

DATE: 10/8/2025
TO: Port Commission
FROM: Connie Anderson, Director of Finance & Administration & Eron Berg, Executive Director
SUBJECT: 2nd Draft of 2026 Consolidated & Departmental Operating and Capital Budgets

ISSUE

What direction does the Commission have following its review of the second draft of the 2026 Budget, including assumptions, the 5 Year CIP, and the proposed 2026 Rate Cards?

BACKGROUND

The Commission adopted the 2026 Budget schedule on July 09, 2025, which included a subsequent workshop to discuss potential issues, goals, and assumptions to consider when developing the budget. The approved schedule included the 2nd Draft of the 2026 Budget to be presented at this meeting. Underlying assumptions and key objectives were discussed at previous Commission meetings.

DISCUSSION

2026 BUDGET ASSUMPTIONS:

As we prepare the 2026 Operating and Capital budgets, there are many variables to consider that impact both revenues and expenses. The June-to-June CPI for this region was reported with a 2.7% increase. Multi-year activity trends will be utilized to forecast revenues along with planned rate increases. It is anticipated that national economic policies will impact operational and capital costs. Rising costs results in a loss of purchasing power, reducing consumer spending. Based on the economic forecast, a conservative approach will be used in compiling the budget.

We are fortunate to report 100% staffing levels even as we have experienced turnover this year. Full staffing is essential to maintain operational service levels and push forward with planned capital project work. To fill open positions, our strategy has been to promote from within our ranks when possible. We have been fortunate to find quality external candidates when needed as well as seeing an increase in applicant pools.

In addition, focus will remain on the continuity of operations, remaining mindful of limited time and resources available. The Port has been building a workplace culture of trust and value for employees. This is achieved by recognizing employees for the work that is accomplished and providing them with the tools that are needed to get the work done.

OPERATING BUDGET

The 2nd draft budget shows the 5-year history including actual activity for 2022-2024, 2025 budget, the 2025 Forecast (YTD August 2025 with remaining budget), and the 2026 projections.

OPERATING REVENUES:

As discussed at previous Commission meetings, an approximate 2.7% increase has been applied to the Port's rate & fees. We maintain a low vacancy rate in our buildings and marinas. Any tenant rate increases will be based on the 2025 Annual CPI adjustment, which will be published in January 2026. Estimates have been prepared using 2%, based on review of Half1 CPI average for Seattle-Tacoma-Bellevue index. In addition, new revenue streams have been proposed including a new fueling center at the airport as well as establishing a contract for short-term rental in the newly remodeled PH Duplex facility. It is anticipated that the Liveaboard rules and regulations will be reviewed, updated and reestablished in early 2026. Revenue projections include the return to normal operations in the Boat Yard following the completion of the stormwater treatment project. The West Boat Yard expansion project will have some impact on the large vessel storage area, but the impact should be less than the construction phase of the BH Stormwater project. The proposed increases provide an overall 8% increase in operating revenue when compared to the 2025 Forecast.

PORT RATES

The Port Rates have been included under separate cover and identify suggested updates from the 1st Draft rate card.

OPERATING EXPENSES:

Overall, staffing is proposed to remain flat for 2026. A few adjustments are recommended to the current staffing allocations to provide service and Support where they are needed within the Port organization. Seasonal and temporary staff will be utilized for the records management project as well as to fill roles at the farm, moorage, docks and manning the pump out boat.

- Eliminate CSR I and Yard Laborer positions
- Replace with a Farm Laborer and a Maintenance Specialist – Stormwater/Sewer/Water (hired September 2025)

The union contract is in Year 2 of 3. The 2026 proposed budget includes anticipated performance steps as well as a 2.7% cost-of-living adjustment. Tax and benefit costs include anticipated cost increases for health insurance, L&I insurance and paid family medical leave costs.

Increased costs across the board are anticipated for regular and recurring operating costs, as well as capital costs due to continued inflation. Increased costs are anticipated in energy (9%), fuel (4-5%), utilities (10-13%), construction materials, operating supplies, shipping materials, and travel costs for contractors. In general, operational expenses will be estimated to increase by 3%.

The Shorts Farm will continue to be a focus for 2026. Staff recommend the addition of a permanent farm laborer position with hybrid hours that reflect the seasons, full time in the summer and part time in the winter. In addition, the proposed budget includes salary and benefit costs for maintenance staff and a seasonal farm helper to accomplish maintaining the farm as well as addressing small capital projects that enhance the farm. Staff view this as a continued investment period. The 2026 budget includes operational budget to cover these costs.

The proposed operating expenses represent a 9% cost increase when compared to the 2025 Forecast.

NET OPERATING INCOME:

The 2026 budget projects the net operating income (NOI) to be in line with the 2025 budget at \$810k, above Commission's recommended minimum level of \$600k.

CAPITAL PROJECTS:

The updated capital program is attached and includes the estimated projects and costs for 2026 to 2030 as well as the anticipated funding of those projects. Funding sources for the upcoming year have been identified for most projects, but funding sources for future years remain unsecured. Port staff are pushing forward diligently and consistently with obtaining future funding dollars. Specific questions regarding any of these project costs, and/or funding can be addressed by other executive staff.

EQUIPMENT/VEHICLES:

The capital equipment and vehicle requests have been incorporated in Year 1 (2026) of the 5-year CIP.

1	\$200,000 - \$300,000	Dump truck (used); move old dump truck to the Farm
2	\$200,000	Excavator & Trailer
	<p><i>The dump truck, excavator and trailer will be used for operations as well as capital projects, mitigation efforts and vessel destruction.</i></p> <p><i>The equipment will provide a return on investment (ROI) with billable equipment hours, staff hours and earned mitigation credits.</i></p>	
3	\$40,000	Two used trucks or vans for maintenance to outfit w/supplies to be used while on the jobsite.
4	\$50,000	Remote Controlled Mower, primarily for use at the Farm and AirPort

5	\$65,000	Electronic Records Management System, such as Laserfiche
	<i>Possible WA State Archive grant available to use for technology, organization or digital imaging of records.</i>	
6	\$10,000	Planned Computer Replacement, Port wide
7	\$50,000	Misc. Port wide projects
8	\$1,000,000	Electric travel hoist – 2025-2026.
	<i>Total cost estimated at \$1.6m split between 2 years. This cost is offset by a \$1.3m grant with the remaining funds coming from the Port Wide Capital Reserve.</i>	
	\$1,615,000	2026 Capital Equipment Request

CASH ON HAND:

The proposed 2026 operating and capital budget indicates a \$8.1m decrease in reserved cash. Use of capital reserves, IDD levy reserves as well as unreserved cash are intended to cover capital projects and equipment in addition to secured grant receipts.

Cash balances as of August 31, 2025, are as follows:

<u>Ending Cash Balances</u>		<u>2025 YTD</u>
Reserved Cash & Investments – IDD		7,866,616
Reserved Cash & Investments – Other, see detail below*		3,376,219
Unreserved Cash & Investments		3,314,855
Total Cash & Investments		14,557,690
<u>*Other Reserves detail:</u>		
	<u>Target balance</u>	<u>2025 YTD</u>
Unemployment Reserve	NA	10,000
Operating Reserve (a)	1,773,274	1,623,405
Boat Haven Renovation Reserve (b)	NA	436,068
Emergency Reserve	500,000	500,000
Port-Wide Capital Reserve (c)	NA	806,746
Total Other Reserves		\$3,376,219

POLICY CONSIDERATIONS

Debt Retirement is being considered for 2026. The 2nd draft of the proposed budget includes scheduled 2026 bond payments. Options for early debt retirement are listed below. The estimated interest savings listed

- 2010 LTGO – Principal balance remaining \$1,630,000; 3.98% effective rate; final payment due December 2029
- Debt retirement options
 - Retire January 2026, 4 years early, € \$240,000 savings in interest
 - Retire December 2026, 3 years early, € \$150,000 savings in interest
 - Retire December 2027, 2 years early, € \$75,000 savings in interest
 - Retire December 2028, 1 year early, € \$25,000 savings in interest
 - Retire December 2029, Maintain current repayment schedule; annual debt payments range from \$456k - \$484k. No interest savings.

Draft property tax reserve account details have been provided for consideration. The draft outlines actual and budgeted dollars that could be defined as dedicated use for the proposed property tax reserve and illustrates historical context for how the operation property tax levy dollars have been utilized. Below is a list of options incorporated into the model.

- Pay scheduled General Obligation Debt
- Retire outstanding General Obligation Debt
- Subsidize public access to cover operational expenses that exceed generated revenues (Ramps, Herb Beck Marina, JCIA)
- Fund small strategic projects that support economic development
- Provide funding for capital projects that support the general Port infrastructure
- Provide capital grant match

RECOMMENDATION

Please provide any feedback on the 2nd draft of the 2026 budget to incorporate into the final draft of the budget.