

PORT OF PORT TOWNSEND

INFORMATIONAL MEMO

DATE: 10/9/2024

TO: Port Commission

FROM: Connie Anderson, Director of Finance & Administration & Eron Berg, Executive Director

SUBJECT: 2nd Draft of 2025 Consolidated & Departmental Operating and Capital Budgets

ISSUE

What direction does the Commission have following its review of the second draft of the 2025 Budget, including assumptions, the 5 Year CIP, and the proposed 2025 Rate Cards?

BACKGROUND

The Commission adopted the 2025 Budget schedule on July 10, 2024, 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 2025 Budget to be presented at this meeting. Underlying assumptions and key objectives were discussed at previous Commission meetings.

DISCUSSION

2025 BUDGET ASSUMPTIONS:

Our recommendation to the Commission for the 2025 budget is to maintain a conservative approach. The economic environment this year has changed from a year ago. The June-to-June CPI for this region was reported at a 3.8% increase and continues to trend downward. Even though this is lower than the 10.1% CPI high reported in June 2022, the impacts of record level inflation is noted when looking at the increased costs to operating and projects costs.

Staff's primary focus for 2025 is to continue to build the projects that are in the queue for construction phase work while simultaneously planning, designing, permitting, and funding projects into the future. The goal is to find the right balance of managing an increased volume of projects, increased complexity in planning and permitting those projects, and limited staff time.

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 achieved by recognizing employees for the work that is accomplished and providing them with the tools that are needed to get the work done.

Our primary objectives remain the same for 2025 operations: maintain improved customer service, improve processes that better serve our tenants and customers all while maintaining our steady path to a higher level of service across the board. In both cases, it is our clear intent to spend more money, investing in capital projects to provide port facilities for future generations and in operations to improve the port's level of service. We remain focused on the generational viability of these remarkable and unique port facilities that are essential to the culture of this place.

OPERATING BUDGET

The 2nd draft budget shows the 5-year history including actual activity for 2021-2023, 2024 budget, the 2024 Forecast (YTD August with remaining budget), and the 2025 projections.

OPERATING REVENUES:

As discussed at previous Commission meetings, an approximate 3.8% increase has been applied to the Port's rate & fees. We have full occupancy in our buildings and marinas. Any tenant rate increases will be based on the 2024 Annual CPI adjustment, which will be published in January 2025. Estimates have been prepared using 4%, based on review of Half1 CPI average for Seattle-Tacoma-Bellevue index. In addition, new revenue streams have been proposed at the Short Farm, Point Hudson parking as well as new passenger fees on cruise ships. Revenue projections include the return to normal operations at Point Hudson following the completion of the jetty work as well as factoring in anticipated project construction in the Boat Haven yard for the stormwater treatment project. The proposed increases provide an overall 8% increase in operating revenue when compared to the 2024 Forecast.

PORT RATES

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

OPERATING EXPENSES:

Staffing is planned to remain flat for 2025. Seasonal and temporary staff will be utilized to fill roles at the farm, moorage, docks and staffing the pump out boat. One-time costs for retirement cash out and staff replacement/crossover training time has been included. A 3-year union contract has been ratified, which includes a 3.8% cost-of-living adjustment as well as specific position and grade adjustments. The cost-of-living adjustment has been included for all staff. 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 and uncertainty in the market. Increased costs are anticipated in energy, fuel, construction materials, operating supplies, shipping materials, and travel costs for contractors. General liability/property insurance costs continue to escalate. Staff plan a review of insurance policies in 2025 to assess risk and various policy options.

The Shorts Farm will be another focus for 2025. Staff anticipates this next year as an investment period that includes temporary farm help as well as small capital projects. The 2025 budget includes operational budget to cover these costs.

The proposed operating expenses represent a 9% cost increase when compared to the 2024 Forecast.

NET OPERATING INCOME:

The 2025 budget projects the net operating income to be in line with the 2024 forecast at \$644k.

EQUIPMENT/VEHICLES:

1. \$50,000 – 2 Gators w-John Deer cabs for the Yard; current Gator will be transferred to the Short Farm
2. \$50,000 – Misc. equipment and attachments for the skid steer
3. \$50,000 - Planned IT hardware and computer replacement including new servers. Server size and capacity will be determined after the financial system is migrated.
4. \$1,000,000 - 300T variable width Travelift[™] for the estimated remaining payments, anticipated delivery May 2025.
5. \$50,000– Miscellaneous port wide projects and equipment.

The request for a Vac truck has been removed; the Port has established an interlocal agreement with the City for use of the City's Vac truck when needed rather than purchasing a vehicle to add to the Port fleet.

CAPITAL PROJECTS:

The updated capital program is attached and includes the estimated projects and costs for 2025 to 2029 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.

CASH ON HAND:

The proposed 2025 operating and capital budget indicates a \$1.9m decrease in reserved cash. The additional use of cash reserves is intended to cover capital projects and equipment over secured grant receipts. The projects are targeted to use IDD reserves as well as other capital reserve balances.

Cash balances as of July 31, 2024, are as follows:

<u>Ending Cash Balances</u>		<u>2024 YTD</u>
Reserved Cash & Investments – IDD		7,021,252
Reserved Cash & Investments – Other, see detail below*		3,376,219
Unreserved Cash & Investments		2,736,061
Total Cash & Investments		13,133,532
<u>*Other Reserves detail:</u>		
	<u>Target balance</u>	<u>2024 YTD</u>
<i>Unemployment Reserve</i>	NA	10,000
<i>Operating Reserve (a)</i>	1,773,274	1,623,405
<i>Boat Haven Renovation Reserve (b)</i>	NA	436,068
<i>Emergency Reserve</i>	500,000	500,000
<i>Port-Wide Capital Reserve (c)</i>	NA	806,746
Total Other Reserves		\$3,376,219

RECOMMENDATION

Please provide any feedback on the 2nd draft of the 2025 budget to incorporate into the final draft of the budget.