

DRAFT



Ten-Year Cash Flow Model

Prepared by Port Staff

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PORT OF EDMONDS
TEN YEAR CASH FLOW MODEL

INTRODUCTION 3
RESERVES AND SET ASIDE ACCOUNTS 3
CASH FLOW PROJECTIONS 5
RENTAL PROPERTIES 6
MARINA OPERATIONS 7
BACKGROUND 7
2002 TO 2009 CHANGES IN MOORAGE RATE BASIS 8
COST CONTROL 9
2010 REVISED REPORTING 12
FUTURE REPLACEMENT COSTS 15
MARINA REVENUE ALTERNATIVES 17
CONCLUSIONS AND RECOMMENDATIONS 23
APPENDIX A, PROJECTED CASH FLOW SCHEDULE 26
APPENDIX B, HISTORY OF REVENUES AND EXPENSES 27
APPENDIX C, PROJECTED NET INCOME 28
APPENDIX D, CAPITAL BUDGET 29
APPENDIX E, RENTAL PROPERTIES PROJECTED NET INCOME 30
APPENDIX F, RENTAL PROPERTIES PROJECTED CASH FLOWS 31
APPENDIX G, MARINA PROJECTED NET INCOME 32
APPENDIX H, MARINA PROJECTED CASH FLOWS 33
APPENDIX I, MARINA ACTIVE ASSETS 34
APPENDIX J, ESTIMATED HIGHEST LAWFUL LEVY 35
APPENDIX K, REVENUE BOND ESTIMATED AMORTIZATION SCHEDULE .. 36
APPENDIX L, LTGO BOND ESTIMATED AMORTIZATION SCHEDULE 37

INTRODUCTION

This Ten Year Cash Flow model was prepared for discussion purposes at the Port of Edmonds Commission retreat scheduled for February 9, 2011. The analysis provided herein is intended to guide important policy issues for planning cash flow requirements as measured against anticipated capital replacement. The specific elements of projected cash flow are beginning cash, deductions for reserves, bond principal payments, net income from annual operations, adding back non-cash operating items such as depreciation and other post-employment benefits, additions to reserves, and capital projects.

The Ten Year Cash Flow Model begins January 1, 2011 and ends December 31, 2020. Beginning total cash and investments includes cash at December 31, 2010 less liabilities as of the same date. Beginning total cash and investments is shown in Exhibit 1-A below:

Exhibit 1-A		
Ending Cash as of December 31, 2010:		
Bank of Washington Operating Account	792,434	
Bank of Washington Revolving Account	3,000	
Cascade Bank Harbor Square Operating Account	673,129	
Local Government Investment Pool	534,929	
Umpqua Bank Money Market Account	1,033,054	
Cascade Bank Money Market Account	3,238,714	
Bank of Washington Debt Service Account	434,103	
County Funds	<u>6,955</u>	
Total Cash at December 31, 2010		6,716,318
Estimated Liabilities at 12/31/10:		
Leasehold Taxes Payable - 4th Quarter 2010	157,000	
January 1 Revenue Bond Interest Payment	69,000	
Accounts Payable	<u>43,000</u>	
		<u>(269,000)</u>
Total		<u>6,447,318</u>
Estimated Beginning Total Cash and Investments as of January 1, 2011		<u>6,447,000</u>

RESERVES AND SET ASIDE ACCOUNTS

Port of Edmonds cash reserves are cash accounts that are set aside because they are tenant security deposits, or due to bond covenants, Generally Accepted Accounting Principles (GAAP), Commission decisions, and legal requirements. Beginning reserves for 2011 are shown Exhibit 1-B below:

Exhibit 1-B		Existing Reserve Accounts	
Estimated Beginning Total Cash and Investments as of January 1, 2011			6,447,000
Beginning Reserves as of January 1, 2011			
Beginning Tenant Deposits		(396,000)	
Beginning Bond Reserve		(800,900)	
Beginning Operating Reserve		(1,830,000)	
Beginning Environmental Mitigation Reserve		(600,000)	
Beginning Capital Replacement Reserve		<u>(350,000)</u>	
Total Reserves as of January 1, 2011			<u>(3,976,900)</u>
Available Cash as of January 1, 2011			<u>2,470,100</u>

The Bond Reserve amount is required by the 1998 Revenue and Refunding Bond documents.

The current Operating Reserve of \$1,830,000 projects 3 months of anticipated expenses. This reserve cushion was established by the Commission in 2003 in the amount of \$2,500,000, or 6 months of anticipated expenses. It was reduced to 3 months of anticipated expenses in 2006. Further, a minimum reserve of three months is required to avoid receiving a “going concern” note from the State Auditor’s Office (SAO). “Going concern” is a red flag that means the SAO has concerns the organization may not be able to pay its bills and stay in business for an extended period. One of the goals of this Commission retreat is to review this policy. Additional reserves may be prudent. For illustration, at the time of the marina collapse in 1996, the Port held contingency reserves sufficient to fund 13 months of operations. These reserves allowed the Port to remain fully functional during the crisis when tenants weren’t paying their bills, before FEMA money and insurance money was paid to the Port, and before the Port was able to issue bonds.

The Environmental Mitigation Reserve was established by the Commission in 2006 out of funds received from Unocal. The purpose is to pay for any environmental issues that may be found when the Harbor Square Business Park is redeveloped. This reserve fund balance is \$599,071.36, and increases monthly by its applicable share of interest. There are no continuing deposits or set asides, nor are there any authorized disbursements. It’s strictly a contingency fund, almost like self-insurance for future environmental cleanup cost.

The Capital Replacement Reserve was established by the Commission in 2006, and first funded in 2009, and equals the marina’s annual depreciation less the marina’s annual bond principal and interest payments. Rental property depreciation and bond payments are not used for this calculation. It grows annually by this difference and by its applicable share of interest. The current balance is \$349,572.83.

Beginning Total Cash and Investments less Cash Reserves equals Beginning Available Cash. From Beginning Available Cash, staff records the year’s cash flows

including Bond Principal Payments Due, Net Income, Non-Cash Items, changes to reserves, and Capital Projects. Bond Principal Payments Due are recorded in the Projected Cash Flow Schedule from the bond amortization schedules.

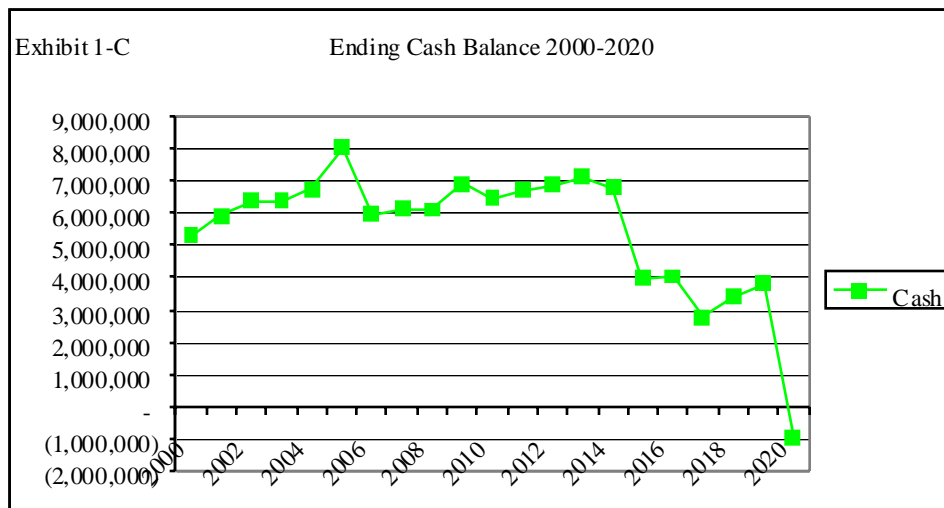
For the purposes of this analysis, staff assumed that the Cascade Bank Loan from the Harbor Square Property is refinanced in 2016, under similar terms and conditions as the current loan, with the final payment in 2026. The balloon payment would be \$6,375,702, and it does not appear that the Port will be in a position to pay off the loan in 2016.

CASH FLOW PROJECTIONS

- Net Income for 2011 is the net income from the 2011 Budget.
- From 2012 through 2020, net income escalator is based on average increases in revenues and expenses from 2000 to 2010.
- Appendix B (page 27) shows the summary of Port revenues and expenses from 2000 to 2010, along with percent changes. This is not intended to be an income statement, simply a summary of relevant numbers for other calculations.
- Harbor Square Business Park purchase in 2006 skewed the rental property revenue averages and depreciation averages in 2006, where the Port operated the property for only 9 months, and in 2007, where the Port operated the property for the first full year.
- The rental property data and depreciation data were removed from the averages for the changes between 2005 and 2007.
- Appendix C (page 28) shows the Projected Revenue and Expense results based on the average increases calculated in Appendix B (page 27).
- Projected Rental Property Revenue assumes that the Harbor Square tenant base stays the same with the same configuration, that the Port will achieve 85% occupancy beginning in 2015, and that redevelopment will not occur during this time frame.
- In Appendix C (page 28), revenues are shown as positive numbers, and expenses are shown as negative numbers.
- Marina Revenues, Cost of Good Sold, Operating Expenses Before Depreciation, and Depreciation are increased annually by the average increases calculated in Appendix B (page 27).
- **Property taxes are shown with no increase.** Appendix J (page 35) shows the estimated highest lawful levy from 2011 to 2040.
- Interest income is projected to be approximately the same as the 2011 budget.
- The bond amortization schedules for the 1998 Revenue and Refunding Bond and 2005 LTGO Bond in the bond documents provide the interest expense through 2017, when the bonds mature.
- The bond amortization schedules for the Cascade Bank loan provide the interest expense through April 2016.
- Estimated interest expense for the Cascade Bank loan from 2016 to 2020 calculated from extending the amortization schedule through 2026.

- Bond issuance costs are related to issuing bonds in 1998 and 2005 and end when the bonds mature in 2017.
- Other post-employment benefits are estimated through 2018, when staff expects that the Port will reach its maximum required accrual of approximately \$700,000.
- As shown in Appendix A (page 26), cash is then adjusted by changes to reserves and capital projects.
- The Capital Projects are shown in Appendix D (page 29).
- The cost of capital projects is greatest in 2020, when the Port estimates it will need to replace some of the docks built in 1998.

Ending cash balances from 2000 to 2020 is shown in Exhibit 1-C below. **As shown in Appendix A (page 26), in 2015, and based on the projections and reasonable assumptions about future conditions, the Port will likely have expended all of its available cash and will have already begun to draw down its reserves. Thus by 2020, without actionable strategies for mitigating these financial challenges, there is a very high probability the Port will have expended all its cash and reserves and be into the red zone by \$953,000.**



RENTAL PROPERTIES

The Port owns and collects rent from the Harbor Square Business Park, Anthony’s Restaurant, Harbor Square Athletic Club land lease, the Landing, the Edmonds Yacht Club, Edmonds Yacht Sales, Bud’s Bait, and three workyard leases. From 2009 to August 2011, the Port is also collecting rent from a lease agreement for parking with Sound Transit. From 1982 to 2006, the Harbor Square Business Park was leased from the Port of Edmonds as a land lease. In April 2006, the Port of Edmonds purchased six buildings at the Harbor Square Business Park and became the landlord to all the tenants leasing the property. Projected Net Income from Rental Properties is shown in Appendix E (page 30).

The Port does not divide its cash between its operating centers, so the cash flow shown will show only cash inflows and outflows for the year. The Rental Properties Projected Cash Inflows and Outflows are shown in Appendix F (page 31).

MARINA OPERATIONS

The Port owns and operates a marina. Marina Operations include wet moorage, dry storage, electrical usage fees, environmental fees, guest moorage, travelift and workyard, fuel dock, public launcher, and parking. Projected Net Income from Marina Operations is shown in Appendix G (page 32).

The Port does not divide its cash between its operating centers, so the cash flow shown will show only cash inflows and outflows for the year. The Marina Operations Projected Cash Inflows and Outflows are shown in Appendix H (page 33).

BACKGROUND

The cost recovery program was originally developed in 1997, and implemented for the 1999 budget. It was intended to be the primary cost accounting model for discussing future moorage rates. The purpose of cost recovery requires no explanation, except to say it is a tool for dis-aggregating, identifying and detailing the true marina cost factors. The general concept anticipates moorage rates sufficient to recover operating costs and replacement of depreciated capital assets.

The method for defining the replacement value of depreciated capital assets involves a detailed process wherein staff gathers marina asset information from the Port's fixed asset inventory. For budget purposes, in order to achieve the desired full replacement cost moorage rate basis, the annual cost is calculated by dividing the current replacement value of the asset by its estimated life. The annual costs are then distributed to the cost centers, based on the usage of the asset. For example, the fuel dock point-of-sale costs are allocated to the wet moorage cost center and the dry storage cost center, based on the estimated usage for each cost center. The cost analysis proceeds as follows.

Wet moorage operating costs and the annual replacement value of depreciated capital assets are allocated by slip cost and by area cost. Slip cost is the cost of renting a slip regardless of the size of the slip. For example, the cost of billing is the same no matter what size the slip is. Area costs are those that are driven by how large the space is. For example, larger spaces take up more dock space and therefore should receive a higher allocation of dock costs.

Estimated operating expenses are also divided by cost center, and are further divided into slip costs and area costs if they are wet moorage costs. The costs are estimated from the current budget and allocated based on the previous year's actual activity.

Operating overhead and capital overhead are allocated to the cost centers, based on estimated usage. Bond interest payments are added into the costs and interest income from investments reduces the total costs.

The slip costs are divided by the total number of slips in the marina, which determines the fixed cost of having a slip at the Port of Edmonds. The area costs are allocated to each slip by their square footage.

The revenue required for area costs is reduced by overhang revenues and increased by an estimated vacancy rate.

One of the difficulties inherent to the cost recovery program is that it does not take market rates into account. Indeed, in its purest form the cost recovery model would project moorage rate increases that will forever exceed market conditions. It simply is not market competitive, and no marina would be able to maintain occupancy factors necessary for profitability if they increase their rates by 15% to 25% every year. In the nature of things, the cost recovery model is a specialized accounting analytical tool that tips itself over in reality.

2002 TO 2009 CHANGES IN MOORAGE RATE BASIS

Periodic moorage rate reviews are conducted by the Port in order to calibrate moorage rates to existing market conditions as closely as possible. But the market area is not well defined, and rates are a moving target. Public marinas are different from privately owned docks. Shoreside services and facilities are not the same. Local demographics fluctuate throughout the market region. Proximity to popular boating routes and population centers varies throughout the Puget Sound market region.

A rate analysis conducted by Port staff in 2002, suggested the Port had reached true market rates in the 28 feet and under categories, and rates were stabilized at that level for those slip sizes. Further rate studies in 2003 resulted in a 4% increase for smaller slips (<30ft), up to 16% for the larger ones (>50ft). Still much less than what would have been recommended by the cost recovery method at the time, the Port raised rates by what the Commissioners felt the market would support.

In 2004, the Port raised rates by CPI. In 2005, the Port did not raise moorage rates. In 2006, the Port raised moorage rates by 4% for slips 30 feet and under and by 5% for slips 32 feet and over. In 2007 and 2008, the Port raised moorage rates by approximately CPI + 1%. In 2009, the Port raised moorage rates by 4.0%. In 2010, the Port raised moorage rates by 2.0%.

A major flaw of these prior percentage increases is that they do not take into account increases in actual operating expenses or capital replacement costs. There remains a margin of difference. The disparity between market rates and full cost recovery would appear to be increasing over time. This would suggest the need to establish a long term moorage rate plan and a rate basis policy to guide budget and

financing decisions in order to maintain the quality standards for Port of Edmonds marina facilities and customer services into the future.

COST CONTROL

During the 2010 budget process there was intense scrutiny and discussion concerning marina revenues and expenses. There appeared to be a discrepancy between moorage revenues and direct operating expenses. This was discussed both in the Finance Committee and during Commission Budget Workshops. The arithmetic problem was increasingly obvious. The questions were as follows. What direct operating expenses are related to marina operations? Which are common areas? How much should be for public amenities? How should revenue from property leases be allocated?

Staff analysis suggested that existing moorage rates did not generate sufficient revenue to fully recover those direct expenses that were proportionally attributable to the marina by the usual budget and reporting system. These include cost items such as water, sewer, storm water, electricity and environmental. These costs were increasing at a higher annual rate. These costs were neither predictable, nor controllable by the Port. Simply put, moorage rates were falling behind. For example, in order to achieve a budget that would produce a net income target of \$400,000 would have required a moorage rate increase of 6% in 2010. This was not achievable.

Part of the problem was the growing awareness that financial and budget reporting had introduced distortions that did not accurately reflect true operating conditions. Some property rental revenues and expenses were co-mingled with the marina revenues and expenses. The cost center allocation detail was perhaps over attenuated into minutiae so that it was often difficult to understand how all the dots connected.

These accounting models are effective tools for implementing fundamental policy objectives of transparency, fairness and good business practice, but they also seemed to have a tendency to confuse budget discussions concerning marina moorage rates. Marina revenues appeared greater than they were. Based on the numbers as they were presented, marina revenues sufficiently covered marina expenses. The projections developed as part of this cash flow model will illustrate how this has changed over time, and why these issues will likely continue to be a problem until improved policies and business strategies are brought forth.

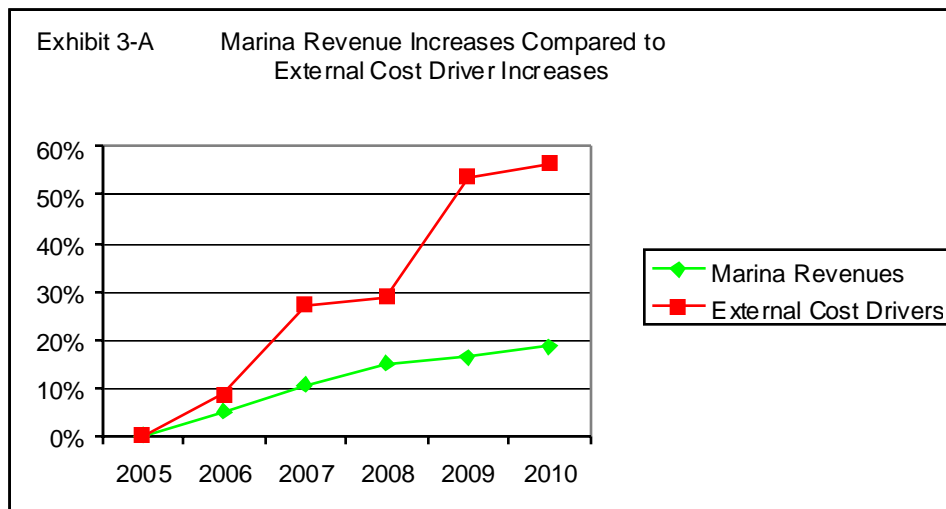
Staff reviewed the costs that are beyond direct control of Port management. That is, costs that are determined externally, either through tenant usage or imposed by outside factors such as another public agency or utility service. At some level all costs can be managed. However, the point here is to develop the perspective there are some categories of cost that aren't directly recoverable in the short run. For example, the substitution alternatives for avoiding utility cost increases are not yet economically viable, nor are they immediately available for implementation. In the case of power consumption, Staff has been reviewing the possibility of converting to LED lighting.

However, the cost/benefit analysis has not yet been completed. Additional analysis is required to determine initial costs and the anticipated payback period.

Further, the cost analysis reviews changes in medical insurance, Public Employees Retirement System (PERS) required contributions, electrical expenses, environmental expenses, and water and sewer expenses over the past 5 years. These external cost factors are an imposition and a challenge. There is no margin to either absorb them, or good strategy to recover these costs within the existing business circumstances.

All Port direct operating costs are at issue and currently under evaluation. However, this discussion about external cost factors is intended to illustrate a particular point about cost drivers, how they affect financial projections, and to suggest possible strategies for their control. Indeed, additional methods for reducing other direct costs and administrative overhead may be possible to achieve.

Exhibit 3-A below shows the marina revenue increases from 2005 to 2010, as compared to the increases in marina external cost drivers over the same time period.



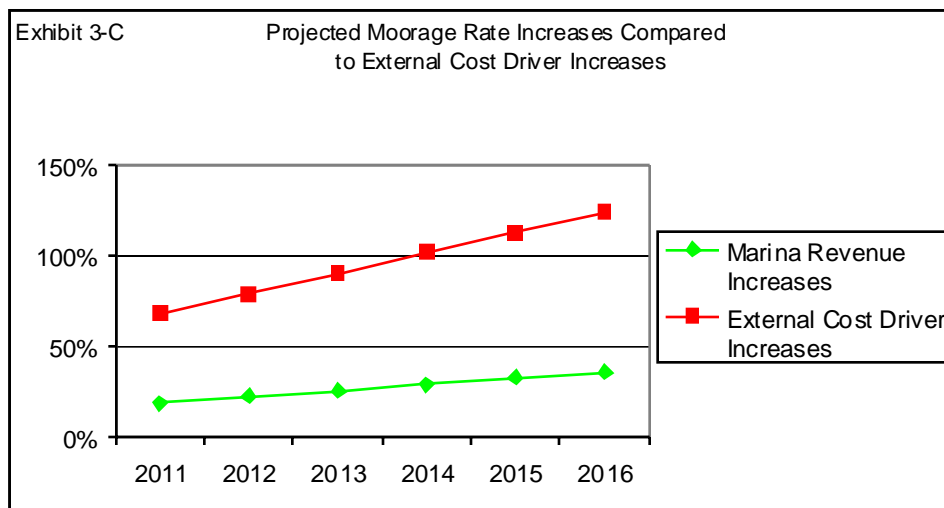
The marina external cost drivers are listed in Exhibit 3-B below.

Exhibit 3-B						
	2005	2006	2007	2008	2009	2010
Electrical Expense	103,617	112,847	115,309	117,082	126,414	117,583
Water & Sewer	37,532	39,720	40,481	40,340	44,758	45,961
Medical Insurance & PERS	142,310	162,847	196,479	222,300	277,897	298,000
Environmental	45,501	41,821	71,800	51,272	88,973	91,314
	<u>328,960</u>	<u>357,236</u>	<u>424,069</u>	<u>430,994</u>	<u>538,042</u>	<u>552,858</u>
External Cost Driver Increase, 2005-2010		8.60%	18.71%	1.63%	24.84%	2.75%
Average Increase, 2005-2010						11.31%
Marina Revenue Increase, 2005-2010		4.61%	5.63%	4.06%	-0.16%	2.97%
Average Marina Revenue Increase, 2005-2010						3.42%

Medical Insurance & PERS include mandatory Port contributions to the Public Employees Retirement System and medical insurance premiums for staff, Commissioners, and their families.

External cost drivers increased at an average of 11.31% per year from 2005 to 2010. Marina revenues increased at an average of 3.42% per year from 2005 to 2010. In 2010, external cost drivers were budgeted at 14% of the total operating expenses of \$3,969,926 shown in Exhibits 3-G (page 13) and 3-H (page 13).

Exhibit 3-C below is a projection of external cost driver increases from 2011 to 2016 compared to a projection of the marina revenue increases, based on the average marina revenue increases from the 2005 to 2010. The year 2005 is considered the starting point, so all percentage increases are increases from 2005 to the year shown. Exhibit 3-C shows an ever widening gap. Marina revenue increases are not sufficient to cover the increases in external cost drivers.



Here are some examples to further illustrate the point. Medical premium increases have been moderate over the past 5 years, with an average increase of 3.89%.

The Washington State Health Care Authority increased 2011 monthly medical premiums by 14 to 16% from 2010, as shown in Exhibit 3-D below.

Exhibit 3-D	<u>Subscriber</u>	<u>Subscriber and Spouse</u>	<u>Subscriber and Child(ren)</u>	<u>Full Family</u>
2011 Rates	\$ 647.55	\$ 1,150.94	\$ 1,025.09	\$ 1,528.48
2010 Rates	\$ 564.22	\$ 997.98	\$ 889.54	\$ 1,323.30
Increase	14.77%	15.33%	15.24%	15.51%

The average monthly medical premium increases from 2005 to 2010 are shown in Exhibit 3-E below.

Exhibit 3-E	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	
Subscriber	\$ 464.19	\$ 477.75	\$ 505.19	\$ 523.90	\$ 545.61	\$ 564.22	
Subscriber & Spouse	\$ 825.29	\$ 841.80	\$ 891.74	\$ 921.22	\$ 966.77	\$ 997.98	
Subscriber & Children	\$ 735.02	\$ 750.79	\$ 795.10	\$ 821.89	\$ 861.48	\$ 889.54	
Subscriber & Family	\$ 1,096.12	\$ 1,114.84	\$ 1,181.65	\$ 1,219.21	\$ 1,282.64	\$ 1,323.30	
Average Increase		2.07%	5.92%	3.34%	4.88%	3.24%	3.89%

At the July 6, 2010 City Council meeting, the City of Edmonds council members voted to increase stormwater rates by 8% per year for the next 3 years.

2010 REVISED REPORTING

In the second quarter of 2010, Port staff completed a comprehensive review of the quarterly Income Statement and recommended changes to the reporting model. The intent is to provide a more accurate and realistic snapshot view of the marina as a stand alone, self-supporting business unit. The new reporting system developed by Staff attempts to remove some of the problem distortions and improves income reporting for both the Marina and Rental Properties. These changes were approved by the Commission on March 29, 2010.

The Marina Statement of Revenues and Expenses shows the year-to-date actual, budget, and prior year's numbers for the marina activities, while the Rental Property Statement of Revenues and Expenses shows the year-to-date actual, budget, and prior year's numbers for the Port's rental property. Overhead is allocated as a percentage of revenue. Tax Levy revenues were allocated 37.5% to Marina, and 62.5% to Rental Properties. The question as to cost accounting and recovery for "public amenities" has not been fully resolved.

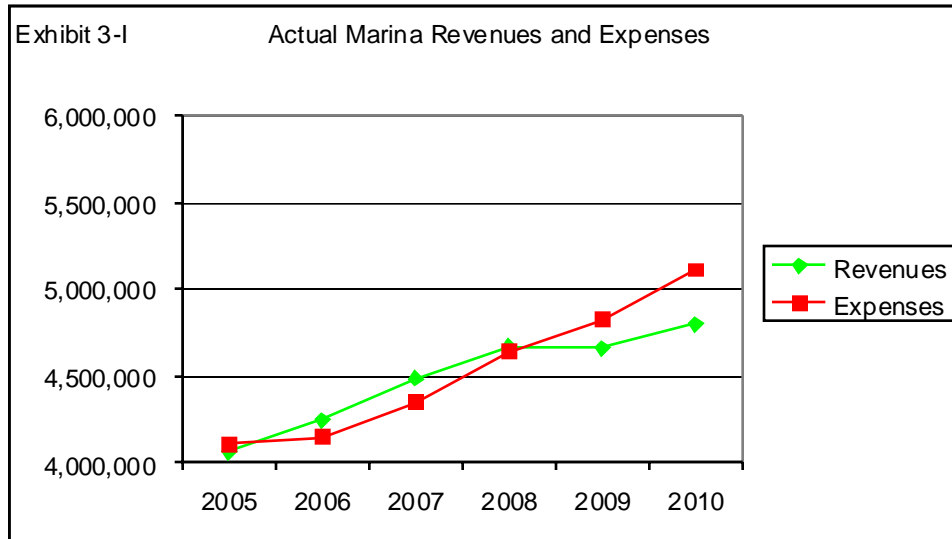
The Port includes annual depreciation as an operating expense. Depreciation is a method of measuring the cost of using an asset. When the marina was rebuilt in 1997, the expenditure was funded with FEMA money, insurance money, Port reserves, and bonds. The bonds are to be paid back over a 20 year period, ending in 2017. The money that is set aside for depreciation pays for bond payments and capital improvements, as shown in Exhibit 3-F below.

Exhibit 3-F	2005	2006	2007	2008	2009	2010
Depreciation	935,994	1,095,429	1,096,521	1,091,772	1,097,995	1,110,880
Bond Principal Payments	590,000	655,000	685,000	715,000	740,000	770,000
Capital Improvements	2,142,081	1,205,753	826,981	212,793	291,858	615,421
Change in Reserves	<u>(1,796,087)</u>	<u>(765,324)</u>	<u>(415,460)</u>	163,979	66,137	<u>(274,541)</u>

Previous years' financial information, presented in the revised reporting format, is shown in Exhibits 3-G and 3-H and the graph in Exhibit 3-I below. While external cost factors increased by an average of 11.31%, as shown in Exhibit 3-B (page 11), these costs are 13% of the total budgeted marina operating expenses of \$3,969,926 in 2010.

Exhibit 3-G	Port of Edmonds Marina Income Statement Comparisons For the Years Ended December 31, 2005 to 2010					
	2005	2006	2007	2008	2009	2010 Budget
Permanent Moorage	2,229,086	2,343,703	2,438,627	2,553,545	2,638,446	2,695,000
Dry Storage	535,733	558,651	592,969	612,005	614,339	630,000
Other Revenues	1,298,431	1,348,092	1,457,967	1,506,350	1,411,654	1,478,000
Total Revenues	<u>4,063,250</u>	<u>4,250,446</u>	<u>4,489,563</u>	<u>4,671,900</u>	<u>4,664,439</u>	<u>4,803,000</u>
Cost of Goods Sold	693,912	738,801	776,604	894,190	732,346	789,000
Operating Expenses	1,446,446	1,437,529	1,521,175	1,684,834	1,884,933	2,119,926
Depreciation	935,994	1,095,429	1,096,521	1,091,772	1,097,995	1,150,000
Interest Expense	521,670	474,535	448,253	436,688	401,535	351,000
Allocated Overhead	513,771	404,852	505,018	532,900	704,467	700,000
Total Expenses	<u>4,111,793</u>	<u>4,151,146</u>	<u>4,347,571</u>	<u>4,640,384</u>	<u>4,821,276</u>	<u>5,109,926</u>
Net Income/(Loss)	<u>(48,543)</u>	<u>99,300</u>	<u>141,992</u>	<u>31,516</u>	<u>(156,837)</u>	<u>(306,926)</u>

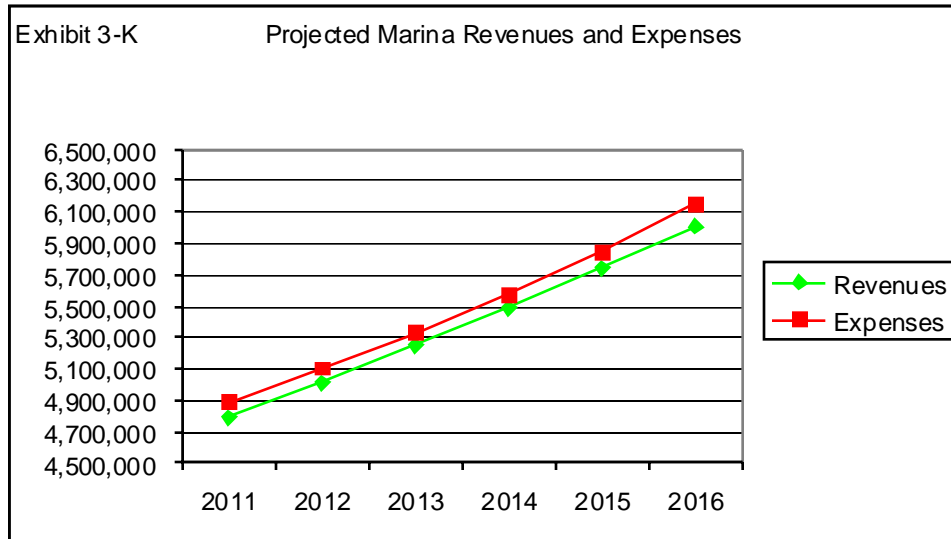
Exhibit 3-H	2005	2006	2007	2008	2009	2010	Average
Revenue Increase in Dollars		187,196	239,117	182,337	(7,461)	138,561	
Revenue Increase in Percent		4.61%	5.63%	4.06%	-0.16%	2.97%	3.42%
Moorage Rate Increase in Dollars		114,617	94,924	114,918	84,901	56,554	
Moorage Rate Increase in Percent		4.50%	5.00%	4.50%	4.00%	4.00%	4.40%
Expense Increase in Dollars		39,352	196,425	292,814	180,892	288,650	
Expense Increase in Percent		0.96%	4.73%	6.74%	3.90%	5.99%	4.46%



As shown in Exhibit 3-I above, marina expenses exceeded marina revenues in 2005, 2009, and 2010. In 2006, 2007, and 2008, marina revenues were greater than marina expenses, allowing the Port to use that money to make bond principal payments, capital improvements, or increase Port reserves.

The average marina revenue increase from 2005 to 2010 is 3.42%, while the average increase in total operating expenses is 4.46%, including external cost drivers previously described in Exhibits 3-A (page 10), 3-B (page 11), and 3-C (page 11), and also capital depreciation. If these trends continue and the Port continues to generate revenue by less than its operating costs, the Port will need to subsidize the marina with revenues from rental properties, property taxes, or its reserves. For example, consider Exhibit 3-J and the graph in Exhibit 3-K below. If the projected rate of increase in total marina costs relative to marina revenues continues for the next five years, at the end of the period the Port will have drawn down cash reserves by \$584,200.

	2011	2012	2013	2014	2015	2016	Totals
Revenues	4,793,000	5,015,000	5,247,000	5,490,000	5,744,000	6,010,000	32,299,000
Expenses	4,888,200	5,102,000	5,323,000	5,574,000	5,845,000	6,151,000	32,883,200
Net Income/(Loss)	(95,200)	(87,000)	(76,000)	(84,000)	(101,000)	(141,000)	(584,200)
Revenue Increase in Dollars		222,000	232,000	243,000	254,000	266,000	1,217,000
Expense Increase in Dollars		213,800	221,000	251,000	271,000	306,000	1,262,800
Difference		8,200	11,000	(8,000)	(17,000)	(40,000)	(45,800)



There does not appear to be any new sources of revenue over the next five years that could help carry these marina expenses. The marina can't grow its way out of the problem. New capital investments will not make the marina more cost efficient. Staff levels can't be reduced and still provide the same level of customer service. Maintenance can't be deferred and still provide the same quality facilities. Revenue from property rentals are fixed by contract. Property taxes are fixed by law. The estimated highest lawful levy calculation is shown in Appendix J (page 35).

Cash Reserves as of December 31, 2010, less the tenant deposits, bond reserve, operating reserve, environmental mitigation reserve, and capital replacement reserve, is approximately \$2,470,000. If the Port used its available cash to subsidize marina operations and capital projects, the available cash would be depleted in 2015, and the Port would start using its reserves that were established by law or the Commission.

FUTURE REPLACEMENT COSTS

Appendix I (page 34) shows the Marina's active assets, the date the assets were placed in service, the estimated life of the assets, the price the Port paid for the assets, the estimated replacement year, and the estimated replacement cost. In the year 2020, the replacement schedule shows Port capital improvements of \$4,986,000.

Exhibit 3-L shows the Port's bonding capacity in 2020. The first section shows the Harbor Square loan. The loan documents require a debt coverage ratio of 1.25. The debt coverage ratio is a calculation showing the Port's ability to pay the loan. It is calculated by dividing net revenue by the maximum annual bond payment. Net revenue is calculated by subtracting the total cash operating expenses from the total cash revenues.

In 2020, projected revenues are marina revenues of \$7,203,00 and rental properties revenues of \$2,617,000 for a total of \$9,820,000. Projected total cash

expenses include cost of goods sold of \$1,199,000 and operating expenses of \$7,275,000 for a total of \$8,474,000. Therefore, net revenue is \$1,346,000.

Monthly bond payments are \$73,797.30. Therefore, annual bond payments are \$885,568. If net revenue of \$1,346,000 is divided by \$885,568, we get a debt coverage ratio of 1.52, which means that we generate enough cash from operations to pay the debt service 1.52 times per year.

For the purposes of this analysis, staff considered the possibility of issuing bonds in 2020 to pay for the capital improvements. Appendix I (page 34) shows that the Port will need approximately \$5,000,000 to update the marina in 2020. After bond or loan fees, this amount will be approximately \$5,250,000.

Revenue bond capacity is calculated similarly to the Harbor Square debt coverage ratio. The Port's 1998 Revenue Bond documents require a 1.35 debt coverage ratio, so that ratio was used for this analysis. Exhibit 3-L below shows the Revenue Bond Debt Coverage Ratio to Update the Marina. Net revenue was calculated above as \$1,346,000. Net revenue divided by the debt coverage ratio of 1.35 equals \$997,037. Some of this capacity has been used by the Harbor Square loan. If we subtract the Harbor Square annual payments of \$885,568 from \$997,037, we get \$111,473, which is the maximum annual bond payment the Port could make to be in compliance with the debt coverage ratio. Appendix K (page 36) shows that a bond payment of \$111,000 per year will allow the Port to issue bonds in the amount of \$1,385,000. The Port would also have to set aside a bond reserve equal to the highest maximum annual bond payment.

Limited Tax General Obligation (LTGO) bonds are one of the best available financing tools for government agencies. LTGO bonds are secured by the agency's tax levy, so the bonds are less risky and the interest rates are lower than a standard loan.

LTGO bond capacities for bonds that are issued without the approval of the voters are limited to .25% of the assessed value of the property located within the Port District. From 1985 to 2011, the assessed property value has increased at an average of 7.34% per year. The analysis shows that if the assessed property values continue to increase at an average of 7.34% per year through 2020, the assessed property value will be \$6,954,607,867. .25% of this amount is approximately \$17,387,000. Therefore the Port's LTGO bonding capacity in 2020 is \$17,387,000.

While the Port has the capacity to issue \$17,387,000, there are some other limitations to the amount of bonds the Port may issue.

- As LTGO bonds are secured by the tax levy, government entities that are able to make their bond payments from their property tax revenue receive more favorable interest rates, as the bond is less risky. Assuming that Port staff estimate that a 20 year LTGO bond, issued at \$5,250,000, with a 5% interest rate would require an annual payment of \$422,000 as shown in Appendix L (page 37). If the Port

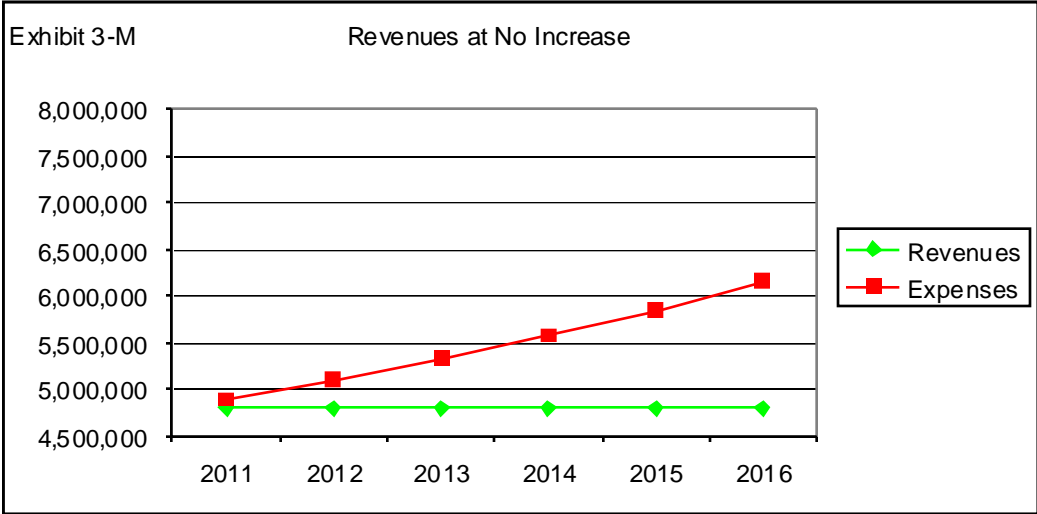
doesn't raise its tax levy above \$400,000 to the annual bond payment amount, the Port may have difficulty issuing bonds at a competitive interest rate.

- **As shown in Appendix A (page 26), in 2015, the Port will have exhausted its available cash and will be using its reserves and set asides that were established by law or the Commission.** It is unlikely that the Port will be able to issue bonds, as the average investor will not purchase bonds when the organization is eating its reserves.
- **As shown in Appendix A (page 26), in 2020, the Port does not have sufficient available cash to make the estimated annual bond payments of approximately \$422,000 at an estimated interest rate of 5%.**

Exhibit 3-L		Bond Capacity Calculations	
Debt Coverage Ratio for Harbor Square Loan			
Harbor Square Loan Annual Payments		885,564	
Terms Require Coverage of 125%		1,106,955	
Actual Estimated Net Revenues in 2020		1,346,000	
Actual Coverage		152%	
<u>Revenue Bond Debt Coverage Ratio to Update the Marina</u>			
Estimated Cost to Update Marina			5,250,000
Estimated Revenue Bond Capacity			
Estimated Net Revenue in 2020		1,346,000	
Minimum of 1.35, Annual Payment		997,037	
Less Harbor Square Annual Payments		(885,564)	
Available Net Revenue		111,473	
Estimated Revenue Bond Capacity			<u>1,385,000</u>
Estimated LTGO Bond Capacity			
Estimated Assessed Property Value		6,954,607,867	
.25% of Assessed Value		17,387,000	
Estimated GO Bond Capacity			<u><u>17,387,000</u></u>

MARINA REVENUE ALTERNATIVES

The graph in Exhibit 3-M illustrates what would happen if the Port does not increase marina revenues and operating costs continue to increase at the average rate of increase from 2005 to 2010 (4.46%). Under this scenario, the Port would draw down its reserves to \$2,039,000 by 2016. This does not include any new programs for capital projects. It's the marina in static condition.



	2011	2012	2013	2014	2015	2016	Totals
Revenues	4,793,000	4,793,000	4,793,000	4,793,000	4,793,000	4,793,000	28,758,000
Expenses	4,888,200	5,102,000	5,323,000	5,574,000	5,845,000	6,151,000	32,883,200
Reserve Draw Down	(95,200)	(309,000)	(530,000)	(781,000)	(1,052,000)	(1,358,000)	(4,125,200)
Increase in Revenues	-	-	-	-	-	-	-
Increase in Expenses	-	213,800	221,000	251,000	271,000	306,000	1,262,800
Difference	-	(213,800)	(221,000)	(251,000)	(271,000)	(306,000)	(1,262,800)

Baseline assumptions for moving forward with a predictable schedule of moorage rate increases is that wet moorage vacancy rate will be 3.5%, and dry stack vacancy will be 12%. These vacancy rates were used for the following projections.

The graph in Exhibit 3-O and the analysis in Exhibit 3-P shows, if the Port raises rates by 2% in 2011, 3.5% in 2012, and then by 5% for every year after that, it would not breakeven until 2027. **During that period total cash would be drawn down by \$4,320,043. The Port’s current available cash balance is \$2,470,000.** This assumes that the Port makes no capital improvements over that time period, and that the average cost increase remains 4.46% per year.

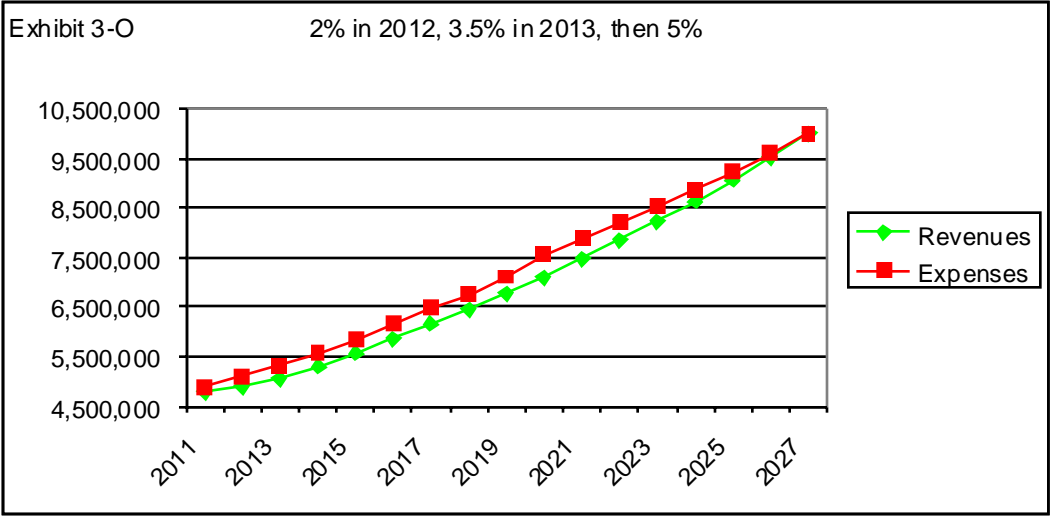


Exhibit 3-P

	2011	2012	2013	2014	2015	2020	2025	2026	2027	Totals
Revenues	4,793,000	4,888,860	5,059,970	5,312,969	5,578,617	7,119,886	9,086,979	9,541,328	10,018,395	118,868,747
Expenses	4,888,200	5,102,000	5,323,000	5,574,000	5,845,000	7,569,000	9,244,319	9,621,487	10,014,044	123,188,790
Reserve Draw Down	(95,200)	(213,140)	(263,030)	(261,031)	(266,383)	(449,114)	(157,340)	(80,159)	4,351	(4,320,043)
Rate Increase in Percent	1.50%	2.00%	3.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
Revenue Increase in Dollars		95,860	171,110	252,999	265,648	339,042	432,713	454,349	477,066	5,225,395
Expense Increase in Dollars		213,800	221,000	251,000	271,000	450,000	362,383	377,168	392,557	5,125,844
Difference		(117,940)	(49,890)	1,999	(5,352)	(110,958)	70,330	77,181	84,510	99,551

From another perspective, if the policy is for the marina to break even by 2016, and uses its reserves until then, the Port would need to increase revenues at 5.25% per year, and would still draw down its reserves by \$76,000 until then; see Exhibit 3-Q and Exhibit 3-R below.

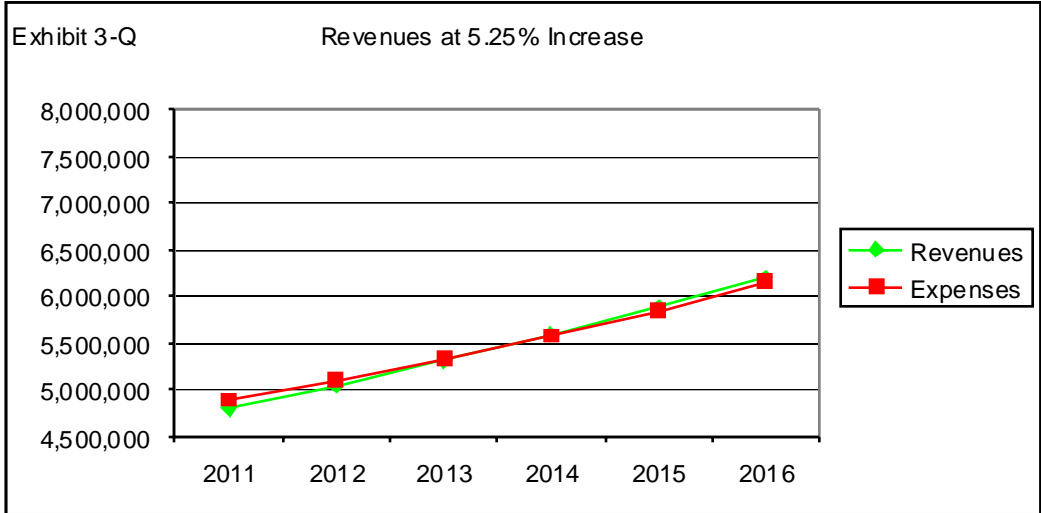


Exhibit 3-R							
	2011	2012	2013	2014	2015	2016	Totals
Revenues	4,793,000	5,044,633	5,309,476	5,588,223	5,881,605	6,190,389	32,807,325
Expenses	4,888,200	5,102,000	5,323,000	5,574,000	5,845,000	6,151,000	32,883,200
Reserve Draw Down	(95,200)	(57,368)	(13,524)	14,223	36,605	39,389	(75,875)
Revenue Increase in Dollars		251,633	264,843	278,747	293,382	308,784	1,397,389
Expense Increase in Dollars		213,800	221,000	251,000	271,000	306,000	1,262,800
Difference		37,833	43,843	27,747	22,382	2,784	134,589

Another option for the Marina to break even in five years, moorage and dry storage rates would have to increase by 2% in 2011, and then by 6.0% in each of the following years through 2016. Under this scenario Port cash reserves would be drawn down by approximately \$531,000; see Exhibit 3-S and Exhibit 3-T below.

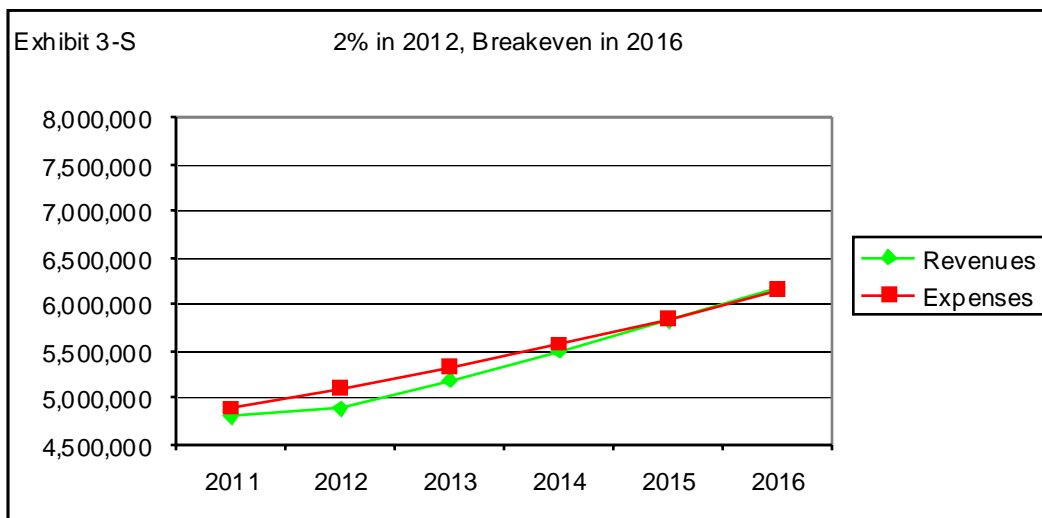


Exhibit 3-T							
	2011	2012	2013	2014	2015	2016	Totals
Revenues	4,793,000	4,888,860	5,182,192	5,493,123	5,822,710	6,172,073	32,351,958
Expenses	4,888,200	5,102,000	5,323,000	5,574,000	5,845,000	6,151,000	32,883,200
Reserve Draw Down	(95,200)	(213,140)	(140,808)	(80,877)	(22,290)	21,073	(531,242)
Rate Increase		2.00%	6.00%	6.00%	6.00%	6.00%	
Revenue Increase in Dollars		95,860	293,332	310,931	329,587	349,363	1,379,073
Expense Increase in Dollars		213,800	221,000	251,000	271,000	306,000	1,262,800
Difference		(117,940)	72,332	59,931	58,587	43,363	116,273

A third option for the marina to breakeven beginning in 2016, is to increase moorage rates by 4% in 2012, and then by 5.25% per year thereafter. Under this scenario Port cash reserves would be drawn down by approximately \$363,000; see Exhibit 3-U and Exhibit 3-V below.

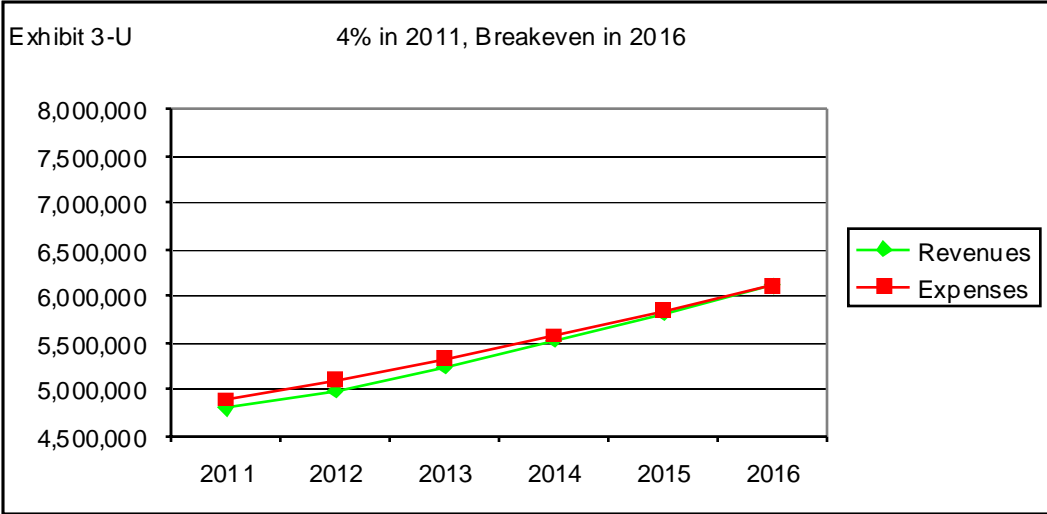


Exhibit 3-V

	2011	2012	2013	2014	2015	2016	Totals
Revenues	4,793,000	4,984,720	5,246,418	5,521,855	5,811,752	6,116,869	32,474,614
Expenses	4,888,200	5,102,000	5,323,000	5,574,000	5,845,000	6,105,795	32,837,995
Reserve Draw Down	(95,200)	(117,280)	(76,582)	(52,145)	(33,248)	11,075	(363,381)
Rate Increase		4.00%	5.25%	5.25%	5.25%	5.25%	
Revenue Increase in Dollars		191,720	261,698	275,437	289,897	305,117	1,323,869
Expense Increase in Dollars		213,800	221,000	251,000	271,000	260,795	1,217,595
Difference		(22,080)	40,698	24,437	18,897	44,322	106,275

Under this scenario, rates would increase as per Exhibit 3-X below.

Exhibit 3-X						
<u>OPEN MOORAGE</u>						
	Current		4% Increases		Difference	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
28'	\$175.71	\$212.82	\$182.74	\$221.33	\$7.03	\$8.51
30'	\$227.38	\$266.91	\$236.48	\$277.59	\$9.10	\$10.68
32'	\$241.56	\$279.90	\$251.22	\$291.10	\$9.66	\$11.20
40'	\$372.22	\$382.33	\$387.11	\$397.62	\$14.89	\$15.29
50'	\$453.65	\$610.93	\$471.80	\$635.37	\$18.15	\$24.44

<u>COVERED MOORAGE</u>						
	Current		4% Increases		Difference	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
28'	\$213.70	\$283.03	\$222.25	\$294.35	\$8.55	\$11.32
30'	\$318.34	\$348.27	\$331.07	\$362.20	\$12.73	\$13.93
32'	\$359.66	\$391.84	\$374.05	\$407.51	\$14.39	\$15.67
40'	\$558.33	\$573.52	\$580.66	\$596.46	\$22.33	\$22.94

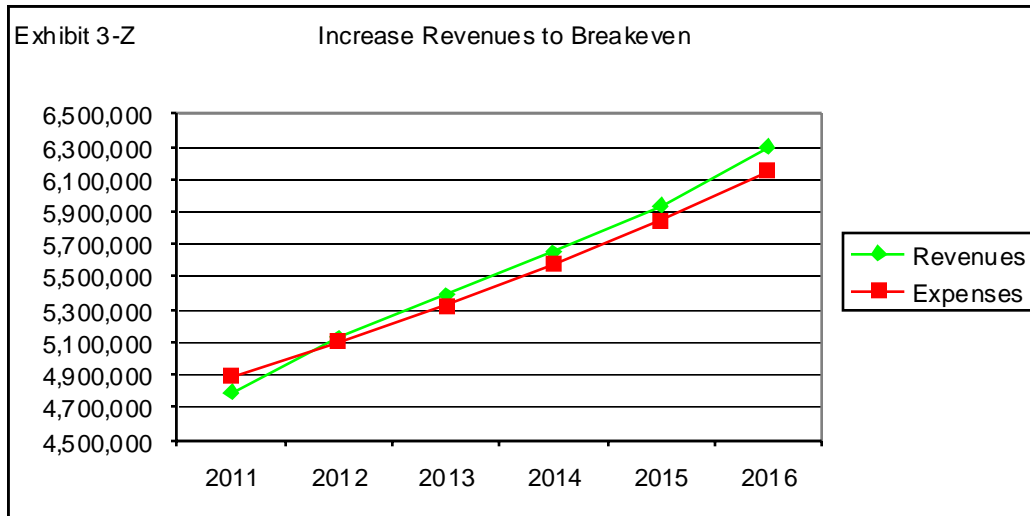
A rate survey completed in August 2010 is shown below in Exhibit 3-Y.

Exhibit 3-Y					
<u>OPEN MOORAGE</u>					
	<u>Shilshole</u>	<u>Everett</u>	<u>Everett 12th St</u>	<u>Elliott Bay</u>	<u>Edmonds</u>
28'	N/A	\$167.16	N/A	N/A	\$173.11-\$209.67
30'	\$275.10	N/A	N/A	N/A	\$224.02-\$262.97
32'	N/A	\$225.28	N/A	\$318.72	\$237.99-\$275.76
40'	\$408.40	\$326.40	\$376.00	\$426.80	\$366.72-\$376.68
50'	\$573.50	\$503.00	\$517.00	N/A	\$446.95-\$601.90
52'	N/A	N/A	N/A	\$646.88	N/A

<u>COVERED MOORAGE</u>		
	<u>Everett</u>	<u>Edmonds</u>
28'	\$241.64	\$210.54-\$278.85
30'	\$258.90	\$313.64-\$343.12
32'	\$312.64	\$354.34-\$386.05
40'	\$484.40	\$550.08-\$565.04
50'	\$644.50	N/A

If the policy objective is for the Marina to produce annual revenues sufficient to cover marina operations, depreciation, interest expense, and allocated overhead expenses, and assuming expenses continue to increase similar to the way they have increased from 2005 to 2010, moorage and dry storage rates would need to increase by 7% in 2012, and 5% to 6% for the next 4 years. An immediate 7% increase for 2012 budget year would

generate approximately a \$238,000 increase in revenue from the marina, and achieve approximate breakeven going forward; see Exhibit 3-Z and Exhibit 3-AA below.



	2011	2012	2013	2014	2015	2016
Revenues	4,793,000	5,128,510	5,384,936	5,654,182	5,936,891	6,293,105
Expenses	4,888,200	5,102,000	5,323,000	5,574,000	5,845,000	6,151,000
Difference	(95,200)	26,510	61,936	80,182	91,891	142,105
Rate Increase		7%	5%	5%	5%	6%

CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis of projected revenues and expenses, and the range of alternative scenarios discussed for the marina to break even, a conservative strategy might be to either take the big jump right away, or to get there more gradually over five years. The forgoing analysis shows a 7% increase in moorage rates starting in 2012 would be necessary to break even and halt the annual draw down of cash reserves. After that, future rate increases would need to stay on par with expenses to maintain the break even policy. **This does not include any additional revenue to cover capital projects.**

A phased approach that would anticipate a 2% increase for 2012, followed by programmed moorage rate increases of 6% per year through 2016. The only problem with the phased approach is a projected cash draw down of \$531,000 which most likely will never be made up.

Another approach would be to spread the increases equally over the 5 year period at 5.25% per year. Reserves would be drawn down by \$76,000 which most likely will never be made up.

However, if doing nothing is not an option, and taking an immediate 7% increase to moorage rates in 2012 is not acceptable, then a middle course option would seem the

most prudent from a management and policy perspective. Option-3 shown in Exhibit 3-U and 3-V illustrates this balance of projected rate increases that would raise moorage rates by 4% in 2011, and 5.25% per year thereafter through 2016. From the moorage tenants' perspective, the monthly cost of renting a slip for a representative sample of boat sizes at the Port of Edmonds marina is illustrated in Exhibit 3-X. While we would not suggest the proposed increase is insignificant, in the overall scheme of things these moorage rates would appear marginal, manageable and fully justified by the analysis of the Port's marina cost structure and cash flow basis.

A major qualifier to this plan is that cost increases have been estimated based on past increases. So the actual results are difficult to predict without making some assumptions about what future inflation might be. In a worst case, rates would need to be re-adjusted sometime again during the proposed ten years in order to satisfy the policy imperative to achieve breakeven status for the Marina, and net of depreciation and interest expense.

Further, the market comparison to Port of Everett, Shilshole Bay, and Elliott Bay marinas in Exhibit 3-Y is for illustration, and is not intended to be conclusive. Each has different economies of scale. Their cost structures aren't the same as ours. The facilities are not at the same phase of life cycle. And there are different financing and debt service considerations. The purpose of the three local marina comparisons is to add perspective and consider what other competitive factors might be from a wider view.

Indeed, market factors are an important consideration that simply cannot be ignored. The question is, what is the price elasticity of demand for moorage in the Edmonds market catchment area? Or put another way, by how much can the Port of Edmonds increase moorage rates before causing unacceptably high vacancy factors? At a certain rate level that can't be precisely calculated, marginal pricing starts to work the other way.

There is a tipping point. Basically we assume boaters are rational and will begin searching for alternative moorage. Despite perceived convenience and quality standards at our marina that we sometimes have a tendency to take for granted, additional moorage rate increases can be expected to have the reverse effect and lead to more lost revenue than it generates. That's the push back factor. Recent economic studies would suggest the Port of Edmonds may be close to that level, at least in the short run.

On November 29th, 2010, the Commission heard a presentation by Paul Sorenson of BST Associates, a nationally recognized econometric research firm headquartered in Bothell, Washington. BST specializes in Port transportation, infrastructure and marina development. In addition to the general economic recession, BST focused on how those macro-factors have negatively affected recreational boating and marina occupancy in particular. The report was not optimistic in the short run, the gist of which clearly indicates there is currently excess marina capacity in the Puget Sound market region.

This condition is likely to last for several more years, which will severely limit the ability of marina owners to raise rates; both public and private. Some marina managers prefer to optimize occupancy by keeping rates lower than what they might otherwise like to obtain. Others, feeling the economic imperative to maintain quality facilities and services have been able to raise moorage rates, but only slightly, and not without some risk of losing customers. It's a fine balancing act.

In his report, Sorenson mentioned the true competitive market for the Port of Edmonds was not to the south at Shilshole or Elliott Bay marinas. Those facilities have a solid and predictable draw from the immediate Seattle-Bellevue metropolis. Rather, Edmonds competes with Everett, LaConner and Anacortes for boaters who prefer moorage closer to the typical summer season cruising areas in the San Juan Islands and Canada. That's an important consideration. The Port of Everett has approximately 1,970 slips, with moorage rates that are comparable to Edmonds. However, Everett has current vacancy of 561 slips; 28%. If the Port of Edmonds increases moorage rates too high before market capacity regains equilibrium, the Edmonds marina would appear susceptible to higher vacancy resulting from local competitive factors.

On the other hand, it's probably also true the Port of Edmonds marina is much preferred for its location, and quality service and facilities. This creates some market differentiation that would allow for somewhat higher rates going forward, and especially if those additional revenues were dedicated to marina improvements. The question is, how much?¹

The problem is we're caught in a squeeze between what our cash flow model and cost analysis tells us that we need to generate in future revenues, as against what the market will bear. There's a revenue gap. And there are other questions of economics and policy. For example, given the realities we're faced with, where will the revenue come from, and how will it be collected? In effect, who should pay? There is more than one right answer. However, the balance of opinion would seem to suggest the users should provide the revenue in the form of moorage rates, sufficient to pay direct operating costs, as well as the expected future costs of replacing marina assets. In the final analysis, that's about where we get to, and the answer found within.

¹ Mr. Sorenson emphasized that setting moorage rates requires a delicate balance, but they must collect enough money to maintain service levels and ensure they have money for capital replacement. Mr. McChesney agreed, but said they must also balance their moorage rates with the demand for moorage. The Port has done some cash flow modeling and they believe they have a good handle on their cost structure and what they need to do to fund future improvements. However, they have discussed that raising rates too much could result in higher vacancies. He questioned how the Port finds the "sweet spot". Mr. Sorenson again said the Port has good demographics and a longer distance between competitors. Tenants must consider the time it would take to go to another marina versus the higher moorage rates...It comes down to level of service and making sure you have enough money to pay for capital improvements. He said he anticipates that private and public marinas that are sacrificing service and quality in order to keep rates low will not likely survive into the future. (Port of Edmonds Commission Meeting Minutes; November 29, 2010).

Appendix A

Port of Edmonds
Projected Cash Flow Schedule
For the Years of 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Beginning Total Cash and Investments	6,447,000	6,691,000	6,845,000	7,118,000	6,795,000	3,976,000	4,086,000	2,776,000	3,396,000	3,824,000
Less Reserves										
Beginning Tenant Deposits	(396,000)	(396,000)	(396,000)	(396,000)	(396,000)	(396,000)	(396,000)	(396,000)	(396,000)	(396,000)
Beginning Bond Reserve	(800,900)	(800,900)	(800,900)	(800,900)	(800,900)	(800,900)	(800,900)	-	-	-
Beginning Operating Reserve	(1,830,000)	(1,903,000)	(1,979,000)	(2,058,000)	(2,140,000)	(2,226,000)	(2,315,000)	(2,408,000)	(2,504,000)	(2,604,000)
Beginning Environmental Mitigation Reserve	(600,000)	(601,000)	(602,000)	(603,000)	(604,000)	(605,000)	(606,000)	(607,000)	(608,000)	(609,000)
Beginning Capital Replacement Reserve	(350,000)	(351,000)	(352,000)	(353,000)	(354,000)	(355,000)	(356,000)	(357,000)	(1,127,000)	(1,898,000)
Total Reserves	<u>(3,976,900)</u>	<u>(4,051,900)</u>	<u>(4,129,900)</u>	<u>(4,210,900)</u>	<u>(4,294,900)</u>	<u>(4,382,900)</u>	<u>(4,473,900)</u>	<u>(3,768,000)</u>	<u>(4,635,000)</u>	<u>(5,507,000)</u>
Beginning Available Cash	<u>2,470,100</u>	<u>2,639,100</u>	<u>2,715,100</u>	<u>2,907,100</u>	<u>2,500,100</u>	<u>(406,900)</u>	<u>(437,900)</u>	<u>(992,000)</u>	<u>(1,239,000)</u>	<u>(1,683,000)</u>
Beginning Available Cash	2,470,100	2,639,100	2,715,100	2,907,100	2,500,100	(406,900)	(437,900)	(992,000)	(1,239,000)	(1,683,000)
Bond Principal Payments Due	(1,085,000)	(1,141,000)	(1,242,000)	(1,313,000)	(1,096,000)	(1,155,000)	(2,119,000)	(489,000)	(527,000)	(566,000)
Net Income	171,000	169,000	168,000	142,000	211,000	145,000	63,000	37,000	(47,000)	(228,000)
Non-Cash Items - Depreciation and OPEB	1,720,000	1,721,000	1,722,000	1,723,000	1,724,000	1,725,000	1,726,000	1,727,000	1,657,000	1,658,000
Changes to Bond Reserve	-	-	-	-	-	-	800,900			
Changes to Operating Reserve	(73,000)	(76,000)	(79,000)	(82,000)	(86,000)	(89,000)	(93,000)	(96,000)	(100,000)	(104,000)
Changes to Environmental Mitigation Reserve	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Changes to Capital Replacement Reserve	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(770,000)	(771,000)	(773,000)
Capital Projects	<u>(562,000)</u>	<u>(595,000)</u>	<u>(375,000)</u>	<u>(875,000)</u>	<u>(3,658,000)</u>	<u>(655,000)</u>	<u>(930,000)</u>	<u>(655,000)</u>	<u>(655,000)</u>	<u>(5,641,000)</u>
Ending Available Cash	<u>2,639,100</u>	<u>2,715,100</u>	<u>2,907,100</u>	<u>2,500,100</u>	<u>(406,900)</u>	<u>(437,900)</u>	<u>(992,000)</u>	<u>(1,239,000)</u>	<u>(1,683,000)</u>	<u>(7,338,000)</u>
Ending Available Cash	2,639,100	2,715,100	2,907,100	2,500,100	(406,900)	(437,900)	(992,000)	(1,239,000)	(1,683,000)	(7,338,000)
Ending Tenant Deposits	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000	396,000
Ending Bond Reserve	800,900	800,900	800,900	800,900	800,900	800,900	-	-	-	-
Ending Operating Reserve	1,903,000	1,979,000	2,058,000	2,140,000	2,226,000	2,315,000	2,408,000	2,504,000	2,604,000	2,708,000
Ending Environmental Mitigation Reserve	601,000	602,000	603,000	604,000	605,000	606,000	607,000	608,000	609,000	610,000
Ending Capital Replacement Reserve	351,000	352,000	353,000	354,000	355,000	356,000	357,000	1,127,000	1,898,000	2,671,000
Ending Total Cash and Investments	<u>6,691,000</u>	<u>6,845,000</u>	<u>7,118,000</u>	<u>6,795,000</u>	<u>3,976,000</u>	<u>4,036,000</u>	<u>2,776,000</u>	<u>3,396,000</u>	<u>3,824,000</u>	<u>(953,000)</u>
Amount of Cash Shortage, If Any					(406,900)	(437,900)	(992,000)	(1,239,000)	(1,683,000)	(7,338,000)

Appendix B

Port of Edmonds
History of Revenues and Expenses

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 Budget
Marina Revenues	3,107,763	3,235,917	3,489,321	3,730,313	3,907,885	4,063,250	4,266,476	4,498,791	4,700,270	4,769,577	4,880,000
Rental Property Revenues	549,010	555,862	561,968	605,241	644,610	667,870	1,704,751	2,062,687	1,952,844	1,944,041	2,032,100
Cost of Goods Sold	517,185	507,350	511,497	516,698	606,370	704,552	756,292	780,900	897,004	733,547	790,000
Operating Expenses w/out Depr	1,767,810	2,042,730	1,988,761	2,082,688	2,183,121	3,085,346	2,766,061	3,333,657	3,318,969	3,502,557	3,563,700
Depreciation	1,042,975	1,125,960	1,033,157	1,035,680	1,037,515	1,021,739	2,569,368	1,660,658	1,679,944	1,693,148	1,694,000

Port of Edmonds
Percent of Change Between Years

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	2010 <u>Budget</u>
Marina Revenues		4.12%	7.83%	6.91%	4.76%	3.98%	5.00%	5.45%	4.48%	1.47%	2.32%
Rental Property Revenues		1.25%	1.10%	7.70%	6.50%	3.61%	155.25%	21.00%	-5.33%	-0.45%	4.53%
Cost of Goods Sold		-1.90%	0.82%	1.02%	17.35%	16.19%	7.34%	3.25%	14.87%	-18.22%	7.70%
Operating Expenses w/out Depr		15.55%	-2.64%	4.72%	4.82%	41.33%	-10.35%	20.52%	-0.44%	5.53%	1.75%
Depreciation		7.96%	-8.24%	0.24%	0.18%	-1.52%	151.47%	-35.37%	1.16%	0.79%	0.05%

Appendix C

Port of Edmonds
Projected Net Income
For the Years 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Marina Revenues	4,793,000	5,015,000	5,247,000	5,490,000	5,744,000	6,010,000	6,288,000	6,579,000	6,884,000	7,203,000
Rental Property Revenues	2,022,000	2,070,000	2,119,000	2,169,000	2,329,000	2,384,000	2,440,000	2,498,000	2,557,000	2,617,000
Cost of Goods Sold	(784,000)	(821,000)	(861,000)	(903,000)	(947,000)	(993,000)	(1,041,000)	(1,091,000)	(1,144,000)	(1,199,000)
Operating Expenses w/out Depr	(3,616,000)	(3,907,000)	(4,223,000)	(4,564,000)	(4,933,000)	(5,331,000)	(5,762,000)	(6,228,000)	(6,731,000)	(7,275,000)
Property Taxes	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Interest Income	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Interest Expense	(911,000)	(854,000)	(779,000)	(714,000)	(645,000)	(587,000)	(523,000)	(397,000)	(359,000)	(319,000)
Bond Issuance Costs	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)
Depreciation	(1,649,000)	(1,650,000)	(1,651,000)	(1,652,000)	(1,653,000)	(1,654,000)	(1,655,000)	(1,656,000)	(1,657,000)	(1,658,000)
Other Post Employment Benefits	(71,000)	(71,000)	(71,000)	(71,000)	(71,000)	(71,000)	(71,000)	(71,000)	-	-
Net Income	171,000	169,000	168,000	142,000	211,000	145,000	63,000	37,000	(47,000)	(228,000)

Appendix D

Port of Edmonds
2011-2020 Capital Budget

Cost Center	Item	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
00	Base station radio and antennas		10,000								
00	M.O. Office Remodel - Phase II	35,000									
00	Miscellaneous	50,000	100,000	200,000	100,000	500,000	550,000	550,000	550,000	550,000	550,000
00	New Restroom Complex										
00	Technology Improvements	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
00	Telephone system Upgrade	25,000									
00	Vehicle Replacement	25,000	25,000	25,000	25,000	25,000	30,000	30,000	30,000	30,000	30,000
05	Fuel Dock Dispensers Replacement		140,000								
05	Fuel Dock Monitoring System	25,000									
11	Breakwater Entrance Lighting	10,000									
11	M and N Dock Water Replacement	220,000									
11	Marina Updates Per Replacement Schedule					3,053,000					4,986,000
11	Recycling Centers	10,000	90,000								
18	Environmental Improvements	75,000	75,000								
18	Travelift				400,000						
21	Replacement launcher motors		5,000			5,000					
22	Dry Storage Reconfiguration		75,000	75,000							
22	Dry Storage South Minuteman Launcher Upgrades	12,000									
22	Marine Forklift Replacement				275,000			275,000			
60	Harbor Square Improvements	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
60	Fiber Optics Installation at Harbor Square										
	TOTALS	562,000	595,000	375,000	875,000	3,658,000	655,000	930,000	655,000	655,000	5,641,000

Appendix E

Port of Edmonds Rental Properties
 Projected Net Income
 For the Years 2011-2020

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Rental Property Revenues	2,022,000	2,070,000	2,119,000	2,169,000	2,329,000	2,384,000	2,440,000	2,498,000	2,557,000	2,617,000
Operating Expenses w/out Depr, O/H	(697,000)	(753,000)	(814,000)	(880,000)	(951,000)	(1,028,000)	(1,111,000)	(1,201,000)	(1,298,000)	(1,403,000)
Interest Expense	(596,000)	(575,000)	(549,000)	(523,000)	(495,000)	(466,000)	(432,000)	(397,000)	(359,000)	(319,000)
Interest Income	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Depreciation	(554,000)	(554,000)	(554,000)	(554,000)	(554,000)	(554,000)	(554,000)	(554,000)	(554,000)	(554,000)
Other Post Employment Benefits	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)	(9,000)
Overhead Allocation	<u>(302,000)</u>	<u>(326,000)</u>	<u>(352,000)</u>	<u>(380,000)</u>	<u>(411,000)</u>	<u>(444,000)</u>	<u>(480,000)</u>	<u>(519,000)</u>	<u>(561,000)</u>	<u>(606,000)</u>
Net Income	<u>(133,000)</u>	<u>(144,000)</u>	<u>(156,000)</u>	<u>(174,000)</u>	<u>(88,000)</u>	<u>(114,000)</u>	<u>(143,000)</u>	<u>(179,000)</u>	<u>(212,000)</u>	<u>(262,000)</u>

Appendix F

Port of Edmonds
 Projected Cash Inflow and Outflow from Rental Properties
 For the Years of 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net Income	(133,000)	(144,000)	(156,000)	(174,000)	(88,000)	(114,000)	(143,000)	(179,000)	(212,000)	(262,000)	
Non-Cash Items - Depreciation, OPEB, Bond Issuance Costs	563,000	563,000	563,000	563,000	563,000	563,000	563,000	563,000	554,000	554,000	
Bond Principal Payments Due	(290,000)	(311,000)	(337,000)	(363,000)	(391,000)	(420,000)	(454,000)	(489,000)	(527,000)	(566,000)	
Capital Projects	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	
Cash Inflow/(Outflow)	90,000	58,000	20,000	(24,000)	34,000	(21,000)	(84,000)	(155,000)	(235,000)	(324,000)	(641,000)

Appendix G

Port of Edmonds Marina
 Projected Net Income
 For the Years 2011-2020

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Marina Revenues	4,793,000	5,015,000	5,247,000	5,490,000	5,744,000	6,010,000	6,288,000	6,579,000	6,884,000	7,203,000
Cost of Goods Sold	(783,500)	(821,000)	(861,000)	(903,000)	(947,000)	(993,000)	(1,041,000)	(1,091,000)	(1,144,000)	(1,199,000)
Operating Expenses w/out Depr, O/H	(1,898,700)	(2,052,000)	(2,218,000)	(2,397,000)	(2,591,000)	(2,800,000)	(3,026,000)	(3,270,000)	(3,534,000)	(3,820,000)
Interest Expense	(315,000)	(279,000)	(230,000)	(191,000)	(150,000)	(121,000)	(91,000)			
Bond Issuance Costs	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)			
Depreciation	(1,095,000)	(1,096,000)	(1,097,000)	(1,098,000)	(1,099,000)	(1,100,000)	(1,101,000)	(1,102,000)	(1,103,000)	(1,104,000)
Other Post Employment Benefits	(62,000)	(62,000)	(62,000)	(62,000)	(62,000)	(62,000)	(62,000)	(62,000)		
Overhead Allocation	<u>(718,000)</u>	<u>(776,000)</u>	<u>(839,000)</u>	<u>(907,000)</u>	<u>(980,000)</u>	<u>(1,059,000)</u>	<u>(1,145,000)</u>	<u>(1,238,000)</u>	<u>(1,338,000)</u>	<u>(1,446,000)</u>
Net Income	<u>(95,200)</u>	<u>(87,000)</u>	<u>(76,000)</u>	<u>(84,000)</u>	<u>(101,000)</u>	<u>(141,000)</u>	<u>(194,000)</u>	<u>(184,000)</u>	<u>(235,000)</u>	<u>(366,000)</u>

Appendix H

Port of Edmonds
 Projected Cash Inflow and Outflow from Marina Activities
 For the Years of 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Net Income	(95,200)	(87,000)	(76,000)	(84,000)	(101,000)	(141,000)	(194,000)	(184,000)	(235,000)	(366,000)	
Non-Cash Items - Depreciation, OPEB, Bond Issuance Costs	1,157,000	1,158,000	1,159,000	1,160,000	1,161,000	1,162,000	1,163,000	1,164,000	1,103,000	1,104,000	
Bond Principal Payments Due	(795,000)	(830,000)	(905,000)	(950,000)	(705,000)	(735,000)	(1,665,000)	-	-	-	
Capital Projects	(512,000)	(545,000)	(325,000)	(825,000)	(3,608,000)	(605,000)	(880,000)	(605,000)	(605,000)	(5,591,000)	
Cash Inflow/(Outflow)	(245,200)	(304,000)	(147,000)	(699,000)	(3,253,000)	(319,000)	(1,576,000)	375,000	263,000	(4,853,000)	(10,758,200)

Appendix I

Port of Edmonds
Marina Active Assets
As of January 3, 2011

assume CPI escalator 3% per year

Description	Actual In	Estimated	Acquisition	2015	2020	2025	2030	2035	2040
	Service Date	Life	Value						
FUEL FLOAT - I DOCK	5/31/1989	40	\$ 306,629				\$ 1,000,000		
SOUTH MARINA - B DOCK, WET MOORAGE PORTION	7/1/1998	40	\$ 2,160,000						\$ 7,046,000
DOCK C"	6/1/1998	40	\$ 1,586,750						\$ 5,176,000
DOCK D"	6/1/1998	40	\$ 1,586,750						\$ 5,176,000
DOCK E"	6/1/1998	40	\$ 1,376,950						\$ 4,492,000
DOCK F"	6/1/1998	40	\$ 1,193,350						\$ 3,893,000
DOCK G"	6/1/1998	40	\$ 963,875						\$ 3,144,000
DOCK H"	6/1/1998	40	\$ 498,350						\$ 1,626,000
DREDGING MID MARINA	12/31/1985	0	\$ 513,744				\$ 1,676,000		
PIERS, BULKHEAD MID MARINA, TRAVELIFT DOCK	12/31/1985	40	\$ 464,620			\$ 1,516,000			
FLOATS/MOORAGE MID MARINA - PERMANENT MOORAGE	12/31/1985	40	\$ 255,218			\$ 833,000			
WATER, SEWER, ELECT - MID MARINA	12/31/1985	30	\$ 510,044	\$ 1,238,000					
DOCK P"	2/1/1998	40	\$ 1,363,950						\$ 4,449,000
DOCK Q"	2/1/1998	40	\$ 1,154,000						\$ 3,764,000
DOCK R"	2/1/1998	40	\$ 1,258,900						\$ 4,107,000
DOCK S"	2/1/1998	40	\$ 1,134,325						\$ 3,700,000
DOCK T"	2/1/1998	40	\$ 944,200						\$ 3,080,000
DOCK U"	2/1/1998	40	\$ 944,200						\$ 3,080,000
DOCK V"	6/1/1998	40	\$ 498,350						\$ 1,626,000
MID-LIFE REHAB (WATER REPLACEMENT) FOR 1998 PORTION OF MARINA	6/1/1998				\$ 4,000,000				
DREDGING & CLEAR	12/31/1969	50	\$ 165,917						\$ 727,000
NORTH ROCK BREAKWATER - REHAB EVERY 20+- YEARS	12/31/1969		\$ 638,111			\$ 2,709,000			
BULKHEAD NORTH HARBOR	12/31/1969	50	\$ 224,810		\$ 986,000				
INTERIOR BREAKWATER - MID-MARINA - REHAB EVERY 20 +- YEARS	12/31/1985		\$ 918,346			\$ 1,084,000			
N. BULKHEAD AND BOARDWALK, STEEL PILES AND DECKING	4/30/1992	40	\$ 980,745			\$ 3,199,000			
NORTH SEAWALL	12/31/2006	40	\$ 1,845,586						\$ 6,020,000
SOUTH MARINA - A&B DOCKS, DRY STORAGE PORTION	7/1/1998	40	\$ 1,440,000						\$ 4,697,000
NORTH MARINA ROADS & PARKING	12/31/1969	45	\$ 194,077	\$ 734,000					
NORTH MARINA WATER SEWER ELECTRIC	12/31/1969	45	\$ 285,939	\$ 1,081,000					
SOUTH PARKING LOT	7/31/1999	35	\$ 944,297					\$ 2,657,000	
				\$ 3,053,000	\$ 4,986,000	\$ 9,341,000	\$ 2,676,000	\$ 2,657,000	\$ 65,803,000
			Total Original Cost						
			2020 Replacement Value						
			2040 Replacement Value						

NOTE: THESE ARE PROJECTIONS BASED ON BEST JUDGMENT AND HISTORY AND MAY BE COMPLETED IN THIS TIMEFRAME +/- 2-3 YEARS.

Appendix J

Port of Edmonds
Estimated Highest Lawful Levy

Tax Year	Port of Edmonds Estimated Taxable Assessed Value	Highest Lawful Levy	Estimated Levy Rate
2011	\$ 3,790,361,915	\$ 515,961	\$0.13612447
2012	\$ 4,068,574,480	\$ 521,121	\$0.12808432
2013	\$ 4,367,207,846	\$ 526,332	\$0.12051907
2014	\$ 4,687,760,902	\$ 531,595	\$0.11340065
2015	\$ 5,031,842,553	\$ 536,911	\$0.10670268
2016	\$ 5,401,179,796	\$ 542,280	\$0.10040032
2017	\$ 5,797,626,393	\$ 547,703	\$0.09447021
2018	\$ 6,223,172,170	\$ 553,180	\$0.08889036
2019	\$ 6,679,953,007	\$ 558,712	\$0.08364008
2020	\$ 7,170,261,558	\$ 564,299	\$0.07869991
2021	\$ 7,696,558,757	\$ 569,942	\$0.07405153
2022	\$ 8,261,486,169	\$ 575,641	\$0.06967770
2023	\$ 8,867,879,254	\$ 581,398	\$0.06556221
2024	\$ 9,518,781,591	\$ 587,212	\$0.06168980
2025	\$ 10,217,460,160	\$ 593,084	\$0.05804611
2026	\$ 10,967,421,736	\$ 599,015	\$0.05461764
2027	\$ 11,772,430,491	\$ 605,005	\$0.05139167
2028	\$ 12,636,526,889	\$ 611,055	\$0.04835624
2029	\$ 13,564,047,963	\$ 617,165	\$0.04550009
2030	\$ 14,559,649,084	\$ 623,337	\$0.04281265
2031	\$ 15,628,327,326	\$ 629,570	\$0.04028393
2032	\$ 16,775,446,552	\$ 635,866	\$0.03790458
2033	\$ 18,006,764,329	\$ 642,225	\$0.03566575
2034	\$ 19,328,460,831	\$ 648,647	\$0.03355917
2035	\$ 20,747,169,856	\$ 655,134	\$0.03157701
2036	\$ 22,270,012,123	\$ 661,685	\$0.02971192
2037	\$ 23,904,631,013	\$ 668,302	\$0.02795700
2038	\$ 25,659,230,929	\$ 674,985	\$0.02630573
2039	\$ 27,542,618,479	\$ 681,735	\$0.02475199
2040	\$ 29,564,246,676	\$ 688,552	\$0.02329002

Appendix K

Port of Edmonds
Revenue Bond Estimated Amortization Schedule

Estimated Bond Amount	\$ 1,385,000
Estimated Payback Period	20
Estimated Interest Rate	5.00%

	Annual Payment	Principal	Interest	Remaining Balance
2021				\$ 1,385,000
2022	\$ 111,000	\$ 41,750	\$ 69,250	\$ 1,343,250
2023	\$ 111,000	\$ 43,838	\$ 67,163	\$ 1,299,413
2024	\$ 111,000	\$ 46,029	\$ 64,971	\$ 1,253,383
2025	\$ 111,000	\$ 48,331	\$ 62,669	\$ 1,205,052
2026	\$ 111,000	\$ 50,747	\$ 60,253	\$ 1,154,305
2027	\$ 111,000	\$ 53,285	\$ 57,715	\$ 1,101,020
2028	\$ 111,000	\$ 55,949	\$ 55,051	\$ 1,045,071
2029	\$ 111,000	\$ 58,746	\$ 52,254	\$ 986,325
2030	\$ 111,000	\$ 61,684	\$ 49,316	\$ 924,641
2031	\$ 111,000	\$ 64,768	\$ 46,232	\$ 859,873
2032	\$ 111,000	\$ 68,006	\$ 42,994	\$ 791,867
2033	\$ 111,000	\$ 71,407	\$ 39,593	\$ 720,460
2034	\$ 111,000	\$ 74,977	\$ 36,023	\$ 645,483
2035	\$ 111,000	\$ 78,726	\$ 32,274	\$ 566,757
2036	\$ 111,000	\$ 82,662	\$ 28,338	\$ 484,095
2037	\$ 111,000	\$ 86,795	\$ 24,205	\$ 397,300
2038	\$ 111,000	\$ 91,135	\$ 19,865	\$ 306,165
2039	\$ 111,000	\$ 95,692	\$ 15,308	\$ 210,473
2040	\$ 111,000	\$ 100,476	\$ 10,524	\$ 109,997
2041	\$ 111,000	\$ 105,500	\$ 5,500	\$ 4,496

Appendix L

Port of Edmonds
LTGO Bond Estimated Amortization Schedule

Estimated Bond Amount	\$ 5,250,000
Estimated Payback Period	20
Estimated Interest Rate	5.00%

	Annual Payment	Principal	Interest	Remaining Balance
2021				\$ 5,250,000
2022	\$ 422,000	\$ 159,500	\$ 262,500	\$ 5,090,500
2023	\$ 422,000	\$ 167,475	\$ 254,525	\$ 4,923,025
2024	\$ 422,000	\$ 175,849	\$ 246,151	\$ 4,747,176
2025	\$ 422,000	\$ 184,641	\$ 237,359	\$ 4,562,535
2026	\$ 422,000	\$ 193,873	\$ 228,127	\$ 4,368,662
2027	\$ 422,000	\$ 203,567	\$ 218,433	\$ 4,165,095
2028	\$ 422,000	\$ 213,745	\$ 208,255	\$ 3,951,350
2029	\$ 422,000	\$ 224,433	\$ 197,567	\$ 3,726,917
2030	\$ 422,000	\$ 235,654	\$ 186,346	\$ 3,491,263
2031	\$ 422,000	\$ 247,437	\$ 174,563	\$ 3,243,826
2032	\$ 422,000	\$ 259,809	\$ 162,191	\$ 2,984,017
2033	\$ 422,000	\$ 272,799	\$ 149,201	\$ 2,711,218
2034	\$ 422,000	\$ 286,439	\$ 135,561	\$ 2,424,779
2035	\$ 422,000	\$ 300,761	\$ 121,239	\$ 2,124,018
2036	\$ 422,000	\$ 315,799	\$ 106,201	\$ 1,808,219
2037	\$ 422,000	\$ 331,589	\$ 90,411	\$ 1,476,630
2038	\$ 422,000	\$ 348,168	\$ 73,832	\$ 1,128,462
2039	\$ 422,000	\$ 365,577	\$ 56,423	\$ 762,885
2040	\$ 422,000	\$ 383,856	\$ 38,144	\$ 379,029
2041	\$ 422,000	\$ 403,049	\$ 18,951	\$ (24,020)