

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No. 7e
Date of Meeting September 8, 2015

DATE: August 26, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Dan Thomas, Chief Financial Officer
Michael Tong, Corporate Budget Manager
SUBJECT: 2016 Key Budget Assumptions Briefing

SYNOPSIS:

The purpose of this briefing is to discuss with the Commission key assumptions to be used in preparing the 2016 budget.

BACKGROUND:

The Port is preparing the 2016 budget. The budget process includes setting up and testing new budget modules in the budget system, budget user training, department and division strategic and business planning, publishing budget guidelines, establishing budget targets, entering budget data into the system, running budget allocations and budget reports, conducting department and division reviews, Executive reviews, and Commission reviews, publishing the preliminary budget for public comments, adopting the final budget, filing the statutory budget with the King County Council and Assessor's Office, and the preparation and release of the final budget document.

On September 8, staff will discuss with the Commission the key budget assumptions to be used for the 2016 preliminary budget.

KEY BUDGET ASSUMPTIONS:

The 2016 key budget assumptions are outlined as follows:

1) Pay for Performance

As a reminder, our Total Rewards Philosophy as approved by the Commission calls for pay and pay increases to be market competitive. For 2016 we are projecting an average 3.4% Pay for Performance increase for non-represented employees in based on preliminary market survey data. With an improving economy and job market in the region, the represents a slight uptick from the 3.0% we used last year. We believe this is

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a reasonable assumption but may revisit it later in the budget process as more information becomes available.

2) Salary Ranges Increase

We currently anticipate needing to increase non-represented salary ranges by up to 2.0% to maintain market competitive pay ranges for 2016, which is also consistent with the past several years. This increase will affect only a small number of employees at the bottom of their ranges and the financial impact will be negligible.

3) Port-Sponsored Medical/Dental Benefits (covers all non-represented and some represented employees)

The preliminary budgeted net cost for our self-funded medical/dental and fully-insured Group Health benefits plan is projected to increase by 2.0% compared to 2015. We will continue to analyze the data and refine the estimate in the next couple of months and believe there's a chance that it could come in lower. This moderate cost increase reflects lower healthcare utilization this year and continued progress in managing medical costs through our healthcare strategy.

4) PERS Retirement Contributions

We have no firm information regarding potential changes to employer contributions to PERS next year, which must be adopted by the Legislature. Based on information from the Office of the State Actuary, we are projecting that next year's full year blended rate will increase to 10.20% compared to 9.21% this year.

5) Intern Pay Rates

Intern rates for 2016 are based on the City of Seattle Minimum Wage Ordinance that was passed in 2014. In 2016 the high school intern rate will be equal to \$12.50/hour, which represents the City of Seattle minimum wage rate for large employers that make payments toward an employee's silver level medical benefits plan (as defined in the federal Affordable Care Act). The college and graduate intern ranges will be scaled using that as a base.

6) Benefits for Interns

The requirement of the Patient Protection and Affordable Care Act (PPACA) will also require the Port to offer medical benefits to interns working at least 30 hours per week for 90 days or longer, or working an average of 30 hours over the course of the year to avoid penalties. Further, Intern hours are limited to ensure proper application of DRS regulations for PERS eligibility.

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7) Represented Employees

Pay increases for represented employees are governed by individual contracts – most are based on CPI (0-6%), while some include negotiated increases and/or STEP increases. Health & Welfare and pension contributions for employees not covered by Port-sponsored plans will be governed by contract. We have been successful in incorporating employee healthcare cost sharing in all of our union contract renewals.

8) Key Business Activities Forecast

The key business activities forecast for the Airport, Maritime and Economic Development divisions are as follows:

- Enplaned passengers: 12.7% increase from 2015 budget (and up 5.0% from the latest 2015 year-end forecast, which is anticipating to be 11.0% higher than 2014 actual)
- Cruise passengers: 7% increase from 2015 budget
- Grain volume: Flat as compared to 2015 budget (at 4M metric tons)
- Marina occupancy rate: Flat as compared to 2015 budget (at 95%)
- Commercial Properties occupancy rate: 92% compared to 95% in 2015 budget
- Bell Harbor International Conference Center Revenue: 27% decrease from 2015 budget (due to Cruise Terminal construction).

Container volumes will be compiled on a combined basis as part of the Northwest Seaport Alliance business plan and budget; the NWSA leadership is still reviewing the container forecast for 2016.

OTHER DOCUMENTS ASSOCIATED WITH THIS BRIEFING:

- None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- May 12, 2015 – 2016 Business Plan and Budget Process Briefing.
- May 26, 2015 – 2016 Aviation Business Plans Discussion.
- July 9, 2015 – 2016 Maritime Business Plan Discussion.