

PORT OF PORT TOWNSEND

INFORMATIONAL MEMO

DATE: 11/9/2022
TO: Port Commission
FROM: Abigail Berg, Director of Finance & Administration & Eron Berg, Executive Director
SUBJECT: 4th Draft of 2023 Operating & Capital Budget, and Proposed Rates

*Note: Changes to the 1st Draft Informational Memo are noted in **green bold lettering**.*

*Note: Changes to the 2nd Draft Informational Memo are noted in **orange bold lettering**.*

*Note: Changes to the 3rd Draft Informational Memo are noted in **yellow highlighted areas**.*

ISSUE

What direction does the Commission have following its fourth review of the **2023 Operating & Capital Budget document, and the proposed 2023 Rate Cards.**

BACKGROUND

The Commission adopted the 2023 Budget schedule on June 22, 2022, which included a subsequent workshop to discuss potential issues, goals, and assumptions to consider when developing the budget. The approved schedule included the 3rd Draft of the 2023 Budget to be presented at this meeting. Underlying assumptions and key objectives were discussed at the last two Commission meetings.

DISCUSSION

2023 Budget Assumptions – 2ND DRAFT, 3rd DRAFT, 4th DRAFT

This coming year's budget is being developed following the COVID-19 pandemic and related governmental interventions with the backdrop of global uncertainty and a rapidly changing energy, climate, and economic environment. The pandemic resulted in an immediate drop in port revenue followed by a surprisingly strong boomerang of increased business and demand for port services. As we look to 2023, we begin with the longest moorage waitlists in port history, two years of unprecedented yard activity, at times so full as to limit lift access and the need to turn customers away, as well as continued 100% occupancy of leased properties. Our recommendation to the Commission for the 2023 budget is to continue to maintain a conservative approach, assume no significant changes in course but be alert for mid-year course adjustments and be prepared to move with alacrity, if needed.

Staff's primary focus for 2023 is to continue to build the projects that are in the queue for construction phase work while simultaneously planning, designing, permitting, and funding projects for 2024, 2025 and 2026. Your port staff team is known for saying, "That's a great idea, let's do it!". While we will undoubtedly continue with that motto, we do need to temper our appetite with the reality of managing an increased volume of projects, increased complexity in planning and permitting those projects and limited staff time. Our primary objectives for operations in the coming year are to continue to improve 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 carry port facilities to future generations and in operations to improve the port's level of service. We remain laser focused on generational viability of these remarkable and unique port facilities that are essential to the culture of this place.

OPERATING BUDGET

The attached is a newly formatted budget which was built to easily allow escalators (percentage increases) for projection purposes. The revenues are similar to prior budgeted formats, though the expenditures are presented based on their account codes in the accounting system. Also new is a two (2) year projection (2023 and 2024) and doesn't include any variance columns; these can be added if the Commission would like. The revenue and expenditure escalators used for 2023 are 5%, but for 2024 they are 5.4%, and 6.3%, respectively for revenues and expenditures. These are the updated 10-year averages of the Port.

The 2nd Draft 2023 budget was prepared in the previously used format, projecting out for only one year, and having a variance column for comparative purposes. Also included in this draft are the 2023 budgets by location.

The 3rd Draft 2023 budget is in full document form including narratives, pictures, pies, debt service, taxes detail, as well as the financial statements, capital improvement program projects, funding, and cashflow.

The 4th Draft 2023 budget document was updated with YTD figures through August plus remaining budget. This included updates to each budget, the narratives, percentages, pies, capital project funding (NOI), and cashflow.

OPERATING REVENUES:

1. As discussed at the last Commission meeting, we've implemented a 5% increase on most revenues port wide despite a CPI of 10.1%. More detailed discussion is included with the Rate Cards later in this memo. **In the 3rd Draft, Permanent Moorage revenues were adjusted down to 3% CPI, instead of a 5% CPI increase. This caused the Boat Haven Moorage revenues to decrease by \$26,461.**
2. The good news is we're moving forward on the Point Hudson Jetty replacement; however, this will impact operating revenues for Point Hudson. These revenues will be impacted not just as we roll into the fall and winter of 2022, but in early 2023 as the 1st phase is completed and in mid-September 2023 as the 2nd phase commences.
3. The Point Hudson revenues most impacted will be Moorage, however, the RV revenues will also be affected. These Point Hudson revenues could be offset by Back 40 parking, if a plan is approved to lease some parts of that area and/or implementing parking fees that aren't just for special events.
4. Recently the commission decided to cease the small boat yard discount as of March 31, 2022. As we move into the coming season for boat repairs, we can anticipate an increase in revenues for vessels stored while being worked on. Initially, we thought this may result in not having a full yard, however, the current projections are that both yards will be full

within the next few weeks (300T yard projected at capacity on 9/30 and the 75T yard following in mid-October).

5. At this juncture, there are no other significant operating revenues initiatives or changes we foresee.
6. **There were a few minor Operating Revenues adjustments which increased the total by \$12,453 overall.**
7. With the updated numbers from August, there is an overall increase in 2023 budgeted operating revenues by \$22,119; this increased Point Hudson Event Facility revenue by \$27,000 for the Wooden Boat Festival, and lowered Boat Haven Properties Water revenue by \$4,882.

OPERATING EXPENSES:

1. A 5% increase has been built into the operating expenditure budget port wide (note that the 10-year average annual increase in operating expenses is 6.3%).
2. In accordance with the 2022 budget, the Port has staffed up for the various initiatives important to our Commission, the community, and our customers. These include an added CSR position, an additional Custodial position, and part-time Accounting position. For 2023, we'd like to continue this by hiring two (2) additional FTEs for primarily capital work in the Maintenance department, making the part-time Accounting position full time and creating a new position of Assistant Harbormaster within our current moorage/yard FTE count.
3. **There were some minor adjustments to compensation, overall reducing it once we reviewed the detail on YTD capital work, and projected capital work performed by port staff; this amounted to an overall reduction of \$7,383. This reduction also impacted taxes and benefits.**
4. Again, in reviewing the YTD August plus remaining budget operating expense figures, we found it was reasonable to lower payroll taxes by \$2,066, lower contract services by \$20,000, increase insurance by \$15,000, and lower utilities by \$20,017. The net impact of these adjustments is a reduction in 2023 budgeted operating expenses by \$20,615.
5. As mentioned above, we can anticipate increased costs across the board for regular, and recurring operating costs, as well as capital costs. Much of this can be expected due to the increased cost of energy, construction materials, operating supplies, shipping materials, and travel costs for contractors. The port is also experiencing larger than typical increases in costs for insurance and other services.
6. **Preparing the individual department budgets, presents the opportunity to do more in-depth review of projected costs. Overall, expenses were reduced from the 1st Draft by approximately \$67,000.**
7. **In the 3rd Draft, Operating Expenses increased by \$40,000, which is for \$25,000 slated to help fund the PTMTA's update of the 2018 economic survey prepared by Martin &**

Associates, and \$15,000 for the NWMC High School summer program that assists at the Point Hudson and Boat Haven marinas.

8. The 4th draft adjustments to operating expenses lowered G&A by \$2,607, and the changes in operating revenues changed the allocation of G&A to each department.

CAPITAL PROJECTS:

The draft updated capital program is attached and includes the estimated projects and costs for 2023 to 2027 as well as the anticipated funding of those projects. There's a small variance of between \$5,000 and \$25,000 in years 2023-2025 for costs compared to funding which will be reconciled in the next draft presented October 12th.

It should be noted that this ambitious, 5-year CIP presents almost \$50 million dollars' worth of capital expenditures. Of this amount, we estimate that 69%, or more than two thirds, of those projects are funded by grants, the IDD, and net operating income. In addition, 93% of the yet unfunded portion of those projects, \$13,750,000, is several years out, and we're actively pursuing grants.

Minor adjustments were made in the CIP to reconcile the total project costs to the supporting funding.

Minor adjustments to the CIP funding in the 4th Draft 2023 budget were to increase IDD Levy Reserve use by \$4,000, lower use of NOI by \$137,000, and increase Port Wide Capital Reserve by \$133,000.

EQUIPMENT/VEHICLES:

These are part of the CIP and include two (2) more ½ ton pick-up trucks, a 1-ton pick-up truck, a dump trailer, and another gator with an enclosed cab for Point Hudson Moorage staff. In addition, we are researching the possibility of moving to card-based access system for showers, and laundry thereby eliminating the use of quarters which is time consuming to manage (and uses antiquated equipment that is increasingly a challenge to maintain).

5-YEAR CASHFLOW

The cashflow for 2023 and beyond is based on the following:

1. Projected ending cash for 2022 as of YTD July activity and the remaining budget for the year. Ending cash includes both reserved and unreserved cash and investments.
2. Projected ending cash for 2023 is based on the estimated beginning cash mentioned in item 1, and the budgeted activity (inflows and outflows) for the year overall.
3. Ending reserve balances are calculated based on the budgeted activity for each year, which may include reserve funding and draws, where applicable. Funding includes IDD

receipts, and the internal funding of the Por-wide Capital reserve and Operating Reserve. Draws are only identified in the capital related reserves.

4. Additional details on the assumptions made in the cashflow are included in the notes following the cashflow.
5. As a result of the minor changes in operating revenues and expenses, the cashflow was updated accordingly. Overall, total Inflow of cash was increased by \$26,595, and total Outflow of cash increased by \$59,442.

PORT RATES

In the packet are the comparative rate cards for all Port locations that show the current rates alongside the proposed 2023 rates. Even with the record CPI increases over the last year, the Commissions' first choice was to go with a lower CPI rate increase of 5%, rather than 7.5% or 10.1%. Most rates were increased by that amount, though there are some exceptions due to the use of cash drops for parking, for instance, or marina temporary tie up fees.

The following are the changes to the RATE CARDS in the 4th draft review:

1. POINT HUDSON RATE CARD – remove consideration of “Boat on Trailer” in Back 40 until a parking plan is agreed upon for that location, and
2. MISCELLANEOUS RATES & FEES – increase the “Docking Fee” charged at Union Wharf for the cruise ships from \$1.96/ft. to \$2.50/ft. A survey of neighboring ports indicated that we are under-billing for this service. Increase to this amount is slightly less than for most other local ports.

On the rate cards we've highlighted new rates in blue and rates that were removed in red. The following are the changes by location:

BOAT HAVEN

1. During the 2022 budget development, the Port planned a consistent 3% annual increase for permanent moorage tenants for three (3) years, instead of the 5% CPI increase applied to most other revenues. Due to the significant increase in the CPI in the last year (10.1%), the recommendation is that permanent moorage tenants also pay the 5% CPI increase as proposed with most other Port rates for 2023. The attached rate card reflects this increase.
2. **The 3rd Draft lowered the CPI increase for permanent moorage tenants to 3%, instead of 5%. This is reflected in the updated rate cards as well as the budget.**
3. Temporary Tie Ups were kept at the same rate as the prior year.
4. The “annual” has been removed from the Background Check Fee.
5. Added to this card is a “Storage Only” section, similar to Point Hudson, for kayaks, dory on docks, and the recently added wherry parking, which is only at Boat Haven.
6. **In accordance with Commission recommendation at the September 28th meeting, the year-round nightly moorage rate was increased by 10%, instead of 5%.**

YARD:

1. We're proposing an additional \$150.00 charge to the Roundtrip Rate for Hang Overnight. This is to account for the additional sling time beyond normal inspection and is an approximate 1-hour delay in lift charges. This is for both yards.
2. We'd like to suggest a discussion regarding the "Owner Wash Down" option in the 75 Ton yard, specifically eliminating the do-it-yourself washdown. This change would allow staff to move vessels more quickly and efficiently since they're accustomed to this process and complete the job more quickly. In turn, this allows vessels to be hauled out, and splashed more efficiently, thereby increasing customer satisfaction. This is not suggested for the 300 Ton yard because those larger vessels take longer to wash down, and they can only haul about 2-3 per day, whereas in the smaller yard with 3 Travelifts, we have the ability to haul a larger volume. **In the 2nd Draft, we removed this proposal.**
3. **In the 3rd Draft a clearly distinct line was added on the rate card for the "Port Wash-Down" and includes the additional cost in sales tax for this option, as well as the cost of labor.**
4. As per Commission decision for the 75 Ton yard, the seasonal discount rate has been removed as of March 31, 2022, and the rate is the same as the current monthly rates.
5. Maintaining the same fee for Covered Storage because the usage doesn't appear to be as frequent as initially contemplated. A second year at the same rate provides the opportunity to market the option.
6. We've removed the "Non-Working Long-term" storage rates. Due to the shortage of vessel repair options in the Puget Sound, our yards are busier than ever, and we've plans to start using this area for working repair.
7. Under "Other Fees", the Storage Boxes were removed since there hasn't been time for these to be built.
8. Bilge Water fees were moved from the Miscellaneous Rates & Fees card to the Yard and increased to reflect the cost more accurately.
9. **Also, under "Other Fees", we added a new rate, for Emergency Hoist in the amount of \$500.00 per foot. The amount of the charge was determined by calculating the potential disposal cost of the vessel based on labor hours, equipment hours, tipping cost per ton, and hazardous waste removal. When applied, it would cover the hoist, environmental fees, labor hours to haul and up to a "to be determined" amount of storage (what is residual). This is instead of requiring a "deposit" from a vessel in distress that is likely to become derelict and more apt to be paid by an insurance company, whereas deposits are not.**
10. **Continued discussion on a "Salvaged Vessel Emergency Hoist", and an "After Hours Hoist" rates for the Yard. For the 4th Draft, it was determined the Commission would like to see a more comprehensive proposal on this potential new rate, and may consider adopting after such review at a later date.**
11. Off Port Property Tarp fees were adjusted to be in alignment with the size availability and the cost.

POINT HUDSON

1. Temporary Tie Up charges were maintained at the same rate, as previously noted.
2. The "annual" was removed from Live-aboard Background Check Fees.

3. Under “RV Park – Winter Guest Monthly”, the timeframe for the winter was adjusted from Oct. 1 to April 30 (not June 1), and states “back row loop”, not back row only.
4. Similar to item 3 for Point Hudson, the timeframe was changed from Nov. 1 to March 31 (not April 1), and to “front row loop”, not front row.
5. “Event Parking – Back 40 Lot” was changed to “Parking – Back 40”.
6. Flagged for discussion is for whether we add a “Boat on Trailer” option in the Back 40, and what that monthly cost might be.
7. The “Landfall Site” Parking was changed from a timeframe of April 1 – September 30, to year-round. Parking usage in general at Point Hudson will be on your agenda for discussion on October 12th.

HERB BECK MARINA

1. In the top portion of this rate card, under the Commission approval date, is language that was changed to align with Point Hudson and Boat Haven Marinas. Currently the charge for moorage in Quilcene is only based on the overall length of the vessel. The change would be to “Moorage Rate is based on overall length, or slip length, whichever is greater.”
2. Temporary Tie Up was increased, but not at the other marinas’ rates since Quilcene is already 50% less than the others.
3. In another effort to be in alignment with the other marinas, we’ve flagged for discussion adding “Guest Monthly” moorage at Quilcene. This would allow us to rent out permanent moorage tenant slips and let them be part of a credit system. This will only work if we have the language change sited in item 1, and include a rate based on the CURRENT permanent rate at Quilcene with a 30% mark-up as listed in the attached rate card.

JCIA

1. There were no significant, new, or removed charges from this rate card. Tie downs were maintained for overnight, and other rates were increased 5% and, in some cases, rounded.
2. **Per the Commission recommendation, we increased the Overnight Tie Down rate to \$10.00.**

UNION WHARF, CITY DOCK & EVENT FACILITIES

1. For rental of the Marina Room, we removed the hourly fee and Damage & Cleaning Deposit fees, and the daily rate is maintained. Even though Damage & Cleaning is standard practice for facility rentals, there’s been little need to use these fees at this location, and the room may transition to exclusively leased space in 2023.
2. The Pavilion rental fees were maintained since the facility is just now nearing readiness for such use. Added to these is the option for RV and Yacht Club user groups renting more than half of the marina or RV park, they can rent the Pavilion at 50% of the regular rental rates.
3. Staff propose to continue to allow intergovernmental use of the Pavilion at no charge, as approved by the Executive Director.

MISCELLANEOUS RATES & FEES

1. Bilge Water charges were removed and properly included on the Yard Rate Card.
2. There's some discussion of increasing the Miscellaneous Storage (with agreement) fees, as \$0.27/sq. foot is very low.
3. Wherry Parking – Boat Haven was added to this rate card.

RECOMMENDATION

Staff recommends the Commission make the following Motions:

1. Pass Resolution 777-22 to increase the general tax levy by 1% as allowed by statute.
2. Pass Resolution 778-22 to maintain the same rate for the IDD Levy in 2023 as in 2022.
3. Pass Resolution 779-22 to adopt the 2023 budget as presented.
4. Approve the 2023 Rate Cards as presented.