

WPPA Finance Seminar 2018

Accrual or Cash Basis Considerations

Objectives

- ▶ Importance of Visibility & Awareness
 - Key Areas to Consider
- ▶ Relevance
 - Business Strategies & Policy
 - Business Arrangements
- ▶ *Supplements presentations from*
Port of Camas-Washougal & Port of Kennewick

Key Points Retrospect

(previously covered)

- ▶ What & How to track and report
- ▶ Notable timing differences
- ▶ Paints substantially different financial pictures
- ▶ Cash > received and disbursed
- ▶ Revenues/Expenses > incurred
- ▶ Pros & Cons
- ▶ Benefits, Impacts & Risks

Key Areas for Consideration

- ▶ Long-term Debt
- ▶ Environmental Remediation
- ▶ Medical Self-Insurance
- ▶ Current Liabilities
- ▶ Capital Assets
- ▶ *OPEB (other post-employment benefits)*
- ▶ *Net Pension Liability*

Long-term Debt

- ▶ \$\$ Borrowed over time
 - Debt portfolio, Debt repayment
 - Impact > Financial position/health (Net Position)
 - Impact > NOI & Change in Net Position
 - Impact > Cashflow timing

- ▶ PoSeattle
 - Revenue bonds \$2.8 Billion
 - GO bonds \$ 403 million
 - PFC bonds \$ 85 million
 - Other \$ 77 million
 - > \$3.4 Billion Total LT Debt

Long-term Debt

Statement of Net Position 2017

▶ Current Liabilities

- \$ 40 million > Bonds interest payable
- \$175 million > Current maturities on LT Debt

▶ Long-term Debt

- Revenue bonds \$2.8 Billion
- GO bonds \$ 403 million
- PFC bonds \$ 85 million
- Other \$ 77 million
- \$ 3.4 Billion Total

Financial Reporting Treatment

Long-Term Debt

Importance of Proper Visibility and Consideration

- ▶ Cash or Accrual basis

Long-term Debt Outstanding

- ▶ Detailed schedule
- ▶ by Debt type > Revenue bonds, GO bonds, PFC bonds, etc.
- ▶ by Lien status > First, Intermediate, Subordinate, and CP
- ▶ by Issue series > for each

Schedule of Debt Service - Aggregate annual payments on Revenue Bonds, GO Bonds, PFC Bonds, Fuel Hydrant Special Facility Revenue Bonds and commercial paper outstanding at December 31, 2017 (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
▶ 2018	\$ 175,650	\$ 148,311	\$ 323,961
▶ 2019	171,720	140,881	312,601
▶ 2020	182,635	132,659	315,294
▶ 2021	189,675	124,082	313,757
▶ 2022	237,905	115,022	352,927
▶ 2023–2027	804,645	473,139	1,277,784
▶ 2028–2032	693,705	302,734	996,439
▶ 2033–2037	620,475	112,821	733,296
▶ 2038–2042	257,510	27,277	284,787
▶			
▶ Total	\$ 3,333,920	\$ 1,576,926	\$ 4,910,846

Environmental Remediation

- ▶ Did we pollute something?
 - ... *What, Who is responsible, Cost to clean-up*
 - Share of costs among responsible parties
 - Impact > Financial position/health (Net Position)
 - Impact > NOI & Change in Net Position
 - Impact > Cashflow timing

- ▶ PoSeattle
 - \$51 Million Total (*Liability booked to-date*)
 - \$18 million > Current
 - \$33 million > Long-term
 - *This is net of \$14 million due from other responsible parties*

Financial Reporting Treatment

Environmental Remediation Liability

Importance of Proper Visibility and Consideration

- ▶ Cash or Accrual basis

The Port's policy requires accrual of environmental remediation liability amount when

- ▶ (a) one of the following specific obligating events is met, and
- ▶ (b) the amount can be reasonably estimated.

Obligating events include:

- ▶ imminent endangerment to the public
- ▶ permit violation
- ▶ named as a party responsible for sharing costs
- ▶ named in a lawsuit to compel participation in pollution remediation
- ▶ commenced or legally obligated to commence pollution remediation.

Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the Port's environmental remediation liability.

Costs incurred for environmental remediation liability is typically recorded as nonoperating environmental expense, unless the expenditure relates to the Port's principal ongoing operations, in which case it is recorded as operating expense.

Costs incurred for environmental cleanups can be capitalized if they meet specific criteria. Capitalization criteria include:

- ▶ preparation of property in anticipation of a sale
- ▶ preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated
- ▶ performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment
- ▶ acquisition of property, plant, and equipment that have a future alternative use not associated with pollution remediation efforts

Medical Self Insurance

- ▶ How much do we expect to pay out?
 - Incurred and reported claims > short-term
 - Incurred but not reported (IBNR) claims > short-term
 - Impact > Financial position/health (Net Position)
 - Impact > NOI & Change in Net Position
 - Impact > Cashflow timing
- ▶ PoSeattle
 - \$15 million > paid out 2017
 - Claims, Admin Fees & Stop-Loss Insurance premiums
 - plus IBNR claims
 - \$1.2 million actuarially determined

Financial Reporting Treatment

Medical Self-Insurance Program

- ▶ Cash or Accrual basis

Importance of Proper Visibility and Consideration

- ▶ Whether booked or not
- ▶ The Port is self-insured for majority of its sponsored healthcare plans. Employees covered by these plans pay a portion of the premiums for their coverage.
- ▶ The Port purchases a stop-loss insurance policy for the self-insured healthcare plan to limit the Port's individual claims liability up to \$200,000 per year in 2017 and 2016, and to 125% of expected claims in aggregate.
- ▶ Healthcare benefit claims liabilities are not discounted to present value as nearly all healthcare claims are current in nature.
- ▶ The estimated liability is based upon actual claims that have been submitted and authorized for payment as well as actuarially determined claims incurred but not reported. The estimated liability is included in payroll and taxes payable in the Statement of Net Position.
- ▶ Claim payments made during the current year include associated incremental costs such as administration expenses and stop-loss insurance policy premiums.
- ▶ Employees' cost sharing portion of the healthcare plan and retirees' payments for participating in the Port's healthcare plan made during the current year are included as "Other" in the table below.
- ▶ Retirees' participation in the Port's healthcare plan is not implicitly or explicitly subsidized.

Current Liabilities @ Year End

Importance of Proper Visibility and Consideration

- ▶ Current period obligations incurred
 - Related bills to pay the coming year
 - Capital construction
 - Professional consulting
 - Good & services
- ▶ Impact > Cashflow timing
- ▶ Impact > Financial position/health (Net Position)
- ▶ Impact > NOI & Change in Net Position
- ▶ PoSeattle
 - \$ 39.2 Million > Accrued at YE 2017

Capital Assets

Importance of Proper Visibility and Consideration

- ▶ Size of capital program & assets
- ▶ Financial return on capital investments
- ▶ Inform & integrate into business arrangements
- ▶ Impact > Net Operating Income measure

- ▶ PoSeattle
 - \$5.7 Billion > net capital assets
 - \$165 million > annual depreciation
 - \$1 Billion > new capital construction in works
 - SeaTac Airport > International Arrivals Facility, North Satellite Renovation

Business Strategy & Policies

- ▶ Port Commission
- ▶ Industry Peers
- ▶ Business Partners & Customers
 - “Financial Language Spoken” > framework
 - “State of Understanding” > expected, acquired
 - “Extent Relevant & Integrated”
 - LT Financial planning
 - Annual operating budget
 - Financial-driven business decisions
 - Business arrangements / agreements

Business Arrangements

- ▶ Financial Agreements with Customers/Tenants/Partners
 - Rates & charges
 - Cash receipts & expenditures
 - Revenue sharing
 - Operating/Capital cost recovery
 - NOI or Net Income sharing
- ▶ Applicability
 - Airport > Airlines, Concessions
 - Operating Results > NW Seaport Alliance
 - Moorage > Marinas, Fishing Fleet
 - Dockage > Cruise ships, Container ships
 - Compensation > Third-party management

Airport Airlines Rates & Charges

SeaTac International Airport

Importance of Existing Business Arrangements Awareness

- ▶ During 2013, the Port reached agreement with the airlines for the new Signatory Lease and Operating Agreement (“SLOA III”). SLOA III was effective for the period January 1, 2013 through December 31, 2017. SLOA III is a hybrid-compensatory rate setting methodology.
- ▶ Under SLOA III, aeronautical **rates are set to recover both operating and capital costs** by cost center.
- ▶ Some key provisions include:
 - Airport does not recover costs relating to vacant publicly accessible office space (costs associated with all other airline space are fully recovered)
 - Cost recovery formulas permit the Port to charge the airlines 100% of annual debt service allocated to the airlines (unless the Port determines in its sole discretion that a charge above 100% of annual airline debt service is necessary to maintain the total Airport revenue bond coverage at 1.25 times the sum of the annual debt service)
 - Revenue sharing of 50% of the cash flow available for debt service above 125% of annual debt service is credited to the signatory airlines.
- ▶ Year-end settlement calculations compare 2017 revenue requirements and invoices billed in 2017 for each cost center and for all airlines, including revenue sharing (and reflected in the 2017 financial statements).
- ▶ SLOA III expired on December 31, 2017 and is on holdover status. On February 27, 2018, the Port Commission approved a Signatory Lease and Operating Agreement (“SLOA IV”) which is materially similar to SLOA III. SLOA IV is in effect for the period of January 1, 2018 through December 31, 2022.

NW Seaport Alliance – Joint Venture

Joint Venture > Ports of Seattle and Tacoma

Importance of Existing Business Arrangements Awareness

- ▶ In August 2015, the ports of Seattle and Tacoma joined forces to unify management of marine cargo facilities and business to strengthen the Puget Sound gateway and attract more marine cargo and jobs to the region by creating the Northwest Seaport Alliance (NWSA), a separate governmental entity established as a Port Development Authority, similar to Public Development Authorities formed by cities and counties.
- ▶ On January 1, 2016, the NWSA became a separate legal entity to be accounted for as a joint venture. The NWSA is governed equally by the Managing Members who are acting through its home port's elected commissioners.
- ▶ The home ports **share the NWSA's change in net position** and distribution of operating cash equally.
- ▶ The Port's 50% share of the NWSA's change in net position is presented in the Port's Statement of Revenues, Expenses, and Changes in Net Position as joint venture income. Distribution of operating cash from the NWSA is generally received in the following month. The Port's receivable for cash distributions earned through December 31, 2017 and 2016 was \$5,070,000 and \$10,440,000, respectively.

Closing Points

- ▶ Choice Driven by State Law & SAO
- ▶ Pros & Cons
 - Complexity of GASB Standards
 - Understanding Financials
 - Effort & Time Invested
 - Audit Risks & Auditor Opinion on FS
 - Different Financial Views
- ▶ Relevance, Visibility and Awareness
 - Commission Expectations
 - Peer & Business Environment
 - Management & Operations Needs
- ▶ Transparency
 - Public Expectations

Thank you!



Port of Kennewick

