



# Development of FY 2020 Operating and Capital Budget

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Board of Port Commissioners  
May 9, 2019

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 Presentation

### **Today's Presentation:**

1. Recap key budget objectives and drivers
2. Present preliminary FY 2020 budget numbers
3. Present preliminary updated 5-year operating forecast and Capital Improvement Plan

### ***Prior Presentation – March 28, 2019:***

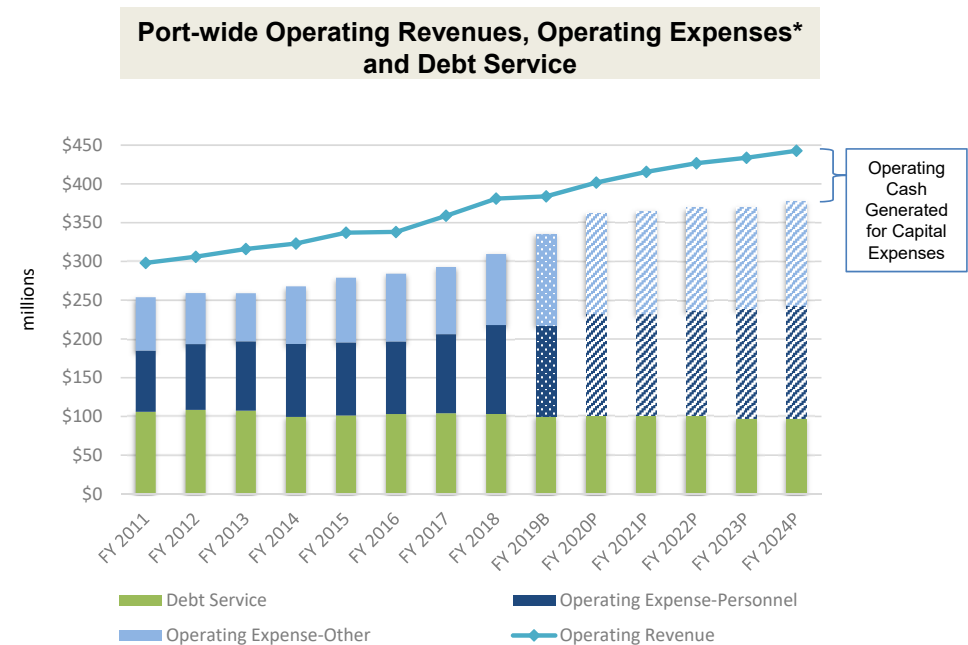
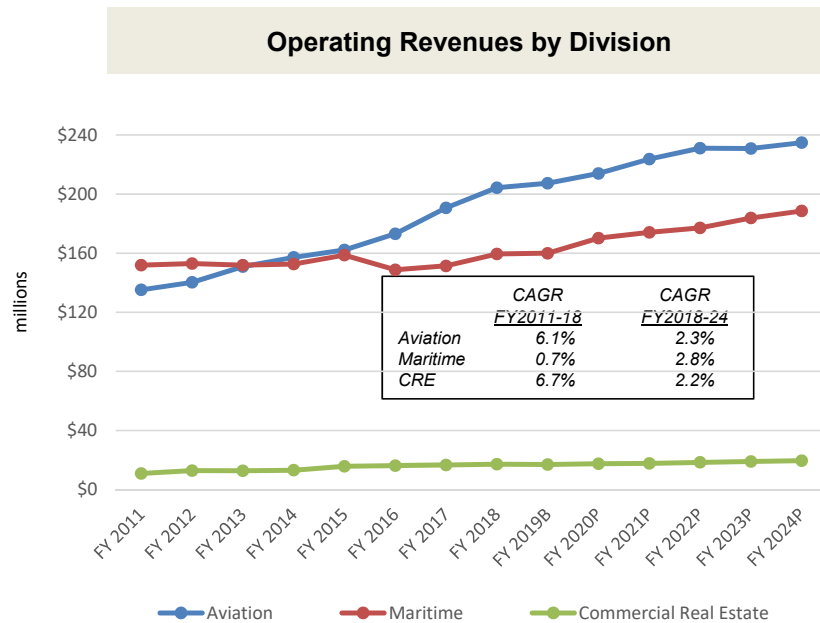
- ☐ *Provided overview of Port budget and budget process*
- ☐ *Discussed key factors influencing development of FY 2020 Budget*
- ☐ *Received Board feedback on key budget objectives and assumptions*

## Key Budget Objectives

- **Cash/Liquidity:** 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, in addition to required bond payments
- **Operating:** Demonstrate smart, prudent and thoughtful budgeting to support long-term financial strength, resiliency and sustainability
- **Capital Investments:** Strategically identify, prioritize and appropriately plan major capital projects
- **Financial Metrics:**
  - Improve Maritime operating margin
  - Control Airport Cost per Enplanement (CPE)
  - Achieve minimum Bond Debt Service Coverage Ratio of 1.50-1.60x
  - Achieve minimum projected cash balance on June 30\* 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 \$78 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 not held in escrow and security deposits.

The development of the FY 2020 budget begins with forecasting revenues and recognizing fixed costs.



❑ Debt service and personnel costs (50% of operating expenses\*) are fixed and limited discretion with other operating expenses.

\* Excluding depreciation.

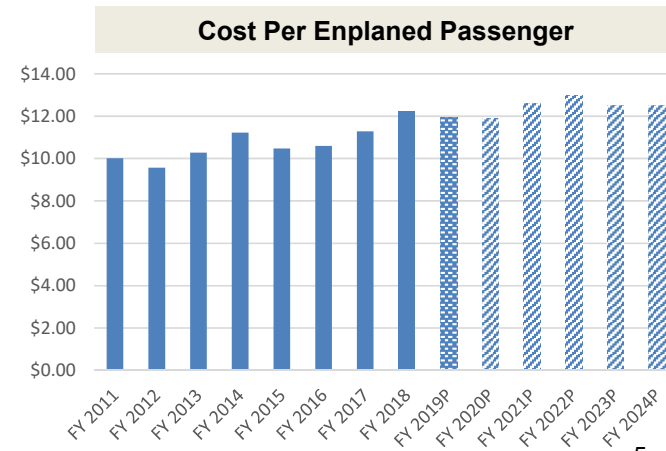
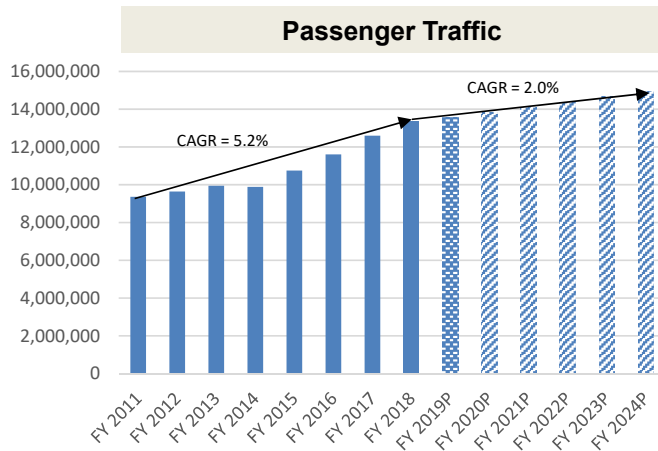
## Key Budget Drivers - Aviation

### Considerations

- ❑ While Airport traffic has rebounded significantly over the last several years, traffic growth is projected to slow.
- ❑ 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 2020 Budget

- ❑ Passenger traffic and revenues projected to increase 2% and 4% respectively compared to anticipated FY 2019 actuals.
- ❑ 7 additional FTEs to support operations have been included.
- ❑ Increased personnel and security costs.
- ❑ Careful evaluation of expenses to support operations, while maintaining cost competitiveness.



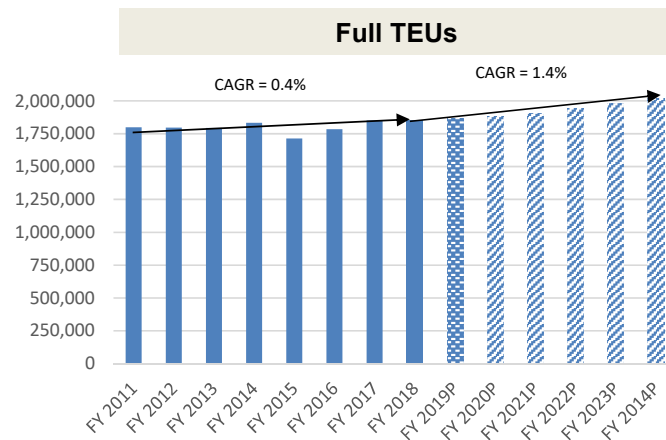
## Key Budget Drivers - Maritime

### Considerations

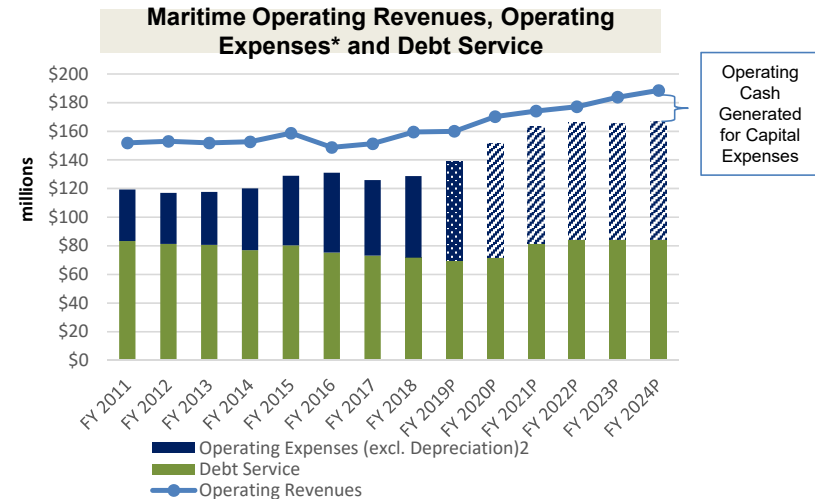
- ❑ TEU growth has been modest and projected to grow at 1-2% annually over the next several years.
- ❑ Revenues projected to grow 6-7% in FY 2019; over the prior 6 years, revenue growth was 0.7% annually with operating expenses\* increasing 6.8% annually.
- ❑ No debt capacity and limited funds for capital investment due to current debt burden and operating margins that have declined.

### Preliminary FY 2020 Budget

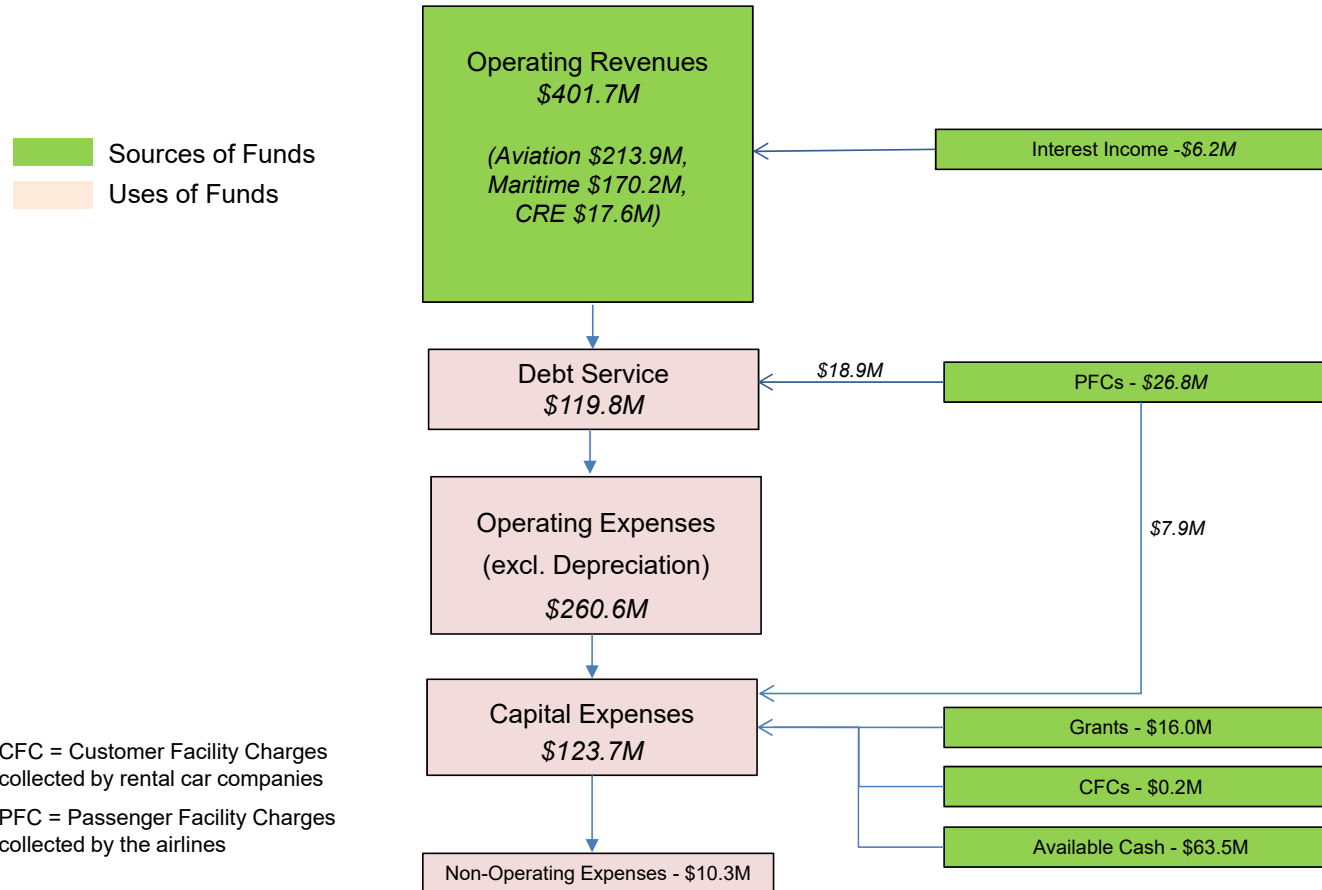
- Full TEUs and revenues projected to increase 1% compared to anticipated FY 2019 actuals.
- Increased personnel, maintenance dredging and major maintenance costs.
- Continued reliance on private investment at Seaport.



\* Excluding depreciation.

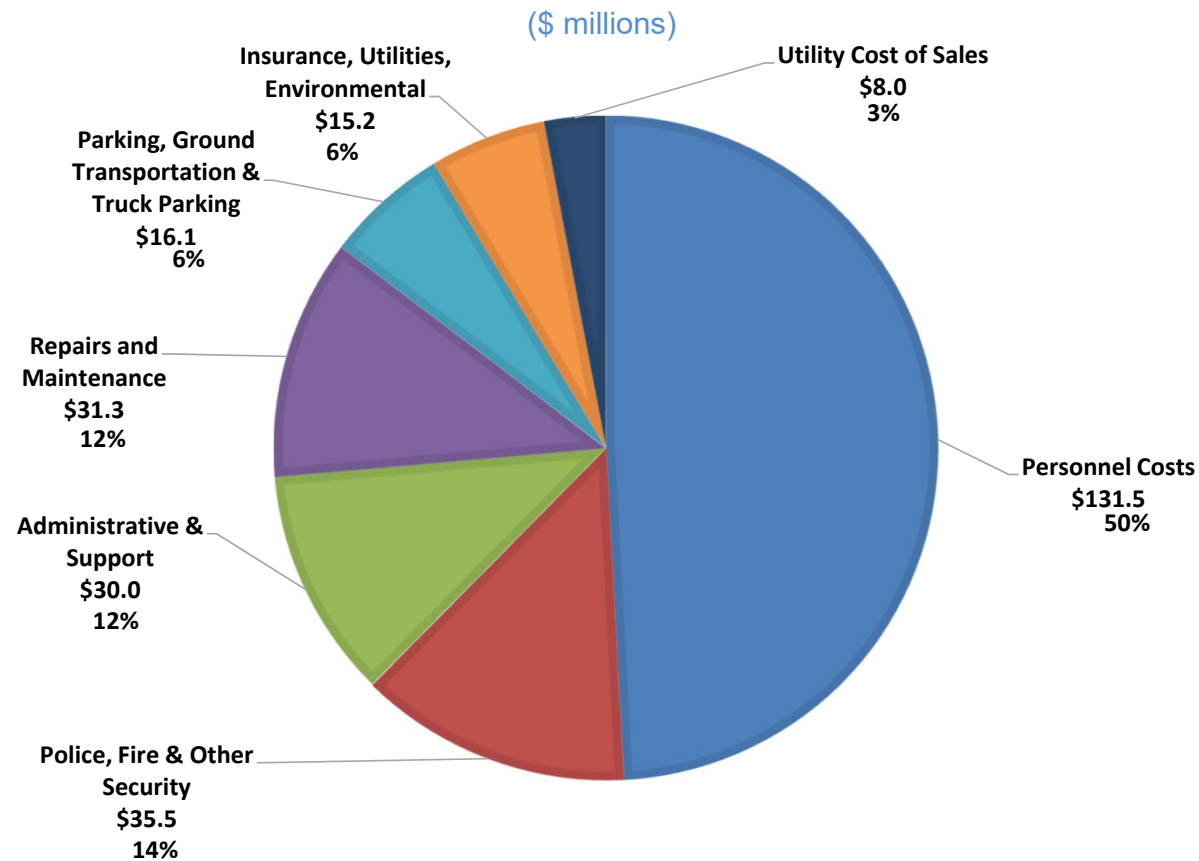


## FY 2020 Preliminary Budget





FY 2020 operating expenses are preliminarily budgeted  
at \$260.6 million.\*



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

Operating expenses are preliminarily budgeted to increase \$25.4 million, or 10.8% in FY 2020; eight line items drive the increase.

|   | Operating Expenses                                 | Change from<br>FY 2019B<br>\$millions | % Change<br>from<br>FY 2019B |
|---|--|---------------------------------------|------------------------------|
| 1 | Personnel Costs*                                   | \$13.9                                | 11.8%                        |
| 2 | Major Maintenance – Maritime                       | 2.4                                   | 38.4%                        |
| 3 | Maintenance Dredging                               | 1.9                                   | 63.3%                        |
| 4 | Aviation Security**                                | 1.5                                   | 6.1%                         |
| 5 | Aviation Planning Studies**                        | 1.4                                   | 18.8%                        |
| 6 | 7 <sup>th</sup> Street Grade Separation – Maritime | 0.7                                   | n/a                          |
| 7 | Maritime Business Development Consulting           | 0.6                                   | n/a                          |
| 8 | Maintenance and Repairs                            | 0.5                                   | 4.8%                         |
|   | Net Increase of Other Expenses                     | 2.5                                   | n/a                          |
|   | Total  | \$25.4                                | 10.8%                        |

\* Some of the increases related to Aviation personnel will be included in FY 2020 Airline rates and charges.

\*\* Most of the increases will be included in FY 2020 Airline rates and charges.

## FY 2020 Preliminary Personnel Expense Breakdown

| Operating Expenses                   | FY 2020<br>Preliminary<br>Budget<br>\$millions | Change<br>from<br>FY 2019B<br>\$millions | % Change<br>from<br>FY 2019B |
|--------------------------------------|--|--|------------------------------|
| Salaries and Wages                   | \$65.2   | +\$3.3                                   | +5.4%                        |
| Pension                              | 32.2   | 9.4                                      | 41.1%                        |
| Health Care Retirement               | 13.5   | 0.3                                      | 2.1%                         |
| Health Care Active                   | 10.1   | 0.0                                      | 0.0%                         |
| Overtime                             | 3.9  | 0.5                                      | 16.1%                        |
| Workers Compensation                 | 2.0  | -0.2                                     | -8.4%                        |
| Vacation Sick Leave                  | 1.9  | 0.4                                      | 26.7%                        |
| Medicare                             | 0.9  | 0.1                                      | 5.4%                         |
| Life, Disability, Accident Insurance | 0.8  | 0.1                                      | 16.3%                        |
| Training & Education                 | 0.7  | 0.1                                      | 8.7%                         |
| Other*                               | 0.3  | -0.0                                     | -0.3%                        |
| <b>Total</b>                         | <b>\$131.5</b>                                 | <b>\$13.9</b>                            | <b>11.8%</b>                 |

\* 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.

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

| Non-Operating Expenses                                     | (\$millions) |
|--|--------------|
| Deferred Prior Years Major Maintenance                     | 4.0          |
| Demolition of Assets                                       | 1.3          |
| City General Services                                      | 1.4          |
| Lake Merritt Maintenance                                   | 1.2          |
| Debt Fees – Rating Agency, Letter of Credit                | 1.1          |
| Retroactive Pension Payments for Prior Port Safety Workers | 0.9          |
| Deposit to Board Reserves                                  | 0.4          |
| Total  | \$10.3       |

City payments, including parking and utility taxes are anticipated to total \$20 million in FY 2020.

| City Payments                              | FY 2020 Preliminary (\$ millions) |
|--|-----------------------------------|
| Aircraft Rescue and Fire Fighting Services | \$6.70                            |
| General Services                           | 1.37                              |
| Lake Merritt Maintenance                   | 1.22                              |
| Maritime and JLS Police Service            | 0.72                              |
| Landscape Lighting Assessment District     | 0.70                              |
| Personnel, City Clerk, KTOP Services       | 0.35                              |
| Treasury Services                          | 0.34                              |
| Jack London Improvement District           | 0.13                              |
| Edgewater Median Maintenance*              | 0.06                              |
| Fireboat/OPD Patrol Boat Maintenance       | 0.04                              |
| Total                                      | 11.64                             |
| Parking and Utility Taxes                  | 8.33                              |
| Total including Parking and Utility Taxes  | \$19.97                           |

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

Debt service payments in FY 2020 total \$119.7 million, including anticipated repayment of \$25.2 million of commercial paper notes.

(\$ millions)

| Debt             | Principal   | Interest*   | Total        | Outstanding<br>as of<br>May 2, 2019 | Anticipated<br>Final FY<br>Repayment<br>Date |
|------------------|-------------|-------------|--------------|-------------------------------------|--|
| Bonds            | \$52.7      | \$40.0      | \$92.7       | \$840.8                             | 2033   |
| DBW Loan         | 0.3         | 0.2         | 0.5          | 3.9                                 | 2029   |
| Commercial Paper | 25.2        | 1.4         | 26.6         | 88.3                                | 2029   |
| <b>Total</b>     | <b>78.2</b> | <b>41.6</b> | <b>119.8</b> | <b>933.0</b>                        |  |

|  |       |
|--|-------|
| FY 2020 Projected Bond Debt Service Coverage Ratio | 1.59x |
|--|-------|

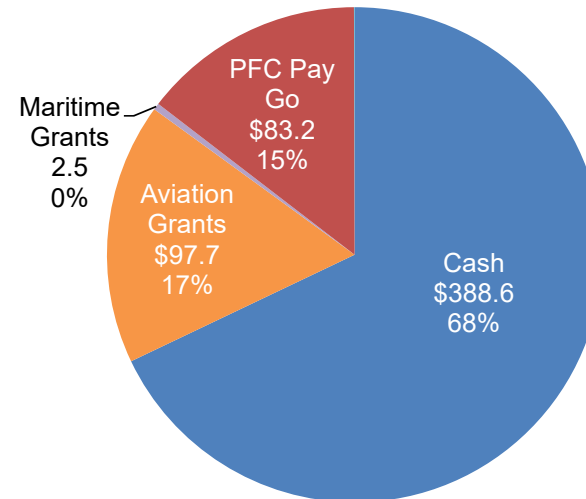
\* The Commercial Paper Notes are assumed to have an average interest rate of 1.80% in FY 2020.

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

**Preliminary 5-Year CIP  
FY 2020-24  
(\$ millions)**

|          |         |      |
|----------|---------|------|
| Aviation | \$391.0 | 68%  |
| Maritime | 169.8   | 30%  |
| CRE      | 8.6     | 2%   |
| Support  | 2.8     | 0%   |
| Total    | \$572.1 | 100% |

**Preliminary Funding Sources  
FY 2020-24  
(\$ 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.

## Preliminary 5-Year Capital Improvement Plan FY 2020-2024

(\$ millions)

| Major Projects in Preliminary 5-Year CIP                   | FY 2020-2024** |
|--|----------------|
| Airport Pavement, Taxiway and Runway Improvement Projects* | \$111.5        |
| Port-wide Utility Improvements*                            | 103.6          |
| Airfield Perimeter Dike Improvements                       | 56.6           |
| Port-wide Security Initiatives*                            | 39.3           |
| Airport Terminal Efficiency and Capacity Upgrades *        | 31.3           |
| Projects Support Seaport Logistics Complex*                | 27.1           |
| Maritime Roadway Improvements*                             | 23.0           |
| Maritime Terminal Improvements*                            | 18.9           |
| Airport Building System Infrastructure Improvements*       | 17.9           |

| Major Projects in Preliminary 5-Year CIP        | FY 2020-2024** |
|---|----------------|
| Crane Raising and Management System*            | 15.0           |
| Airport Hangar 7 and 8 Roof                     | 14.1           |
| Airport Restroom Upgrades*                      | 13.0           |
| Maritime Dredging*                              | 11.5           |
| Other Airfield Projects *                       | 11.2           |
| Airport Shuttle Bus Replacement/Electrification | 7.5            |
| Airport Drive Overlay                           | 5.5            |
| Other* (Multiple Projects < \$5M each)          | 65.1           |
| <b>Total</b>                                    | <b>\$572.1</b> |

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

\* Multiple Projects

\*\* Does not include expenditures incurred prior to FY 2020.



## Preliminary FY 2020 Capital Budget

(\$millions)

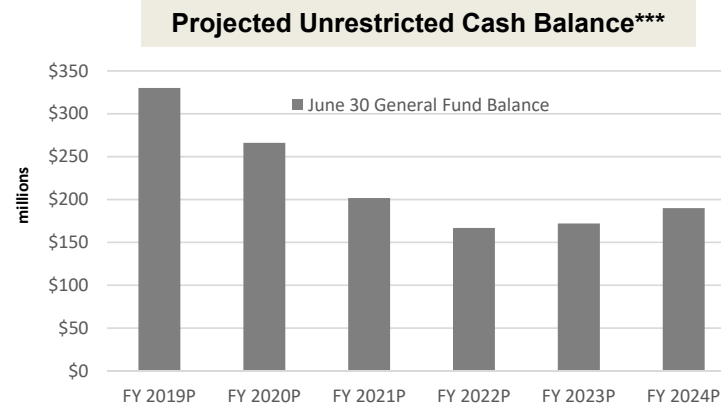
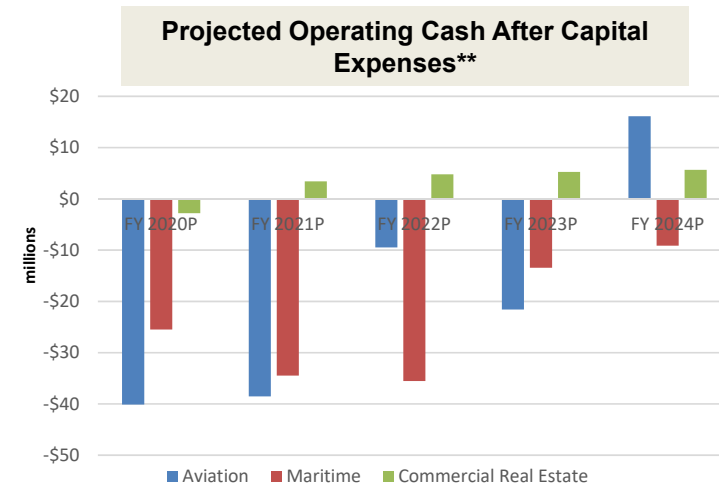
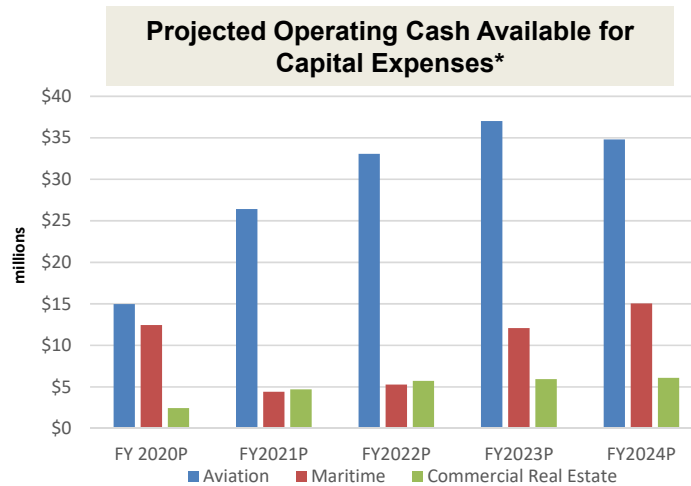
| Business Line | FY 2020 Preliminary Capital Budget                   | FY 2020 Approved | FY 2020 Pipeline | FY 2020* Total |
|---------------|--|------------------|------------------|----------------|
| M             | Crane Raising and Management System                  | \$6.3            | 3.2              | \$9.4          |
| A             | Moving Walkway Removal and Restoration               | 4.0              | 0                | 4.0            |
| A             | Replace Airfield Signs                               | 3.9              | 0                | 3.9            |
| C             | Jack London Square Improvements                      | 3.3              | 0                | 3.3            |
| M             | GoPort Security Projects                             | 3.0              | 0                | 3.0            |
| A             | Pavement, Taxiways and Runways                       | 3.0              | 4.0              | 7.0            |
| A,M           | Utility Upgrades                                     | 2.5              | 20.6             | 23.1           |
| A,M           | Capital Equipment                                    | 2.2              | 6.8              | 9.0            |
| A             | Aviation Security Enhancements                       | 1.5              | 4.9              | 6.4            |
| A,M           | Pre-Development Projects                             | 1.3              | 0                | 1.3            |
| A,M,C,S       | Misc. Facilities Replacement Projects                | 1.3              | 0                | 1.3            |
| A             | Terminal Building System Infrastructure Improvements | 1.0              | 6.4              | 7.4            |
| A             | Terminal Restroom Upgrades                           | 1.0              | 2.0              | 3.0            |
| C             | Business Park Building Improvements                  | 0.9              | 0                | 0.9            |
| A             | Terminal Efficiency and Capacity Upgrades            | 0.8              | 2.9              | 3.7            |
| A             | Airport Drive Overlay                                | 0.7              | 2.4              | 3.1            |
| A             | Airfield Perimeter Dike Improvements                 | 0.0              | 11.0             | 11.0           |
| M             | Seaport Logistics Complex                            | 0.5              | 7.8              | 8.3            |
| All           | Other (Multiple Projects < \$1 million each)         | 2.4              | 12.2             | 14.6           |
|               | Total  | \$ 39.6          | \$84.2           | \$123.7        |

**Approved 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 2020.

\* Does not include expenditures incurred prior to, or subsequent to FY 2020.

## Projected Cash Flows



Target minimum Cash Balance\*\*\* on June 30 of approx. \$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 of Preliminary Proposed FY 2020 Budget

| (\$ millions)                           | FY 2020<br>Preliminary | FY 2019<br>Budget | % Change |
|---|------------------------|-------------------|----------|
| Operating Revenues                      | \$401.7                | \$384.4           | +4.5%    |
| PFCs, CFCs, AIP Grants, Other Grants    | 43.0                   | 48.1              | n/a      |
| Operating Expenses (excl. Depreciation) | 260.6                  | 235.2             | +10.8%   |
| Debt Service                            | 119.8                  | 112.8             | n/a      |
| Capital Expenses                        | 123.7                  | 127.4             | n/a      |
| Bond Debt Service Coverage Ratio        | 1.59x                  | 1.65x             | n/a      |
| Projected Cash Balance 6/30             | 266.0                  | 330.0             | n/a      |

## Remaining Key Dates

|         |   |
|---------|---|
| June 27 | Request Board adoption of FY 2020 Operating and Capital Budgets |
| July 9  | Provide City with Adopted Budget                                |

Attachment A:  
March 28, 2019 Budget Update #1



# Development of FY 2020 Operating and Capital Budget

Board of Port Commissioners  
March 28, 2019

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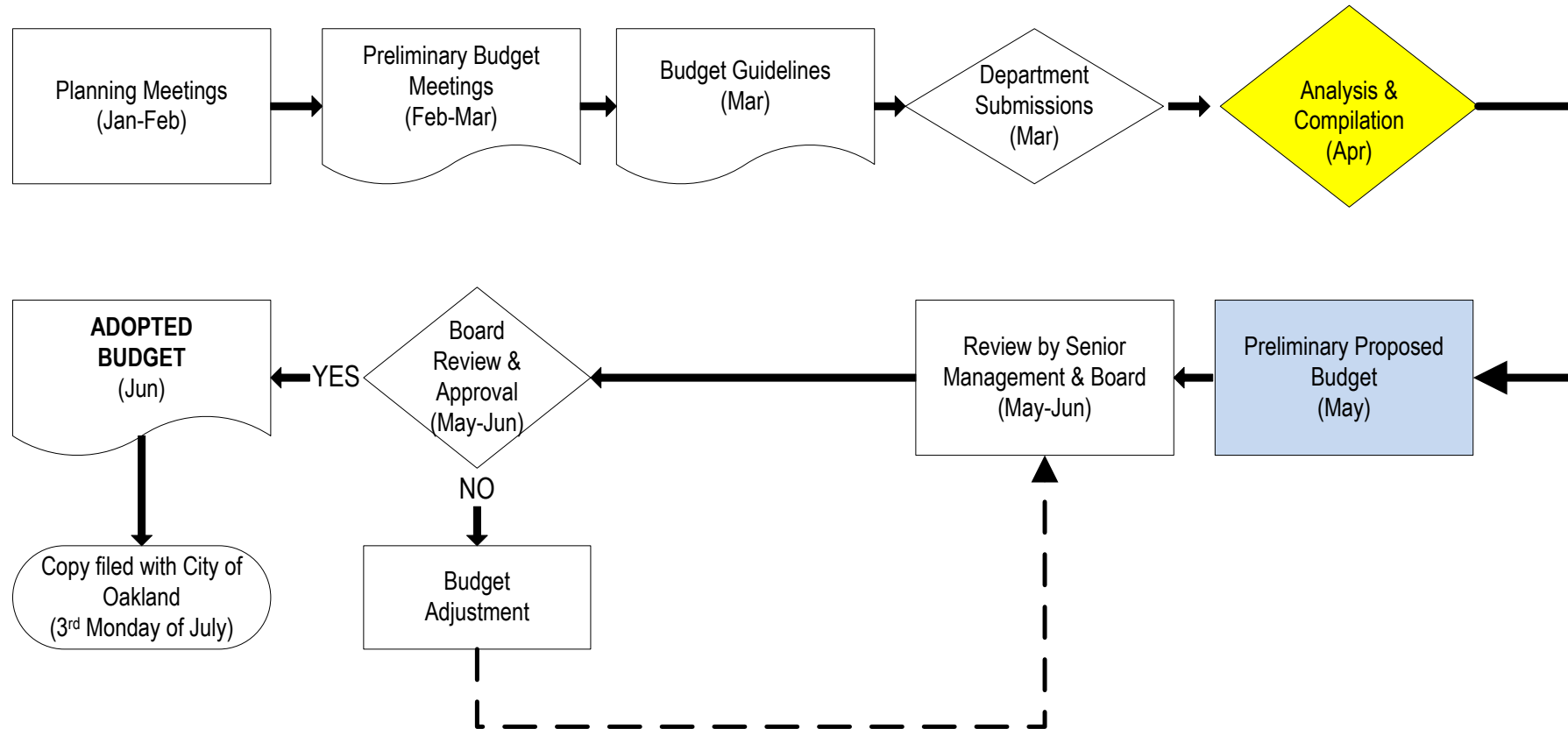
# Purpose of Presentation

1. Provide overview of the Port budget process and budget
2. Discuss key factors influencing the development of FY 2020 Budget
3. Receive Board feedback on key budget objectives and assumptions



# 1. Overview of the Port Budget Process and Budget

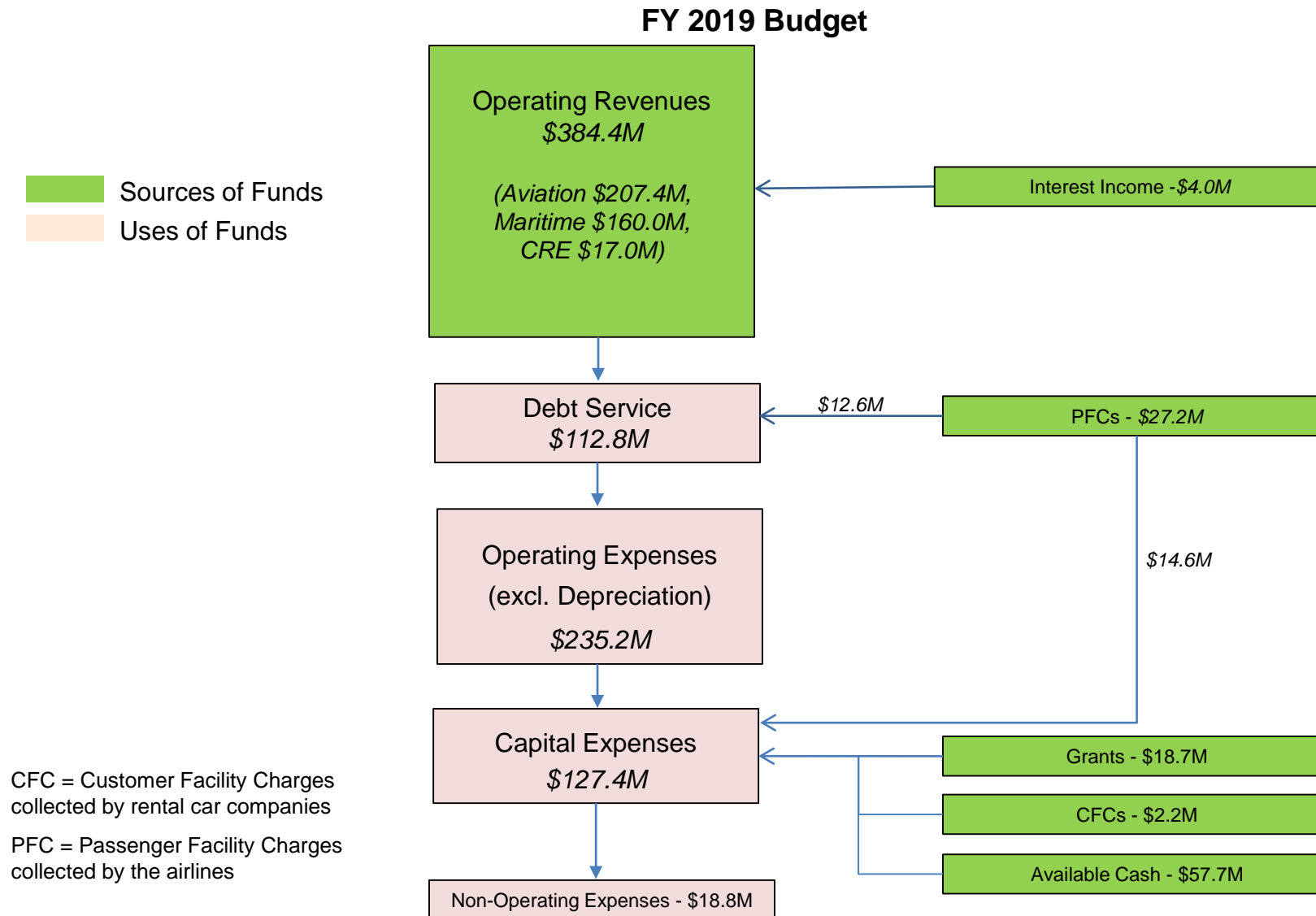
# Budget Process Overview



# Key Board Dates

- |          |   |
|----------|---|
| March 28 | Board Update #1<br>– <i>Overview, Key Factors, Objectives and Assumptions</i> |
| May 9    | Board Update #2<br>– <i>Key Assumptions and Preliminary Budget Numbers</i>    |
| June 27  | Request Board adoption of FY 2020 Operating and Capital Budgets               |
| July 9   | Submit Adopted FY 2020 Budget to City   |

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



## 2. Key Factors Influencing the Development of FY 2020 Budget

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

## Oakland Int'l Airport

- 13.6 million passengers
- 65 non-stop destinations
- 14 domestic and international airlines
- 5<sup>th</sup> largest airport in CA
- FY18 revenues = \$204M



## Commercial Real Estate

- Jack London Square, Oak Bus Park, Embarcadero Cove
- 96 tenants
- 3 million visitors
- 630 acres of public access and open space
- FY18 revenues = \$17M

## Oakland Seaport

- 2.5 million TEUs
- 4 marine terminals
- 20 international and domestic shipping lines
- Top 10 seaport in US
- FY18 revenues = \$160M



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

- ❑ The three business lines provide diversity and stability to Port revenues.
- ❑ The Port is geographically well-positioned and services a healthy local economy.
  - 84% of Airport traffic is “origin and destination”; closest airport to the majority of the population and downtown San Francisco; minimal weather delays
    - 10 year passenger growth rate: 1.7%
    - 20 year passenger growth rate: 2.0%
  - 85% of Maritime cargo is for local destinations; balanced import-export mix; shorter transit times to Asia; Class I railroad connections
    - 10 year TEU growth rate: 1.3%
    - 20 year TEU growth rate: 2.6%
  - CRE portfolio is located in a strong local economy

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

### Accomplishments

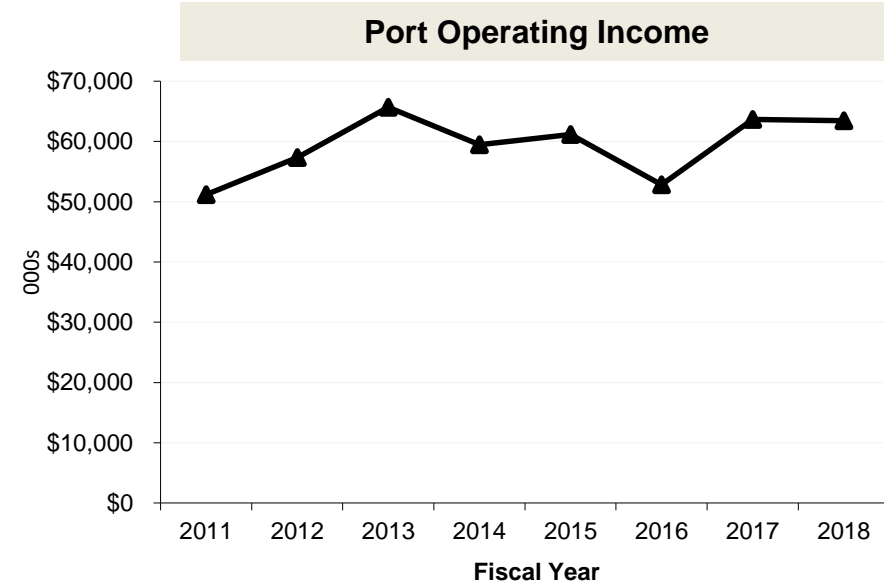
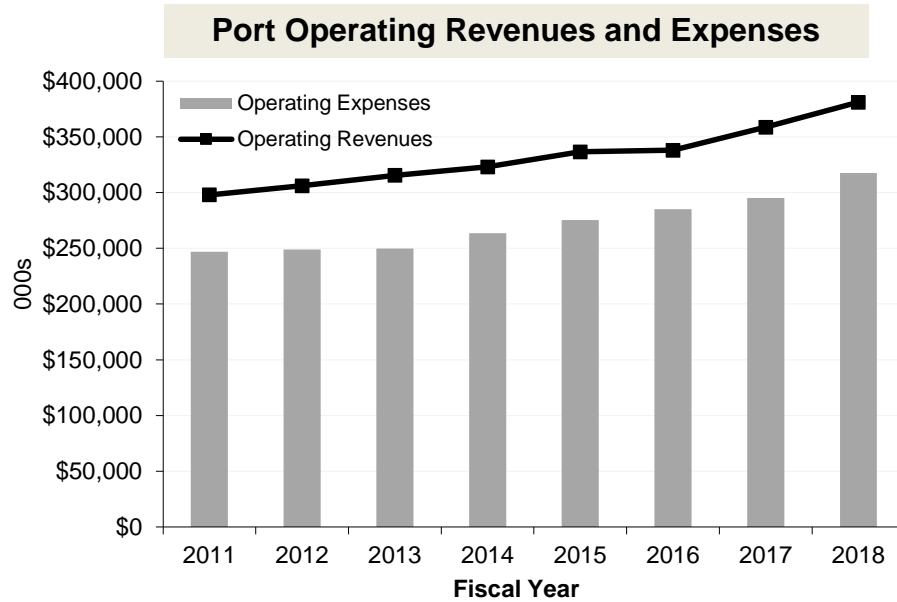
- Airport traffic has rebounded significantly in the past 5 years
- Maritime has retained all cargo and maintained revenues in light of major terminal operator ceasing operations
- Port has reduced aggregate debt service payments by \$250M
- Port's liquidity position is back to airport/seaport industry 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

- Maritime operating margin has declined significantly since FY 2011; revenues up a modest 5%, operating expenses (excl. depreciation) up 58%
- Maritime revenues are minimally sufficient to cover operating expenses and debt service
- Increase in passengers is not currently resulting in economies of scale. Passengers have increased 24% over the last three years, but Airport Cost per Enplaned Passenger(CPE) has risen 17% to \$12.25; 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

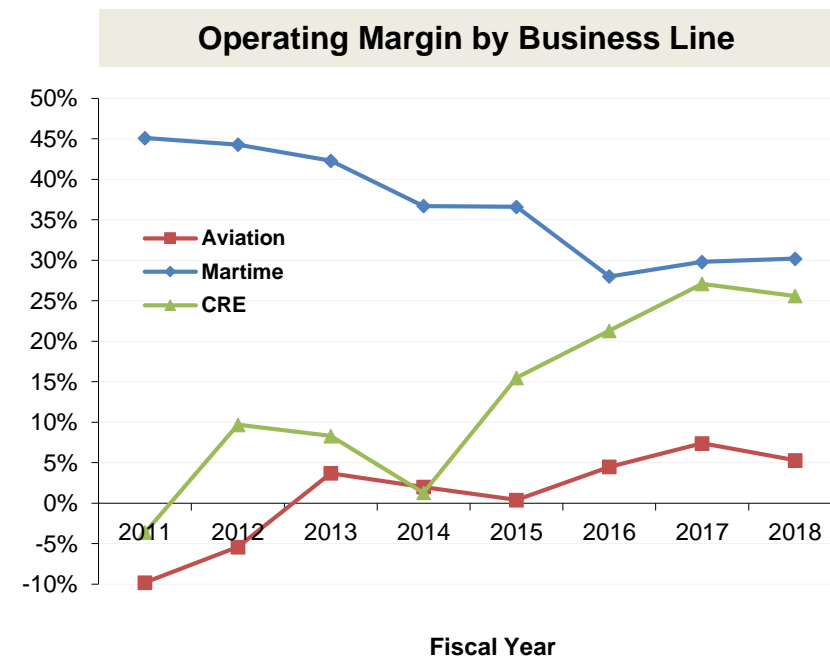
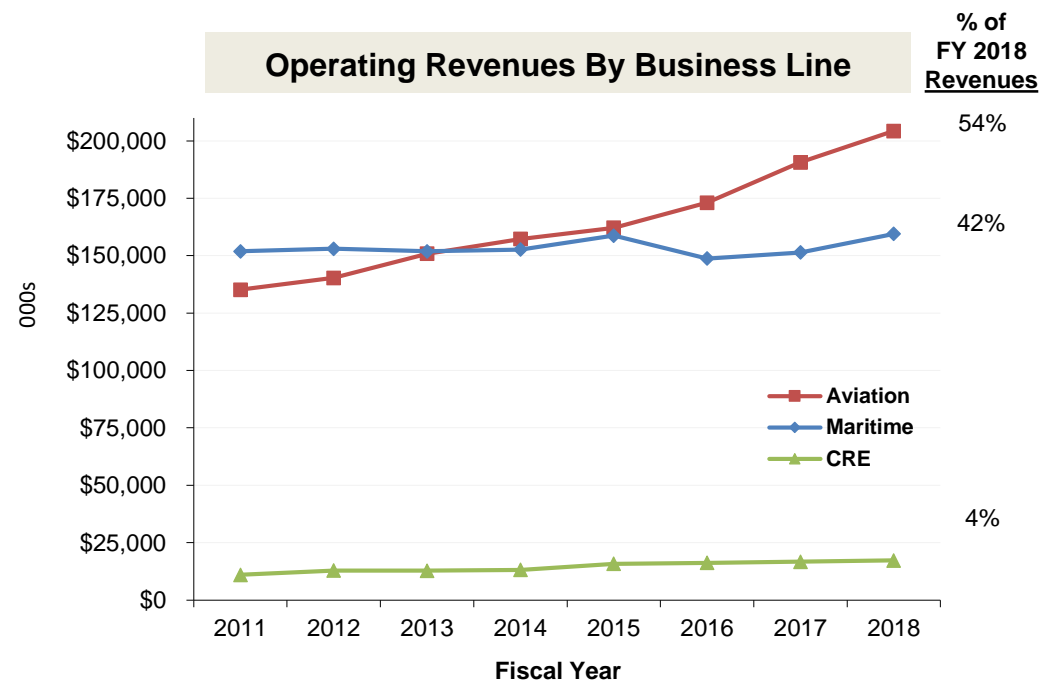


The Port's operating income has remained steady, with increases in revenues offset by increases in expenses.



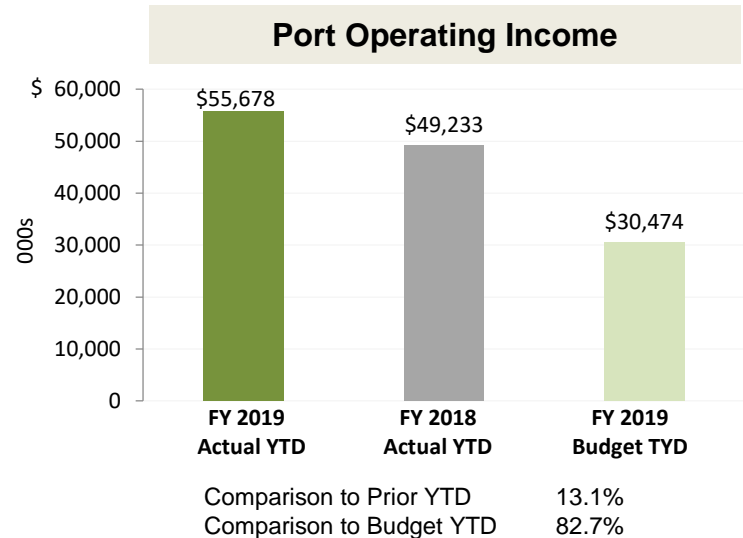
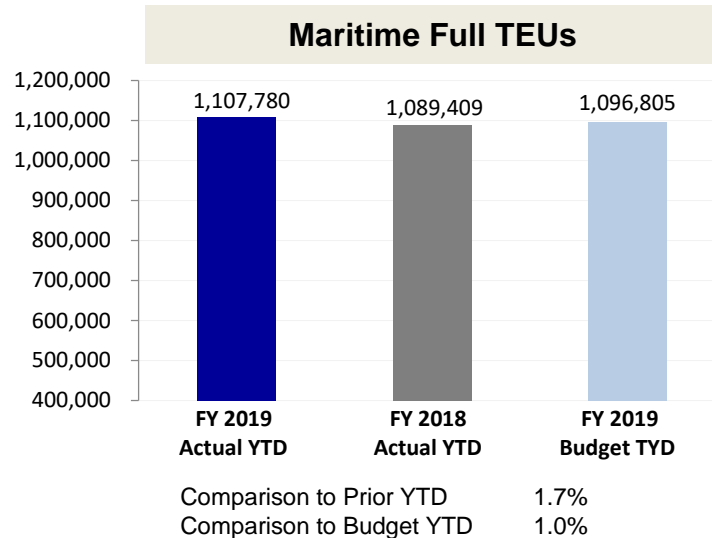
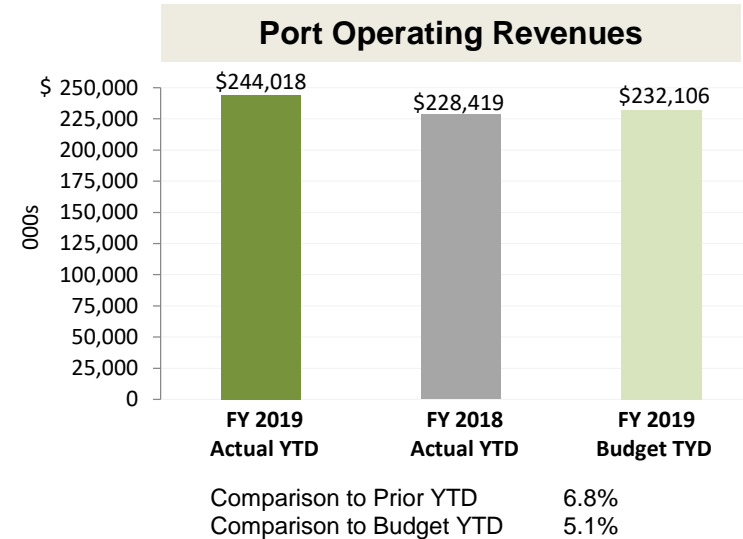
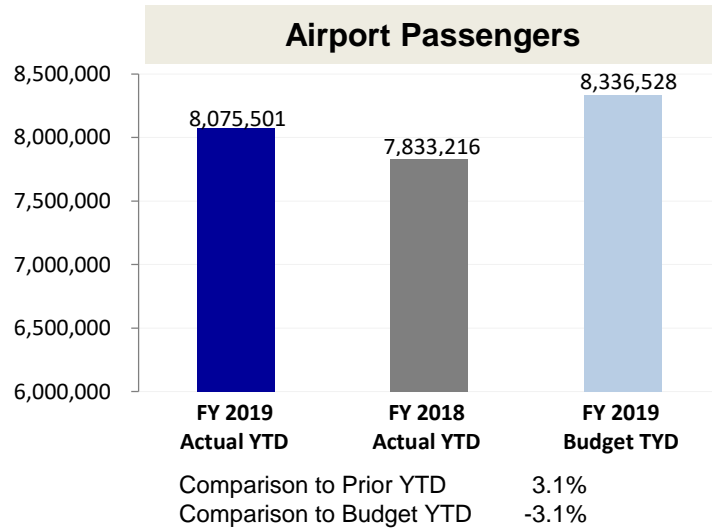
- ☐ Operating performance must be strong so that future capital investments can continue to be made.

## The operating performance by business line has differed.



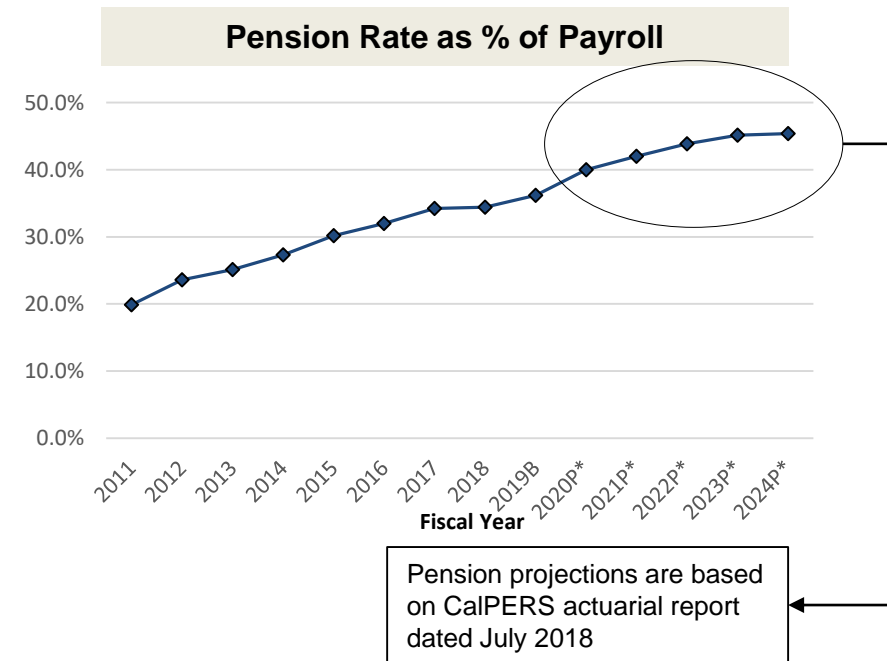
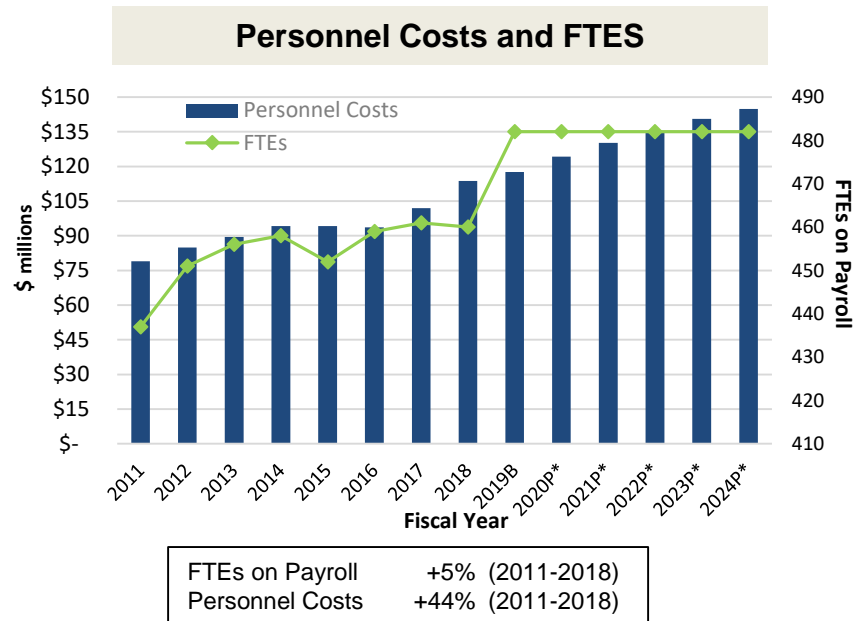
| 2011-18 CAGR       | Aviation | Maritime | CRE  | Total |
|--------------------|----------|----------|------|-------|
| Operating Revenues | 6.1%     | 0.7%     | 6.7% | 3.6%  |
| Operating Expenses | 3.9%     | 4.2%     | 1.8% | 3.9%  |

For the first 7 months of FY 2019, Port financial performance has exceeded last year's performance.



**Unaudited, Preliminary Numbers – Subject to Change**

While revenues are anticipated to increase in FY 2020, personnel costs are expected to continue to rise significantly.



- ❑ With no change in FTEs, personnel costs are anticipated to increase \$6-7 million or 6% in FY 2020 and even as high as \$10-13 million if pension performance does not match pension assumptions
- ❑ Personnel costs are slightly more than 50% of operating expenses

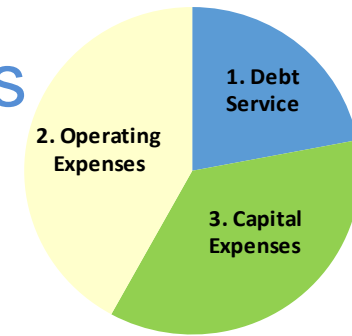
### 3. Key Budget Objectives and Assumptions

# Key Budget Objectives

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- **Debt:** Maintain discipline of paying down portion of outstanding commercial paper notes
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\* 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

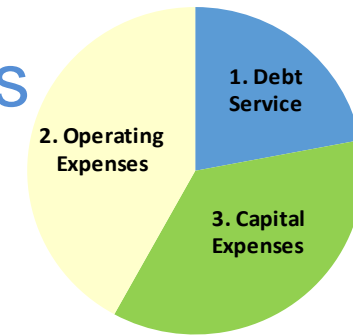


## 1. Debt Service Expenses

- Bond debt service payments will be \$93 million in FY 2020
- Continued discipline in repaying outstanding commercial paper notes (CP notes)
  - \$98 million of CP notes outstanding as of March 2019 (\$40 million Maritime, \$50 million Aviation PFC-eligible, \$8 million Aviation)
  - Repay approximately \$4 million Maritime and \$3 million Aviation CP Notes
  - Repay approximately \$10-15 million of PFC-eligible CP notes
  - Some CP notes have been outstanding for 20 years
- Minimum budgeted debt service coverage ratio\* of 1.50-1.60x:
  - Provides operating financial cushion
  - Continues progress on capital improvements
  - Maintains sufficient liquidity
  - Preserves credit ratings
  - Complies with Port debt policy

\* Debt service coverage ratio compares the amount of operating revenues remaining after payment of operating expenses (net revenues) to debt service payments.

# Preliminary Key Budget Assumptions



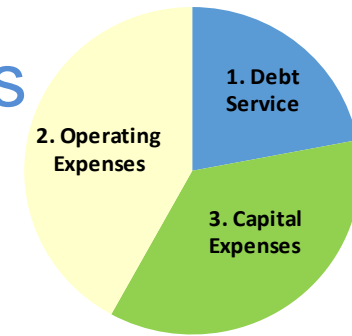
## 2a. Operating Expenses - Personnel

- 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 (45 vacancies as of February 19, 2019)
  - 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

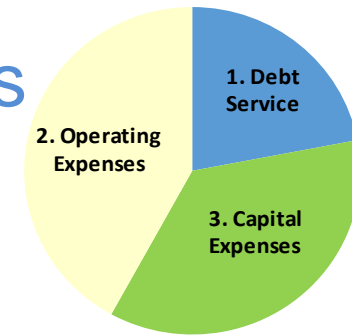


## 2. Operating Expenses – Non-Personnel

- 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* - The focus in FY 2020 will be the Airport perimeter dike, various terminal improvements, airfield and landside paving projects, utility upgrades, security enhancements, and longer-term planning efforts.
- *Maritime* – The focus in FY 2020 will continue to be on various infrastructure-related improvements, the GoPort Program, utility upgrades and capital equipment fleet upgrades.
- Life-safety, regulatory, and revenue maintenance projects will continue to be prioritized.

- ❖ *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.*