

DATE: 8/12/2026
TO: Port Commission
FROM: Connie Anderson, Director of Finance & Administration & Eron Berg, Executive Director
SUBJECT: 2027 Budget initiatives, goals, and assumptions

As we begin preparing the 2027 Operating and Capital budgets, there are many variables to consider that impact both revenues and expenses. Multi-year activity trends will be utilized to forecast revenues utilizing the 2026 Forecast as a template as we transition to the upcoming year. Additionally, overall consideration will be given to economic conditions.

Staff will consult outside resources including the Washington State Economic and Revenue Forecast Council (ERFC). ERFC released its June 2026 revenue forecast which states that although consumer spending remains resilient, employment growth in Washington is weak and inflation has ticked upward, particularly due to higher energy costs. Ongoing trade and tariff uncertainty continues to suppress business investment and planning confidence. The Iran conflict and its potential impact on global energy markets are the largest risk to the forecast.

Positive signals: *Consumer spending remains resilient. AI-driven investment continues to support growth in Washington's technology sector. Housing permits have increased modestly.*

Headwinds: *Employment growth in Washington is weak. Inflation has ticked upward, particularly due to higher energy costs. Ongoing trade and tariff uncertainty continues to suppress business investment and planning confidence.*

External risk: *ERFC identified the Iran conflict and its potential impact on global energy markets as the single largest risk to the forecast. An escalation driving energy prices higher could significantly erode consumer purchasing power and tax revenues.*

Additional outside resources will be monitored and incorporated into forecasting the 2027 budget.

The revenue forecast will incorporate planned rate increases based on the Seattle-Tacoma-Bellevue Consumer Price Index (CPI). Inflation remains above the target goal of 2.0%. The federal funds rate continues to hold to a range of 3.5%-3.75%. The new Federal Reserve chair, along with the Federal Reserve Committee, affirmed its dual mandate for price stability and maximum employment. In addition, it reaffirmed its policy of maintaining ample reserves in the banking system. The current chair has not given any indication of future rate decisions. There is a great deal of speculation regarding inflation, the shifting job market and global political and economic impacts. 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.

2026 FORECAST:

1. Operating revenues through June 2026 are reported to be approximately 9% above 2025 levels and anticipated to end the year on par with 2026 budget.
2. Transient activity, including the RV park and both marinas, are reporting lower than average numbers. Storage activity in the boatyard is following the same trend. This trend is anticipated to continue for the remainder of the year.
3. Salary and benefits expenses are expected to come in lower than budget. Seasonal moorage staff were not utilized for the summer season. In addition, some of the actual benefit rates and premiums came in lower than budget, contributing to the anticipated cost savings for the year.
4. Staffing levels for regular full-time staff remain at 100%. We have remained fortunate in finding quality external candidates to fill two open positions this year without extended work gaps. In both cases, crossover time was allowed for a smooth transition of duties.
5. Operational expenses for facilities, repairs and maintenance, and contracted services are being monitored and controlled. The 2026 Forecast anticipates a 15% cost savings in these areas.
6. Utility costs continue to increase and are expected to end the year slightly above budget.
7. Annual insurance costs have increased 9%. Increases are due to building improvements, facility acquisitions as well as overall insurance liability increases.
8. The overall net operating income is forecasted to come in on target with the \$830k budget

2027 OPERATING REVENUES:

1. Operating revenues through June 2026 are reported to be approximately 9% above 2025 levels.
2. Proposed Rates & Fees will be adjusted by the regional June-to-June CPI 4.5%. There are some exceptions where rates are recommended to either hold at the 2026 rate or have a fixed rate increase for administrative ease.
3. Tenant rate increases will be applied based on the adopted Port lease policy. Lease increases are calculated using the 2026 Annual CPI adjustment, which will be published in January 2027. Estimates will be prepared using 4%, based on review of Half1 CPI average for Seattle-Tacoma-Bellevue index. A vacancy rate will be applied to all Port locations.
4. Planned rate increases barely keep revenues in line with the increasing costs of running the Port.

2027 OPERATING EXPENSES:

1. Increased costs across the board are anticipated for regular and recurring operating costs, as well as capital costs driven by new tariffs, global supply chain volatility and elevated energy prices. Increased costs are anticipated in energy, fuel and utilities (7%-13%), construction materials, operating supplies, shipping materials, and travel costs for contractors. In general, operational expenses will be estimated to increase by 5-7%.
2. The Teamster contract is in Year 3 of 3. The 2027 budget will include anticipated performance steps as well as a COLA increase based on the June-to-June CPI of 4.5% as indicated in Appendix A of the 2025-2027 Teamsters Local 589 contract agreement. The COLA will be effective January 1, 2027. In addition, the Port anticipates union negotiations to begin mid-year 2027 regarding a new agreement beginning January 2028.
3. In addition, we anticipate 7%-8% increases in health insurance and other employee benefits.

4. The insurance premiums for general liability/property, the MOLL (Marina Operators Legal Liability) insurance, and airport liability are 9% higher than 2025-2026. Additional airport liability insurance was obtained for the new aviation fueling system. Acquiring insurance for the above ground storage tank is in process; actual cost is not yet known. The 2027 budget will reflect premiums approximately 10% higher than the 2026 budget.
5. Staffing is proposed to remain flat. The Maintenance Lead will be retiring in early 2027. Crossover time is planned to cover both the Lead role and maintenance specialist-carpentry work role. Our first strategy will be to promote from within our own ranks to fill the needed skills and roles of our current Maintenance Lead. As needed, staff will recruit externally to meet the skill level needed to complete the work. Internal realignments will be made within the current Port organization to continue to provide expected operational service and to support the planned capital project work. Seasonal staff will be suspended in 2027, and regular full-time employees will be utilized to cover work at the farm, moorage office, and docks.

2027 CAPITAL PROJECTS:

The 1st draft of the 5-year capital improvement program will be presented on August 12. This will be an opportunity to review Roll Forward projects as well as identify New and Emerging projects.

Port staff will continue to focus on state and local grant funding opportunities to leverage available Port capital funds.

2027 EQUIPMENT/VEHICLES:

1	\$50,000	SUV/Truck for Environmental or Operations Manager
2	\$50,000	SUV/Van for Administrative Vehicle
3	\$50,000	Electronic Records Management Project
		<i>Possible WA State Archive grant available to use for technology, organization or digital imaging of records.</i>
4	\$10,000	Planned Computer Replacement, Port wide
5	\$100,000	Misc. Port wide projects
	\$260,000	Total Capital Equipment & Small Capital Projects

2027 INITIATIVES

1. Actively pursue the third and final Industrial Development District (IDD 3) levy to continue funding critical capital improvements and economic development. This tool would follow the completion of IDD 2, which generated roughly \$16.9 million to help advance \$60+ million in regional projects without issuing new long-term debt.

2. Capital project work focuses on the west end of the Boat Haven Boatyard as well as work at Herb Beck Marina. Building improvements will continue at the Point Hudson campus. Capital work will be supported by our Engineering team, internal maintenance team as well as contracted work with external contractors.
3. Phase II of the records management project is underway. A system is being developed to archive and digitize the Port's current records and implement an electronic records management system which will include a public portal.
4. Continue work on an electronic asset management system to include a record of port assets as well as a work order system to manage maintenance and upkeep of all assets.

POLICY CONSIDERATIONS

In addition to the reserve policies that were updated in early 2026, Port staff recommends continued work on a broader Financial Management Guideline that will provide further direction on recommended cash liquidity policy as well as other prudent financial management policies.

2027 BUDGET ASSUMPTIONS

Our recommendation to the Commission for the 2027 budget is to remain conservative, identifying cost savings and suspending expenses where possible. We need to remain diligent and watchful. Staff recommend a continued conservative approach in both revenue forecasting and planned expenditure.

Staff's primary focus for 2027 is to continue work on projects that will generate economic development within our community as well as provide the Port with a return on investment for the time, energy and materials invested. Staff will continue to work on 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 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.

Our primary objectives remain the same for 2027 operations: 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 invest 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.

RECOMMENDATION

Please provide any feedback on the broad assumptions, anticipated initiatives or projects that have been outlined as we work on the 2027 Operating and Capital budget.