



Development of FY 2021 Operating and Capital Budget

Board of Port Commissioners
May 14, 2020

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 2021 budget numbers
3. Present preliminary updated 5-year operating forecast and Capital Improvement Plan

Prior Presentation – March 26, 2020:

- ☐ *Provided overview of Port budget and budget process*
- ☐ *Discussed key factors influencing development of FY 2021 Budget*
- ☐ *Received Board feedback on key budget objectives and assumptions*

COVID-19 Pandemic

- **Unemployment Rate:** Unemployment rate rose from a 50-year low before the pandemic to 4.4% in March and 14.7% in April. Over 33.5 million individuals have filed new claims for unemployment in the last seven weeks.
- **Economic Impact:** Stay-at-Home orders and social distancing measures have greatly reduced consumer demand for goods and services, put pressure on small businesses to remain solvent, and resulted in a 4.8% decline in GDP for 2020Q1.
- **Air Travel Demand:** Air travel is one of the hardest hit industries with many airports experiencing or projecting close to 95% reduction in passenger traffic between April-June 2020. Reductions in air travel have impacted the financial condition of many air carriers, food and beverage concessionaires, rental car companies, and communities who rely on tourism as a great source of revenue.
- **Global Trade:** Lower consumer demand for goods and services and disruptions in the supply chain are expected to limit trade among nations and therefore suppress container cargo traffic worldwide.
- **Recovery:** Without an end in sight, the possibility of a second wave of COVID-19 related illnesses in the fall, and uncertain timeline for a vaccine makes predicting the shape and speed of recovery challenging.

Key Budget Objectives

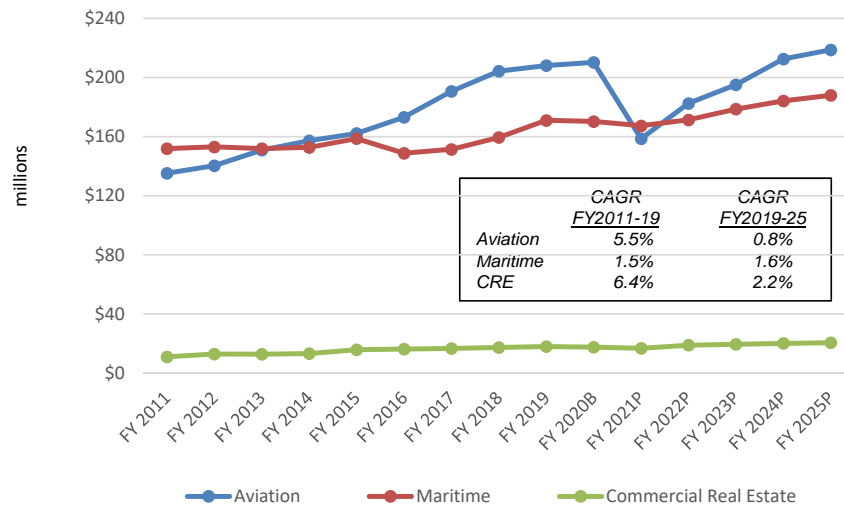
- **Cash/Liquidity:** Conserve cash/liquidity to manage prolonged operational, financial and economic disruptions from COVID-19 pandemic
- **Debt:** Maintain discipline of paying down portion of outstanding commercial paper notes, in addition to required bond payments
- **Operating:** Demonstrate smart, prudent and thoughtful budgeting considering near-term economic uncertainties to support long-term financial strength, resiliency and sustainability
- **Capital Investments:** Strategically identify, prioritize and appropriately plan major capital projects with a focus on health, safety, regulatory compliance, and on-going or imminent revenue generating projects
- **Financial Metrics:**
 - Improve operating margin for all three revenue divisions
 - Control Airport Cost per Enplanement (CPE)
 - Strive for a minimum Bond Debt Service Coverage Ratio of 1.40x at year end
 - 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 \$39 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.

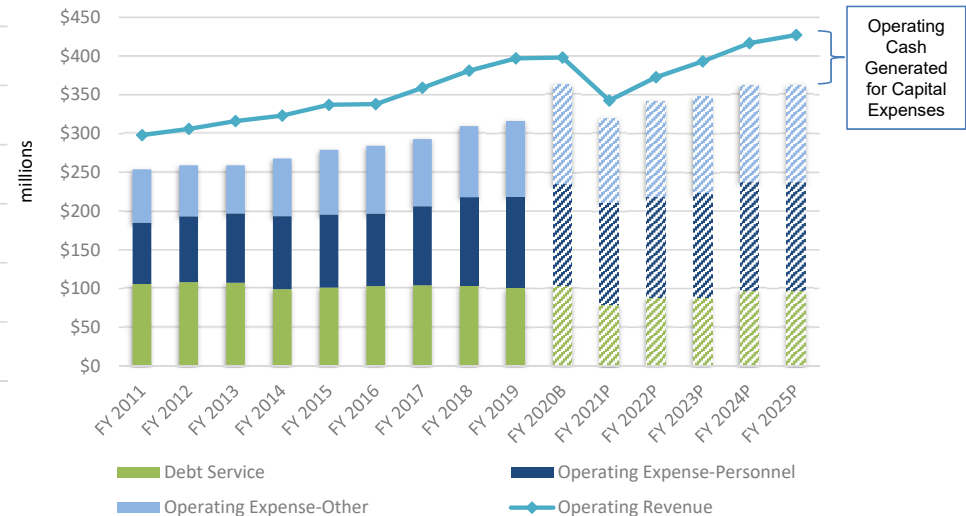
Preliminary Numbers – Subject to Change

The development of the FY 2021 budget begins with forecasting revenues and recognizing fixed costs.

Operating Revenues by Division



Port-wide Operating Revenues, Operating Expenses* and Debt Service



❑ Debt service and personnel costs (51% of operating expenses*) are fixed and limited discretion with other operating expenses.

* Excluding depreciation.

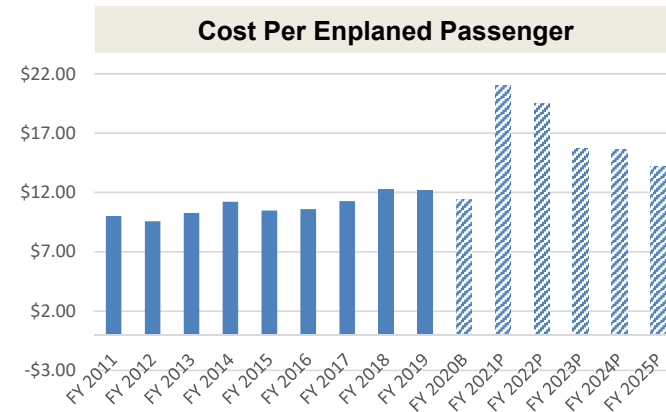
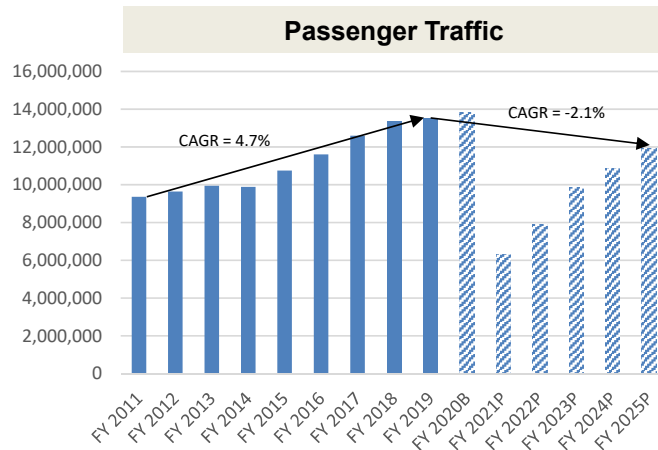
Key Budget Drivers - Aviation

Considerations

- ❑ Airport traffic has been severely impacted by COVID-19 pandemic and recovery likely to take multiple years.
- ❑ Both aeronautical and Non-Aeronautical revenues are expected to decline vis-à-vis expected decline in air passenger travel.
- ❑ Aging infrastructure must be addressed.
- ❑ Airport Cost per Enplaned Passenger (CPE) must be managed to maintain competitiveness.

Preliminary FY 2021 Budget

- ❑ Passenger traffic and aviation revenues projected to decrease 31% and 11% respectively compared to anticipated FY 2020 actuals.
- ❑ \$19.1 million of CARES Act grants applied to pay aviation debt service and operating expenses.
- ❑ Careful evaluation of expenses to support operations, while maintaining cost competitiveness.



Preliminary Numbers – Subject to Change

Key Budget Drivers - Maritime

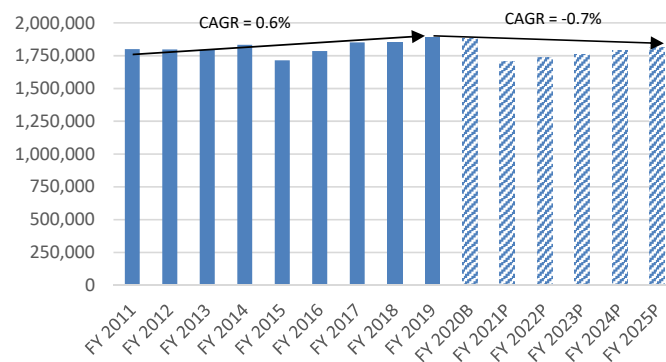
Considerations

- ❑ COVID-19 disruptions to global demand and manufacturing supply chains expected to impact overall movement of cargo.
- ❑ Marine Terminal revenue is projected to decrease \$1.7 million compared to anticipated FY 2020 actuals.
- ❑ No debt capacity and limited funds for capital investment due to current debt burden and operating margins that have declined.

Preliminary FY 2021 Budget

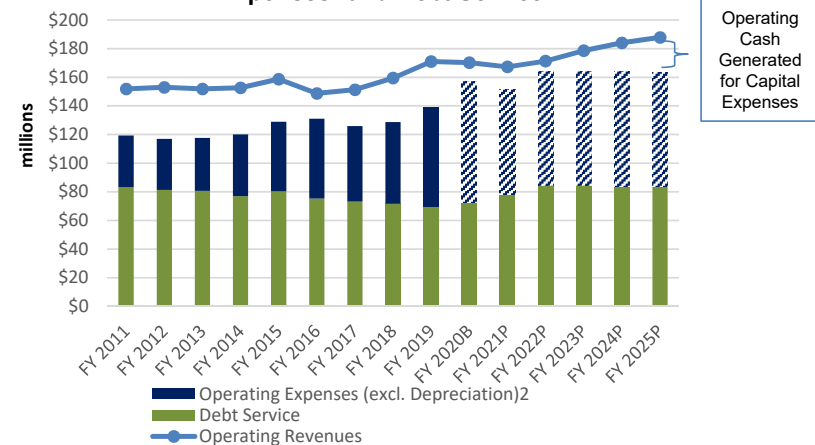
- Full TEUs and revenues projected to decrease 10% compared to anticipated FY 2020 actuals.
- Decreased personnel, maintenance dredging and major maintenance costs.
- Continued reliance on private investment at Seaport.

Full TEUs



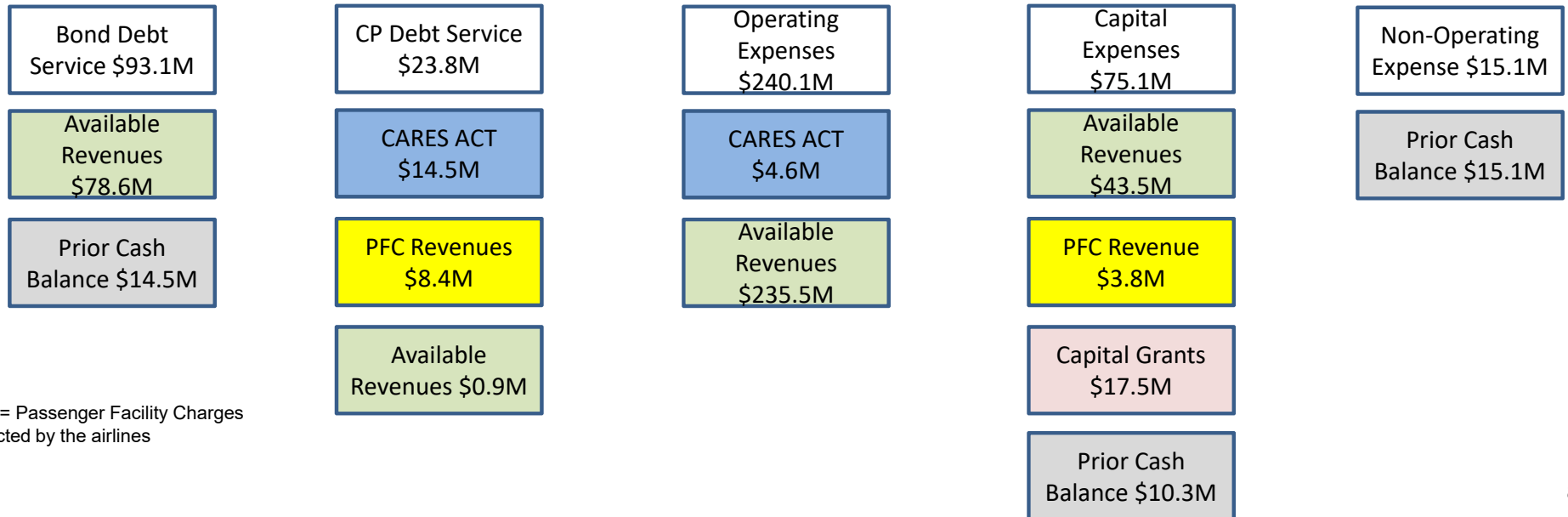
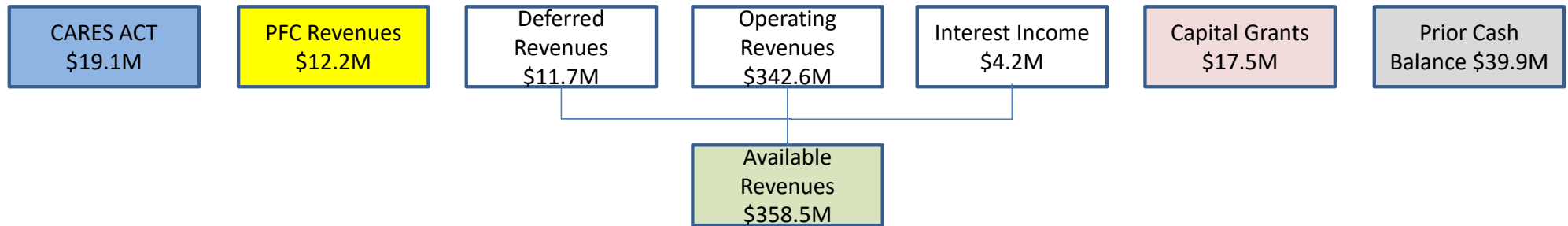
* Excluding depreciation.

Maritime Operating Revenues, Operating Expenses* and Debt Service



Preliminary Numbers – Subject to Change

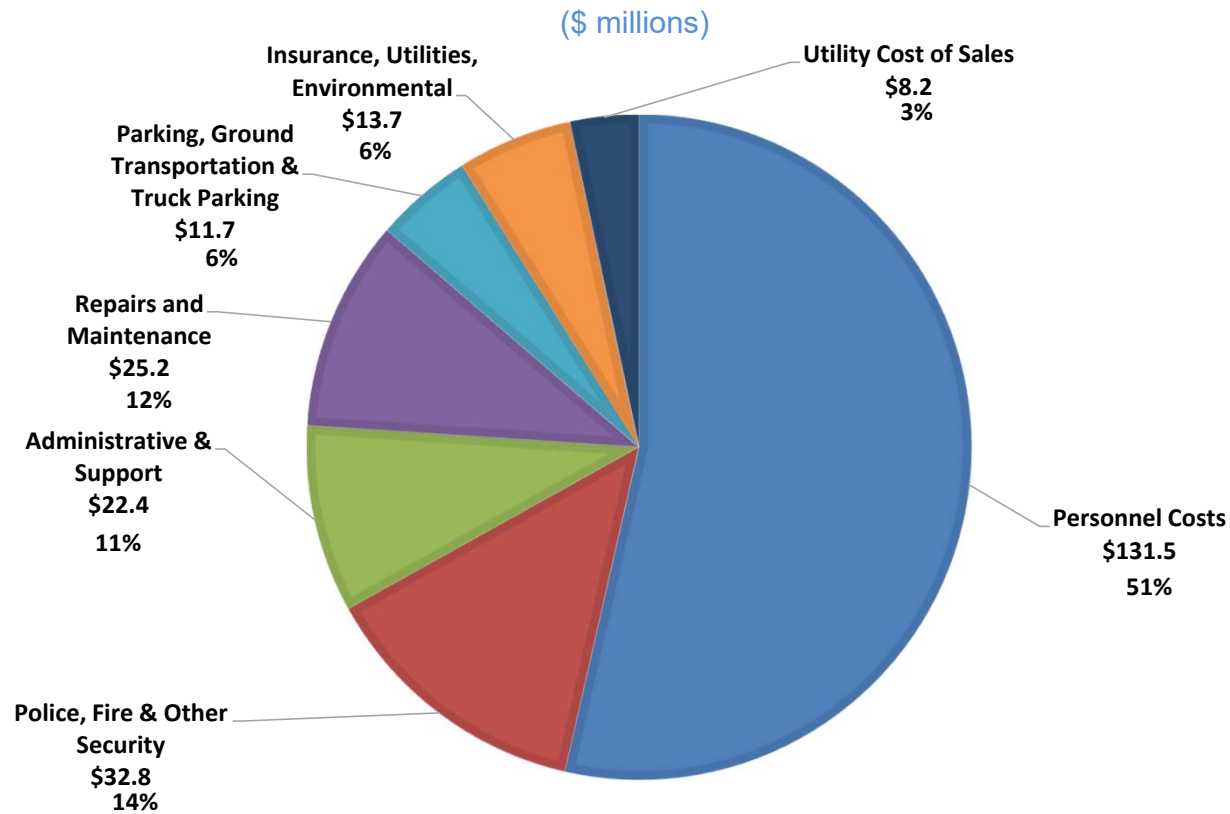
FY 2021 Preliminary Budget



PFC = Passenger Facility Charges collected by the airlines

Preliminary Numbers – Subject to Change

FY 2021 operating expenses are preliminarily budgeted
at \$240.1 million.*



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

Preliminary Numbers – Subject to Change

Operating expenses are preliminarily budgeted to decrease \$19.6 million, or 7.5% in FY 2021; eight line items drive the decrease.

	Operating Expenses	Change from FY 2020B \$millions	% Change from FY 2020B
1	Parking & Ground Transportation	-\$4.4	-27.6%
2	Maintenance and Repairs	-2.5	-25.0%
3	Major Maintenance – Maritime	-2.4	-40.5%
4	Aviation Planning Studies*	-2.3	-29.1%
5	Aviation Security*	-2.2	-42.0%
6	Maintenance Dredging	-1.5	-27.2%
7	Cooperative Marketing	-0.8	n/a
8	Airport Rescue Firefighting	-0.8	-11.2%
	Net Decrease of Other Expenses	-2.7	n/a
	Total	-\$19.6	-7.5%

* Most of the increases will be included in FY 2021 Airline rates and charges.

Preliminary Numbers – Subject to Change

FY 2021 Preliminary Personnel Expense Breakdown

Operating Expenses	FY 2021 Preliminary Budget \$millions	Change from FY 2020B \$millions	% Change from FY 2020B
Salaries and Wages	\$65.8	+\$0.6	+0.9%
Pension	33.3	1.1	3.5%
Health Care Retirement	12.2	-1.3	-9.8%
Health Care Active	9.7	-0.4	-3.9%
Overtime	3.6	-0.3	-8.0%
Workers Compensation	2.4	0.4	19.8%
Vacation Sick Leave	1.9	0.0	0.0%
Medicare	1.0	0.0	0.9%
Life, Disability, Accident Insurance	0.8	0.0	1.5%
Training & Education	0.5	-0.2	-33.4%
Other*	0.4	0.0	16.7%
Total	\$131.5	-\$0.1	-0.1%

* 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.

Preliminary Numbers – Subject to Change

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

Non-Operating Expenses	(\$millions)
Demolition of Assets	7.0
Deferred Prior Years Major Maintenance	2.9
City General Services	1.4
Lake Merritt Maintenance	1.3
Debt Fees – Rating Agency, Letter of Credit	1.1
Retroactive Pension Payments for Prior Port Safety Workers	0.9
Total	\$14.6

Preliminary Numbers – Subject to Change

City payments, including parking and utility taxes are anticipated to total \$16 million in FY 2021.

City Payments	FY 2021 Preliminary (\$ millions)
Aircraft Rescue and Fire Fighting Services	\$5.95
General Services	1.40
Lake Merritt Maintenance	1.25
Maritime and JLS Police Service	0.75
Landscape Lighting Assessment District	0.70
CFD Payment & CAD Reimbursement	0.39
Personnel, City Clerk, KTOP Services	0.36
Treasury Services	0.36
Jack London Improvement District	0.16
Edgewater Median Maintenance*	0.06
Fireboat/OPD Patrol Boat Maintenance	0.04
Total	11.43
Parking and Utility Taxes	4.76
Total including Parking and Utility Taxes	\$16.19

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

Preliminary Numbers – Subject to Change

Debt service payments in FY 2021 total \$117.0 million, including anticipated repayment of \$22.6 million of commercial paper notes.

(\$ millions)

Debt	Principal*	Interest**	Total	Outstanding as of May 2, 2020	Anticipated Final FY Repayment Date
Bonds	\$54.8	\$37.9	\$92.7	\$788.1	2033
DBW Loan	0.3	0.2	0.5	3.6	2029
Commercial Paper	22.6	1.2	23.8	80.5	2033
Total	77.7	39.3	117.0	872.2	

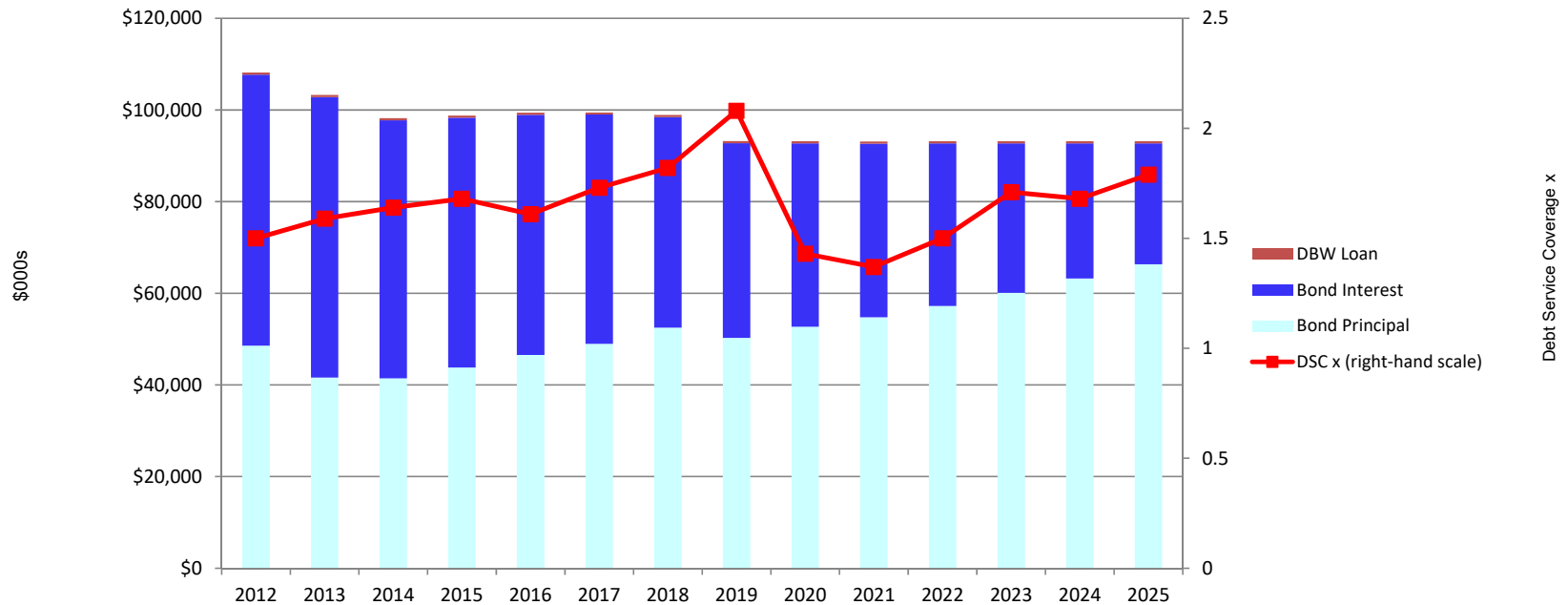
FY 2021 Projected Bond Debt Service Coverage Ratio	1.37x
--	-------

* Of the Commercial Paper principal payment, \$14.5 million will be funded by CARES Act revenues.

** The Commercial Paper Notes are assumed to have an average interest rate of 1.60% in FY 2021.

Preliminary Numbers – Subject to Change

Debt Service Coverage



- ❑ **Debt Service Coverage (DSC)** measures the Port's ability to meet day-to-day operating costs and debt service payments and resiliency to weather downturns in the economy and Port businesses. DSC is net revenues divided by debt service (excluding repayments of outstanding CP Notes). Net revenues is operating revenues less operating expenses (excluding depreciation).

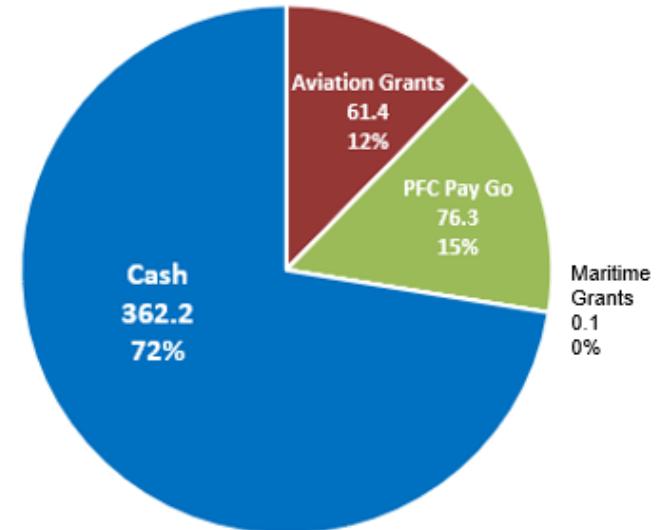
Preliminary Numbers – Subject to Change

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

**Preliminary 5-Year CIP
FY 2021-25
(\$ millions)**

Aviation	\$317.7	64%
Maritime	171.2	34%
CRE	8.9	2%
Support	2.2	0%
Total	\$500.0	100%

**Preliminary Funding Sources
FY 2021-25
(\$ 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.

Preliminary Numbers – Subject to Change

Preliminary 5-Year Capital Improvement Plan FY 2021-2025

(\$ millions)

Major Projects in Preliminary 5-Year CIP	FY 2021-2025**	Major Projects in Preliminary 5-Year CIP	FY 2021-2025**
Port-wide Utility Improvements*	\$128.5	Airport Building System Infrastructure Improvements*	15.7
Airport Pavement, Taxiway and Runway Improvement Projects*	67.5	Maritime Dredging*	13.1
Airfield Perimeter Dike Improvements*	54.8	Airport Shuttle Bus Replacement/Electrification	7.5
Airport Security Initiatives*	43.9	Airport Ground Access and Parking*	7.5
Maritime Terminal Improvements*	29.6	Airport Apron and Gate Upgrades*	6.6
Maritime Roadway Improvements*	21.7	Airport Drive Overlay	5.7
Airport Terminal Efficiency and Regulatory*	19.9	Maritime Electric Vehicle Charging Stations	5.6
Projects Support Seaport Logistics Complex*	19.6	Jack London Square Improvements*	5.2
Airport Restroom Upgrades*	17.2	Other* (Multiple Projects < \$5M each)	30.4
		Total	\$500

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

* Multiple Projects

** Does not include expenditures incurred prior to FY 2021.

Preliminary Numbers – Subject to Change

Preliminary FY 2021 Capital Budget

(\$millions)

Business Line	Project	FY 2021 Capital Budget
A,M	Utility Upgrades	18.8
A	Pavement, Taxiways and Runways	12.9
A	Airport Perimeter Dike	12.6
M	Seaport Logistics Complex	10.4
A	Aviation Security Enhancements	2.4
A	Replace Airfield Signs	2.1
A	Terminal Upgrades	1.7
C	Jack London Square Improvements	1.6
C	Parking Access and Revenue Control System	1.5
A,M,C,S	Misc. Facilities Replacement Projects	1.4
A,M	Pre-Development Projects	1.3
A,M	Capital Equipment	1.2
M	Additional Shore Power Outlets at OICT and TraPac	1.2

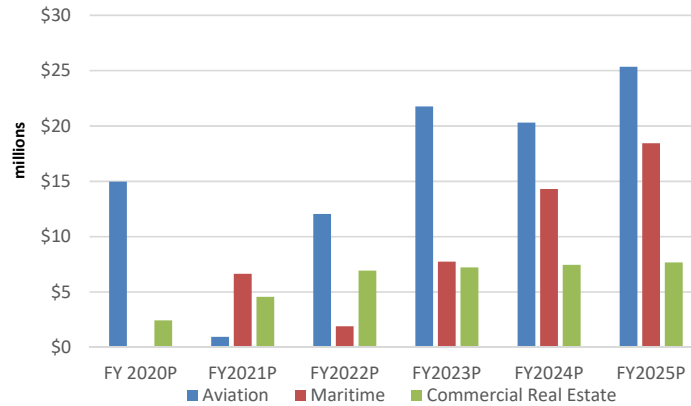
Business Line	Project	FY 2021 Capital Budget
A	Passenger Boarding Bridge Replacement	0.9
A	Terminal 2 Flooring Materials	0.8
M	Marine Terminal Improvements	0.7
S	Information Technology Equipment and Systems	0.7
C	Business Park Improvements	0.6
A	Apron Upgrades	0.5
M	Pavement Improvement at ConGlobal Leasehold (Port Contribution)	0.5
M	GoPort Roadway Projects	0.4
A	Terminal Restroom Upgrades	0.3
M	GoPort Security Projects	0.3
C	Union Point Basin Environmental Remediation	0.3
	Total	\$ 75.1

❑ Does not include expenditures incurred prior to, or subsequent to FY 2021.

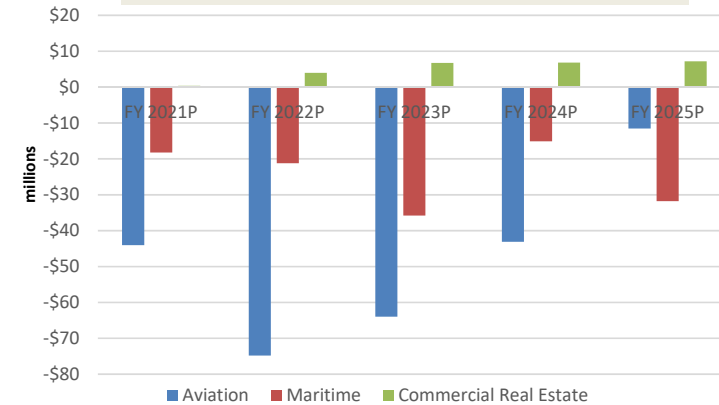
Preliminary Numbers – Subject to Change

Projected Cash Flows

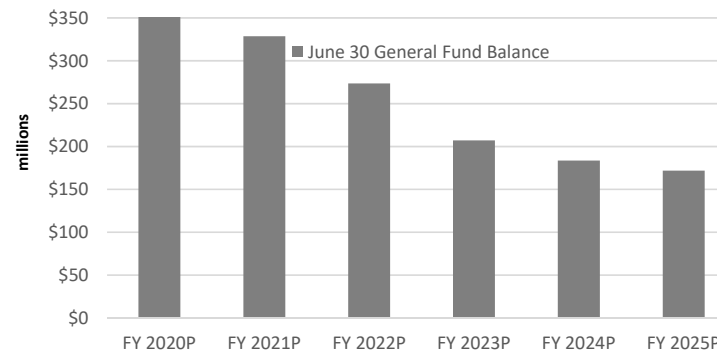
Projected Operating Cash Available for Capital Expenses*



Projected Operating Cash After Capital Expenses**



Projected Unrestricted Cash Balance***



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.

Preliminary Numbers – Subject to Change

Summary of Preliminary Proposed FY 2021 Budget

(\$ millions)	FY 2021 Preliminary	FY 2020 Budget	% Change
Operating Revenues	\$342.6	\$398.0	-13.9%
PFCs, CFCs, AIP Grants, Other Grants	29.7	43.0	-30.1%
Operating Expenses (excl. Depreciation)	240.1	259.6	-7.5%
Debt Service	116.9	119.8	-2.4%
Capital Expenses	75.1	123.7	-39.3%
Bond Debt Service Coverage Ratio	1.37x	1.56x	-12.2%
Projected Cash Balance 6/30	328.6	330.0	n/a

Remaining Key Dates

- June 25 Request Board adoption of FY 2021 Operating and Capital Budgets
- July 7 Provide City with Adopted Budget

Attachment A:
March 26, 2020 Budget Update #1



Development of FY 2021 Operating and Capital Budget

Board of Port Commissioners
March 26, 2020

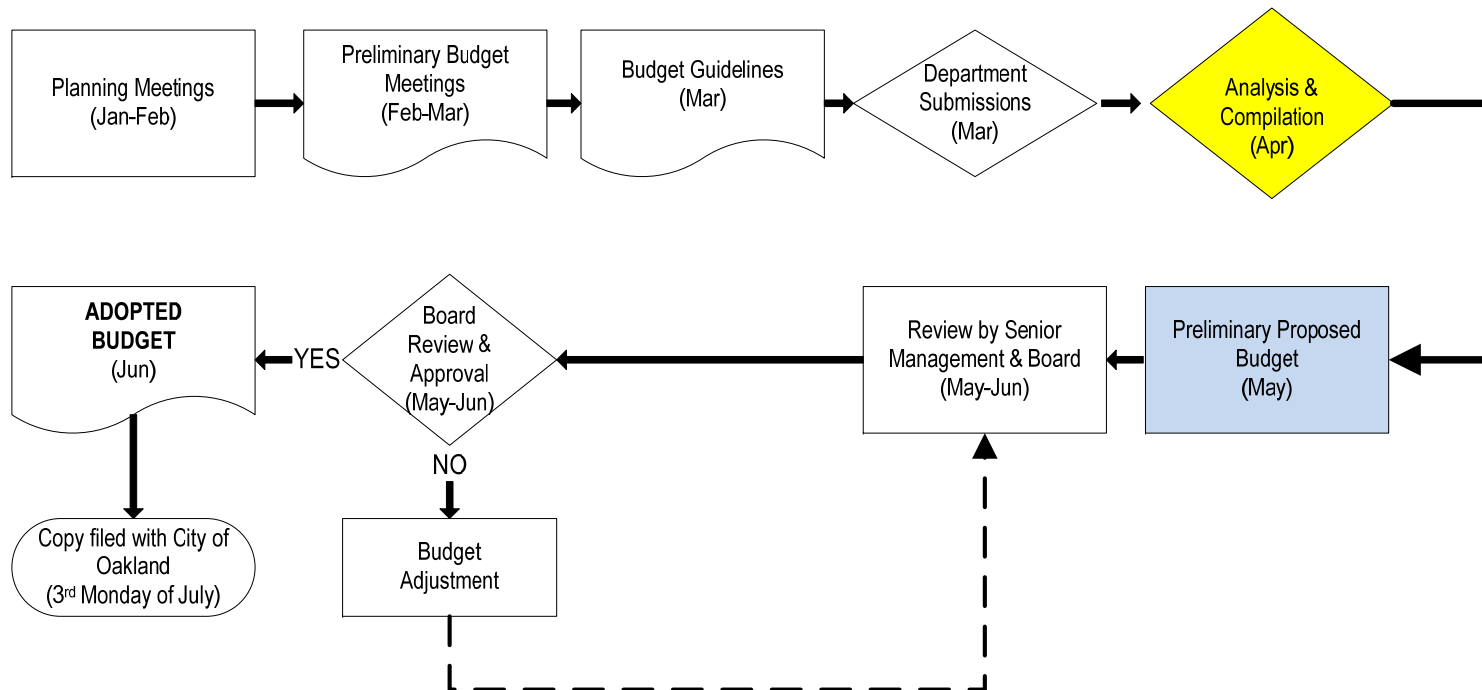
The information contained in this presentation is disclosed publicly for general information relating to the Port only. The information and figures herein include projections and forecasts that are based upon certain assumptions and involve known and unknown risks, uncertainties, and other factors that 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

1. Provide overview of the Port budget process and budget
2. Discuss key factors influencing the development of FY 2021 Budget
3. Receive Board feedback on key budget objectives and assumptions

1. Overview of the Port Budget Process and Budget

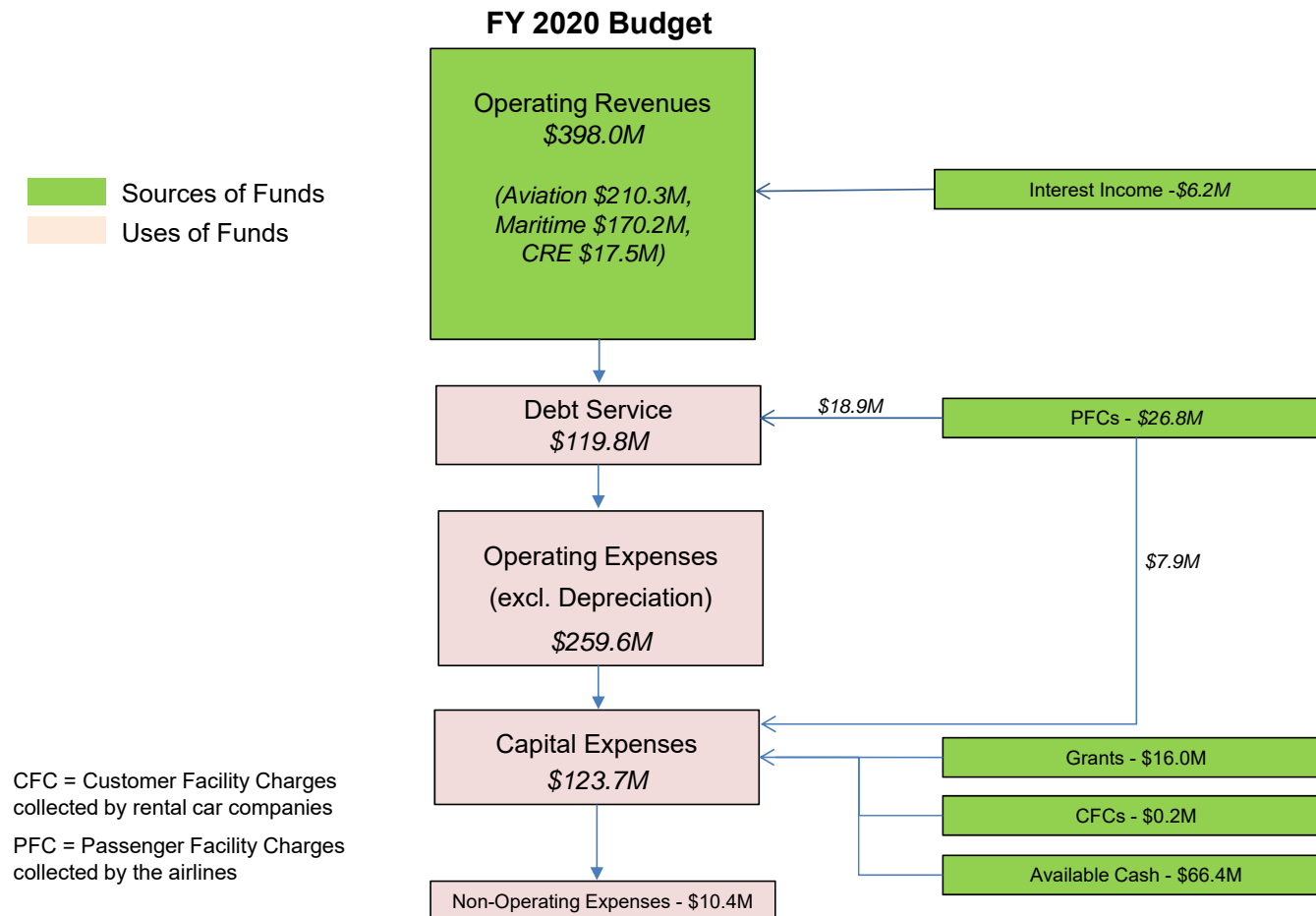
Budget Process Overview



Key Board Dates

- | | |
|----------|---|
| March 26 | Board Update #1
– <i>Overview, Key Factors, Objectives and Assumptions</i> |
| May 14 | Board Update #2
– <i>Key Assumptions and Preliminary Budget Numbers</i> |
| June 25 | Request Board adoption of FY 2021 Operating and Capital Budgets |
| July 6 | Submit Adopted FY 2021 Budget to City |

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

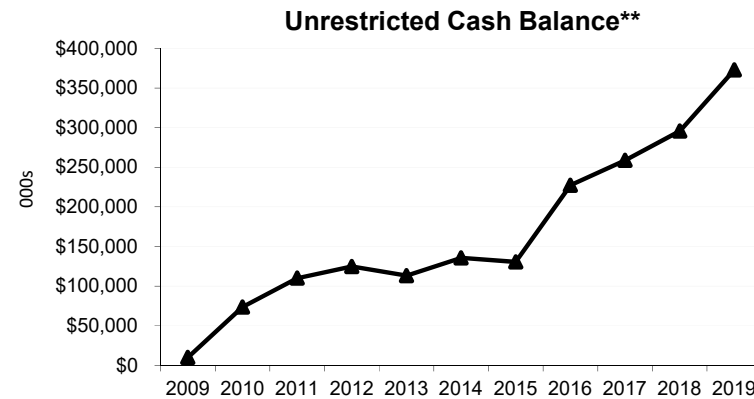
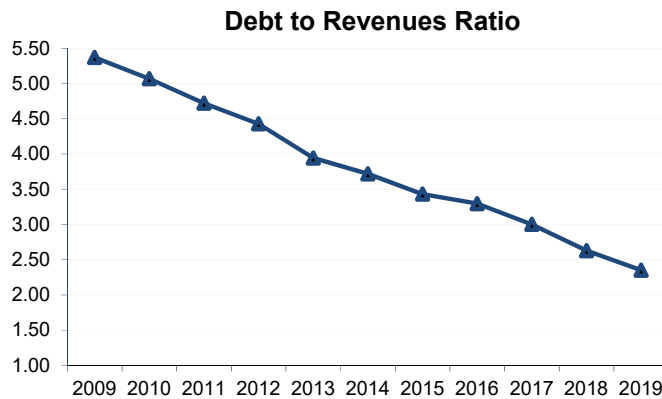
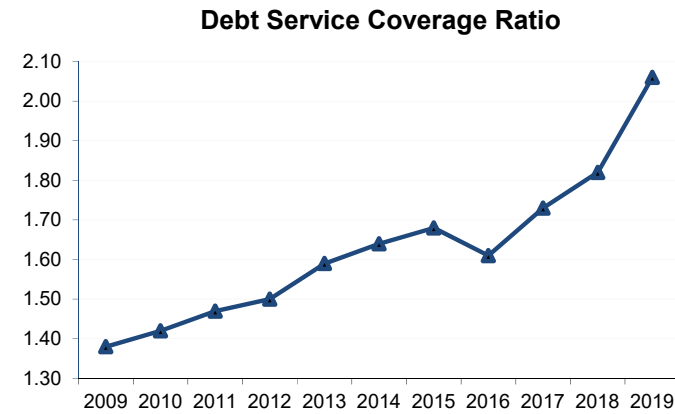
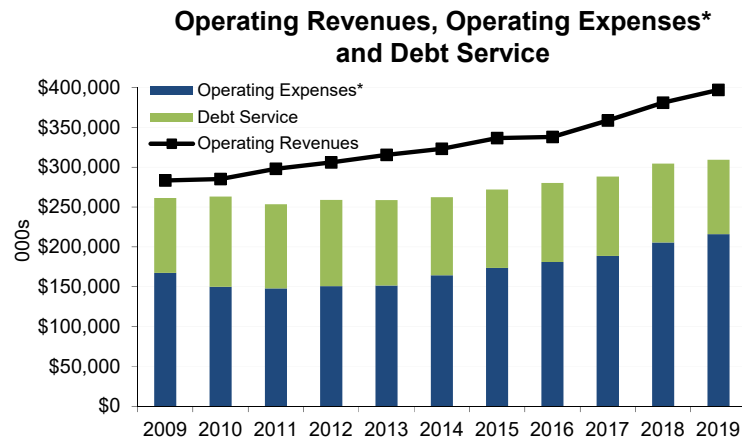


2. Key Factors Influencing the Development of FY 2021 Budget

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 compounded annual growth rate: 3.2%
 - 20 year passenger compounded annual growth rate: 1.6%
 - 85% of Maritime cargo is for local destinations; balanced import-export mix; shorter transit times to Asia; Class I railroad connections
 - 10 year TEU compounded annual growth rate: 1.6% (Full) / 2.2% (Total)
 - 20 year TEU compounded annual growth rate: 2.1% (Full) / 2.3% (Total)
 - CRE portfolio is located in a strong local economy

The Port's financial position has improved over the last decade;
strong liquidity provides financial resiliency.

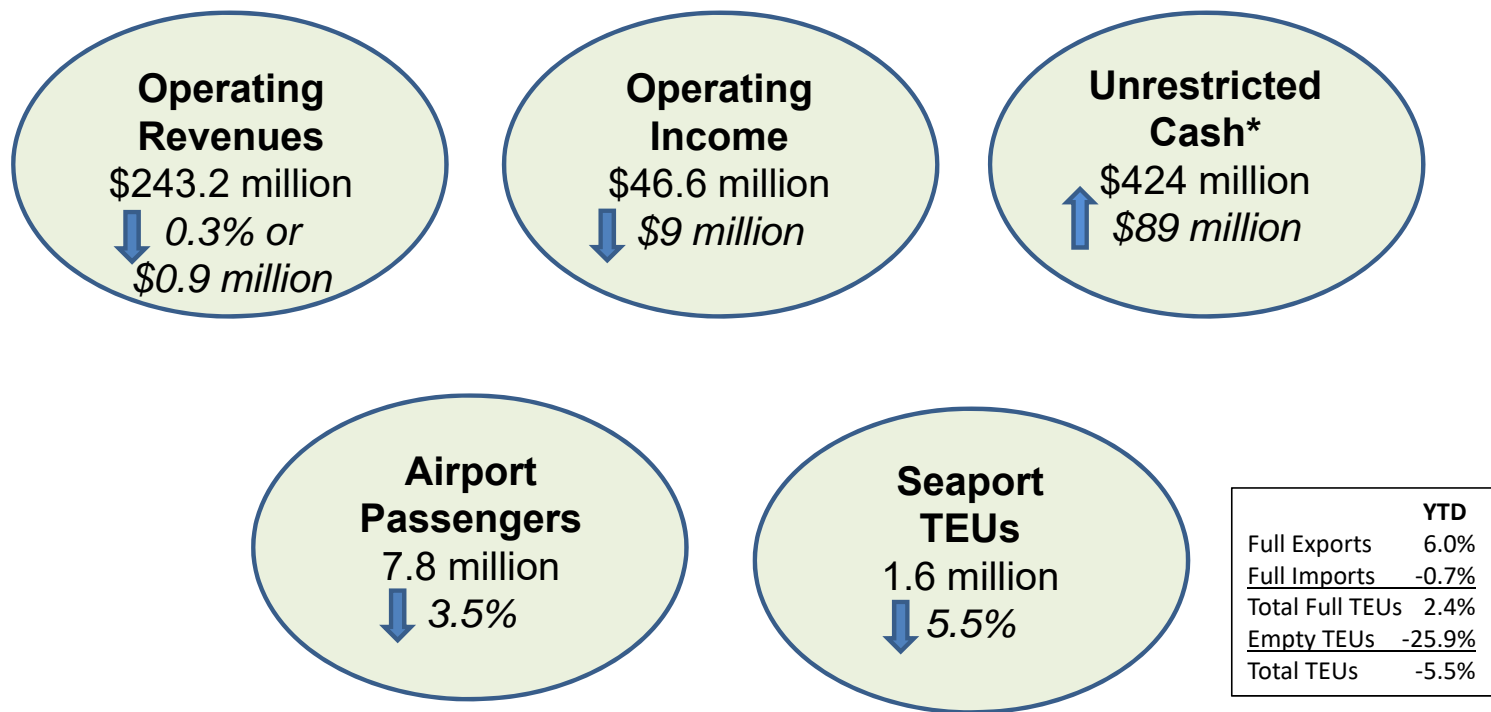


* Excludes depreciation.

** Excludes Board reserves, Bond reserves, Passenger Facility Charges, Customer Facility Charges and contractor retention held in escrow.

Preliminary, Unaudited Numbers – Subject to Change

For the first 7 months of FY 2020, Port-wide financial performance has experienced a softening and lags last year's performance.



* Excludes Board Reserves, Passenger Facility Charges, Customer Facility Charges , Trustee-held bond reserves and contractor retention held in escrow.

COVID-19 has impacted the remainder of FY 2020 and the development of the FY 2021 Budget .

- ☐ Airport passenger traffic
- ☐ Parking, retail and concession revenues
- ☐ Financial health of Port tenants
- ☐ General economy

Port Cash Balances

as of February 29, 2020

Account	Amount	Comment
General Fund ("Checkbook")	\$434,658,728	<ul style="list-style-type: none"> • Pays for all day-to-day operating expenses, capital projects and semi-annual debt service payments • Days Cash on Hand – General Fund can pay for approx. 469 days of <i>budgeted</i> operating expenses, <i>after</i> payment of one-year of debt service (also assumes no additional revenues and no payment of capital expenses)
Board Reserves	\$77,454,847	<ul style="list-style-type: none"> • Available only if General Fund insufficient to pay debt service, operating expenses and/or capital expenses • Use of Board Reserves is a Material Negative Event to bondholders
Trustee Bond Reserves	\$58,412,083	<ul style="list-style-type: none"> • For the benefit of bondholders if insufficient General Fund • Use of this reserve is an Event of Default
Passengers Facility Charges	\$13,626,980	<ul style="list-style-type: none"> • Restricted in use to eligible capital costs at the Airport
Customer Facility Charges	\$3,346,954	<ul style="list-style-type: none"> • Restricted in use to Airport rental car busing operations, and related capital costs
Other	\$167,006	<ul style="list-style-type: none"> • Escrow accounts related to Port's capital program

3. 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
- **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:**
 - Achieve minimum Bond Debt Service Coverage Ratio of 1.40x
 - Achieve minimum projected cash balance* of around \$150 million over the 5-year forecast (excluding Board Reserves, PFC & CFC balance, Bond reserves and contractor retention held in escrow)
 - Maintain Board Reserves, consistent with policy, of approximately \$75 million
 - Control Airport Cost per Enplanement (CPE)
 - Improve Maritime operating margin

* 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 2021
- Continue discipline of repaying outstanding commercial paper notes (CP notes)
 - \$80 million of CP notes outstanding as of March 2020*
(\$35 million Maritime, \$36 million Aviation PFC-eligible, \$9 million Aviation)
 - Repay approximately \$4 million Maritime and \$3 million Aviation CP Notes
 - Repay approximately \$10 million of PFC-eligible CP notes
- Minimum budgeted debt service coverage ratio** of 1.40x:
 - Provides operating financial cushion
 - Maintains 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

2. Operating Expenses

- No change in overall staffing levels
 - Temporary hiring freeze except for certain critical positions necessary for safety and critical operations
- Deferral, reduction and elimination of discretionary spending
- Continued careful evaluation of actual rather than budgeted expenses, so that the Port's financial planning practices can continue to improve

Preliminary Key Budget Assumptions

3. Capital Expenses

- Deferral of non-critical projects that have not started
- Capital investments must be strategic, appropriately prioritized and well-planned for the Port to be successful in achieving long-term financial sustainability
- Capital budget always takes into account resources and balancing available cash against preserving liquidity and financial flexibility
- 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