

October 18, 2006

To the Port of Shelton Commission:

The Port Staff has prepared the attached operating, maintenance, and capital budget for the Port of Shelton for the fiscal year 2007.

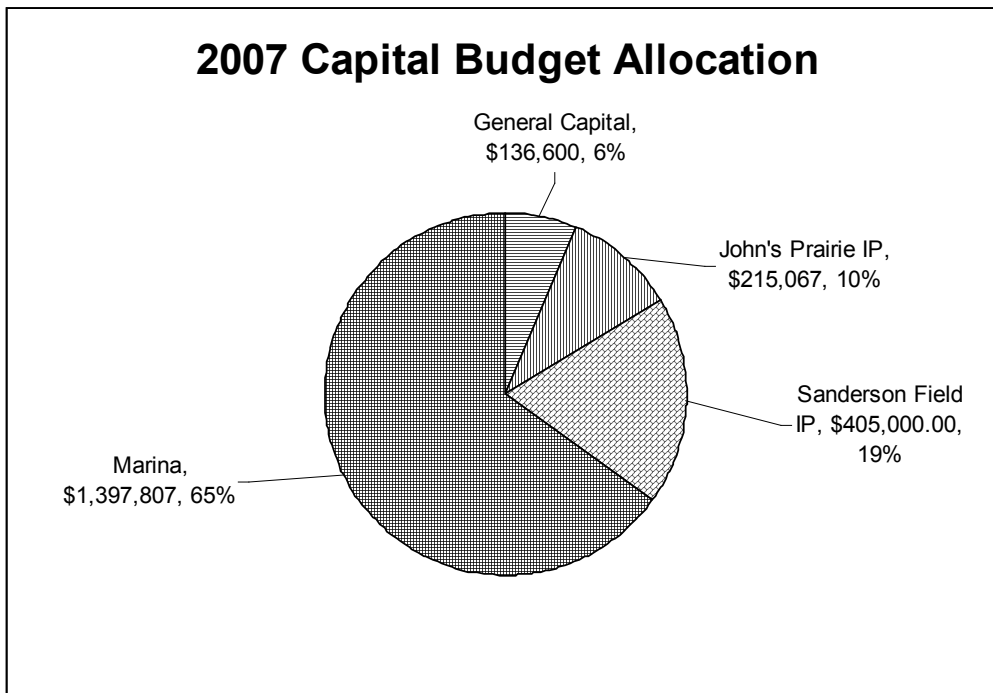
The detailed capital project budget for 2007 is shown below:

Project #	Location	Title	Spent Through Year End 2006*	2007 New Budget Authority*	2007 Capital Budget Request	Total Project Cost
02-01	MA	Cole Property	\$255,120	\$0	\$684,880	\$940,000
05-06	JP	Stormwater Improvements	\$38,033	\$0	\$19,867	\$57,900
05-08	SF	Administrative Office Upgrade	\$135,398.00	\$0.00	\$15,000.00	\$171,861
06-03	JP	Kiln Demo	\$0.00	\$0.00	\$20,200.00	\$20,200
06-11	All	Sweeper Purchase	\$0.00	\$20,000.00	\$40,000.00	\$40,000
06-16	JP	Storage Yard	\$20,000.00	\$5,000.00	\$10,000.00	\$30,000
07-01	All	Routine Capital	\$0.00	\$35,000.00	\$35,000.00	\$35,000
07-	JP	Reservoir Interior Coating	\$0.00	\$95,000.00	\$95,000.00	\$95,000
07-	MA	Marina Sewer Engineering	\$0.00	\$50,000.00	\$10,000.00	\$50,000
07-	MA	Marina Parking Lots	\$0.00	\$372,826.00	\$50,000.00	\$372,826
07-	MA	Marina Bulkhead	\$0.00	\$569,270.00	\$569,270.00	\$569,270
07-	MA	Primary Signage	\$0.00	\$8,657.00	\$8,657.00	\$8,657
07-	MA	Pier Railing	\$0.00	\$75,000.00	\$75,000.00	\$75,000
07-	SF	Analysis & Recruitment	\$0.00	\$35,000.00	\$35,000.00	\$35,000
07-	SF	Building 1 (Baja) Reroof	\$0.00	\$135,000.00	\$135,000.00	\$135,000
07-	SF	Airport Master Plan	\$0.00	\$65,000.00	\$65,000.00	\$65,000
07-	SF	Airplane Display	\$0.00	\$25,000.00	\$25,000.00	\$25,000
07-	SF	410 W Enterprise Rd Reroof (Olympic Tool	\$0.00	\$35,000.00	\$35,000.00	\$35,000
07-	SF	Premises Improvement Fund	\$0.00	\$70,000.00	\$70,000.00	\$70,000
07-	All	Surveying/Mapping Equipment	\$0.00	\$7,000.00	\$7,000.00	\$7,000
07-	JP	Premises Improvement Fund	\$0.00	\$70,000.00	\$70,000.00	\$70,000
07-	All	Limb Grinder Purchase	\$0.00	\$12,600.00	\$12,600.00	\$12,600
07-	All	Paint Striper Purchase	\$0.00	\$10,000.00	\$10,000.00	\$10,000
07-	All	Scissor Lift Purchase	\$0.00	\$10,000.00	\$10,000.00	\$10,000
07-	All	Vehicle Purchase	\$0.00	\$22,000.00	\$22,000.00	\$22,000
07-	SF	Flag Pole Purchase	\$0.00	\$5,000.00	\$5,000.00	\$5,000
07-	SF	Hydroseeder Purchase	\$0.00	\$15,000.00	\$15,000.00	\$15,000
07-	SF	Rotating Beacon	\$0.00	\$5,000.00	\$5,000.00	\$5,000
		<b>Total</b>	<b>\$448,551.00</b>	<b>\$1,752,353.00</b>	<b>\$2,154,474.00</b>	<b>\$2,987,314.00</b>

For years, the Port has steadily upgraded and improved its industrial facilities at John's Prairie and at Sanderson Field. The Port has also made significant investments in aviation related facilities such as hangars and upgrades to existing runways and taxiways.

In 2007, approximately 2/3 of the capital budget will be spent on the Port's Marina line of business. The Port will take over the active management of its Marina on January 1, 2007, and we expect the present staff will be able to accommodate the increased workload by using new, computerized systems. In the future, as improvements are made to the Marina and the business expands, operational costs may be impacted by this line of business.

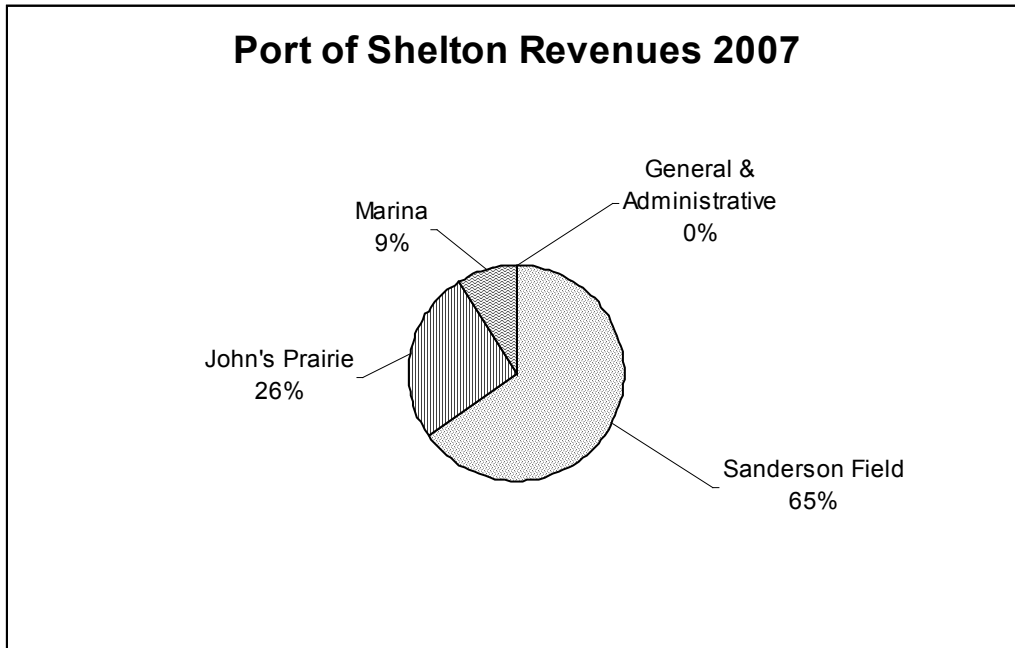
The breakdown of capital spending by area of operation is shown on the pie chart below:



The 2007 capital plan calls for three projects valued over \$100,000: marina property acquisition (\$685K in 2007), marina bulkhead and associated upland improvements (\$570K in 2007), and Building 1 roofing (\$135K in 2007). An additional \$144K will be spent in marina improvements, and the remaining capital projects are prioritized to improve or maintain capacity in the Port's water system and its industrial parks.

## **The 2007 Operating and Maintenance Budget**

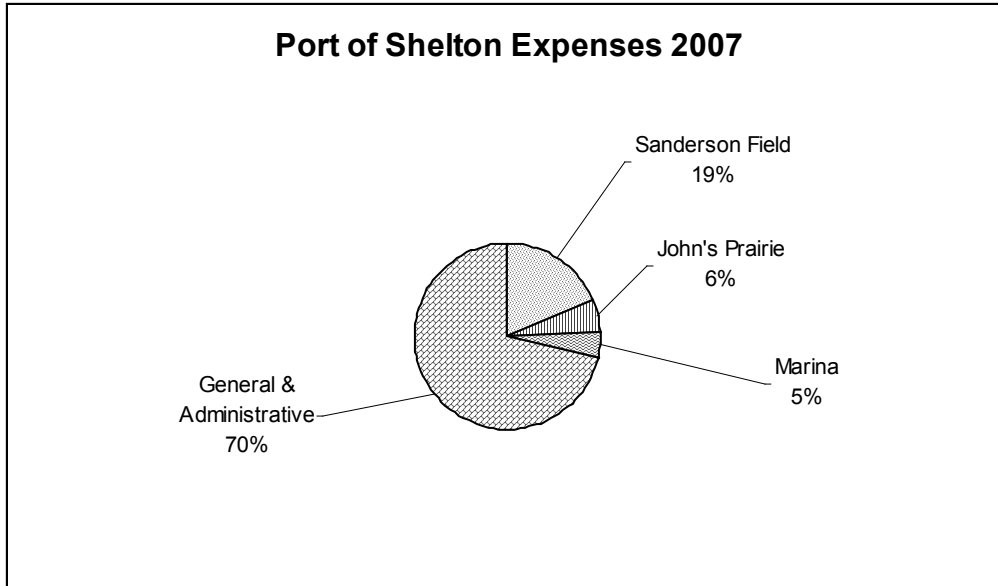
The Port will generate positive cash flow from operations of approximately \$254,000. This is an increase of about \$198,000 in forecast operating cash flow compared to 2006 budget.



Operating revenues are projected to be \$1.71MM, up \$210K or 14% over 2006 levels. Sanderson Field lease revenue is projected to be \$1.11MM, up \$90K or 8.8% over 2006 levels. John's Prairie lease revenue is projected to be \$439K, up \$28K or 6.8% over 2006 levels. Marina revenue is projected to be \$153K, up \$91K or 146.8% over 2006 levels.

The industrial leasing revenue increases come from two major sources. First, increases in existing lease rates, and second, expansion, renewal, or new leases. The budget is conservative, and we used only existing lease deals to formulate the projection.

The marina revenue increase comes from the Port taking over direct operation of its marina. As the Port gains experience operating the marina, adjustments to rates and fees are to be expected. However, the budget makes no assumptions about rate or fee increases for the beginning of 2007.



Expenses are projected to increase in all operating divisions in 2007 as well. Total operating expenses are budgeted at \$1.45MM, up \$195K or 15.5% over 2006 levels.

Sanderson Field operations expense, at \$270K, is projected to increase \$40K, or 17.5% over 2006 levels. \$16K of the increase is due to higher utility operating costs, primarily electricity. Another \$13K of the increase is due to higher budgeted amounts for supplies and materials. The remaining \$11K of increase relates to increased wages and outside services.

John's Prairie operations expense, at \$80K, is projected to increase \$4K, or 5% over 2006 levels. \$2K of the increase is due to utility tax costs paid by the Port on its water system revenues. Another \$1K of the increase is due to higher budgeted amounts for supplies and materials. The remaining \$1K of increase relates to increased wages and outside services.

Marina operations expense, at \$67K, is projected to increase \$10K, or 17.5% over 2006 levels. \$19K of the increase is due to higher maintenance wages. Another \$7K of the increase is due to higher budgeted amounts for supplies and materials and maintenance services. These increases are offset by a budgeted decrease in outside professional service costs of \$16K.

General and Administrative expenses, at \$1.04MM, is projected to increase \$144K, or 16.0% over 2006 levels. \$19K of the increase is due to higher wages. Another \$28K of the increase is due to increased employee benefits costs. Another \$16K of the increase is due to higher budgeted amounts for outside services. Another \$7K of the increase is due to higher operating materials and supplies costs. Another \$27K of the increase is due to higher general operating costs, primarily increases in staff training & travel (\$6K), liability insurance costs

(\$6K), and memberships and dues (\$13K). In addition, a provision for bad debt expense is included in the budget for 2007 at \$24K. Utilities costs are expected to be \$4K higher than in 2006. G&A maintenance is increased \$15K over 2006 levels. The remaining \$4K of increase relates to a variety of small account level changes.

### **Non-Operating Budget**

Non-Operating Revenues consist of property taxes, interest earned on idle funds, and other small tax revenues. Total nonoperating revenues are projected to be \$1.02MM in 2007.

In 2007, we have assumed property tax revenues will be \$584K, which is an increase of \$77K, or 15.3% over 2006 levels. The budget assumes that the Port will levy approximately 100% of the maximum lawful tax levy for 2007. The approximate levy rate will be 43 cents per \$1,000 of assessed valuation, which means a taxpayer with \$150K of taxable property will pay approximately \$64 in tax to the Port in 2007. This is an increase over 2006's rate of 38 cents per \$1,000 of assessed valuation. The increase will cost a taxpayer with \$150K of taxable property will pay approximately \$7 more in taxes to the Port in 2007 than in 2006.

All of the tax levy is used to fund capital type projects or repay indebtedness of the Port. None of the tax levy is used to support Port operations. The reason for the proposed tax increase is to pay for new capital projects, or, in the alternative, retire bonded debt earlier than planned. The amount of the tax increase in excess of the inflationary adjustment is about \$57,000. This amount will be placed in a separate fund which will be spent only to repay debt or finance new capital projects approved by the Port Commission in future budgets. This small increase will also improve the Port's financial ratings should it need to borrow new funds in the future.

Other Non-operating revenues include receipts for easements and grants expected to total \$437K in 2007. Also, interest earned on idle funds will generate \$40K. This is a decrease of about \$15K over the 2006 interest budget, because the amount of idle funds has continued to decline as the Port invests cash into productive capital improvements.

The Port also has non-operating expenses. These expenses consist of interest expense on debt, the state financial and compliance audit, and election expenses. Total non-operating expenses should be \$157K in 2007, compared to \$173K for 2006, a decrease of 9.2%, mostly attributable to reduced interest charges as the Port pays off debt. Total non-operating cash flow before principal repayments should be \$858K in 2006, an increase of 114.5% over 2006 levels.

A public hearing on, and adoption of, the 2007 operating, maintenance, and capital budget will be held on November 7, 2006.

Respectfully Submitted,

George Fox  
Port Auditor & Asst. Treasurer

Bob Robinson  
Managing Director