AGENDA REPORT

Resolution: Approval of the Annual Operating and Capital Budgets for Fiscal Year Ending June 30, 2018. **(Finance & Admin.)**

MEETING DATE:	6/22/2017
AMOUNT:	As presented below and in the Budget Summary (Attachment A) Choose an item.
PARTIES INVOLVED:	None
SUBMITTED BY:	Sara Lee, Chief Financial Officer
APPROVED BY:	J. Christopher Lytle, Executive Director
ACTION TYPE:	Resolution

EXECUTIVE SUMMARY:

This agenda report requests the Board to adopt the annual Operating and Capital Budgets for the fiscal year ending June 30, 2018.

BACKGROUND

The Charter of the City of Oakland (City) was adopted on November 5, 1968 and was ratified by the State of California effective January 28, 1969, as amended. Under Article VII Section 715 of the City Charter, *"The Board shall annually, on or before the fourth Monday of May, or not less than one week prior to the submission of the annual appropriation ordinance by the City Administrator, should the Council advance the date therefore, but not later than the third Monday of July, carefully prepare a budget setting forth the estimated receipts of the Port, and revenue from other sources, for the ensuing year, and the sums of money necessarily required for the administration of the department, and for maintenance, operation, construction, and development of the port and its facilities for the ensuing year, and stating the amount necessary to be raised by tax levy for said purposes."*

Port staff has developed the following documents related to the budget:

- One-Year Operating Budget for fiscal year ended June 30, 2018;
- One-Year Capital Budget for fiscal year ended June 30, 2018;
- Five-Year Operating and Cash Flow Projections for FY 2018 through FY 2022;

- Five-Year Capital Improvement Plan (CIP) for FY 2018 through FY 2022; and
- The Budget Summary (Attachment A), which contains the afore-listed items, as well as other related information such as the Port's staffing plan, division-specific operating budgets, debt service payments, cash flow projections, reserve amounts, and capital project descriptions.

In addition, Port staff has made budget presentations to the Board on March 23 and May 18, 2017. Copies of these presentations are attached (Attachment B).

Only the FY 2018 operating and capital budgets are presented for Board adoption. Subsequent years of the operating and cash flow projections, the FY 2018 capital pipeline projects, and the 5-year CIP are informational and presented for planning purposes only.

ANALYSIS

Key Factors and Objectives

The FY 2018 operating and capital budgets were developed taking into account several key factors.

Positive Factors

- The Port's financial condition has improved significantly since the lows of 2009. The Port's debt service coverage ratio[1] and cash position has improved, as management has focused on revenue maintenance and growth, expense control, and debt service savings. At the same time, improvements to address key infrastructure are underway: Terminal 1 (M102) renovations, International Arrivals Building renovations, Runway 12/30 overlay, crane raising, and Cool Port rail infrastructure.
- The Port is located in a healthy local economy. This favorable geographic position results in approximately 86% of the Airport traffic being origin and destination and approximately 85% of the maritime cargo destined for and from local markets, providing resiliency and demand for the use of Airport, Seaport and Commercial Real Estate (CRE) properties.
- The Airport has experienced significant recent growth. Although still below the peak passenger traffic of 14.5 million in FY 2007, passenger traffic has increased approximately 26% over the last three fiscal years, reaching 12.5 million passengers.

[1] Debt service coverage measures Net Revenues in comparison to debt service. Net Revenues is operating revenues less operating expenses.

- After the loss of Outer Harbor Terminal, LLC (OHT), the second largest terminal operator, in spring 2016, Maritime retained 100% of the OHT cargo and mitigated the loss of revenues with increases in over-the-Minimum Annual Guarantee (MAG) revenue and additional short-term property agreements.
- CRE continues to serve a vibrant and growing local market.

Concerns

- Personnel costs continue to rise. Pension costs are anticipated to be 34.9% of payroll in FY 2018, and projected to rise to 51.6% in FY 2022.
- Security and regulatory costs continue to rise.
- Port property spans over 4,700 acres, and aging infrastructure must continue to be addressed. The Port's infrastructure must also be able to accommodate industry changes such as growing vessel and aircraft size.

Other Considerations

In addition, the Port's upcoming fiscal year budget takes into account updated 5-year operating and cash flow projections, and an updated 5-year CIP. The 5-year operating and cash flow projections and updated 5-year CIP are provided for informational and planning purposes only.

Budget Objectives

The FY 2018 Operating Budget continues to be focused on day-to-day operations, asset maintenance and regulatory compliance. The FY 2018 operating budget also continues to focus on revenue maintenance, revenue enhancement and controlling expenditures. The Port is still catching up on the deferral of maintenance during the great recession, and for FY 2018, there is a focus to fund Maritime major maintenance and repairs related to its infrastructure. Also, given the growth in passengers at the Airport, certain passenger-driven costs are increasing.

The FY 2018 capital budget focuses on continuing progress or completing the five major projects underway – International Arrivals Building renovations, Terminal 1 (M102) renovations, Runway 12/30 rehabilitation, Cool Port rail infrastructure, and crane raising, and to begin work on shoring up the Airport's perimeter dike. The capital projects continue to be focused on replacing aged and obsolete infrastructure, and as a result, maintaining existing Port revenues.

Lastly, the Port's budget was developed to sustain the financial performance improvements achieved since 2009, including providing reasonable flexibility and liquidity to protect against inherent operational, financial, political and economic uncertainties.

Proposed FY 2018 Budget

The table below summarizes the Port's proposed FY 2018 Budget.

Uses and Sources of Funds
($000s)

	FY 2018 Proposed Budget
Uses of Funds	
Operating Expenses[2]	$219,646
Debt Service[3]	106,654
Capital Expenses – Initial	105,828
Capital Expenses – Pipeline Projects[4]	90,519
Other Expenses[5]	10,894
Total Uses	$533,541
Sources of Funds	
Operating Revenues	$368,836
Grants[6]	62,559
Passenger Facility Charges (PFCs)	25,246
Customer Facility Charges (CFCs)	2,000
Commercial Paper (CP) Notes Proceeds (Debt)[7]	24,287
Other Income[8]	1,920
Interest Income	1,728
Available Cash	46,965
Total Sources	$533,541

[2] Excludes depreciation.
[3] Includes $4 million repayment of CP Notes. Approximately $1.0 million of interest on PFC-eligible CP Notes is anticipated to be repaid with PFCs. The interest rate on the CP Notes is assumed to be 1.35% in FY 2018.
[4] Board authorization is not requested for FY 2018 Pipeline Projects. The Pipeline Project costs are included in the Port's financial planning and cash flow analyses, however, authorization to proceed with the FY 2018 Pipeline Projects are subject to subsequent Board approval during the course of the fiscal year, or in the case of Runway 12/30 Rehabilitation project, contingent upon receipt of grant funding.
[5] Includes CP Notes and bond related fees; General Services and Lake Merritt payments to the City; retroactive CalPERS pension payments for Airport service people; deposit to Operating Reserve; and certain deferred maintenance costs that were recorded as prior year loss contingency.
[6] The Port has not yet obtained grant funding for all capital projects included in the budget. Includes tenant contribution for capital improvements of $1.5 million.
[7] Debt proceeds are anticipated to pay for a portion of the Terminal 1 (Building M102) and International Arrivals Building upgrade projects and are anticipated to be repaid by future PFCs. Assumes that the Port's CP program will be utilized in the interim.
[8] Sale of Port property to the City of $1.92 million.

A comparison of the proposed FY 2018 Budget to the FY 2017 Budget is provided in the following table:

Comparison of Proposed FY 2018 Budget to FY 2017 Budget
($000s)

	FY 2018 Proposed Budget	FY 2017 Budget	Change in Comparison to FY 2017 Budget
Operating Revenues	$368,836	$343,169	+ 7.5%
Operating Expenses before Depreciation	$219,646	$200,659	+ 9.5%
Operating Income before Depreciation	$149,191	$142,511	+ 4.7%
Operating Income	$38,966	$37,291	+ 4.5%
Bonds and Dept. Boating and Waterway Loan (DBW) Debt Service	$100,939	$99,477	+ 1.5%
CP Notes Repayment[9]	$5,715	$4,881	+ 17.1%
Debt Service Coverage Ratio on Bonds, DBW Loan and CP Notes (not paid with PFCs)[10]	1.43x	1.39x	+ 0.04x
Anticipated Additional Debt in FY (Payable by PFCs)	$24,287	$30,817	- 21.2%
Capital Budget – Initial and Pipeline Projects[11]	$196,347	$159,464	+ 23.1%
Other Expenses[12]	$10,894	$8,425	+ 29.3%
Board Established Reserves	$72,456	$70,689	+ 2.5%
FTEs	502	502	no change
Anticipated Cash Balance on June 30	$202,000	$250,000	- 19.1%

[9] Includes $4 million repayment of CP Notes. Approximately $1.0 million of interest on PFC-eligible CP Notes is anticipated to be repaid with PFCs. The interest rate on the CP Notes is assumed to be 1.35% in FY 2018, compared to 0.75% in FY 2017.
[10] The Board adopted a Debt Policy in March 2017, establishing a minimum debt service coverage ratio of 1.40x, taking into account repayment of CP Notes that are being utilized as long-term financing.
[11] Board authorization is not requested for FY 2018 Pipeline Projects, totaling $90.5 million. The Pipeline Project costs are included in the Port's financial planning and cash flow analyses, however, authorization to proceed with the FY 2018 Pipeline Projects are subject to subsequent Board approval during the course of the fiscal year, or in the case of Runway 12/30 Rehabilitation project, contingent upon receipt of grant funding.
[12] Includes CP Notes and bond related fees; General Services and Lake Merritt payments to the City; retroactive CalPERS pension payments for Airport service people; deposit to Operating Reserve; and certain deferred maintenance costs that were recorded as prior year loss contingency.

Activity Levels

While activity levels are not directly correlated to Aviation and Maritime revenues, they are important indicators about the strength of these business lines. FY 2018 budgeted passengers at the Airport and Full twenty-foot equivalents (TEUs) at the Seaport are provided in the table blelow. FY 2017 anticipated and FY 2016 actual activity levels are also provided for comparison purposes.

	FY 2016 Actual	FY 2017 Anticipated	YoY Growth	FY 2018 Proposed Budget	YoY Growth
Airport Passengers	11,614,845	12,500,000	7.6%	13,000,000	3.8%
Seaport Full TEUs	1,784,387	1,824,000	2.2%	1,860,000	2.0%

For FY 2019-2022, Airport passengers are assumed to grow 3.5% in FY 2019 and 2.5% per year thereafter, while Seaport Full TEUs are assumed to grow 2% per year.

Operating Revenues

The table below summarizes FY 2018 budgeted operating revenues. FY 2017 budget, FY 2017 anticipated, and FY 2016 actual operating revenues are also provided for comparison purposes.

Summary of Operating Revenues
($000s)

	FY 2016 Actual	FY 2017 Budget	FY 2017 Anticipated	FY 2018 Proposed Budget	Change in Comparison to FY 2017 Budget	Change in Comparison to FY 2017 Anticipated
Aviation	$173,067	$184,571	$189,336	$197,981	7.3%	4.6%
Maritime	148,772	142,918	152,106	154,584	8.2%	1.6%
CRE	16,198	15,681	16,181	16,271	3.8%	0.6%
Total	**$338,038**	**$343,169**	**$357,623**	**$368,836**	**7.5%**	**3.1%**

FY 2018 budgeted operating revenues of $368.8 million, are $25.7 million, or 7.5% higher than FY 2017 budget, reflecting faster than expected recovery of loss of major terminal operator at the Seaport and continuing above-average growth at the Airport. In comparison to FY 2017 anticipated operating revenues of $357.6 million, FY 2018 operating revenues are projected to increase $11.2 million, or 3.1%.

Aviation revenues budgeted in FY 2018 of $198.0 million are $8.6 million or 4.6% higher than FY 2017 anticipated revenues of $189.3 million. FY 2018 budgeted Aviation revenues assume (i) 3.8% passenger growth, (ii) higher airline rates and charges due to increased operating expenses and increased passenger volume, (iii) higher parking revenues due to increased passenger volume and higher revenue per parking transaction (offsetting lower parking transactions), (iv) continued growth in transportation network company revenues, and (v) higher terminal concession revenues due to higher passenger volume.

Maritime revenues budgeted in FY 2018 of $154.6 million are $2.5 million or 1.6% higher than FY 2017 anticipated revenues of $152.1 million. FY 2018 budgeted Maritime revenues assume (i) additional revenues from short-term property leases for Maritime support services (including truck parking) and (ii) planned tariff increases, partially offset by (iii) the expectation that some cargo will shift between the terminals, which will negatively impact the over-the-MAG revenues.

CRE revenues budgeted in FY 2018 of $16.3 million are $0.01 million or 0.6% higher than FY 2017 anticipated revenues of $16.2 million. FY 2018 budgeted CRE revenues assume anticipated increases in parking revenues, percentage rents, and minimum rent adjustments due to lease renewals and schedule rent adjustments.

FY 2019-2022 Operating Revenue Projections

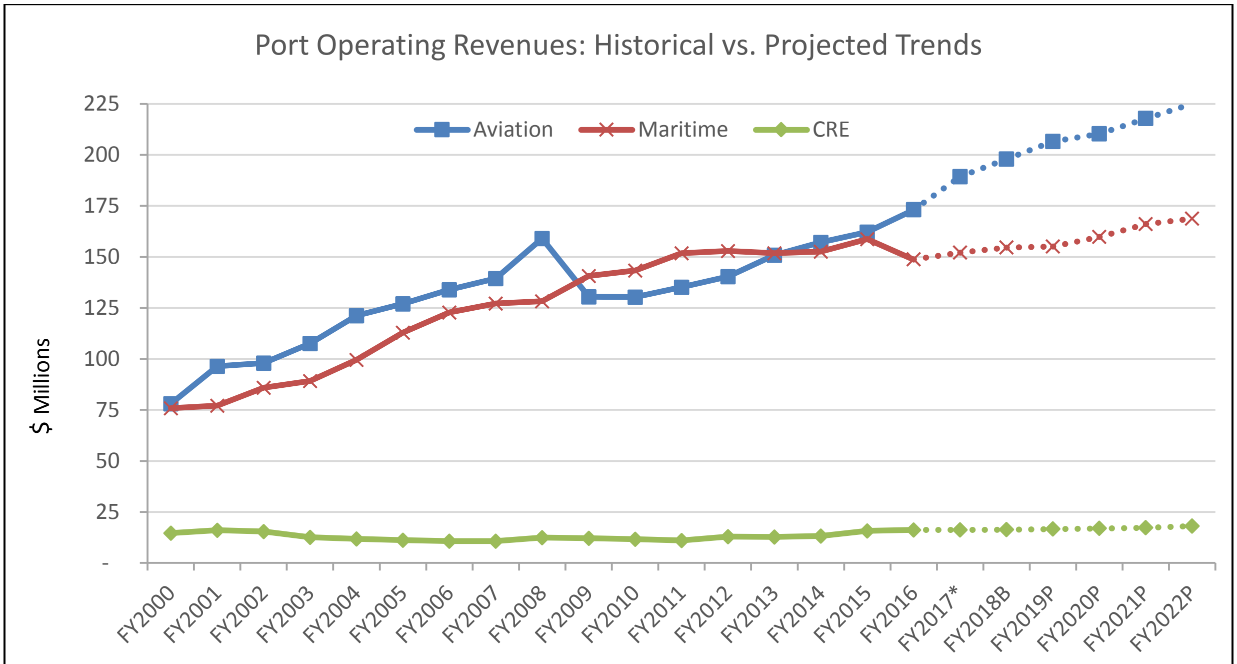
Port-wide operating revenues are projected to increase from $368.8 million in FY 2018 to $411.9 million in FY 2022, for a forecasted compound annual growth rate of 2.8%.

Aviation revenues are assumed to grow from $198.0 million in FY 2018 to $225.1 million in FY 2022 for a compound annual growth rate of 3.3%. Projected Aviation revenues assume (i) passenger growth rate of 3.5% in FY 2019, then moderating to 2.5% per year, (ii) increases in parking and transportation network company revenues correlated to passenger growth, (iii) changes in airline rates and charges based on assumed changes in net expenses, and (iv) scheduled lease adjustments.

Maritime revenues are assumed to grow from $154.6 million in FY 2018 to $168.8 million in FY 2022 for a compound annual growth rate of 2.2%. Projected Maritime revenues assume (i) Full TEUs grow 2% per year, (ii) scheduled rent increases per current or anticipated lease terms, (iii) anticipated shifts of cargo between terminals (iv) annual tariff increases commensurate with inflation are realized, and (iv) additional revenue from the reimbursement of crane raising costs is received.

CRE revenues are assumed to grow from $16.3 million in FY 2018 to $18.1 million in FY 2022 for a compound annual growth rate of 2.7%. Projected CRE revenues assume (i) increases in parking revenues, percentage rents and minimum rents due to scheduled rent adjustments and projected lease renewals.

The chart below shows historical and projected revenues by business line.



* FY2017 Anticipated Revenues

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Operating Expenses

Overall, Port operating expenses excluding depreciation are budgeted in FY 2018 to increase $19 million or 9.5% in comparison to FY 2017 budget as summarized in the table below. The increase in costs are driven in part by passenger-driven costs at the Airport and a focus on asset maintenance at the Seaport.

Summary of Operating Expenses (excl. Depreciation)
($000s)

	FY 2016 Actual	FY 2017 Budget	FY 2018 Proposed Budget	Change in Comparison to FY 2017 Budget
Personnel Costs	$93,592	$106,812	$111,913	4.8%
Contractual Services	62,316	71,103	84,676	19.1%
General & Administrative	19,474	19,819	20,983	5.9%
Supplies	4,914	4,323	4,276	(1.1%)
Utility Cost of Sales	7,113	7,657	7,085	(7.5%)
Departmental Credits[13]	(6,252)	(9,056)	(9,286)	(2.5%)
Total	**$181,157**	**$200,659**	**$219,646**	**9.5%**

Personnel Costs

The FY 2018 budget reflects a staffing level of 502 full-time equivalents (FTEs), unchanged from FY 2017 budget. Personnel costs are approximately 51% of the Port's operating expenses and are budgeted to be $111.9 million, an increase of $5.1 million or 4.8%. The increase in costs is driven by contractual wage increases in accordance with the Port's labor MOUs, and higher pension and medical costs. In addition, the assumed vacancy factor has been reduced from 35 to 25 FTEs to reflect higher anticipated staffing levels (to support, in part, the additional passenger growth at the Airport) by focusing on the recruitment efforts necessary to fill staffing vacancies resulting from retirements and attrition. The Port's employer pension contribution rate will increase from 34.2% to 34.9% of wages on July 1, 2017, resulting in budgeted pension costs of $20.7 million, a $1.3 million or 6.8% increase. Medical costs for active employees and retirees are budgeted at $25.5 million, an increase of $0.7 million or 2.8%, reflecting a modest decline in Kaiser medical premiums on January 1, 2017 and an assumed 6% increase on January 1, 2018.

[13] Primarily allocation of operating expenses (Engineer staffing costs) to capital expenses.

Changes in other personnel costs are based on recent experience, recent actuarial reports, or known or assumed rate increases.

Summary of Personnel Costs
($000s)

Personnel Costs	FY 2018 Proposed Budget	Change in Comparison to FY 2017 Budget	Change in Comparison to FY 2017 Budget %
Salaries	$58,024	+$2,616	4.7%
Pension	20,675	1,312	6.8%
Health Care - Retirement	14,199	546	4.0%
Healthcare - Active	11,275	157	1.4%
Overtime	2,934	136	4.9%
Workers Compensation	2,444	138	6.0%
Vacation/Sick Leave Accruals	1,442	42	3.0%
Other[14]	920	153	19.9%
Total	**$111,913**	**$5,101**	**4.8%**

<u>Non-Personnel Operating Expenses</u>

Non-personnel costs are budgeted in FY 2018 to increase by $13.9 million, or 14.8% more than the FY 2017 budget. The increase in costs are driven in part by passenger-driven costs at the Airport (some of these increases are directly offset by higher Airline rates and charges), higher truck parking volume at the Seaport (directly offset by higher parking revenues), and a focus on asset maintenance at the Seaport. Ten expenses, as listed in the table on the following page, contribute 98% of the increase in FY 2018 non-personnel costs. These costs are included in Contractual Services, which is budgeted to increase $13.6 million or 19.1%. General and Administrative expenses is budgeted to increase $1.2 million or 5.9% primarily due to the inclusion of $0.4 million for unforeseen maintenance contingency and a change in the accounting of Outer Harbor Terminal electricity costs of $0.6 million from Utility Cost of Sales to General and Administrative, as a result of changes in billing methodology. Correspondingly, Utility Cost of Sales

[14] Includes temporary help, wellness program, continuing education, professional development, training, professional licenses, unemployment insurance, Section 125 Plan admin fees, college/high school intern program, college tuition program, deferred comp, meal allowance and physicals. The increase in costs is driven by increase in training resulting from new hires.

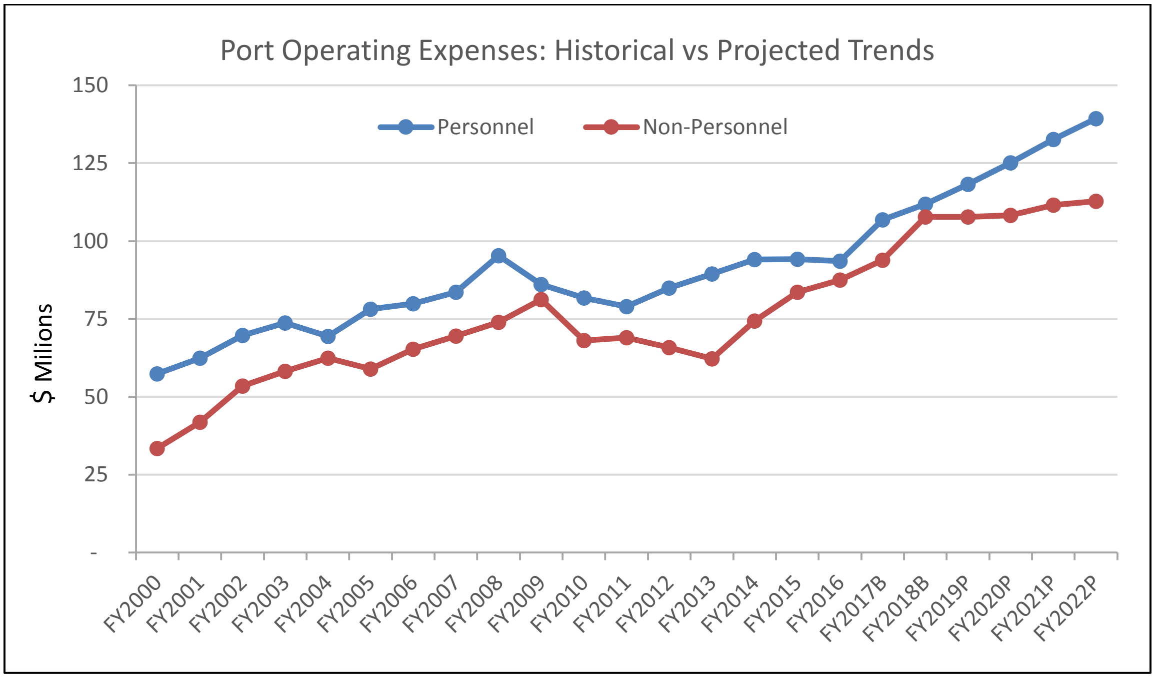
decreases by $0.6 million. Departmental Credits are budgeted to increase $0.2 million or 2.5% due to more direct labor charged and a higher indirect overhead applied to Port capital projects.

Significant Non-Personnel Cost Increase
($millions)

Item	Change in Comparison to FY 2017 Budget
Maritime Major Maintenance & Repairs	+$4.8
Aviation Security	2.4
Maritime Infrastructure Assessment Studies	1.4
Aviation Customs & Border Patrol	1.0
Maritime Maintenance Dredging	1.0
Maritime Truck Parking	0.9
ERP Major Technical Version Upgrade	0.8
Aviation Parking and Ground Transportation	0.5
Aviation Repairs and Maintenance	0.4
Labor Negotiations	0.2
All Other Contractual Services (Net)	0.2
Total Contractual Services	13.6
All Other (Net)	0.3
Total Non-Personnel Cost Increase	**13.9**

FY 2019-2022 Operating Expense Projections

Port-wide operating expenses (excluding depreciation) are projected to increase from $219.6 million in FY 2018 to $252.1 million in FY 2022, for a projected compound annual growth rate of 3.5% as illustrated in the graph below. Personnel costs are assumed to increase at a compound annual growth rate of 5.6%. This assumes no increase in FTEs from current staffing levels, and is driven by assumed increases in medical premiums of 6% per annum and increases in pension rates from 34.9% of wages in FY 2018 to 51.6% in FY 2022 based on the most recent CalPERS actuarial study forecast. Non-personnel operating expense projections take into account anticipated changes, but otherwise assumes expenses will grow at 2.5% per annum. Contractual services are projected to increase at a compound annual growth rate of 0.8%, as major maintenance at the marine terminals declines in comparison to FY 2018, and one-time costs related to ERP technical upgrade is eliminated. General and administrative costs, and supplies are assumed to grow at a compound annual growth rate of 2.6% and 3.3% respectively.



Please see pages 43-103 of the Budget Summary book for more information on the Port’s FY 2018 operating budget and FY 2019-2022 operating revenue and expense projections.

City Payments

The FY 2018 budget also includes the following payments to the City. These payments are included as operating expenses or non-operating expenses in the budget.

City Payments
($000s)

Item	FY 2018 Proposed Budget
Aircraft Rescue and Fire Fighting Services	$6,500
General Services	1,288
Lake Merritt Maintenance	1,146
Maritime, Jack London Square And Contingent Police Services	926
Landscape Lighting Assessment District	700
Treasury Services	313
Personnel, City Clerk and KTOP Services	271
Jack London Improvement District	116
Edgewater Median Maintenance[15]	60
Fireboat/OPD Patrol Boat Maintenance	41
Total	**$11,362**
Parking and Utility Taxes	8,721
Total including Taxes	**$20,083**

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

Capital Budget

For FY 2018, budget authorization of $105.8 million is requested from the Board for projects for which there is already a contractual obligation and in most cases, already underway, as well as limited amounts for pre-development work to scope potential projects and miscellaneous facilities replacement projects[16]. "Contractual obligations" are generally defined as expenditures for which, for example, there is an active contract in place or a lease agreement that requires the Port to take certain actions as previously authorized by the Board. This authorization comprises the FY 2018 Capital Budget - Initial which includes the capital projects listed in the table on the following page. The amounts shown in the table are expected expenditures in FY 2018 and do not include prior or subsequent fiscal year expenditures for projects spanning multiple fiscal years.

The FY 2018 Capital Budget focuses on continuing progress or completing the five major projects underway – International Arrivals Building renovations, Terminal 1 (M102) renovations, Runway 12/30 rehabilitation, Cool Port rail infrastructure, and crane raising, and to begin work on shoring up the Airport's perimeter dike. The capital projects continue to be focused on replacing aged and obsolete infrastructure, and as a result, maintaining existing Port revenues.

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[16] Miscellaneous facility replacement refers to smaller scope projects or needs that may arise during the course of the fiscal year that are unforeseen or difficult to predict with certainty; these projects are individually usually less than $100,000. Any project greater than $250,000 would require further Board approval pursuant to the Port's Purchasing Ordinance 4321.

FY 2018 Capital Budget – Initial

Projects Already Underway and Contractually Obligated

Business Line[1]	*Project*	*($ millions)*
A	International Arrival Building Renovations	$ 21.2
A	Terminal 1 M102 Renovations	17.0
A	Runway 12/30 Rehabilitation	16.4
M	Cool Port Rail Infrastructure	12.0
M	Crane Raising and Management System	7.6
M	Seaport Logistics Complex[17]	5.6
A	TSA Explosive Device System Recapitalization	5.2
M	Various Marine Terminal Improvements[18]	3.6
A	Parking Access and Revenue Control System	3.2
A,M,C,S	Misc. Facilities Replacement Projects[19]	1.7
A	ARFF Truck	1.6
A	Runway Safety Area	1.3
C	Reconstruction of Portion of Embarcadero Road	1.2
M	Roadway Improvements[20]	1.8
A	Rental Car Site Improvements	1.0
A,M,S	Various Capital Equipment	0.9
A,M	Pre-Development	0.8
M	Substation Upgrades	0.8
A,M	Lift Station Improvements and Sanitary Sewer Upgrades	0.7
A	Airport Perimeter Dike	0.5
C	Union Point Basin Environmental Remediation	0.4
A	Misc. Airport Terminal Improvements[21]	0.4
A	Terminal 1 Ground Support Equipment Electrification	0.3
A	Taxiway Repairs and Ramp Control	0.3
A,M	Various Security Projects	0.2
S	Oracle Business Intelligence Cloud Service Project	0.2
	Total	**$ 105.8**

[1] Aviation (A); Maritime (M); Commercial Real Estate (C); Support (S)

[17] Includes Outer Harbor Intermodal Railyard improvements, community trust deposits, and 800 Building pavement construction.
[18] Includes Berths 25/26 wharf and related improvements, Berth 34 lighting substation replacement, Roundhouse/Sherex subsurface improvements, pile stabilization, and Matson Terminal scale replacement.
[19] Miscellaneous facility replacement refers to smaller scope projects or needs that may arise during the course of the fiscal year that are unforeseen or difficult to predict with certainty; these projects are individually usually less than $100,000. Any project greater than $250,000 would require further Board approval pursuant to the Port's Purchasing Ordinance 4321.
[20] Design and environmental review in support of Measure BB.
[21] Includes construction of animal service relief area and Terminal 2 paging system.

In addition, approximately $90.5 million of additional projects are anticipated to commence in FY 2018, generally subject to further Board approval (FY 2018 Pipeline Projects). Authorization to proceed with FY 2018 Pipeline Projects may be provided by the Board on a project-by-project basis, based on the need, financial analysis, cost estimates, alignment with Port goals and strategies, available funding and available staffing resources. The FY 2018 Pipeline Projects are at various stages of the pre-development and planning process. For cash flow and financial planning purposes, the FY 2018 Pipeline Projects are assumed to be approved by the Board during the course of the fiscal year. Of the $90.5 million of FY 2018 Pipeline Projects, the largest project anticipated to commence is approximately $45.5 million to fund a portion of the Runway 12/30 rehabilitation project. While this particular project does not need further Board action, authority to proceed is contingent upon receipt of project grants, and as a result is included as a FY 2018 Pipeline Project. The remaining FY 2018 Pipeline Projects would require further Board approval. The FY 2018 Pipeline Projects are listed in the Budget Summary book on page 106.

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Provided below is a summary of the Port's FY 2018 Capital Budget – Initial and Pipeline Projects and anticipated funding sources.

FY 2018 Anticipated Capital Expenditures
Uses of Funds by Business Line
($ millions)

	FY 2018 Capital Budget – Initial	**FY 2018 Pipeline Projects**	**FY 2018 Total**
Aviation	$70.6	$81.3	$151.9
Maritime	32.8	9.0	41.8
CRE	1.9	0.2	2.1
Support	0.5	0.0	0.5
Total	**$105.8**	**$90.5**	**$196.3**

FY 2018 Anticipated Capital Expenditures
Sources of Funds
($ millions)

	FY 2018 Capital Budget – Initial	**FY 2018 Pipeline Projects**	**FY 2018 Total**
Aviation Grants	$17.3	$38.2	$55.5
Maritime Grants/Other	6.5	0.6	7.1
PFC Pay-Go	24.3	0	24.3
CP Note Proceeds (Debt)	7.1	17.2	24.3
CFCs	1.0	1.0	2.0
Cash	49.7	33.5	83.2
Total	**$105.8**	**$90.5**	**$196.3**

Please see pages 105-123 of the Budget Summary book for additional information on the Port's FY 2018 Capital Budget – Initial, FY 2018 Pipeline Projects and updated 5-year Capital Improvement Plan (FY 2018-2022).

Board-Established Reserves

Pursuant to Board policy, the following reserves will continue to be maintained for FY 2018:

Board-Established Reserves
($000s)

	FY 2018
Operating Reserve[22]	$27,456
Capital Reserve	15,000
Port Bond Reserve	30,000
Total Reserves	**$72,456**

Please see pages 129-130 of the Budget Summary book for additional information on Board-established reserves.

Debt Service, Debt Service Coverage Ratio, and Cash Balance

The Port's debt service payments, projected debt service coverage ratios, and anticipated fiscal year ending cash balance are summarized in the table on the following page. If interest rates remain favorable, the Port is planning on refunding the 2007 Series A, B, and C Intermediate Lien Bonds for debt service savings in summer 2017. No debt service savings are reflected in the budget and the refunding of the Series 2007 A, B, and C Bonds may or may not occur, and debt service savings, if any, may or may not be achieved. The Port's General Fund balance is an important indicator of the Port's financial health. The General Fund balance changes daily and is used to pay day-to-day operating expenses, capital expenditures already under contract and anticipated in the 5-year CIP, bond debt service payments each year, and all other accrued liabilities.

Please see pages 125-132 of the Budget Summary book for additional information on debt service and cash flow.

[22] Established at 12.5% of Operating Budget (excluding depreciation).

Debt Service, Debt Service Coverage Ratio, and Cash Balance
($000s)

($000s)	FY 2016 Actual	FY 2017 Anticipated	FY 2018 Budget	FY 2019 Projected	FY 2020 Projected	FY 2021 Projected	FY 2022 Projected
Senior & Intermediate Lien Bonds	$98,419	$99,020	$100,481	$101,990	$96,626	$95,989	$97,594
Dept. Boating & Waterway Loan (DBW)	458	458	458	458	458	458	458
Total – Bonds and DBW	98,877	99,478	100,939	102,448	97,084	96,447	98,052
Commercial Paper Notes (non-PFC)[23]	4,120	4,431	4,721	4,766	4,817	4,828	4,804
Total – Bonds, DBW, CP Notes (non-PFC)	102,997	103,909	105,660	107,214	101,901	101,275	102,856
Debt Service Coverage Ratio incl. CP Notes (non-PFC) [24]	1.54x	1.53x	1.43x	1.45x	1.55x	1.59x	1.60x
Commercial Paper Notes (payable from PFCs)[25]	25	451	994	13,701	22,008	23,482	17,850
General Fund Balance on June 30[26]	$227,000	$250,000	$202,000	$132,000	$99,000	$112,000	$154,000

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[23] Includes principal repayment of outstanding CP Notes totaling $4 million per year as part of an overall plan to repay this debt. Does not include debt service on CP Notes anticipated to be repaid with PFCs. The interest rate on the CP Notes is assumed to be 1.35% in FY 2018, increasing to 2.15% in FY 2022.

[24] Debt Service Coverage Ratio is Net Revenues (as defined in the Indentures) divided by debt service on Senior and Intermediate Lien Bonds, Department of Boating and Waterway Loan, and CP Notes (excluding amounts paid by PFCs).

[25] Includes principal repayment of outstanding CP Notes. Based on the 5-year CIP, the Port plans to issue approximately $24.3 million of CP Notes payable by PFCs in FY 2018. At the end of FY 2018, the Port anticipates having in aggregate, $73.6 million of CP Notes payable from PFCs and anticipates repaying these CP Notes in full with future PFCs over the next 5 years. The interest rate on the CP Notes is assumed to be 1.35% in FY 2018, increasing to 2.15% in FY 2022. Please see the *Capital Budget and 5-Year Capital Improvement Plan* section of the Budget Summary book, pages 105-123, and *Debt Service and Cash Flow* section of the Budget Summary book, pages 125-128, for additional information.

[26] In addition to the General Fund, Port funds include (1) Board-dedicated reserves of approximately $72.5 million, (2) PFCs and CFCs, which must be held separately as their use is restricted to eligible Aviation-related capital expenditures, and (3) contractor retention which is held in escrow until project completion. In addition, the Bond Trustee holds for the benefit of bondholders, as required in the Bond Indenture, approximately $58 million in cash reserves.

Commercial Paper Note Draws and Outstanding Balance

The table below shows the Port's outstanding CP Notes balance at the beginning of FY 2018, and anticipated draws and repayment of CP Notes in FY 2018 through FY 2022. See pages 125-132 of Budget Summary book for additional information.

Commercial Paper Notes (non-PFC)
($millions)

	FY 2018 Budget	FY 2019 Projected	FY 2020 Projected	FY 2021 Projected	FY 2022 Projected
FY Beginning Balance	$57.4	53.4	49.4	45.4	41.4
CP Notes Draws	--	--	--	--	--
CP Notes Repayments	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
FY Ending Balance	53.4	49.4	45.4	41.4	37.4

Commercial Paper Notes (Payable from PFCs)
($millions)

	FY 2018 Budget	FY 2019 Projected	FY 2020 Projected	FY 2021 Projected	FY 2022 Projected
FY Beginning Balance[27]	$49.3	73.6	61.1	40.2	17.5
CP Notes Draws	24.3	--	--	--	--
CP Notes Repayments	--	(12.6)	(20.9)	(22.7)	(17.5)
FY Ending Balance	73.6	61.1	40.2	17.5	--

BUDGET & STAFFING

The proposed action would establish FY 2018 Operating and Capital Budget and set FY 2018 staffing level at 502 FTEs, the same level as FY 2017.

[27] As of June 1, 2017, the Port's outstanding CP Notes (payable from PFCs) was $40.4 million. Another, $8.9 million is anticipated to be drawn for capital expenditures incurred in the last quarter of FY 2017, for a total anticipated CP Notes balance of $49.3 million.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters contained in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Plan.
(http://www.portofoakland.com/pdf/about/strategicPlan2011-2015.pdf)

Goal D: Improve the Port's Financial Position

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply because the requested action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage Regulations.

ENVIRONMENTAL

CEQA Determination: The proposal to adopt the Operating and Capital Budgets and to approve payments of operating, capital and other expenses, and debt service was reviewed in accordance with the requirements of the California Environmental Quality Act (CEQA), and the Port CEQA Guidelines. CEQA only requires analysis of activities that are defined as a "project". The creation of government funding mechanisms or other government fiscal activities that do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment is not a project pursuant to Section 15378(b)(4) of the CEQA Guidelines. In addition, continuing administrative or maintenance activities, personnel-related actions, general policy and procedure making are not projects pursuant to Section 15378(b)(2) of the CEQA Guidelines. Therefore, adoption of the Port's budgets and approval of payments are funding and administrative actions, respectively, and are not projects under CEQA.

The Capital Budget authorizes funding of specific capital projects for which appropriate CEQA findings either were already made by the Board or will be requested of the Board with project approval in the future.

The Operating Budget also authorizes funding of Port labor, supplies and contractors that will be used to conduct maintenance, repair, operational, safety and minor construction and consultant projects, including minor repaving, plumbing, roofing, electrical and other utility services, fencing, landscaping, electrical and mechanical equipment repairs, inspections, minor spill clean-up, property maintenance, studies and similar activities. Such projects are exempt from the requirements of CEQA pursuant to the list of categorical exemptions in the CEQA Guidelines, including Sections 15301 to 15306, 15309, 15311, 15315, 15323, 15327 and 15330, or pursuant to another exemption.

When other types of specific activities that will be performed by Port staff are identified, staff will determine whether further environmental review is required at that time. It is anticipated that additional activities will fall into one of the following categories:

- the activity is not subject to CEQA because it will not result in a direct or reasonably foreseeable indirect physical change in the environment (Section 15060(c)(2)), because it is not a project as defined by CEQA (Sections 15060(c)(3) and 15378), or because it can be seen with certainty that there is no possibility that the activity may have a significant effect on the environment (Section 15061(b)(3)).
- the activity is covered by an existing CEQA determination that has already been approved by the Board.
- the activity requires additional CEQA evaluation. In that case, a project may be brought to the Board for approval of CEQA findings.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)/ PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)

The Owner Controlled Insurance Program (OCIP) and Professional Liability Insurance Program (PLIP) apply to capital improvement construction or design projects included in the capital budget.

OPTIONS

1. Adopt the Operating and Capital Budgets for FY 2018 as presented.
2. Adopt the Operating and Capital Budgets for FY 2018 with modifications that may be provided by the Board during the course of its deliberations, and direct staff to directly incorporate those modifications into the final adopted budgets.
3. Do not adopt the Operating and Capital Budgets as presented, and direct staff to make revisions and return to the Board for approval of the budget at a later date in July 2017.

RECOMMENDATION

It is recommended that the Board of Port Commissioners:

- Adopt the Annual Operating and Capital Budgets for the fiscal year ending June 30, 2018;
- Approve a resolution authorizing the payment of operating and other expenses, and the payment of debt service of the Port, for the fiscal year ending June 30, 2018, as described in the Budget Summary provided as Attachment A to this Agenda Report.
- Approve a resolution authorizing the payment of approximately $105.8 million of total capital expenses, as provided in the Capital Budget for the fiscal year ending June 30, 2018 and as described in the Budget Summary provided as Attachment A to this Agenda Report.

Attachment A

Draft Budget Summary

Attachment B

Budget Update #1

Budget Update #2