

FY 2015 Operating and Capital Budgets Update

At the March 27, 2014 Board Meeting, there will be a presentation on the development of the Port's FY 2015 operating and capital budgets. Additional supplementary information will be posted before the date of the board meeting.



Development of FY 2015 Operating & Capital Budgets

Preliminary Considerations

Board of Port Commissioners Meeting
March 27, 2014

Preliminary Numbers – Subject to Change

The preliminary summary budget 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 preliminary summary budget information.

Preliminary Numbers – Subject to Change

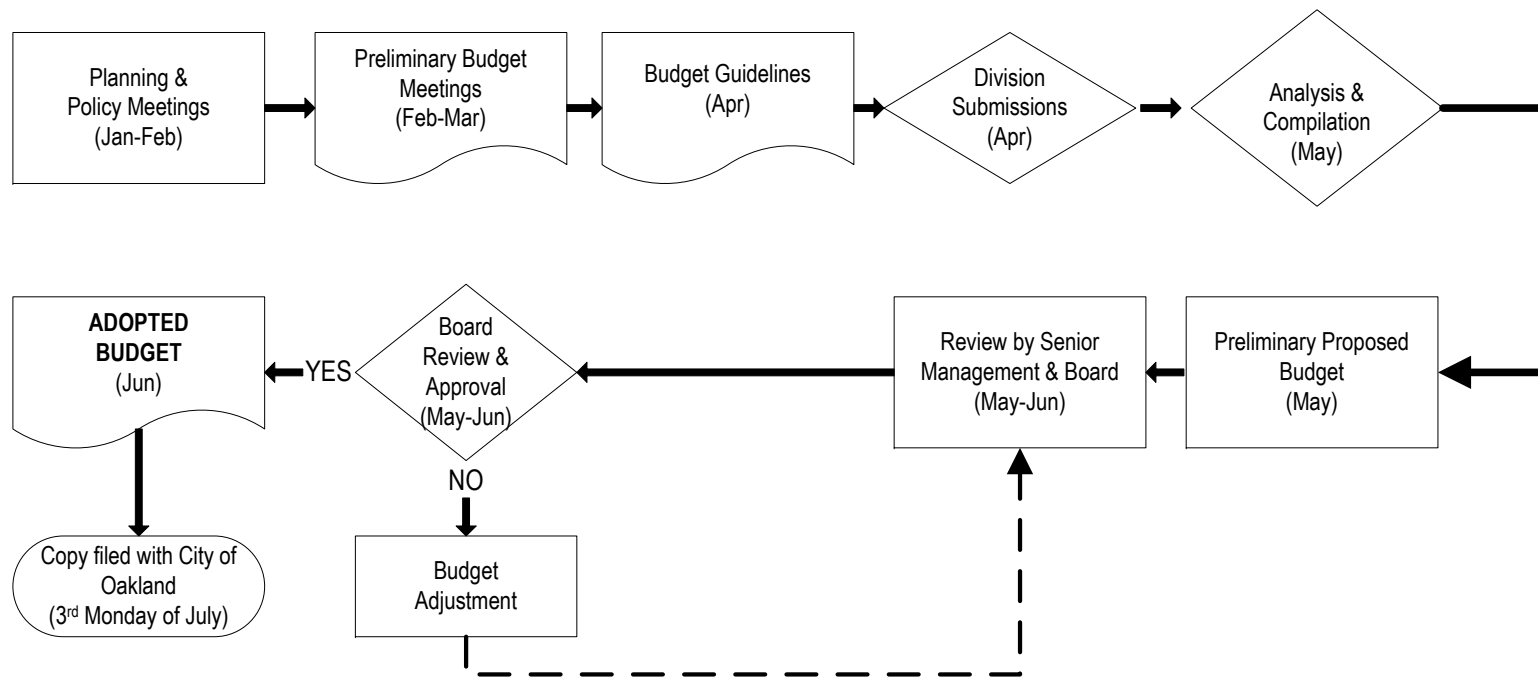
Purpose of Presentation

1. Provide overview of Port budget and budget process
2. Discuss key factors influencing development of FY 2015 Budget
3. Receive Board feedback on key budget objectives and assumptions

1. Overview of Port Budget and Budget Process

Preliminary Numbers – Subject to Change

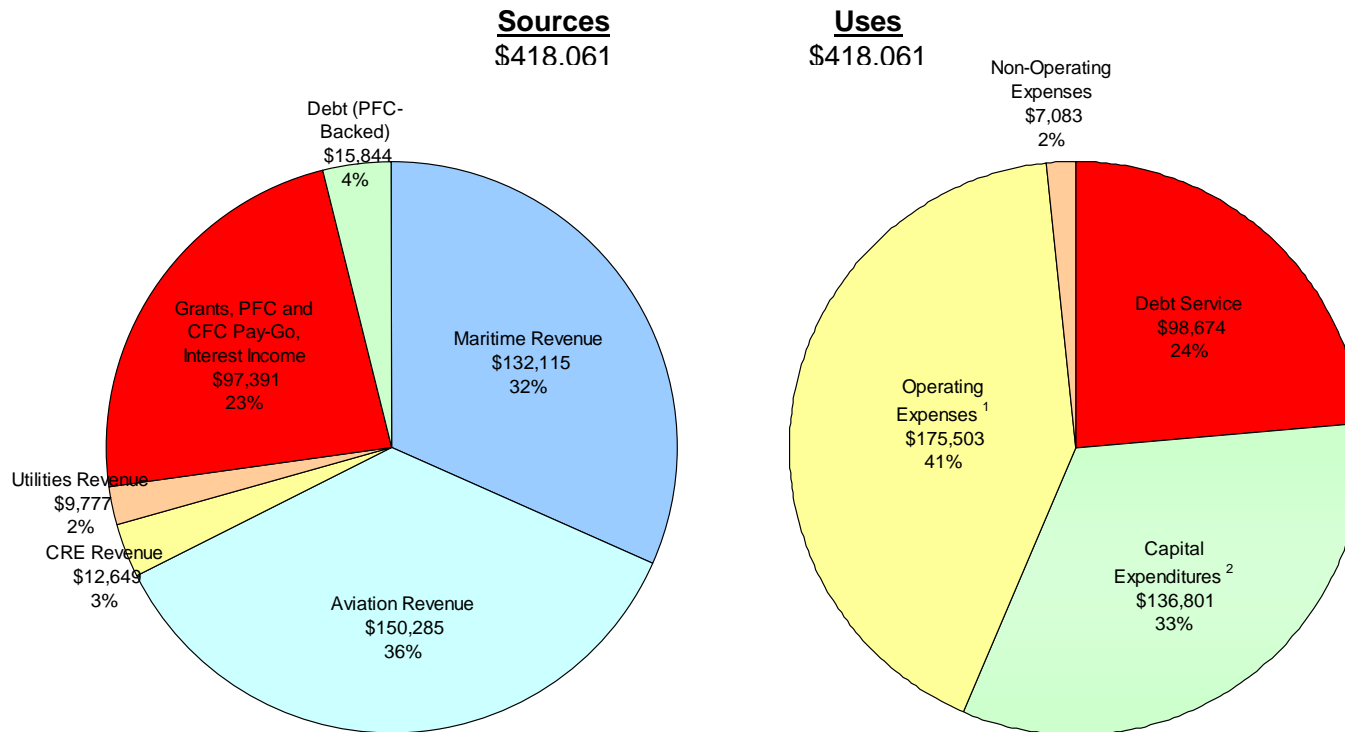
Budget Process



Preliminary Numbers – Subject to Change

Sources and Uses of Port Funds FY 2014 Budget

\$ in Thousands



1. Does not include depreciation and amortization; \$95 million or 54% of operating expenses is personnel costs.
2. Assumes FY 2014 Capital Budget plus pipeline projects less 25% adjustment factor is completed in FY 2014.

2. Key Factors Influencing Development of FY 2015 Budget

Preliminary Numbers – Subject to Change

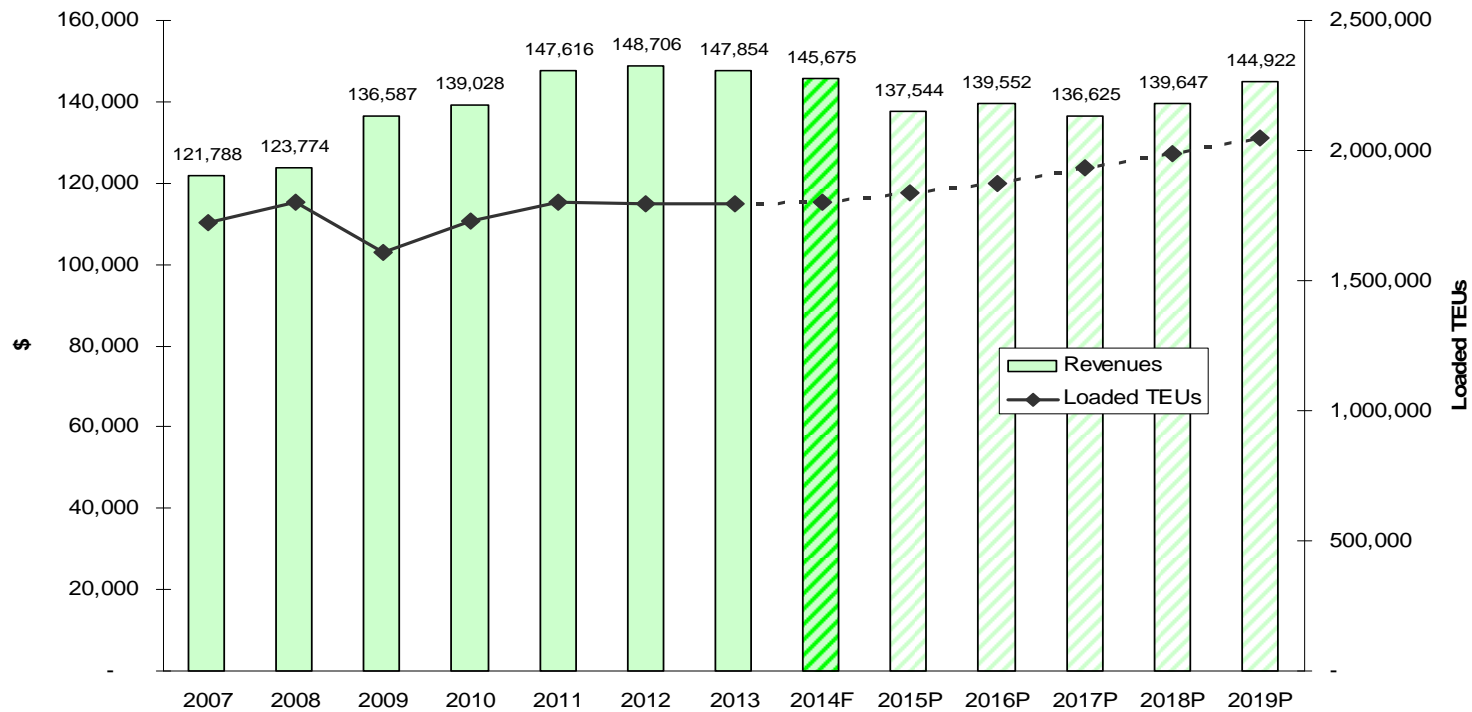
Key Factors Influencing Development of FY 2015 Budget

1. Significant pressure on Maritime revenues
2. Modest cargo and passenger growth projected
3. Personnel expenses will increase \$4.4 million with no change in staffing levels
4. Operating expenses increasing at rate faster than revenues
5. Debt service payments are still high relative to revenues (low DSCR)
6. Repayment schedule for Port's outstanding CP notes is needed
7. Limited funds available for capital expenses

Preliminary Numbers – Subject to Change

Historical and Pro Forma Maritime Revenues and Cargo Activity

\$ in Thousands

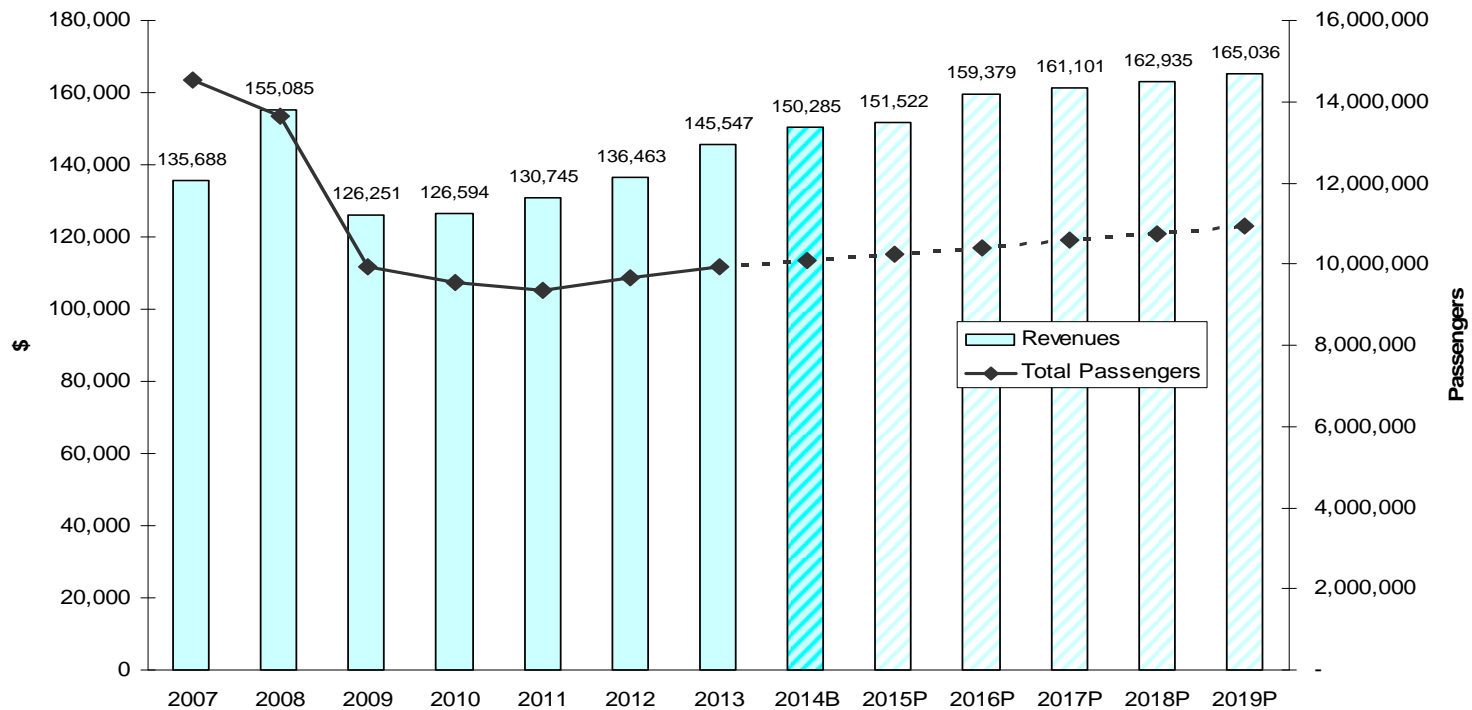


	FY 2007-14F		FY 2014F-19	
	CAGR	Total Growth	CAGR	Total Growth
Revenues	2.6%	19.6%	-0.1%	-0.5%
Loaded TEUs	0.7%	4.7%	2.6%	13.7%

Preliminary Numbers – Subject to Change

Historical and Pro Forma Aviation Revenues and Passenger Traffic

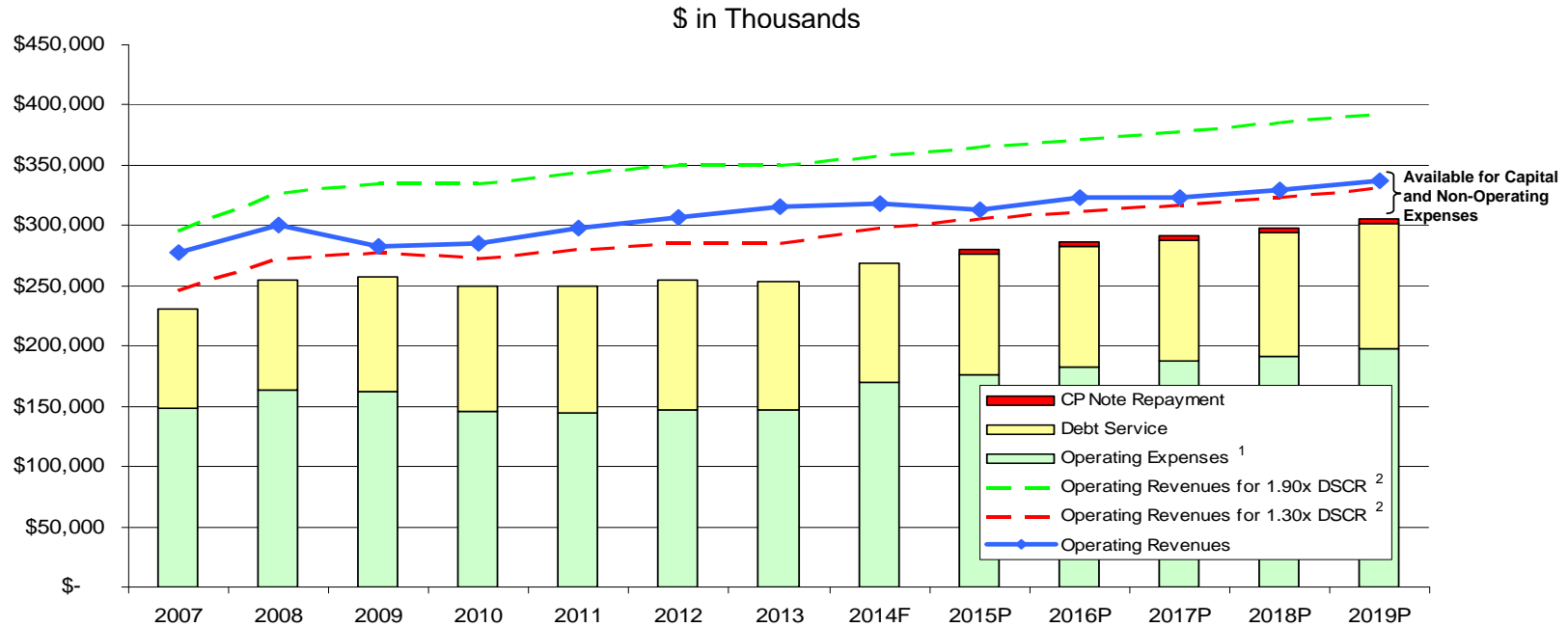
\$ in Thousands



	FY 2007-14		FY 2014-19	
	CAGR	Total Growth	CAGR	Total Growth
Revenues	1.5%	10.8%	1.9%	9.8%
Passengers	-5.1%	-30.6%	1.6%	8.3%

Preliminary Numbers – Subject to Change

Historical and Pro Forma Operating Revenues and Operating Expenses



	FY 2007-14		FY 2014-19	
	CAGR	Total Growth	CAGR	Total Growth
FTEs	-3.1%	-19.8%	0.0%	0.0%
Total Operating Revenues	2.0%	14.7%	1.2%	6.1%
Total Operating Expenses	2.0%	14.6%	2.9%	15.1%

1. The following assumptions apply to the FY 2015-19 projection period: 1) no increase in FTEs; 2) no COLA after FY 2015; 3) non-personnel costs flat in FY 2015 and increase at a 2% annual rate thereafter; 4) medical and pension costs increase at rates shown on page 12.
2. Debt service coverage ratio (DSCR) is prior to CP Note repayment.

Preliminary Numbers – Subject to Change

Change in FY 2015 Personnel Expenses with No Change in FTEs

	\$ Change	% Change
Salaries and Wages	1,432	2.7
Pension Costs	1,963	13.5
Healthcare Costs	1,142	5.3
Other	(155)	n/a
Total	\$4,384	

Preliminary Numbers – Subject to Change

Healthcare and Pension Costs

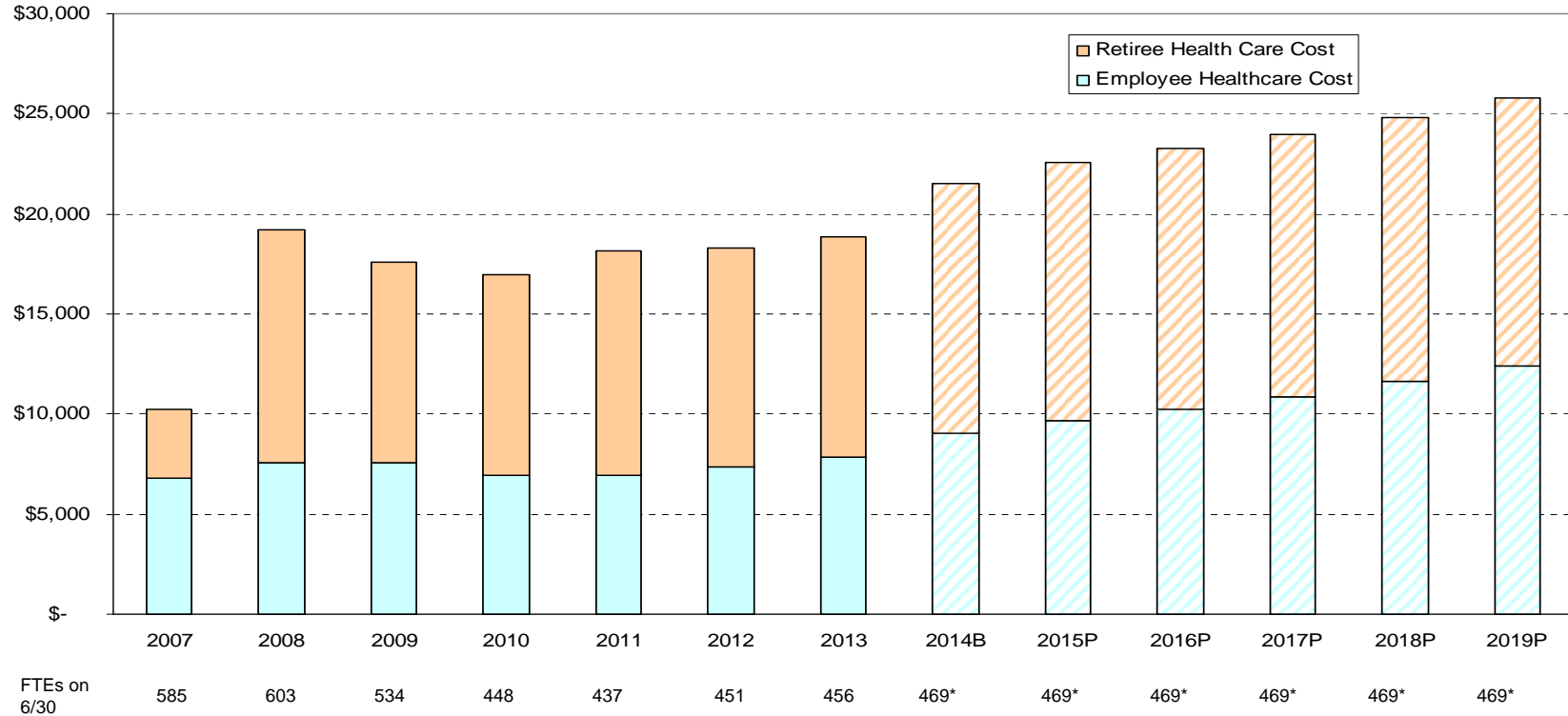
CY	Kaiser Family Annual Premium ¹	% Inc/(Dec)	Employer Pension		
			FY	Contribution Rate as a % of Salary ²	% Inc/(Decr)
2007	\$13,452	10.7%	2007	17.48%	(5.8)%
2008	14,685	9.2	2008	19.20	9.8
2009	15,859	8.0	2009	19.55	1.8
2010	16,616	4.8	2010	19.59	0.2
2011	17,752	6.8	2011	19.89	1.5
2012	19,046	7.3	2012	23.60	18.7
2013	21,401	12.4	2013	25.12	6.4
2014	23,173	8.3	2014	27.30	8.7
2015P	24,563	6.0	2015	30.16	10.5
2016P	26,037	6.0	2016P	32.00	6.1
2017P	27,860	7.0	2017P	33.80	5.6
2018P	29,740	6.8	2018P	35.70	5.6
2019P	31,896	7.3	2019P	37.50	5.0
Total Growth	137.1%			114.5%	

1. Projected health care premiums are based on the Port's OPEB actuarial valuation dated October 2013.
2. Projected pension contribution rates are provided by Calpers in its actuarial valuation dated October 2013. The actuarial valuation assumes among other things that the long term investment rate will be 7.5%. If Calpers had assumed a 6.5% investment rate, the Port's pension contribution rate for FY 2015 would be 43.622%.

Preliminary Numbers – Subject to Change

Healthcare Cost Trends

\$ in Thousands



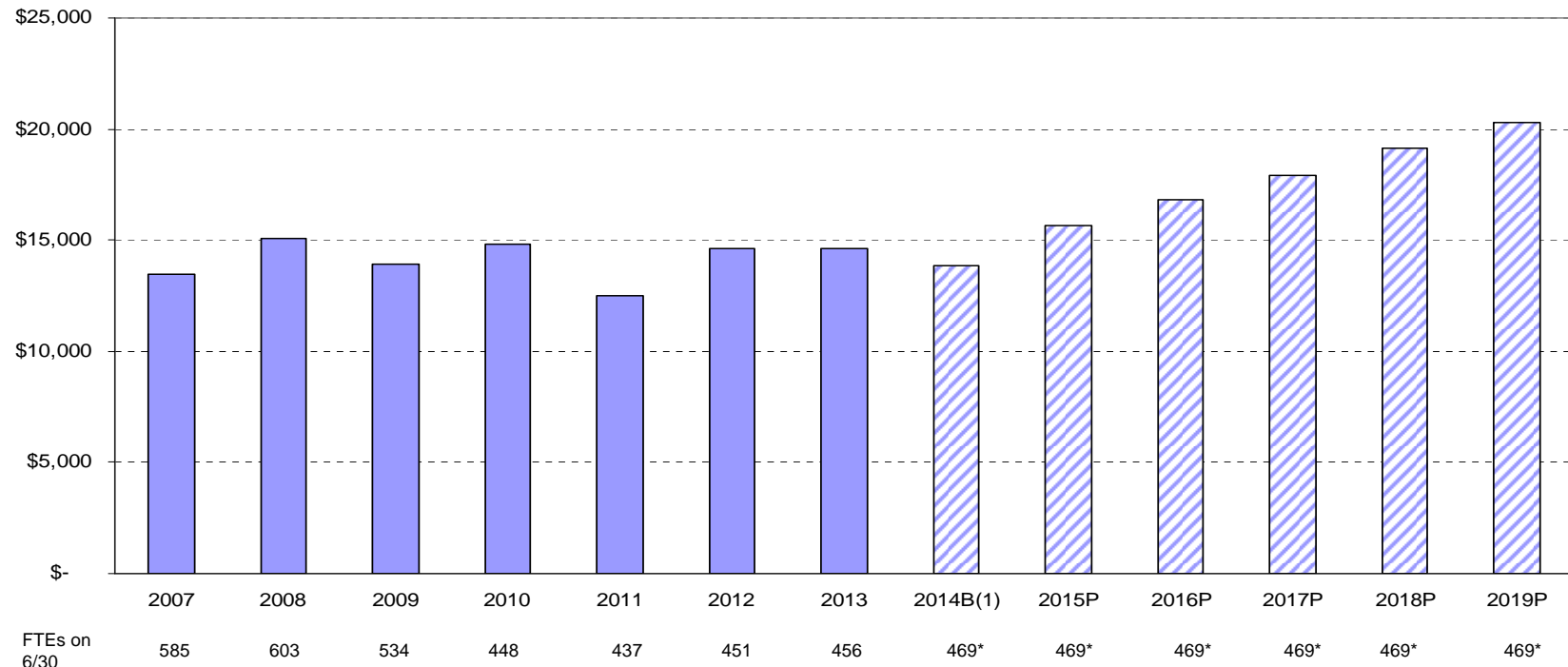
	FY 2007-14		FY 2014-19	
	CAGR	Total Growth	CAGR	Total Growth
FTEs	-3.1%	-19.8%	0.0%	0.0%
Total Healthcare Cost	11.2%	110.7%	3.7%	20.0%

* Assumes 494 FTEs budgeted offset by vacancy factor of 25 FTEs

Preliminary Numbers – Subject to Change

Pension Cost Trends

\$ in Thousands



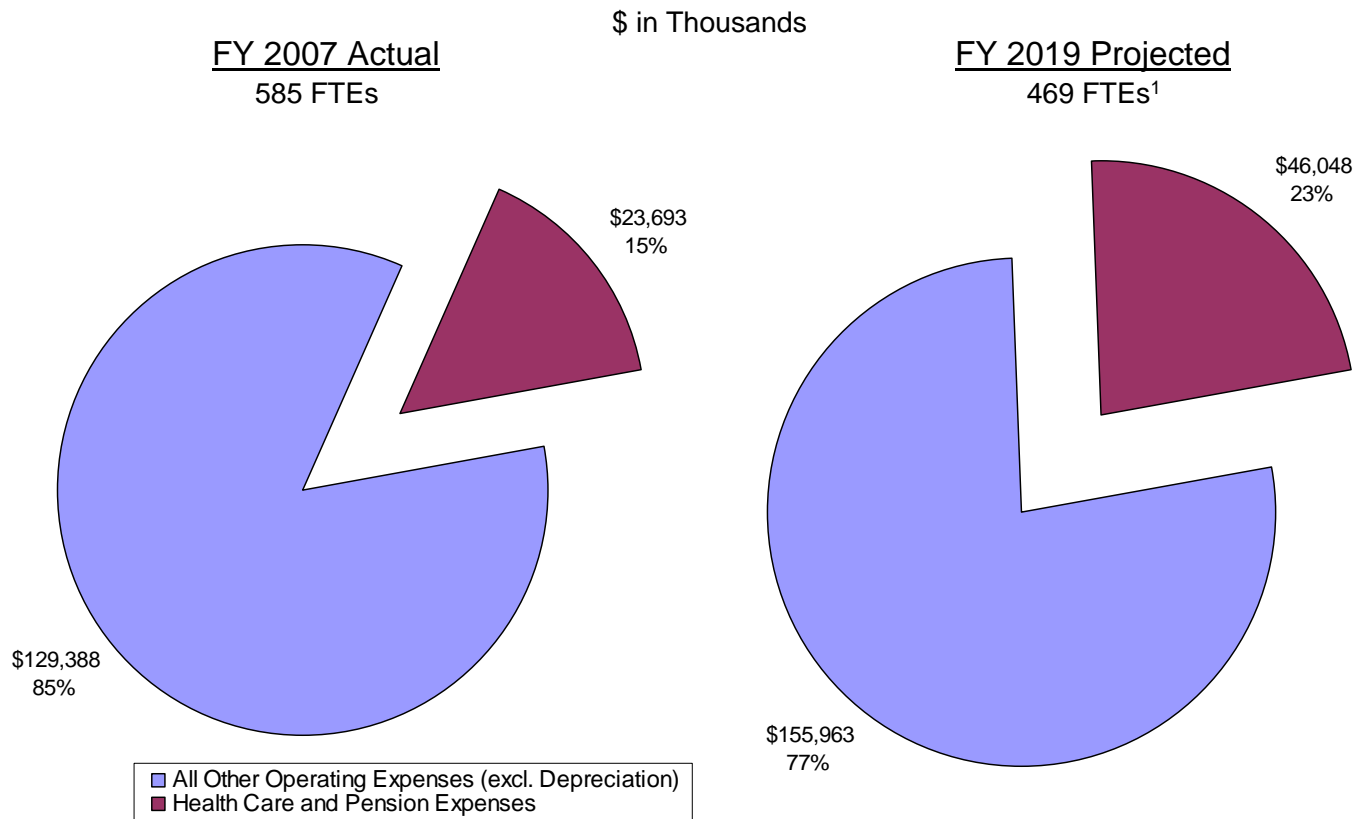
	FY 2007-14		FY 2014-19	
	CAGR	Total Growth	CAGR	Total Growth
FTEs	-3.1%	-19.8%	0.0%	0.0%
Pension Cost	0.3%	2.4%	8.0%	46.7%

* Assumes 494 FTEs budgeted offset by vacancy factor of 25 FTEs

1. In FY 2014, Port employees began paying the 8% employee paid member contribution rate (previously Port paid); however, salaries were correspondingly increased by 8%.

Preliminary Numbers – Subject to Change

Health Care and Pension Costs as a Percentage of Operating Expenses



1. Assumes 494 FTEs budgeted offset by vacancy factor of 25 FTEs.

Preliminary Numbers – Subject to Change

Repayment Schedule for Outstanding Commercial Paper Notes is Needed

- \$78 million outstanding
- Various amounts borrowed between 2007-2009
- CP Notes secured by JP Morgan and Wells Fargo LOCs which expire June 30, 2016
- Port subject to LOC renewal risk, CP remarketing risk, and CP interest rate risk
- Tax law limits how long Tax-exempt CP Notes can be outstanding

Options

1. Take-out CP Notes with long term bonds
2. Establish internal amortization schedule
3. Combination of 1 and 2

3. Key Budget Objectives and Assumptions

Preliminary Numbers – Subject to Change

Key Budget Objectives

- Support and maintain day-to-day operations
- Continue progress on 6 major capital projects
 - OAB redevelopment
 - Terminal 1 renovations
 - Runway safety area
 - Perimeter dike
 - BART Connector
 - Runway 11/29 rehabilitation
- Maintain and improve financial health; increase revenues
- Better optimize staffing needs
- Support strategic plan

Preliminary Numbers – Subject to Change

Key Assumptions

- | | |
|---------------------------------|--|
| □ Revenue Projections | □ Based on existing and anticipated contracts, industry outlook, competition |
| □ Staffing Level | □ Hold as flat as possible; seek efficiencies through management initiatives |
| □ Non-Personnel Expenses | □ Hold as flat as possible; seek efficiencies through management initiatives |
| □ DSCR | □ Target minimum 1.35-1.40x in order to perform minimum capital improvements; maintain positive cash flow and credit ratings; and preserve bond capacity for CP note repayment |
| □ Capital Budget | □ Continue 6 major projects + contractual obligations
□ If available funding, other projects will be prioritized by senior management |
| □ General Revenue Debt | □ Capital budget scaled so no debt borrowing because no debt capacity available for new projects |
| □ PFC Secured Debt ¹ | □ Up to \$150 million to accomplish T1 retrofit and renovations (over next 5 years) |

1. The Port's CP program (secured by general revenues) is anticipated to be used in the interim until a long term bond take-out occurs.

Preliminary Numbers – Subject to Change

Key Assumptions (cont'd)

- June 30, 2015 Target Cash Balance¹
- Minimum \$100-\$125 million

- Board Reserves
- Maintain at \$66 million

- Unfunded Liabilities
 - Commercial Paper Notes (\$78 million)
 - Establish flexible repayment of \$4-5 million each year; Preserve bond capacity for CP Note take-out
 - Pension (\$161 million; 66% funded)
 - Continue paying 100% ARC (contractual)
 - Retiree Medical (\$106 million; 23% funded)
 - Continue paying 100% ARC

1. In addition to day to day operating expenses, this cash balance is used to pay for committed construction contracts (capital expenses) and debt service.

Preliminary Numbers – Subject to Change

Anticipated Schedule

- March 27 Board Update #1
– Overview, Key Factors, Objectives and Assumptions
- May 8 Board Update #2
– Key Assumptions and Preliminary Budget Numbers
- Jun 26 Request Board adoption of FY 2015 Operating and Capital Budgets
- July 7 Submit Adopted FY 2015 Operating and Capital Budgets to City