



# Development of FY 2019 Operating and Capital Budget

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Board of Port Commissioners  
May 10, 2018

The 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 presentation.

# Purpose of Today's Presentation

## **Today's Presentation:**

1. Recap key budget objectives and drivers
2. Present preliminary FY 2019 budget numbers
3. Present preliminary updated 5-Year operating forecast and Capital Improvement Plan

## **Prior Presentation – March 22, 2018:**

- ☐ Provided overview of Port budget and budget process
- ☐ Discussed key factors influencing development of FY 2019 Budget
- ☐ Received Board feedback on key budget objectives and assumptions

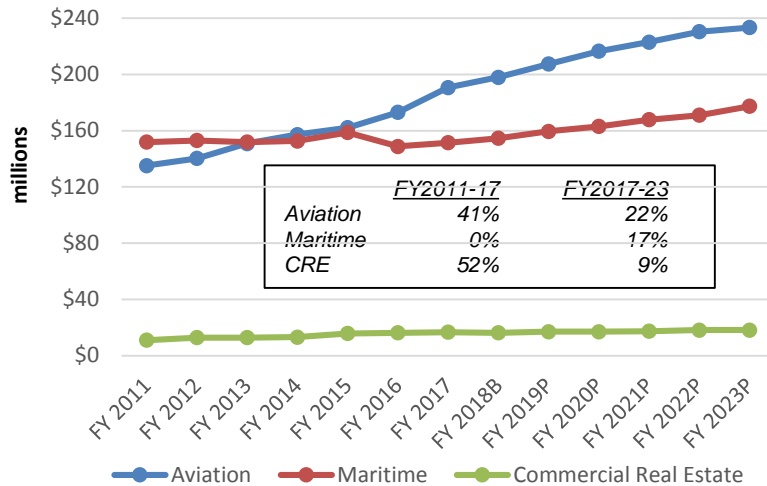
*Port staff plans to request Board approval of FY 2019 Budget at **June 28** meeting and submit adopted FY 2019 Budget to City on **July 5**.*

# Key Budget Objectives

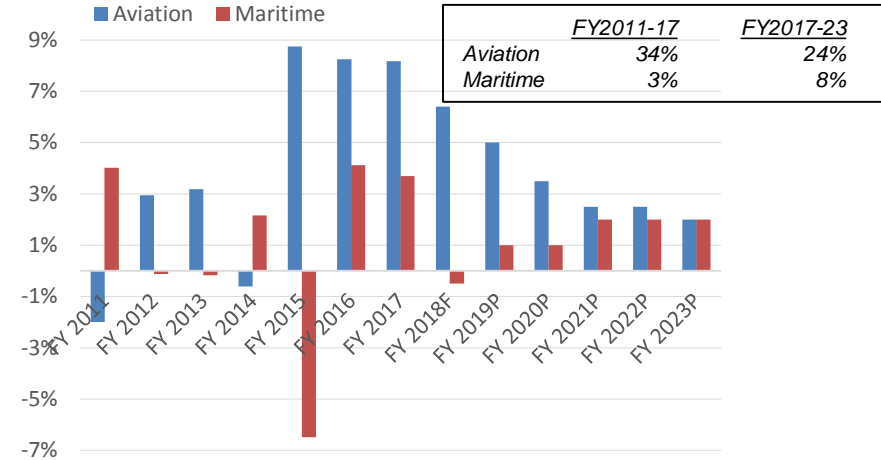
- **Operating:** Demonstrate smart, prudent and thoughtful budgeting to support long-term financial strength, resiliency and sustainability
  - Airport CPE must be proactively managed
  - Maritime operating expenses and revenues must be aligned
- **Debt:** Maintain discipline of paying down portion of outstanding commercial paper notes
- **Capital Investments:** Strategically identify, prioritize and appropriately plan major capital projects
- **Cash/Liquidity/Margins:** Provide flexibility and liquidity to protect against inherent operational, financial, political, and economic uncertainties
- **Financial Metrics:**
  - Improve operating income
  - Achieve minimum Debt Service Coverage Ratio of 1.50-1.60x
  - Achieve minimum June 30, 2019 cash balance of around \$150 million (excluding Board reserves, PFC & CFC balance, bond reserves, contractor retention held in escrow and other restricted funds)
  - Maintain Board Reserves, consistent with policy, of approximately \$74 million

The development of the FY 2019 budget includes evaluating each business line, as well as outlooks.

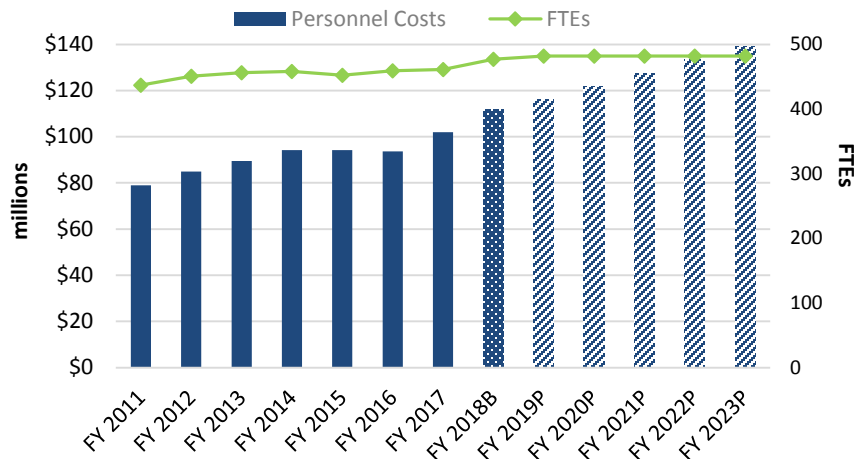
### Operating Revenues



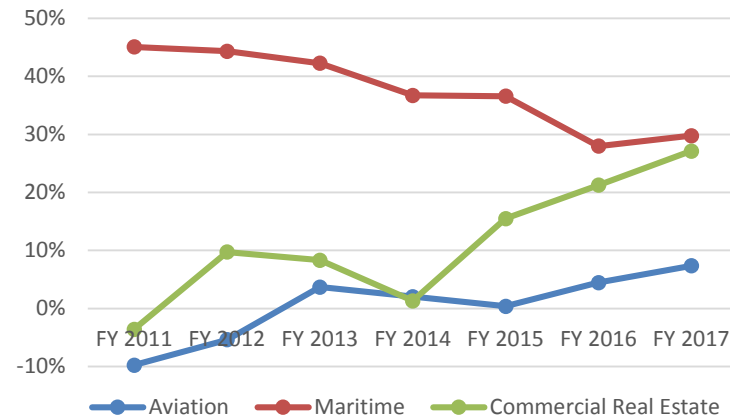
### Passengers and Full TEU Growth Rate



### Personnel Costs and FTES



### Operating Margin



## Key Budget Drivers - Aviation

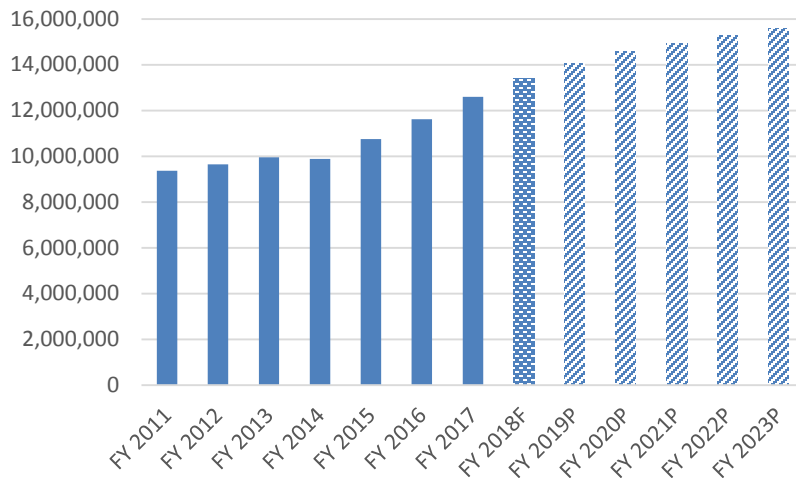
### Considerations

- ❑ Airport traffic has rebounded significantly over the past 4 years, and approaching the highs of 2007.
- ❑ Parking revenues are not growing.
- ❑ Capacity constraints and aging infrastructure must be addressed.
- ❑ Airport Cost per Enplaned Passenger (CPE) must be managed to maintain competitiveness.

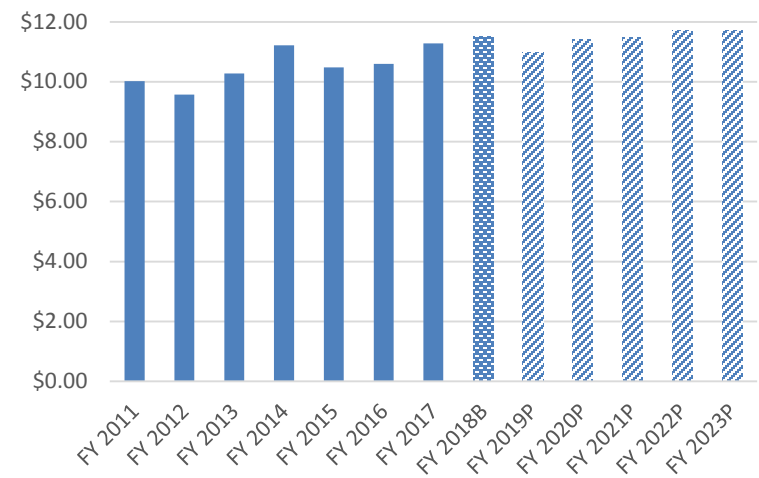
### Preliminary FY 2019 Budget

- Passenger traffic and revenues are both projected to increase 5%.
- 6 additional FTEs to support operations have been included.
- Additional planning and development studies are included.
- Careful evaluation of expenses to support operations, while maintaining cost competitiveness.

### Passenger Traffic



### Cost Per Enplaned Passenger



# Key Budget Drivers - Maritime

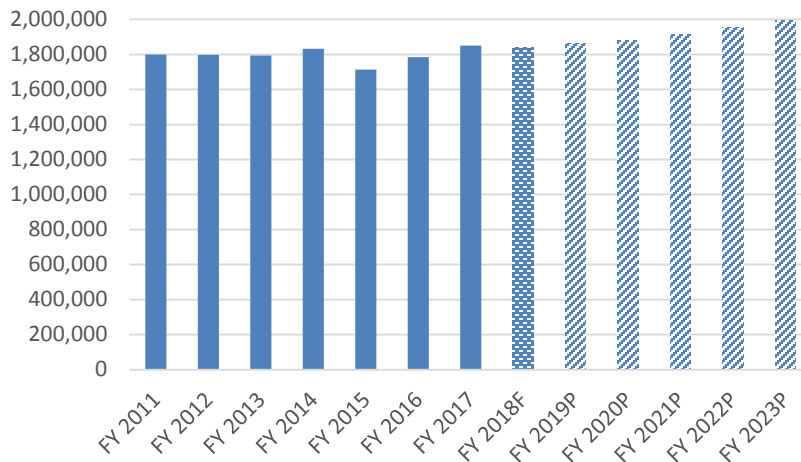
## Considerations

- ❑ Maritime TEUs are relatively flat and projected to grow modestly.
- ❑ Maritime revenues grew 0% from FY 2011-17, yet operating expenses\* increased 47%.
- ❑ No debt capacity and limited funds for capital investment due to current debt burden and operating margins that have declined.

## Preliminary FY 2019 Budget

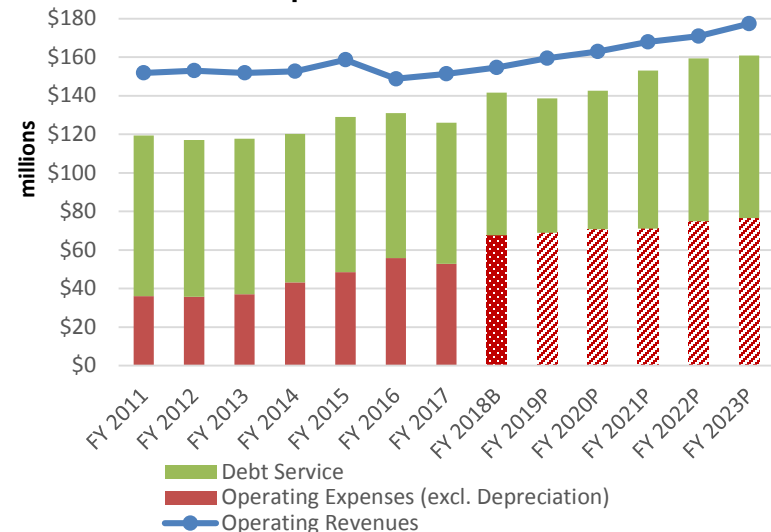
- Maritime full TEUs and revenues are projected to increase approximately 1% and 3%, respectively.
- Operating expenses\* are held to less than 2% increase; focus on improving financial operating performance.
- Debt service dips in FY 2019, but increases back in FY 2021.
- Continued reliance on private investment at Seaport.

### Full TEUs

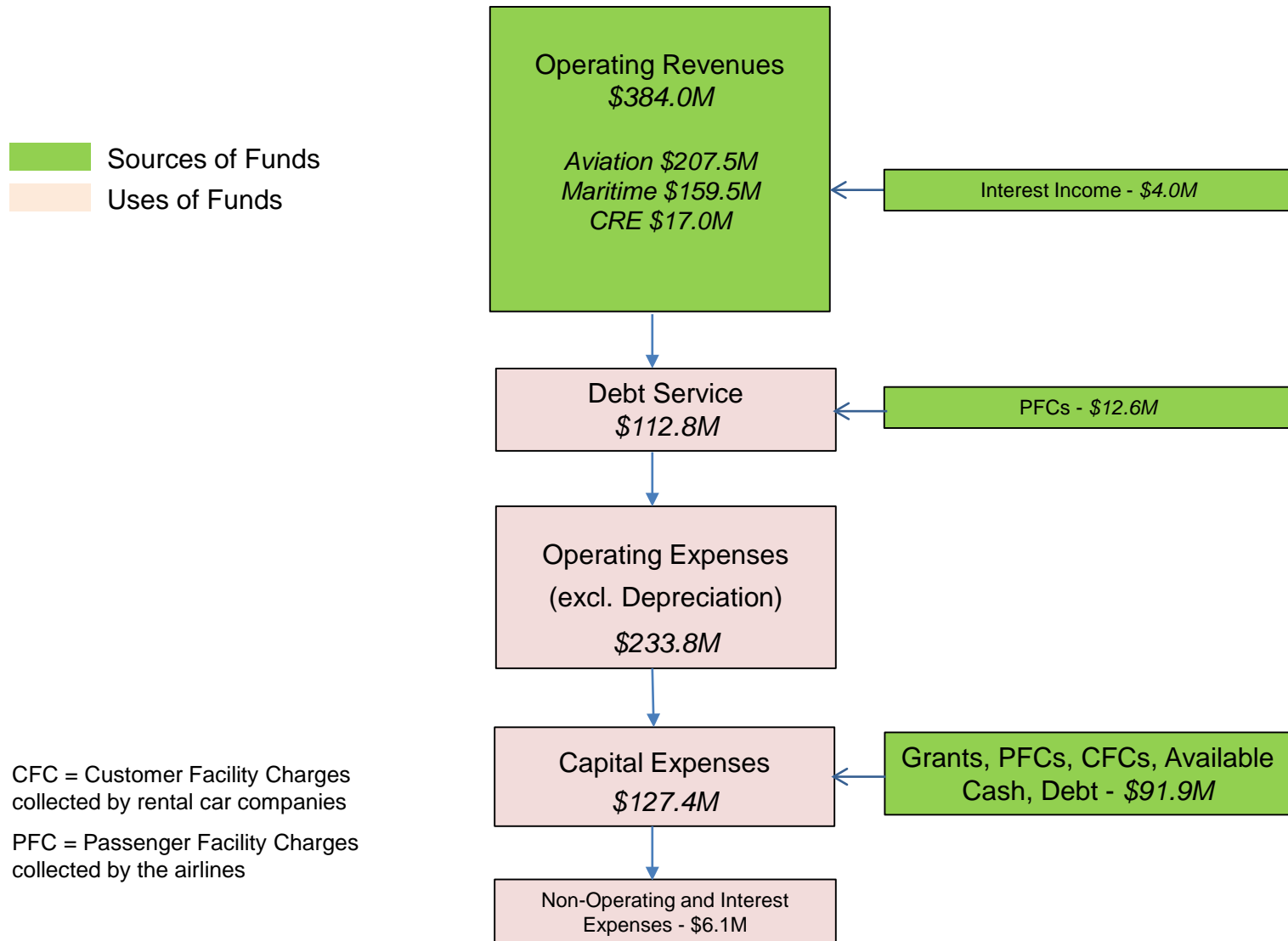


\* Excluding depreciation.

### Maritime Operating Revenues, Operating Expenses\* & Debt Service

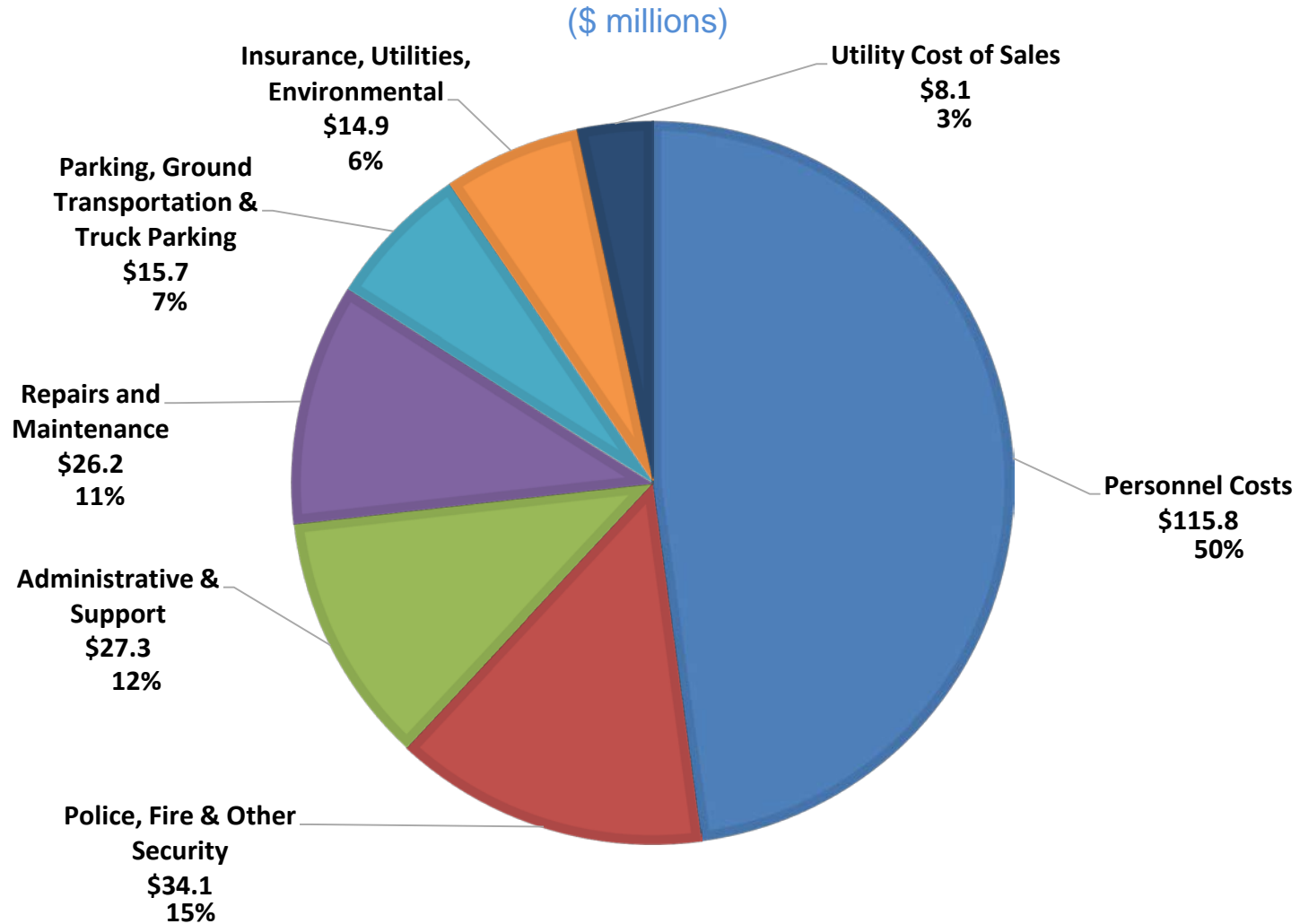


# FY 2019 Preliminary Budget





## FY 2019 operating expenses\* are preliminarily budgeted at \$233.8 million.



\* Excluding depreciation and net of Labor and Overhead Allocated to Capital Expenses.

Operating expenses are preliminarily budgeted to increase \$14.1 million, or 6.4% in FY 2019; nine line items drive the increase.

	Operating Expenses	Change from FY 2018B \$millions	% Change from FY 2018B
1	Aviation Planning Studies*	\$5.2	496.6%
2	Personnel Costs**	3.9	3.5%
3	Aviation Security*	1.7	7.3%
4	Seaport Logistics Environmental Mitigation	1.2	na
5	Cost of Sales – Electricity***	1.0	14.6%
6	Environmental Consulting	0.6	278.5%
7	Maintenance Dredging	0.5	17.0%
8	Computer Systems	0.4	21.0%
9	Aviation Ground Transportation	0.3	16.4%
	Net Decrease of Other Expenses	(0.8)	(1.1%)
	Total	\$14.1	6.4%

\* Most of the increases will be included in FY 2019 Airline rates and charges.

\*\* Some of the increases related to Aviation personnel will be included in FY 2019 Airline rates and charges.

\*\*\* Costs are a direct function of related revenues.

## Non-operating and interest expenses are also part of the Port's Budget.

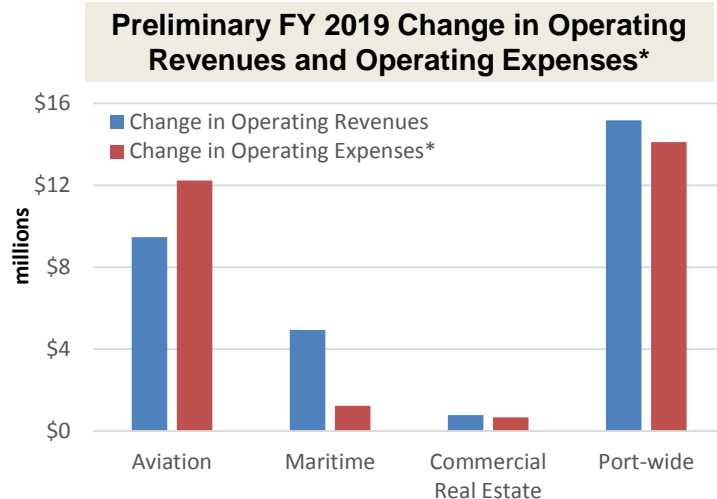
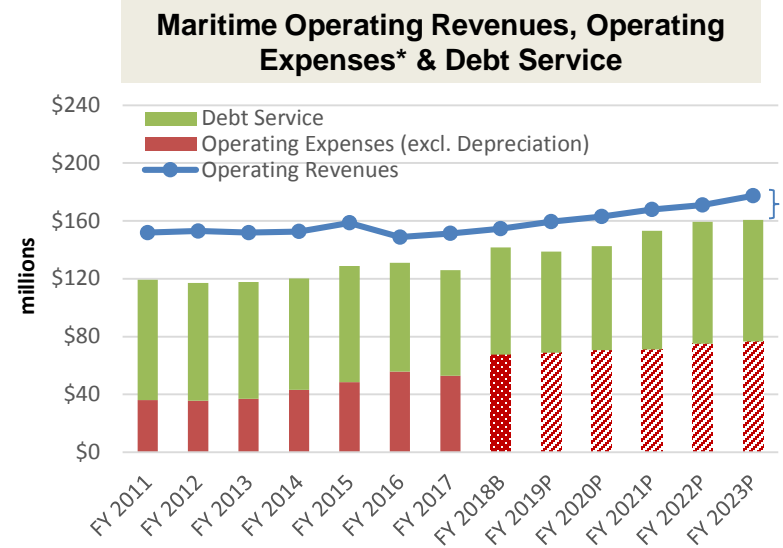
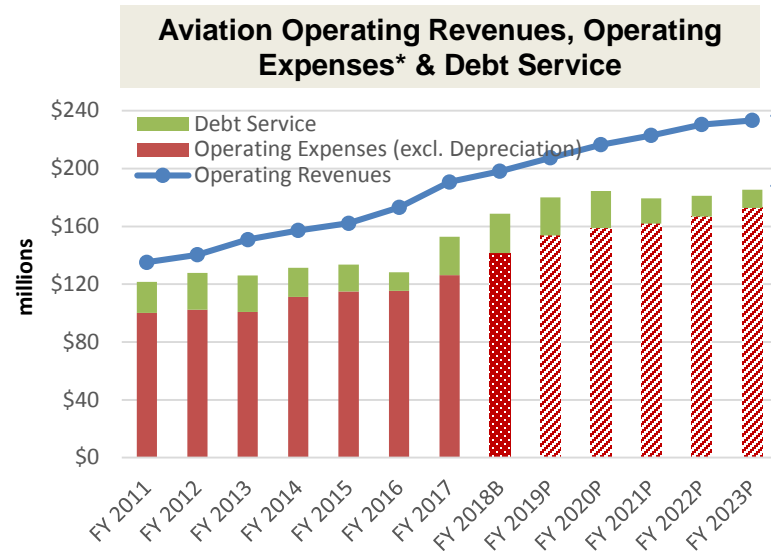
Non-Operating and Interest Expenses	(\$millions)
Debt Fees – Rating Agency, Letter of Credit	1.3
City General Services	1.3
Lake Merritt Maintenance	1.2
OHIT Union Pacific Payment	0.9
Retroactive Pension Payments for Prior Port Safety Workers	0.8
Demolition of Assets	0.6
Total	\$6.1

City payments, including parking and utility taxes are anticipated to total \$19.9 million in FY 2019.

City Payments	FY 2019 Preliminary (\$ millions)
Aircraft Rescue and Fire Fighting Services	\$6.70
General Services	1.32
Lake Merritt Maintenance	1.17
Maritime and JLS Police Service	0.70
Landscape Lighting Assessment District	0.70
Personnel, City Clerk, KTOP Services	0.34
Treasury Services	0.33
Jack London Improvement District	0.12
Edgewater Median Maintenance*	0.06
Fireboat/OPD Patrol Boat Maintenance	0.04
Total	11.48
Parking and Utility Taxes	8.38
Total including Parking and Utility Taxes	\$19.86

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

Operating revenues and operating expenses must be aligned for long-term sustainability and take into account both the past and the future.



**Aviation:**  
Available for Capital Expenses plus Aviation has the following other funding sources for capital projects: PFCs, CFCs and AIP Grants, along with the ability to directly increase revenues to pay debt service issued for capital projects

**Maritime:**  
Available for Capital Expenses

\* Excludes depreciation; allocation of central services (such as HR, Finance, IT, Legal, Engineering, Environmental, SRD, Government Affairs, Communications and Internal Audit) is an estimate and actual allocations will differ.

Debt service payments total \$112.8 million, including anticipated repayment of \$17.5 million of outstanding commercial paper notes.

(\$ millions)

Debt	Principal	Interest	Total	Outstanding as of May 2, 2018*	Anticipated Final Repay. Date
Bonds	\$50.3	\$42.5	\$92.7	\$891.7	2033
DBW Loan	0.3	0.2	0.5	4.1	2029
Commercial Paper					
Maritime	4.0	0.6	4.6	43.7	2028
Aviation – non PFC	2.0	0.3	2.3	9.7	2022
Aviation – PFC eligible**	11.5	1.2	12.7	52.0	2023
Total Commercial Paper	17.5	2.1	19.6	105.4	
<b>Total</b>	<b>68.0</b>	<b>44.8</b>	<b>112.8</b>	<b>1,001.2</b>	

Projected FY 2019

Debt Service Coverage Ratio (Bonds)	1.66x
Debt Service Coverage Ratio (incl. CP***)	1.55x

\* The Commercial Paper Notes are assumed to have an average interest rate of 2.05% in FY 2019.

\*\* An additional \$5 million is anticipated to be drawn for costs incurred in FY 2018.

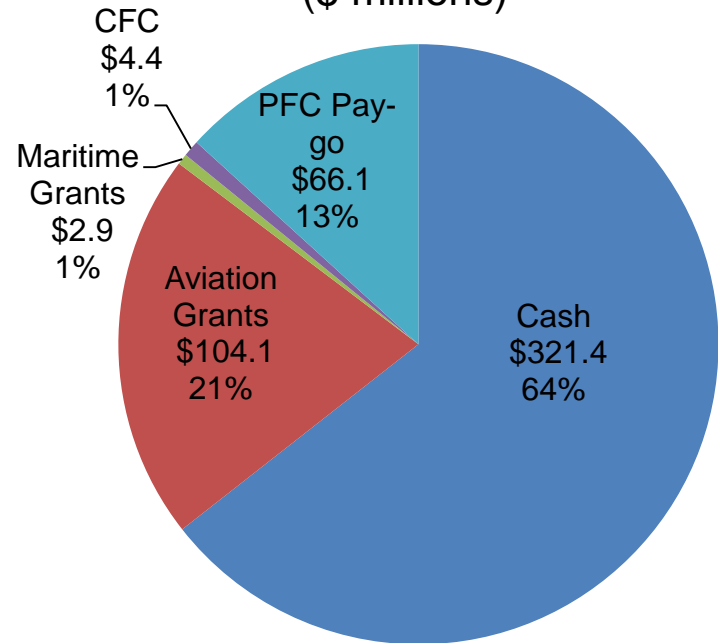
\*\*\* Excludes CP Notes anticipated to be repaid with PFCs.

# The Port's 5-year Capital Improvement Plan is updated annually.

**Preliminary 5-Year CIP  
FY 2019-23  
(\$ millions)**

Aviation	\$361.1	72%
Maritime	128.7	26%
CRE	7.3	1%
Support	1.9	0%
<b>Total</b>	<b>\$498.9</b>	<b>100%</b>

**Preliminary Funding Sources  
FY 2019-23  
(\$ millions)**



- ❑ Projects in the 5-Year CIP are at various stages; some are underway and others are in the planning or conceptual phase.
- ❑ The 5-Year CIP is updated annually, and projects may be added or removed.
- ❑ Board authorization is required to proceed (beyond the pre-development phase) on all projects greater than \$250,000.

# Capital investments must be strategic, appropriately prioritized and well-planned.

(\$ millions)

Major Projects in Preliminary 5-year CIP	FY 2019-2023**	Major Projects in Preliminary 5-Year CIP	FY 2019-2023**
Taxiway & Runway Improvement Projects*	\$69.2	Airport Hangar 7 and 8 Roofs	14.1
Port-wide Utility Improvements*	61.0	Airport Terminal 2 M130 Improvements*	12.8
Airfield Perimeter Dike Improvements	52.4	Airport Restroom Improvements	12.0
Airport Terminal Projects*	30.2	Airport M103 Roof Replacement	7.2
Airport Apron Projects*	30.2	Airport Security Checkpoint Upgrades	5.5
Airfield Projects *	26.0	Airport Drive Overlay	5.3
Port-wide Security Initiatives*	20.4	Airport Moving Walkway Refurbishment	5.0
Projects Support Seaport Logistics Complex*	20.3	Airport TSA Explosive Detection System	5.0
Maritime Roadway Improvements*	19.2	Maritime Cool Port Rail Infrastructure	4.2
Maritime Terminal Improvements*	18.1	Airport Parking Revenue Control System	3.6
Crane Raising and Management System*	16.7	Other* (Multiple Projects < \$5M each)	45.8
Airport Terminal 1 M101 Improvements*	14.7	<b>Total</b>	<b>\$498.9</b>

\* Multiple Projects

\*\* Does not include expenditures incurred prior to FY 2019.



# The FY 2019 Capital Budget is expected to include the following projects.

(\$millions)

Business Line	FY 2019 Preliminary Capital Budget	FY 2019 Initial	FY 2019 Pipeline	FY 2019* Total
A	TSA Explosive Detection System Recapitalization	\$5.0	0	\$5.0
M	Cool Port Rail Infrastructure	4.2	0	4.2
M	Crane Raising and Management System	4.0	0.5	4.5
A	Various Airport Terminal Improvements	2.6	22.0	24.6
M	Berth 25/26 Wharf and Related Improvements	2.0	0	2.0
	Misc. Facilities Replacement Projects	1.7	0	1.7
A	Parking Access Revenue Control System	1.6	0.8	2.4
A	Terminal 1 Ground Support Electrification	1.5	0	1.5
A, M	Port-wide Utility Improvements	1.5	10.8	12.3
A	Various Airfield Improvements	1.6	8.7	10.3
A	ARFF Truck and Facilities	1.4	0	1.4
A	M130 Roof Replacement	1.4	0	1.4
C	Reconstruction of Portion of Embarcadero Road	1.2	0	1.2
A	Aviation Security Enhancements	0.8	9.1	9.9
A	International Arrivals Building	0.7	0	0.7
M	Seaport Logistics Complex	0.6	11.2	11.8
A	Airfield Perimeter Dike Improvements	0	15.4	15.4
All	Other (Multiple Projects < \$1 million each)	3.1	14.0	17.1
	<b>Total</b>	<b>\$ 34.9</b>	<b>\$92.5</b>	<b>\$127.4</b>

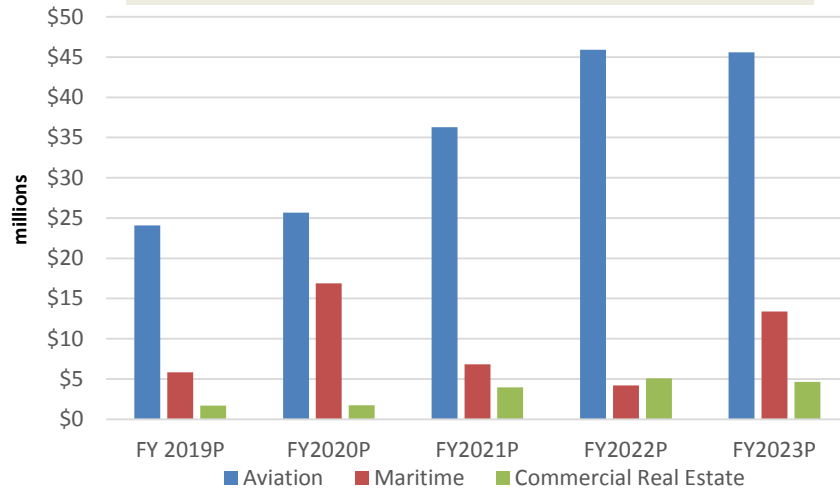
**Initial Projects –**  
Projects that have already been reviewed and authorized by the Board, or projects that are no more than \$250,000 and within the Executive Director's spending authority.

**Pipeline Projects –**  
Projects that are in preliminary development stages and requires project approval from the Board. Staff anticipates seeking Board approval in FY 2019.

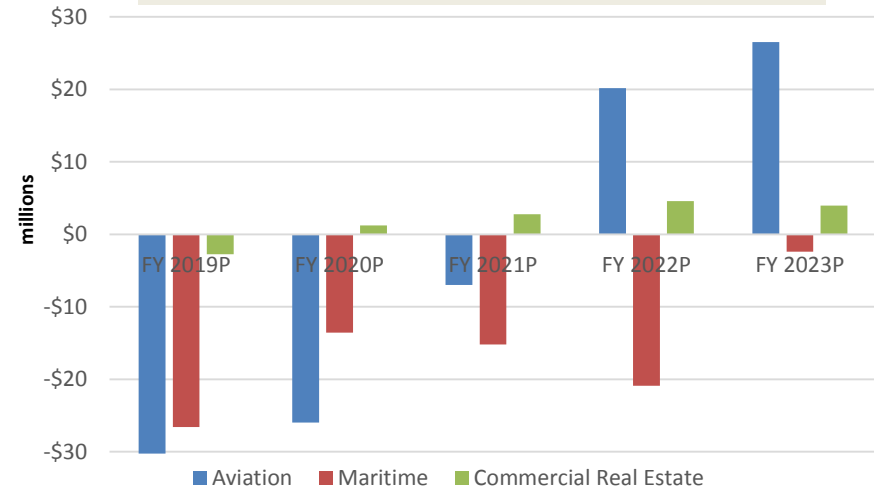
\* Does not include expenditures incurred prior to, or subsequent to FY 2019.

# Projected Cash Flows

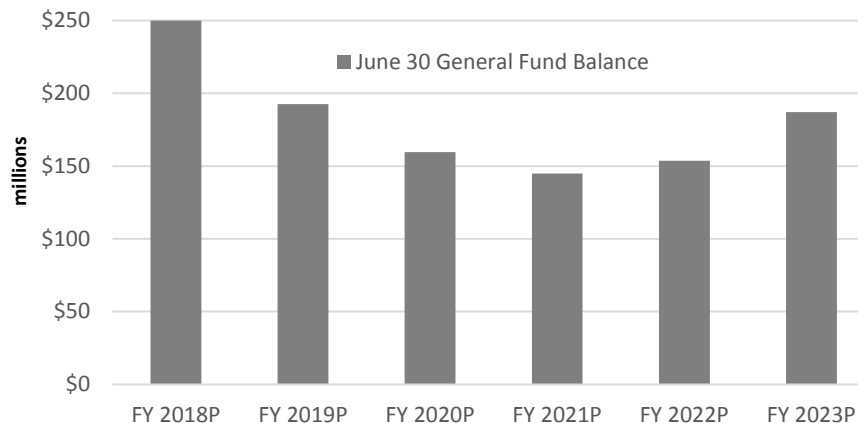
**Projected Cash Flow Available for Capital Expenses\***



**Projected Cash Flow After Capital Expenses\*\***



**Projected Unrestricted Cash Balance\*\*\***



Target minimum Cash Balance\*\*\* on June 30 of approx. \$140-150 M to take into account November 1 debt payment, executed construction contracts, working capital, and other liabilities.

\* Excludes interest income, PFCs, CFCs and grants.

\*\* Excludes interest income; capital expenses are net of anticipated PFCs, CFCs and grants.

\*\*\* Excludes Board reserves and other restricted funds.

# Summary

## Objectives

- **Operating:** Demonstrate smart, prudent and thoughtful budgeting to support long-term financial strength, resiliency and sustainability
  - Manage Airport CPE
  - Align Maritime operating expenses and revenues
- **Debt:** Maintain discipline of paying down portion of outstanding commercial paper notes
- **Capital Investments:** Strategically identify, prioritize and appropriately plan major capital projects
- **Cash/Liquidity/Margins:** Provide flexibility and liquidity to protect against inherent operational, financial, political, and economic uncertainties

## Key Dates

- June 28, 2018 – Port staff requests Board adoption of FY 2019 Operating and Capital Budgets
- July 5, 2018 – Port provides City with adopted budget



Attachment A:  
March 22, 2018 Budget Update #1





# Development of FY 2019 Operating and Capital Budget

Board of Port Commissioners  
March 22, 2018

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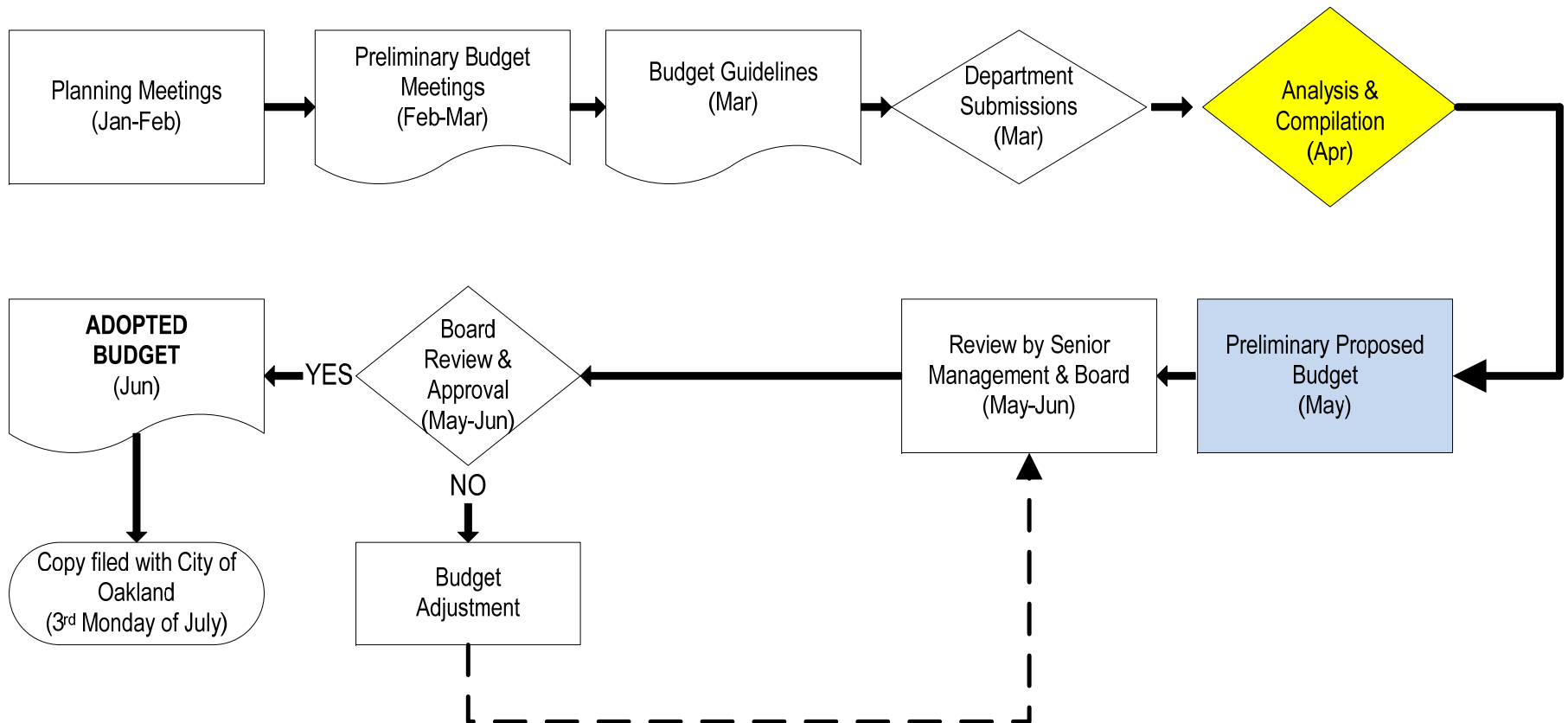


# Purpose of Presentation

1. Provide overview of the Port budget process and budget
2. Discuss key factors influencing the development of FY 2019 Budget
3. Receive Board feedback on key budget objectives and assumptions

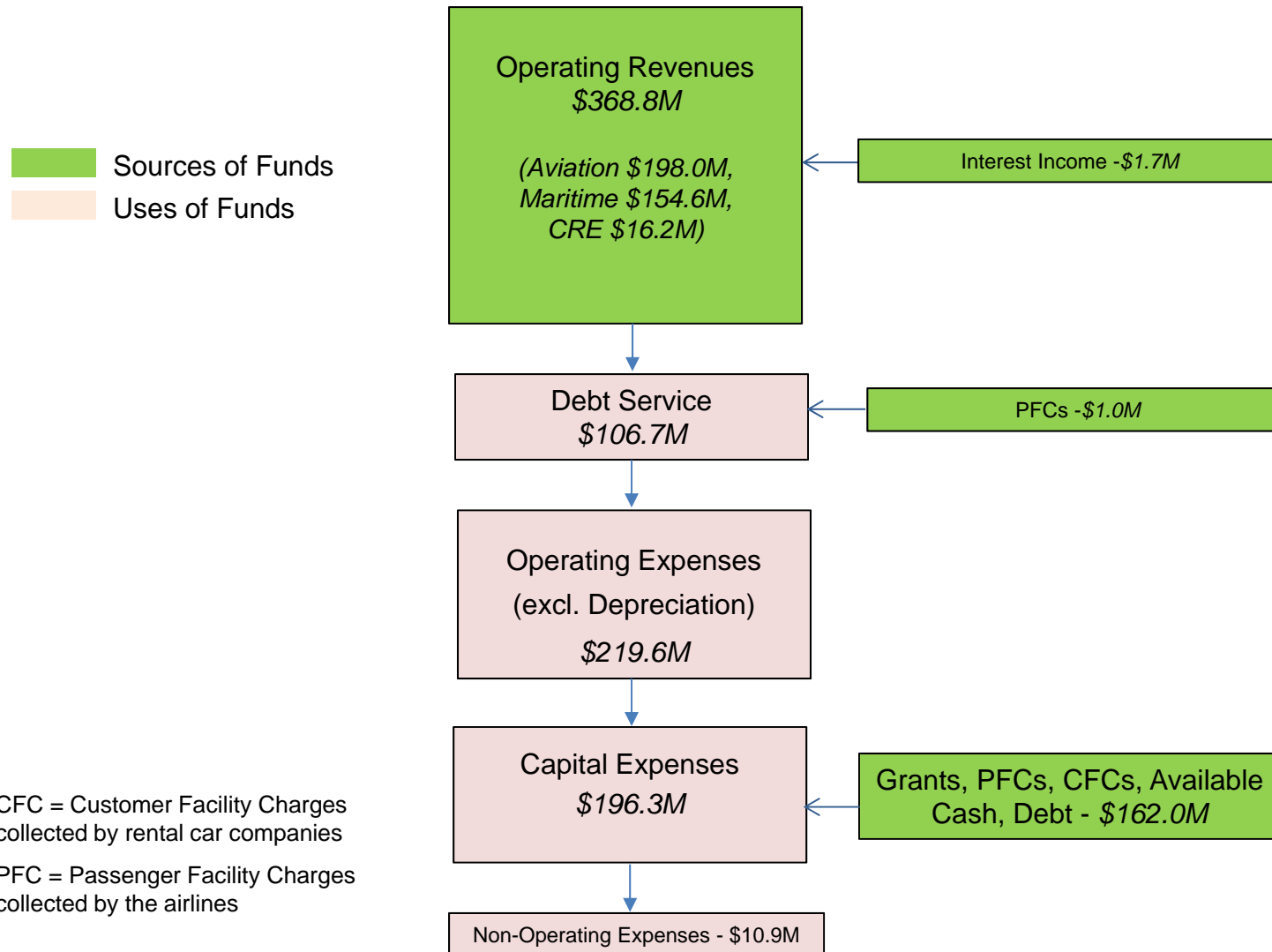
# 1. Overview of the Port Budget Process and Budget

# Budget Process Overview



# Operating revenues supplemented by grants, PFCs and CFCs pay for debt service, operating expenses and capital expenses.

## FY 2018 Budget



## 2. Key Factors Influencing the Development of FY 2019 Budget

# The Port primarily serves as a landlord and manages three business lines.

## Oakland Int'l Airport

- 13 million passengers
- 65 non-stop destinations\*
- 14 domestic and international airlines\*
- 4<sup>th</sup> largest airport in CA
- FY17 revenues = \$191M



## Oakland Seaport

- 2.4 million TEUs
- 4 marine terminals
- 22 international and domestic shipping lines
- Top 10 seaport in US
- FY17 revenues = \$151M

## Commercial Real Estate

- Jack London Square, Oak Bus Park, Embarcadero Cove
- 100 tenants
- 3 million visitors
- 630 acres of public access and open space
- FY17 revenues = \$17M



\* Operating in July 2018 (peak schedule with seasonal service and new routes)

## The Port possesses solid fundamentals, providing resiliency to Port revenues.

- ❑ The Port is geographically well-positioned and services a healthy local economy.
  - 87% of Airport traffic is “origin and destination”; closest airport to the majority of the population and downtown San Francisco; minimal weather delays
  - 85% of Maritime cargo is for local destinations; balanced import-export mix; shorter transit times to Asia; Class I railroad connections
- ❑ The three business lines provide diversity and stability to Port revenues.

## The Port's financial position has improved significantly since the lows of 2009, but challenges persist.

### Accomplishments

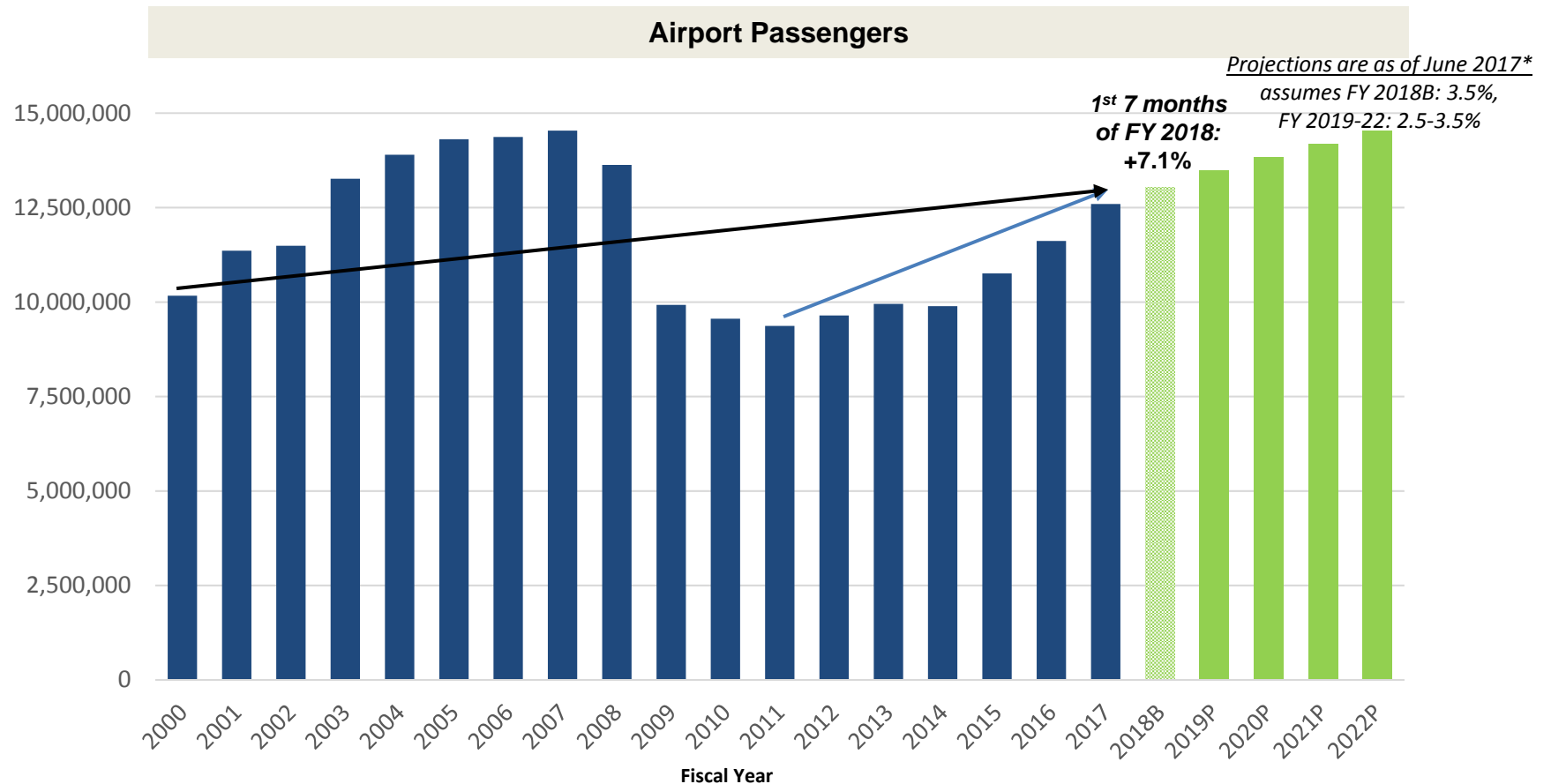
- Airport traffic has rebounded significantly in the past 4 years
- Maritime has retained all cargo and maintained revenues in light of major terminal operator ceasing operations
- Port has reduced aggregate debt service payments by \$250M
- Port's liquidity position is back to airport/seaport industry standards
- Major capital improvements recently completed: Terminal 1 and IAB renovations, and runway rehabilitation
- Capital investments by tenants demonstrate commitment to Port: Trapac, Cool Port, Centerpoint Oakland Development I, crane raising

### Challenges

- Operating income is flat over the last 5 years
- Maritime revenues and TEUs in FY 2017 are flat to FY 2011, but Maritime operating expenses during this time are up 6.6%
- Maritime revenues are sufficient to cover only operating expenses and debt service
- Increase in passengers is not currently resulting in economies of scale. Passengers have increased 17% over the last two years, but Airport Cost per Enplaned Passenger (CPE) has risen 8%; CPE must be controlled to maintain competitiveness
- Pension, healthcare, security, and regulatory costs continue to rise significantly; Port personnel costs are a lifetime obligation
- Industry factors such as larger planes and ships, and increased competition among airports and seaports must be addressed
- Aging infrastructure must be addressed



Passenger level is approaching the highs of 10 years ago; and over a 17-year time frame has averaged 1.3% per year.

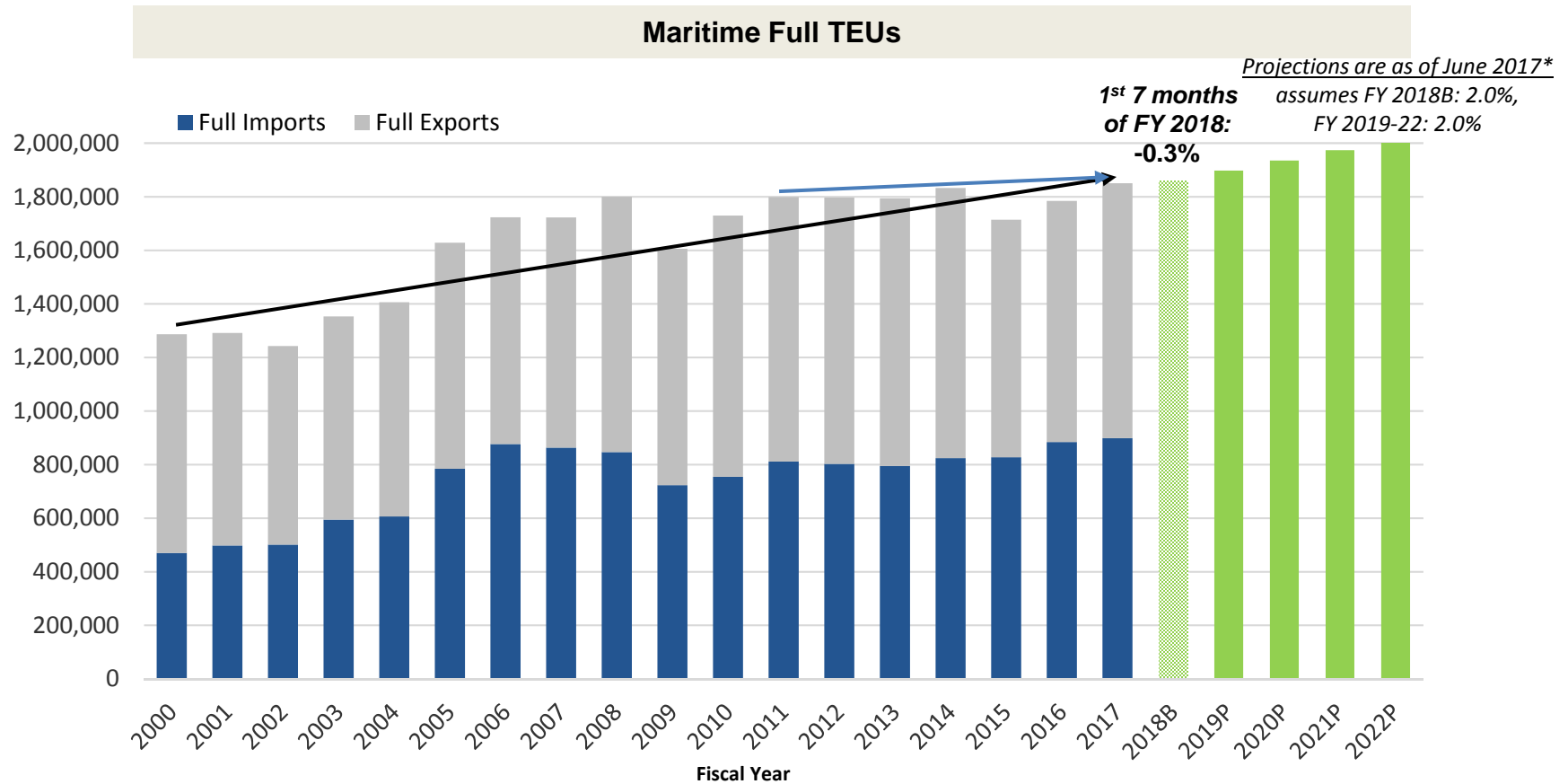


- ❑ Airport passengers is not directly correlated to Port revenues, but is an important indicator of Aviation health.

Compound Annual Growth Rate	
FY 2011 – 2017	5.1%
FY 2000 – 2017	1.3%

\* Currently in the process of being updated; subject to change.

Full TEUs has been relatively flat since FY 2011; and over a 17-year time frame has averaged 2.2% per year.

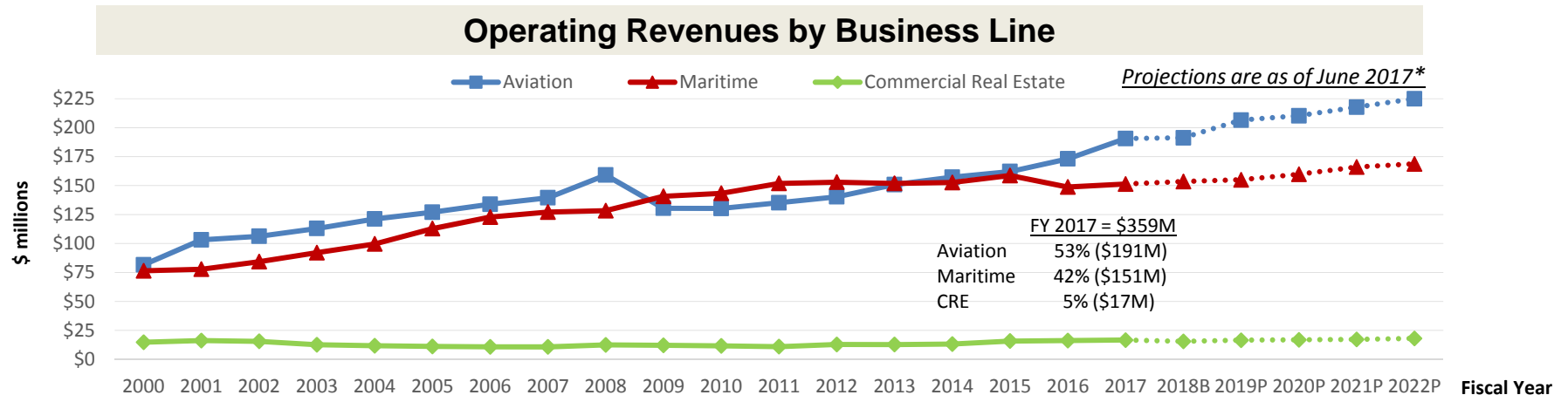


- ❑ Cargo volume is not directly correlated to Port revenues, but is an important indicator of Maritime health.

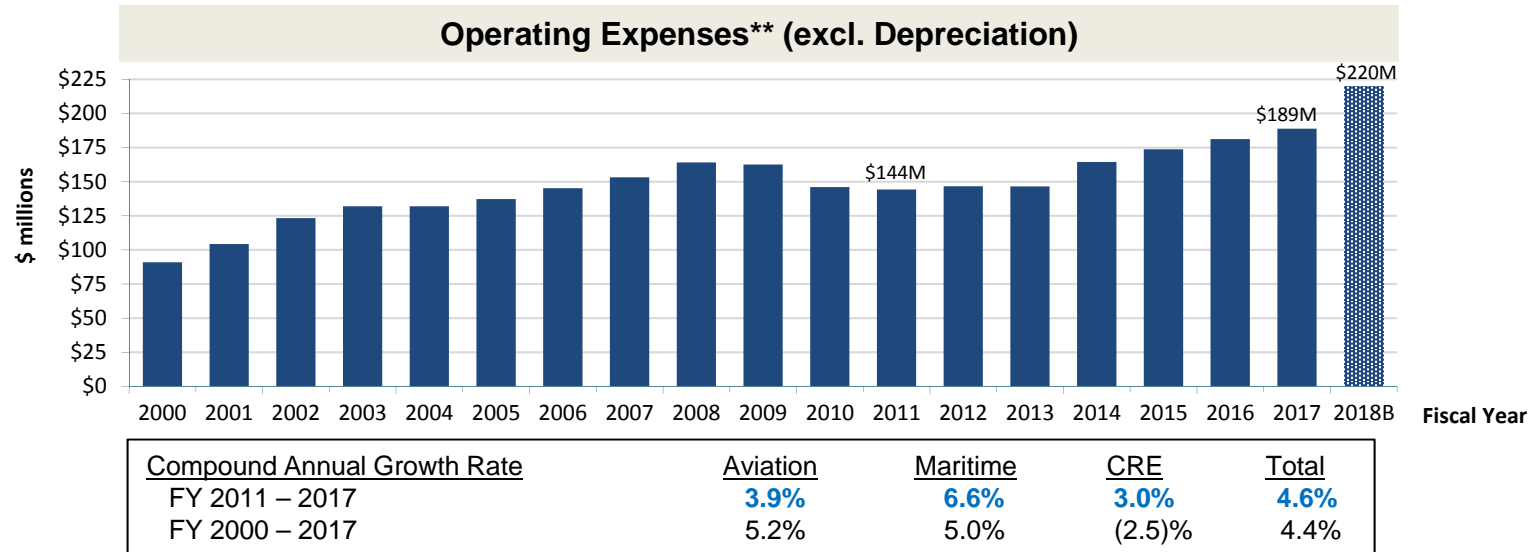
	<u>Compound Annual Growth Rate</u>	
	<u>Full</u>	<u>Full &amp; Empty</u>
FY 2011 – 2017	0.5%	0.1%
FY 2000 – 2017	2.2%	2.0%

\* Currently in the process of being updated; subject to change.

Operating revenues have increased in aggregate 20% since FY 2011, driven by Aviation and CRE revenue growth.



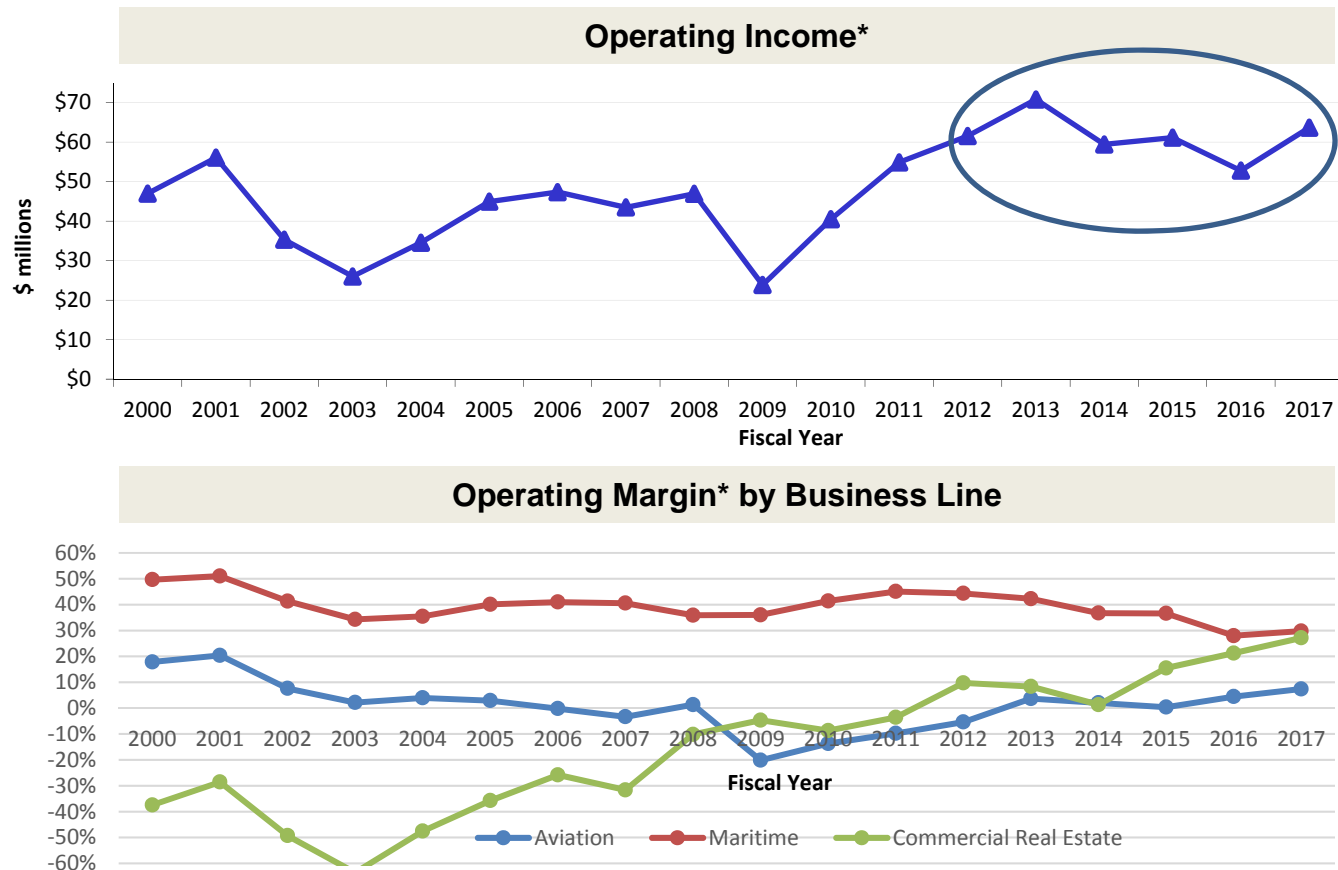
Compound Annual Growth Rate	Aviation	Maritime	CRE	Total
FY 2011 – 2017	5.9%	0.0%	7.2%	3.1%
FY 2000 – 2017	5.1%	4.1%	0.7%	4.4%



\* Currently in the process of being updated; subject to change.

\*\* See Slide 13 for footnote.

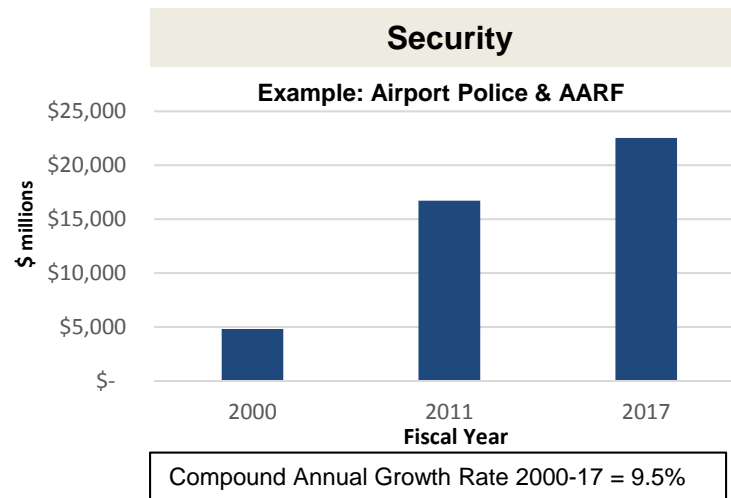
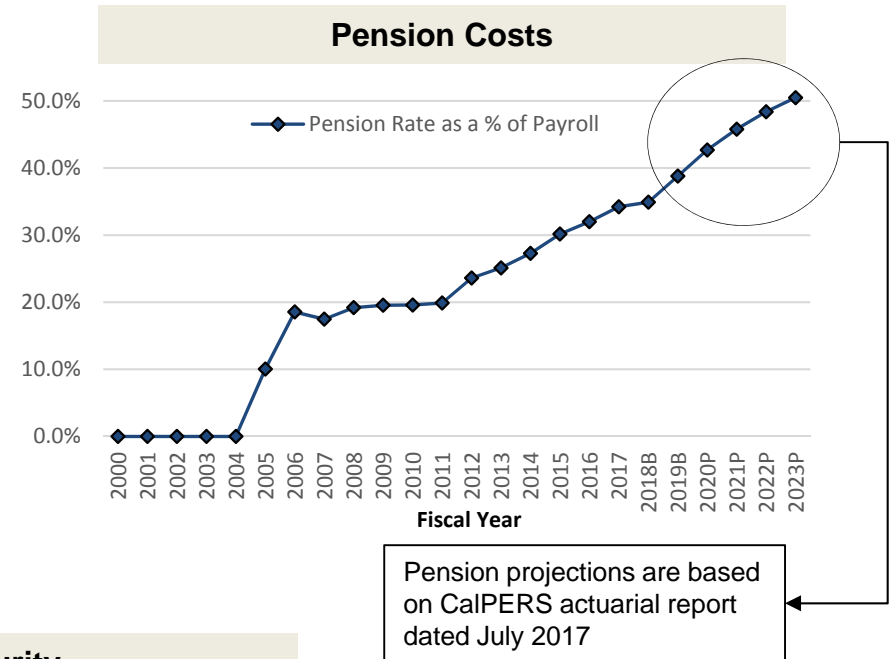
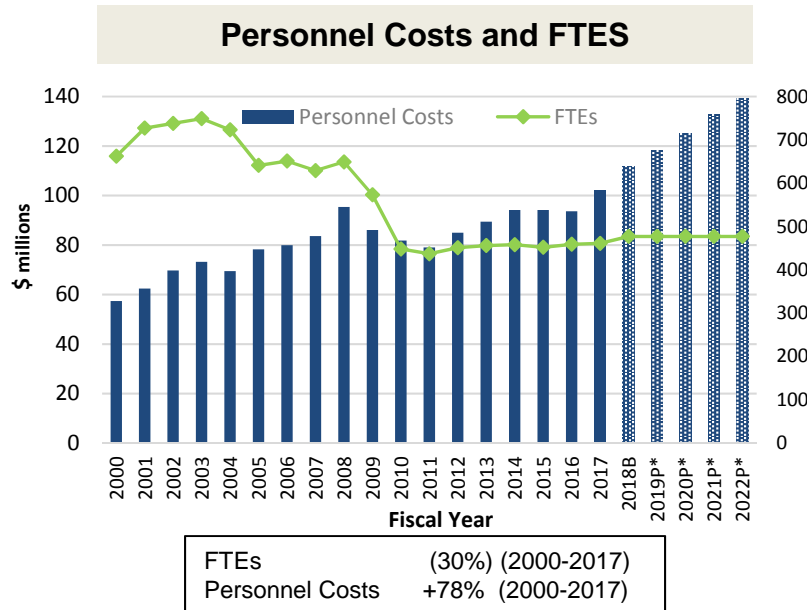
Operating income is stagnant as operating revenues struggle to keep pace with increases in operating expenses.



- ❑ **Operating income** measures the amount of earnings generated by the day-to-day business activities and correspondingly takes into account operating and capital costs (depreciation) necessary to generate the operating revenues. Operating income measures earnings at the time they are earned, which differs from timing of cash receipts and payments.
- ❑ **Operating margin** measures earnings as a % of revenues.

\* Beginning with FY 2016, rental car busing costs (which are paid for with Customer Facility Charges) are no longer recorded as operating expenses and have been reclassified to non-operating expenses. FY 2008-2015 expenses have been adjusted to exclude rental car busing costs.

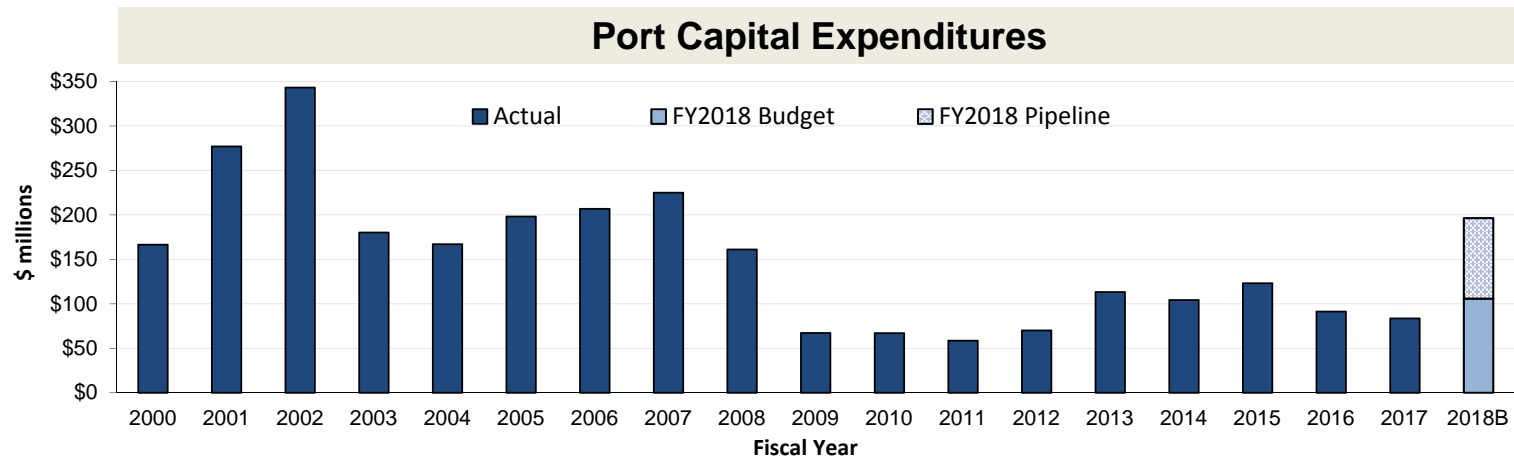
# Personnel and security costs have increased and are expected to continue to rise significantly.



\* Currently in the process of being updated; subject to change.

Operating performance must be strong so that future capital investments can continue to be made.

Port Capital Projects	Est. Costs	Est. Completion
Airport Perimeter Dike	~ \$64M	Summer 2021
Various Terminal Improvements (e.g. TSA recapitalization, restrooms, wall window)	~ \$30M	varies
Cool Port Infrastructure	~ \$12M	Summer 2018
Various Utility Upgrades	~ \$40M	varies



At the Seaport, significant private investment is underway:

- Trapac Terminal Expansion and improvements (~\$50M)
- Cool Port Oakland (~\$90M)
- Centerpoint Oakland Development I (~\$50M)
- Crane raising (~\$20M)

### 3. Key Budget Objectives and Assumptions

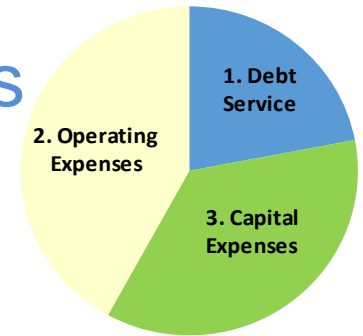
# Key Budget Objectives

- **Cash/Liquidity/Margins:** Provide flexibility and liquidity to protect against inherent operational, financial, political, and economic uncertainties
- **Debt:** Maintain discipline of paying down portion of outstanding commercial paper notes
- **Operating:** Demonstrate smart, prudent and thoughtful budgeting to support long-term financial strength, resiliency and sustainability
- **Investments:** Strategically identify, prioritize and appropriately plan major capital projects
- **Financial metrics:**
  - Improve operating income
  - Achieve minimum Debt Service Coverage Ratio of 1.50-1.60x
  - Achieve minimum June 30, 2019 cash balance\* of around \$150 million (excluding Board Reserves, PFC & CFC balance, Bond reserves and contractor retention held in escrow)
  - Maintain Board Reserves, consistent with policy, of approximately \$72 million

\* June 30 cash balance is used to pay upcoming November 1 debt payment of \$57 million, construction contracts already executed, 5-Year Capital Improvement Plan, day-to-day operating expenses and unfunded liabilities; balance also includes contractor retention and security deposits.



# Preliminary Key Budget Assumptions

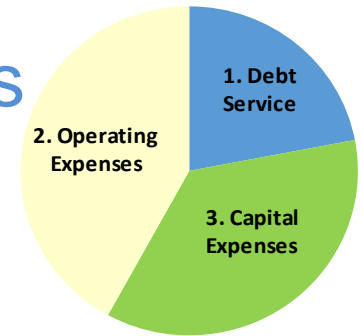


## 1. Debt Service Expenses

- Bond debt service payments will be \$93 million in FY 2019
  - FY 2019 debt service is \$9 million less, due to summer 2017 bond refunding
- Increase repayment of outstanding commercial paper from \$4 million to \$6-8 million
  - \$105 million of commercial paper notes outstanding as of March 2018 (\$44 million Maritime, \$52 million Aviation PFC-eligible, \$9 million Aviation)
  - Some commercial paper notes have been outstanding for 20 years
- Minimum debt service coverage ratio\* of 1.50-1.60x:
  - Provides minimum operating financial cushion
  - Continues progress on capital improvements
  - Maintains sufficient liquidity
  - Preserves credit ratings
  - Complies with Port debt policy

\* Debt service coverage ratio reflects the financial cushion to make debt service payments. That is, it measures the amount of operating revenues remaining after payment of operating expenses and compares it to debt service payments.

# Preliminary Key Budget Assumptions

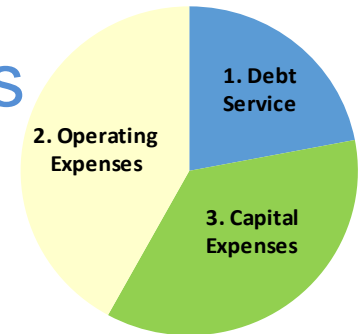


## 2a. Operating Expenses - Personnel

- No change in overall staffing levels, other than some possible considerations at the Airport. Instead prioritization shall be:
  - Review vacancies and ensure that the most effective and needed positions are identified and appropriately placed
  - Prioritize filling vacancies (41 vacancies as of March 2018)
  - Focus on smart and skilled management to achieve a high performing workforce

❖ *The Port will not be able to sustain the projected significant increases in pension and medical costs (including retiree medical) unless we proactively manage our current and future personnel costs*

# Preliminary Key Budget Assumptions

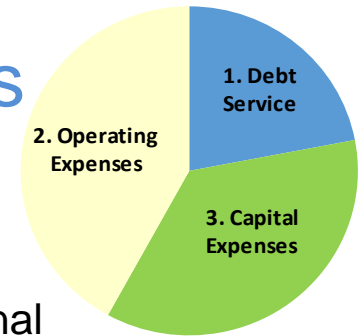


## 2. Operating Expenses – Non-Personnel

- Non-personnel budgets have been requested to remain in general flat with the following possible exceptions:
  - Contractually obligated increases, with no discretion and no reasonable offset
  - Maintenance and repairs, life-safety, environmental and regulatory matters
  - Costs are recovered in the same year (e.g. Airline Rates and Charges)
  - Support of longer-term planning efforts

- ❖ *Management will continue to closely manage, prioritize, and be prudent with expenditures, focused on long-term financial sustainability and spending smartly.*
  - ❖ *Management will carefully evaluate actual rather than budgeted expenses, and review management practices, so that the Port's financial planning practices can continue to improve.*

# Preliminary Key Budget Assumptions



## 3. Capital Expenses

- *Aviation* - With major projects substantially completed in FY 2018, the focus in FY 2019 will be on Airport perimeter dike, various terminal improvements, utility upgrades, security enhancements, and longer-term planning efforts (capital expenses for FY 2019 anticipated to be significantly lower, given normal capital planning cycle).
- *Maritime* – As a landlord seaport, and with limited cash flow, most of the development is being undertaken by private parties (Cool Port, Centerpoint Oakland). Port staff will continue to focus on related-infrastructure improvements to support private investment, as well as crane-raising, utility upgrade and security initiatives.
- Continue to focus on life-safety, regulatory, and revenue maintenance projects.

- ❖ *Capital budget always takes into account resources and balancing available cash against preserving liquidity and financial flexibility.*
- ❖ *Capital investments must be strategic, appropriately prioritized and well-planned for the Port to be successful in achieving long-term financial sustainability.*
- ❖ *Management will carefully evaluate actual rather than budgeted expenses, and review management practices, so that the Port's financial planning practices can continue to improve.*

# Schedule

- |          |   |
|----------|---|
| March 22 | Board Update #1<br>– <i>Overview, Key Factors, Objectives and Assumptions</i> |
| May 10   | Board Update #2<br>– <i>Key Assumptions and Preliminary Budget Numbers</i>    |
| June 28  | Request Board adoption of FY 2019 Operating and Capital Budgets               |
| July 5   | Submit Adopted FY 2019 Budget to City   |