Port of Newport
Financial Review
December 19, 2017

Financial Review| CFO Selections| Todd Kimball, CPA

Agenda

- Oregon & Washington Ports – Financial comparison
- PON 5-year historical review
- Long-term NIT financial review
- PON Business Unit Profit & Loss
- Summary & Recommendations

Oregon & Washington Ports – Financial comparison

- Compared PON to 12 Oregon Ports and 3 Washington Ports (2016)
- Reviewed 5 years of PON financial results from 2012-2016, with isolated reviews dating to 2004.
- Most comparison Ports are smaller, while 3 are larger or of similar size.
- All analysis is viewed as a percentage of revenue (relative size).

Oregon & Washington Ports – Financial comparison

- All but 1 of the 16 Ports had Net Operating Losses.
- Of the 15 Ports with losses, PON had the smallest loss (as % of Revenue)
- The Port has had Operating Income in 3 of the 5 last years, with a 5-year total of $435K positive income.
- However, PON was the <u>only</u> Port with a non-operating loss:
  - Generally Property Tax Revenues + Grant Revenue > Interest Expense
  - PON: Interest Expense exceeds Property Tax + Grant Revenue by $797,000.
  - There have been non-operating losses in 4 of the last 5 years.

Oregon & Washington Ports – Financial comparison

- PON spends the least amount on personnel services (as a % of revenue).
  - 21% of PON Revenues expended on Personnel
  - 44.9% average for other Ports
- PON's interest expense is over 4 times the average Port reviewed
- Property tax revenue is on par with the average Port reviewed
- Grant income is significantly below the average Port.
  - In the past 5 years, the highest amount of grant income was $1.25m, and even this amount is below average.
  - The PON 5-year average grant income is approximately 7 times lower than comparison Ports.

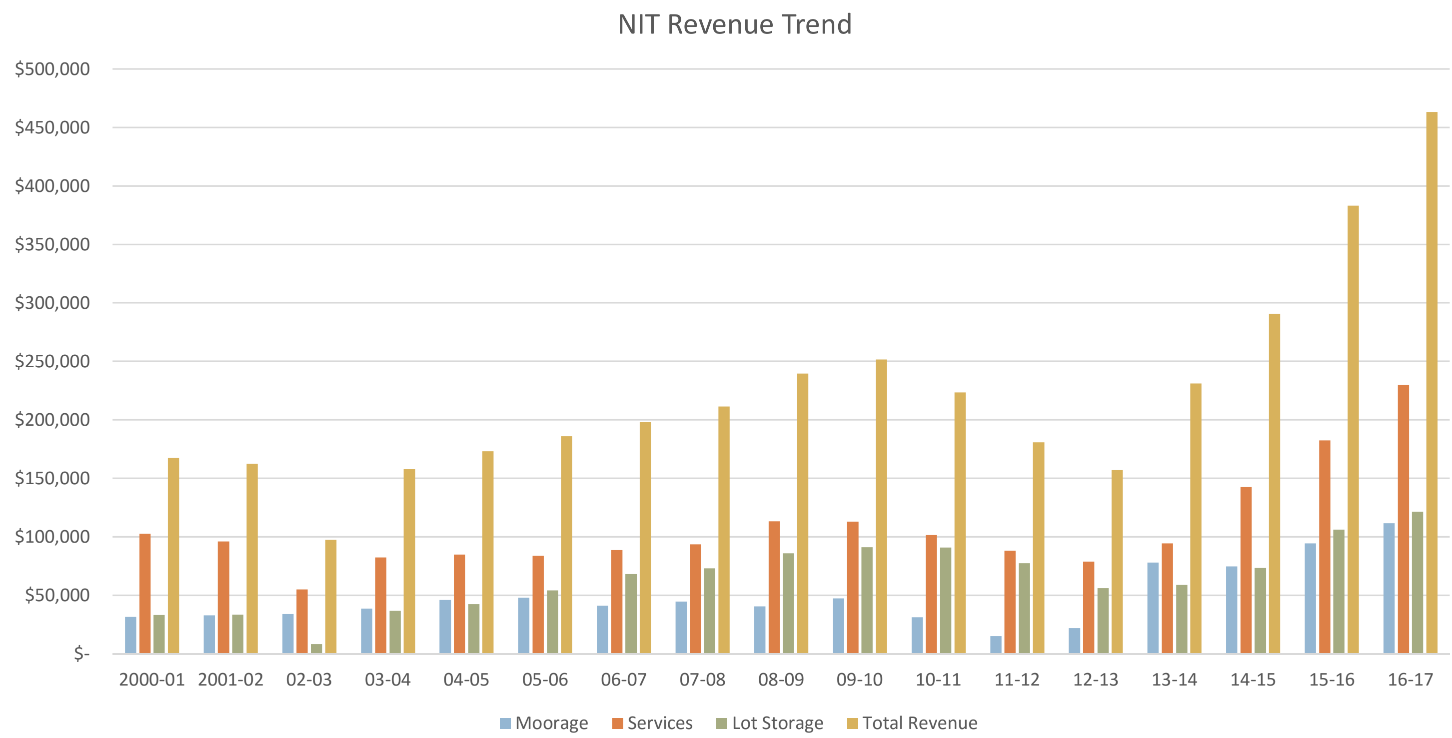
Oregon & Washington Ports – Financial comparison

- Current Assets (cash, A/R, etc) are on par with other Ports.
- Capital Assets are much higher than comparative Ports and conversely long-term debt is also much higher. (more on this next)
- Days of cash on hand:
  - PON = 486 days, vs. Port Average = 280 days
- Current ratio (current assets vs. current liabilities)
  - PON = 3.46, vs. Port Average = 2.16

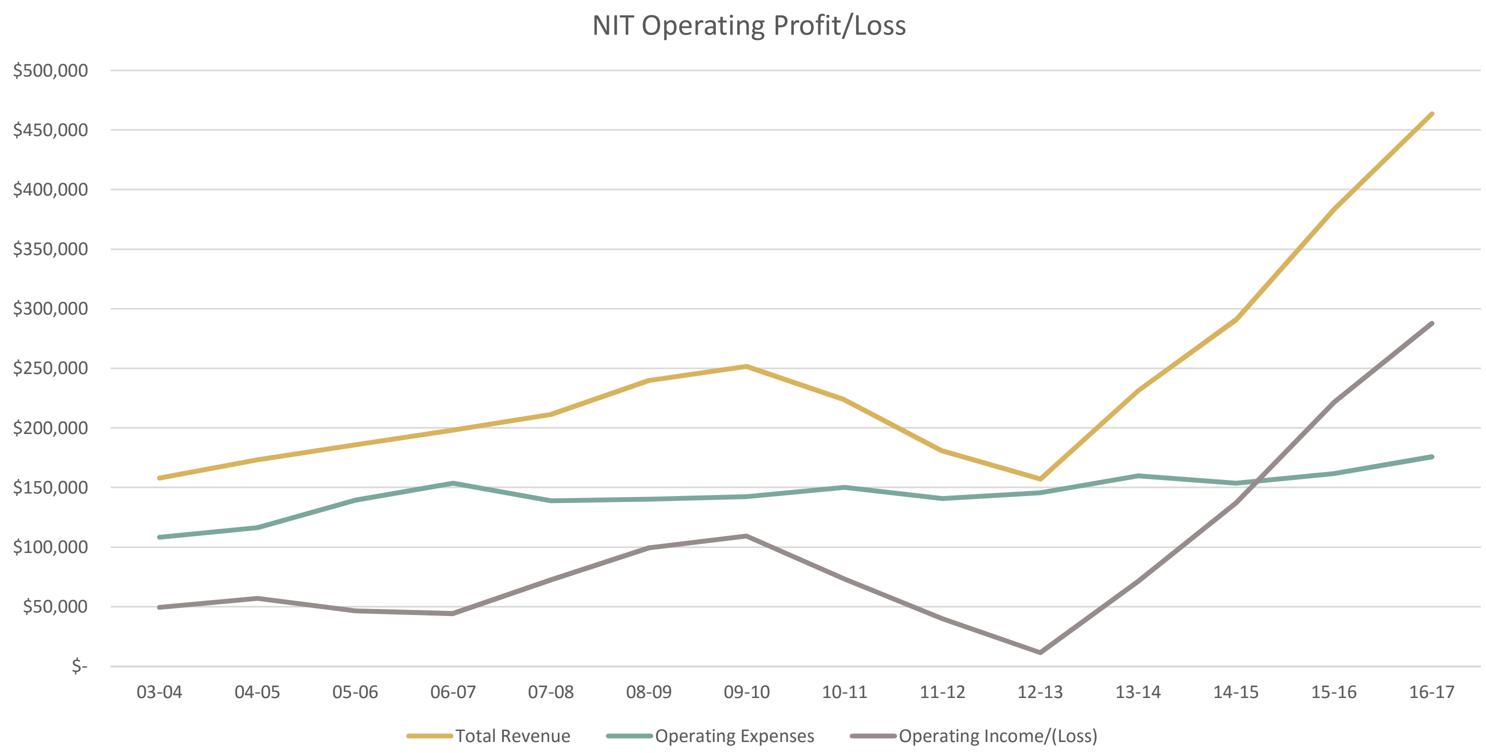
Oregon & Washington Ports – Financial comparison

- Port of Newport is highly leveraged
- The Port’s Debt to Assets ratio is nearly 2.5 times that of average Ports. 18.3% for Ports analyzed vs. 45.1% for PON.
- Interest expense for average Ports is 7.5% of revenues. PON pays 31.7% of revenue towards Interest. Over 4 times.
- PON has leveraged its assets and committed itself to be productive with those assets.
- Margin for error is thin, and risks are higher during an economic downturn. Cost reduction options are limited.

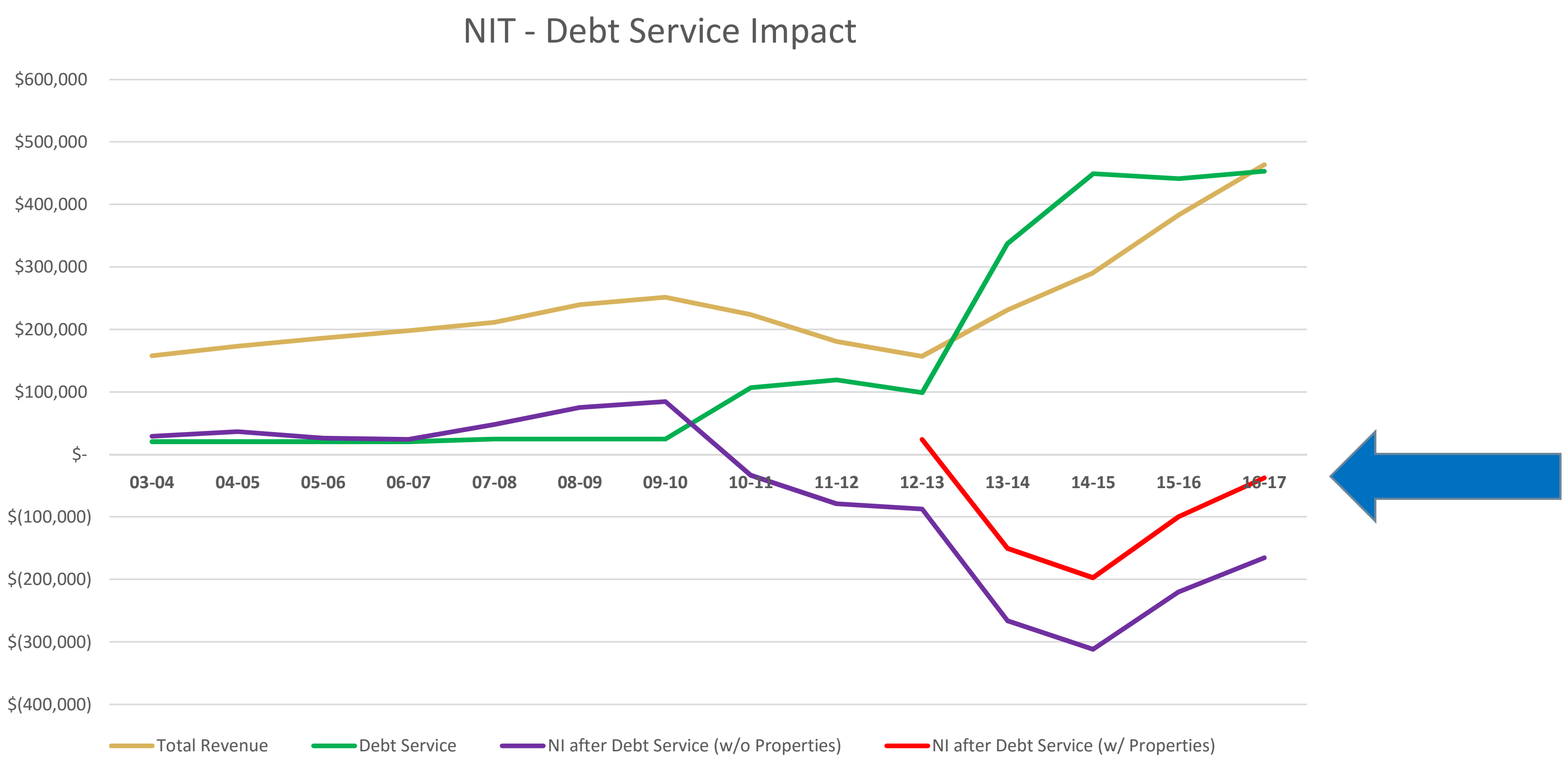
International Terminal - Revenue



International Terminal – Operating Profit/Loss



International Terminal – Debt Service Impact



Profit & Loss Statement – by Business Unit

	Total South Beach	Commercial Marina	International Terminal	Admin & Property Mgmt	NOAA	TOTAL
Income						
Lease Revenues	-	-	-	631,802	2,533,302	3,165,104
Allocated Lease Revenues	**380,991**	**122,704**	**128,107**	**(631,802)**		(0)
Moorage	749,323	420,801	111,743	2,016		1,283,884
Hoist Dock & Services	10,530	274,769	328,745	4,080		618,124
Shipping Terminal Revenues	-	-	22,252	-		22,252
RV Parks	785,972	-	-	-		785,972
Launch Ramp & Trailer Storage	65,871	39	-	-		65,910
Bond Levy Proceeds			982,564			982,564
Miscellaneous Revenue	63,658	3,796	756	3,654		71,864
Total Operating Revenues	2,056,345	822,110	1,574,167	9,750	2,533,302	6,995,673
Expense						-
Personnel Services	336,365	221,802	66,771	506,622	74,966	1,206,526
Materials & Services	567,621	290,951	109,033	365,908	442,358	1,775,870
Debt Service	216,664	6,956	1,490,010	32,827	1,997,334	3,743,791
Total Operating Expenses	1,120,650	519,709	1,665,814	905,357	2,514,658	6,726,187
Net Operating Income	935,696	302,401	(91,647)	(895,607)	18,644	269,486
						-
Other Income/Expense						-
Other Income	14,414	5,008	1,253	132,581	10,863	164,118
Other Expense						-
Estimated Annual Capital Reserve	690,000	730,000	60,000	50,000	185,000	1,715,000
Net Income before Admin Alloc	**260,109**	**(422,591)**	**(150,394)**	**(813,026)**	**(155,493)**	**(1,281,395)**
						-
Admin Basis (per Personnel & MS)	42.8%	24.3%	8.3%	-100.0%	24.5%	0.0%
Admin Allocation (per Personnel & MS)	(348,346)	(197,587)	(67,745)	813,026	(199,348)	-
						-
Net Income after Admin Alloc	(88,237)	(620,177)	(218,139)	-	(354,842)	(1,281,395)

Profit & Loss Statement – by Business Unit

- 2016-17 Profit & Loss Statements (Modified Accrual & Unaudited)
- Allocated lease revenues based on geographical location and removed from Admin (yellow)
- Shifted the Bonded Debt fund to NIT (green)
- Removed current year capital expenditures and inserted estimated annualized repair and replacement costs (based on master Capital Projects list, annualized over 20 years) (blue)
- Allocated Admin department across remaining Business Units, based on Personnel and Materials & Services expense (gray)

Profit & Loss Statement – by Business Unit

- Net Operating Income before Capital Reserve (orange)
  - Clearest picture of Cashflow before Capital
    - Best performing are South Beach, and then Commercial Marina
    - Poorest performing are NIT and NOAA   Why??...
    - ...Improvements were made here (increasing costs), and ROI is inadequate
- Estimated Annual Capital Reserve (blue)
  - Estimate based on master Capital Projects list, annualized over 20 years
    - Best performing, NIT
    - The most deferred maintenance at South Beach & Commercial Marina

Profit & Loss Statement – by Business Unit

- Admin Allocation (gray)
  - Lots of ways to allocate Admin. All have pros and cons and are subjective
  - Allocated based on Materials & Services
    - Impacts South Beach the most, then Commercial Marina and NOAA
    - Impacts NIT the least
  - Alternatives could include allocating by Revenue or estimated time & effort by Admin employees (GM, Dir Ops, Finance, Office)

Profit & Loss Statement – by Business Unit

- Net Income after Admin Alloc (purple)
  - After all allocations and projections, net losses are prevalent in all Business Units.
  - South Beach appears to be in the best position, and the Commercial Marina in the weakest.

NIT – Return on Investment

- Approximately $26m was invested into the International Terminal between 2008 and 2014.
  - Net Operating Income Increased from $11,520 in 12’-13’ to $287,692 in ‘16-’17. Good, except…
  - **Return on Invested Capital = 1.07%**
  - The Port’s Weighted Average Cost of Capital is approximately 4.1%.
  - Therefore, at this time, the Port is spending 4% interest in order to receive a 1% increase in profits.
  - This poor return is not fully borne by the Port, since $15.45m is being funded by tax payers. Increased property taxes are providing an additional $980K annually to the NIT.

NOAA – Return on Investment

- Approximately $37.5m was invested into the NOAA facility between 2008 and 2012.
  - Net Operating Income was $899K in '16-'17.
  - **Return on Invested Capital = 2.4%**
  - This project was funded by Revenue bonds and a $19.5 grant from Oregon Lottery funds.
  - The Port's Weighted Average Cost of Capital was approximately 2.2%.
  - Based on prior projections, the overall project appears to be covering it's expenses. However, adequate reserves should continue to be set aside to fund future capital expenditures.

Challenges

- Significant investments to Port property were made in the past 10 years, and they were primarily financed with debt.
  - As a result:
    - Net Income from these properties is minimal and are not distributing sufficient surpluses to fund the “next” project.
    - The Port may find it more challenging to secure additional debt.
    - Local tax payers are currently supplementing the NIT facility, and therefore this is also not likely an immediate source of additional financing.
    - The Port’s high debt to asset ratio leaves a small margin for under-performing projects and investments, and therefore increases the risk of financial trouble if revenues decline.

Challenges

- Deteriorating Infrastructure
  - Port assets have incurred several years of deferred maintenance
    - Deteriorating infrastructure often leads to reactionary and emergency-based spending, rather than careful, long-term planning.

Strengths

- The Port of Newport has sufficient cash balances to fund operations without the use of a Line of Credit
  - Similarly, its Current Ratio (Current Assets/Current Liabilities) is healthy.
- Low operational costs (Personnel & Mat/Services), could help translate increased revenues into net income.
- Opportunities may exist to benefit from strong tourism in Newport. This may provide avenues for increased revenue at the Commercial Marina and South Beach.
- The revenue potential at the NIT. The new and improved dock represents a significant opportunity for increased and/or new business.

Recommendations

- Implement a process whereby capital improvement projects undergo a financial review, prior to approval.
  - Projects selected should be selected based on it's anticipated Return on Investment and its expected Payback Period.
- Additional effort appears necessary to secure State & Federal grant funds.
- Continue efforts to seek business opportunities that fully utilize the NIT.
  - The asset is currently a significant under-performing investment.

Recommendations

- Evaluate opportunities to expand services, raise rates, or add tariffs.
  - Consideration should be given to other West Coast Ports.
- Continue efforts to set-aside cash reserves
  - These reserves may then hopefully be used to fund the match portion of future grants.
- Review NOAA reserve calculations to ensure operating revenues will cover long-term capital needs.
- Continually seek opportunities to refinance portions of the Port's LT debt.

Other Recommendations

- Develop a finance manual
- Consider allocating Admin across all business units on a monthly basis
- Consider permanently shifting lease (property) income to their geographical location. Alternative options also exist
- Modify existing service ticket revenue processes to facilitate a proper month-end close, that includes all revenue
- Consider adding a narrative portion to the monthly financial statement packet.

Other Recommendations

- Efforts should continue to eliminate duplicative and inefficient processes in the accounting office
- Check stock access should be segregated from staff who have accounting access. Additionally, accounting needs to gain access to cancelled checks.
- Purchase Orders should be reviewed by Department Managers as part of the approval process

Questions?