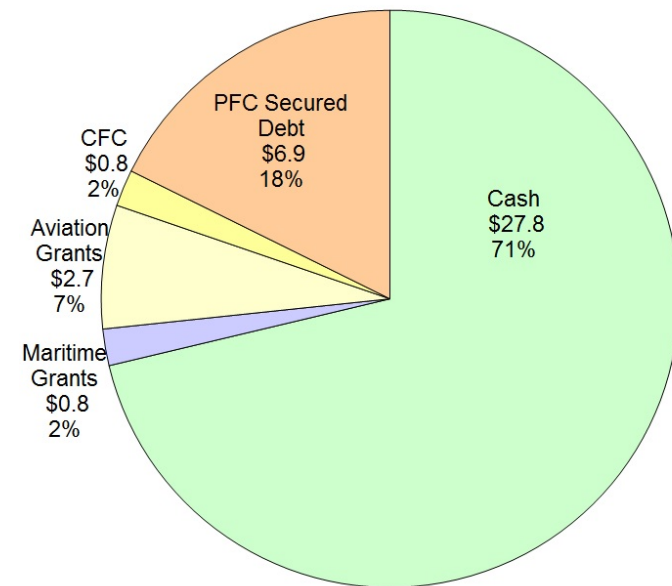
- All projects are in progress or contractually obligated, other than pre-development work and misc. facilities replacement (small repairs that are anticipated, but not identified)

FY 2016 Capital Expenses – Pipeline

(\$millions)

Projects	FY 2016 Prelim
Airport	
Ground Access & Parking Improvements	\$ 9.3
IAB Operability Improvements	8.0
Utilities	2.8
Other	2.8
Security	2.5
Airfield Improvements	2.3
Leased Area Improvements	0.8
Sub-Total	28.6
Maritime	
Rail Infrastructure at MSC	3.0
Roadway Improvements	2.1
Security	1.6
Terminal Improvements	0.9
Crane Improvements	0.8
Sub-Total	8.3
Other	
CRE Tenant Improvements	0.9
IT Emergency Back-up Generator	0.8
Modernize Website	0.2
Server Firewall/DMZ	0.2
Total	\$ 38.9

FY 2016 Pipeline Funding Sources



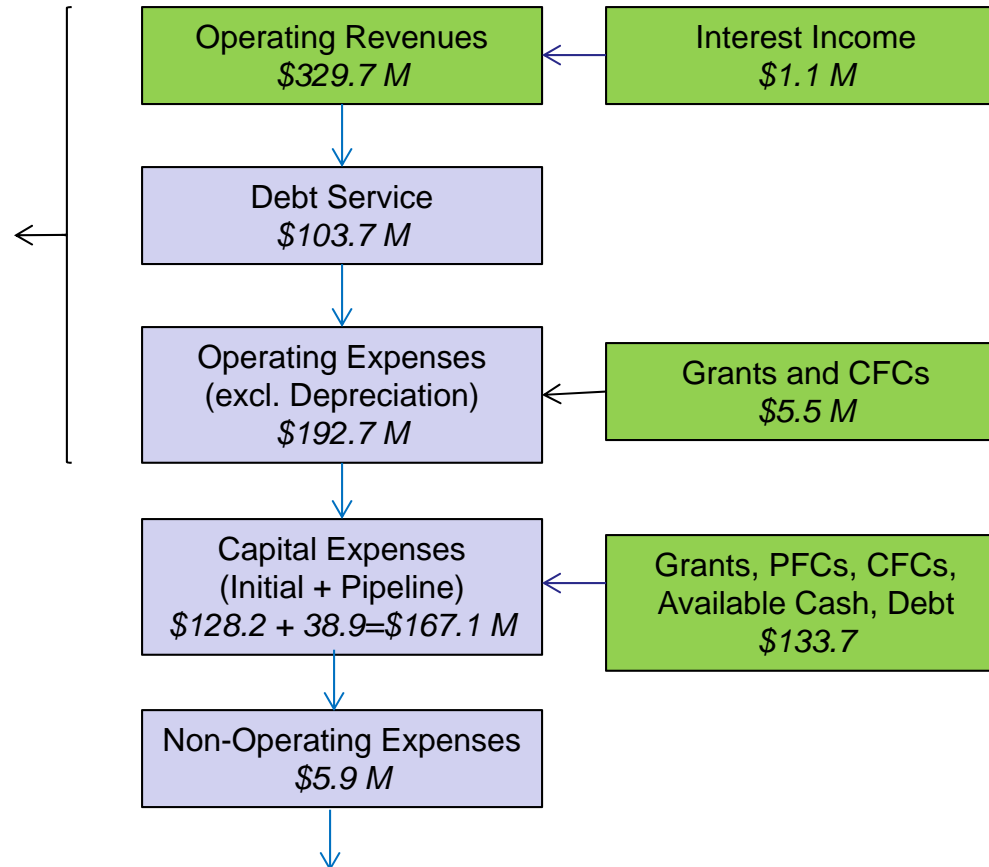
- Pipeline projects are projects that are anticipated to come to the Board in FY 2016 for budget approval, upon further development

Debt Service Coverage and Cash Balance

Results In:
Projected Debt
Service Coverage
Ratio* = 1.39x

*Legally Required
DSCR (Bond
Covenant) = 1.10x*

*Credit Ratings May
be Impacted if Lower
than 1.30x*



Results In:
Projected June 30, 2016
Ending Cash Balance
(Unrestricted) = \$145 M

Beginning Balance	\$154 M
Net Cash Flow	(9) M
Ending Balance	145 M

* Debt Service Coverage Ratio = Operating Revenues plus Interest Income less Operating Expenses (less amounts paid by Grants and CFCs) Divided by Debt Service

Why Does Port Need a Cash Balance on June 30

(\$millions)

Short-Term Claims	Amount
Day-to-Day Op. Exp. - 1 Month	16
Debt Service Payment - Nov 1	58
Executed Construction Contracts ¹	25
Contractor Retention Held with Port	9
Total	108

Mid-Term Claims	Amount
Projects Included in 5-Year CIP ¹	160
Pollution Remediation	12
Workers' Compensation	11
Vacation Accrual	7
Security Deposits	5
AB 1890 Utility Surcharge	1
Total	196

Long-Term Claims	Amount
Pension ²	168
Retiree Medical ^{2,3}	106
Total	274

- ❑ Unrestricted Cash Balance = Checking Account
- ❑ These obligations must be paid for from the Port's unrestricted cash balance / Checking Account; no other monies have been set aside

¹ Excludes amounts anticipated to be paid for with grants and PFCs

² Actuarial report dated 6/30/13

³ Assumes 25% of the unfunded liability of the City of Oakland Miscellaneous Pension Plan is the Port's share (based on payroll)

Restricted Cash Balances

(\$millions)

	Unaudited as of Feb 2015	
Board Reserves		
Operating Reserve	\$23.3	Board Reserves = 4 1/2 months of operating expenses
Capital Reserve	15.0	
Bond Reserve	30.0	
Total Reserve	68.3	
Passenger Facility Charges	7.1	
Customer Facility Charges	6.2	
Contractor Retention Held in Escrow	3.1	
Trustee Held Bond Reserves	58.1	
Total	\$142.9	

❑ These funds are restricted by law, contract or Board policy.

Appendix
5-year Capital Improvement Program

5-year Capital Improvement Program

- Port's financial planning takes into account a 5-year Capital Improvement Program, which is updated annually
- Criteria for inclusion in the 5-year CIP is generally limited to:
 - Safety, Regulatory Compliance, Aging Infrastructure, Revenue Maintenance, Landlord obligations plus available funding and staffing resources
- No new major projects have been included in the 5-year CIP for the last several years

Projects Included in 5-Year Capital Improvement Program

Airfield

Runway Safety Area	37	8%
Runway 12-30 Rehabilitation	28	6%
Airfield Perimeter Dike	10	2%
Other Projects.*	37	8%
Total Airfield	112	23%

Airport Terminals

Terminal 1 Rehabilitation	181	38%
Other Projects.*	7	2%
Total Airport Terminals	188	39%

Maritime Terminals

Crane Raising*	25	5%
Misc. Repairs*	6	1%
Total Maritime Terminals	32	7%

Oakland Army Base	35	7%
Security*	34	7%
Utilities Infrastructure*	17	4%
Airport Ground Access & Parking*	15	3%
BART	10	2%
Landlord Obligations for Leased Areas*	8	2%
Dredging & Mitigation*	5	1%
Rail Infrastructure Support	5	1%
Misc. Facilities Replacement*	5	1%
Misc. Capital Equipment*	4	1%
Maritime Roadway*	3	1%
Information Technology*	3	1%
AARF Truck	2	0%
Pre-Development*	2	0%
TOTAL 5-YEAR CIP	480	100%

6 Projects comprise 63% of the 5-Year CIP

* Multiple projects

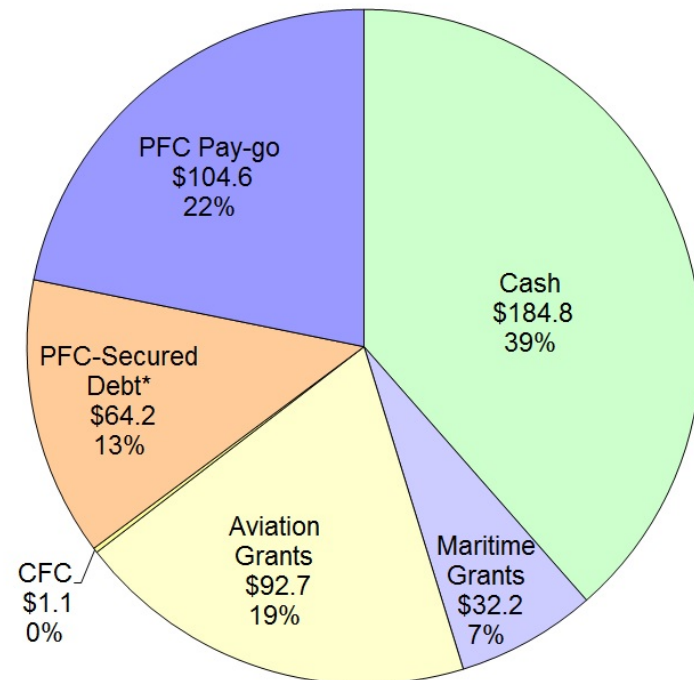
5-Year Capital Improvement Program

FY 2016-2020

FY 2016–20 Expenditures*
(\$ millions)

Aviation	\$360.7	75%
Maritime	111.6	23%
CRE	3.9	1%
IT	3.3	1%
Total	\$479.6	100%

FY 2016–20 Funding*
(\$ millions)



* The Port's CP program (secured by general revenues) is anticipated to be used in the interim until a long term bond take-out occurs. Over the next 5 years, approximately \$95 million is estimated to be borrowed for PFC-eligible projects. This amount includes required financing reserves as well as the take-out of approximately \$19 million of outstanding CP Notes used for prior PFC-eligible costs through June 2015.

Projects Not Included in 5-Year CIP

(\$ millions)

	<u>Estimate</u>
OAB Phase II / Logistic Facilities	\$250
Roadway infrastructure upgrades/replacements	200
Wharf and other marine terminal infrastructure upgrades/replacements	195
Railyard and intermodal track improvements	115
Terminal 1 Renovation	130
Terminal 2 Gate Reconfiguration	55
North Field Infrastructure	40
Perimeter Dike Improvements	35
Utilities Infrastructure Upgrades	50
<hr/> Total	<hr/> \$1,070

- ☐ \$1.1billion of capital projects are not included due to lack of funding and limited staffing resources.