

## SECTION 9

# FINANCIAL PLAN

### 9.1 OVERVIEW

The Port of Miami operates as a Miami-Dade County Government enterprise. As such, the Port is viewed as a self-funding, sustainable entity that should pay for its operating and capital costs. In fact, the Port is required to pay other County Departments for services they provide to the Port. This includes Fire and Police and others that have collected fees from the Port over time.

The current Port of Miami is built on reclaimed land. This means that the Port must bear the costs of even its most basic asset - raw land. With few exceptions, and with the assistance of federal dredging programs, the Port was able to establish a foothold on the new Dodge Island with sufficient land and berths to allow it to begin operations.

Since the adoption of the 1979 Port of Miami Master Plan, the County adopted a policy to grow the Port to meet the needs of the fast-growing cargo and cruise business sectors. The 1980's promised, and delivered, on rapid expansion as the cruise business began to mature and Latin America's trade increased dramatically. Due to the fast-paced nature of this growth, the Port and County resorted to the only available financing scheme - revenue supported debt.

The Port used multiple issuances of revenue bonds as vehicles to improve marketability and, in one instance, was able to issue revenue bonds with GOB backing. Following this rapid growth period of the 1980's, the Port transformed itself into the largest container terminal in the South Atlantic, and also allowed the cruise business to quadruple over the period.

This growth and business model came at a cost: the Port became one of the most indebted ports in the U.S. Other ports did not suffer from debt load as many had, and currently have, a business model whereby they receive funding from other sources. For example, during this period, Port Everglades was a Port Authority which, at times, exercised its ad-valorem powers to obtain tax support. Today, many ports in the U.S. have such broad powers. Other ports have been given other assets which are exploited to generate revenues. These assets may come with a broader mission or large real estate holdings that generate lease revenues.

The dependence on debt for the Port also means that all revenues are coming directly from user fees. However, when those same users are also attracted to other ports which do not rely entirely on fees, the business model for the Port of Miami, once competition drives fees downward, becomes unsustainable.

In the end the Port, some 30 years after its major expansion, has much more modest debt capacity, and ever-growing capital needs. In summary, the Port's major financial challenges are as follows:

- The Port is predominately a self-funding enterprise with revenues coming from user fees;
- The Port, in general, does not receive any financial support other than:
  - Grants; and,
  - Credit enhancements / loans.

- 100% of the facilities of the Port are newly built since 1960;
- 100% of the Port is reclaimed new land (no inexpensive land was used to start the port); and,
- It is hard to spend for the future when using historical revenues to sell bonds.

The current situation is as follows:

- The Port is the most (or one of the most) indebted ports in the country;
- Other ports have diversified funding sources;
- Tariffs are very competitive; and,
- Tariffs are a major issue with cruise lines and other port tenants.

Thus, the conclusion reached through examination of the 2035 Master Plan is that one of the most important elements is the reengineering of the Port's business model to diversify revenues in order to allow for a competitive fee structure and to increase revenues to pay for the overall capital program.

### 9.2 TARIFFS

The Port's revenues are as a result of three major activities:

- **MOVEMENT OF GOODS AND PEOPLE** – the Port charges a tariff for the “wharfage” or a fee measured by a unit of measurement of the goods and people moving across the docks. In the case of cruise, wharfage is a head tax. In the case of cargo, it is charged on a per-ton or TEU basis. Other multiple wharfage charges are in the Port's portfolio to account for other types of goods such as vehicles.
- **DOCKING OF SHIPS** – the Port has a berthing charge for the use of the docks (typically based upon a 24-hour period).
- **RENTALS** – the Port charges for a multitude of activities such as leasing space, gantry cranes, land rentals, offices, etc.

The charges above that are applied to the volumes of traffic that the Port handles make up its revenue base.

Tariffs are approved by the Board of County Commissioners and are filed with the appropriate federal agencies. Tariffs are reviewed periodically to determine their applicability and competitiveness. In addition, due to changes in the port industry, tariffs are dramatically transformed to reflect current business practices.

The cargo industry went through several changes as they moved from break bulk to containers.

Presently, the cruise industry is requesting that tariffs be changed to reflect a “bundled” wharfage rate for all services provided.

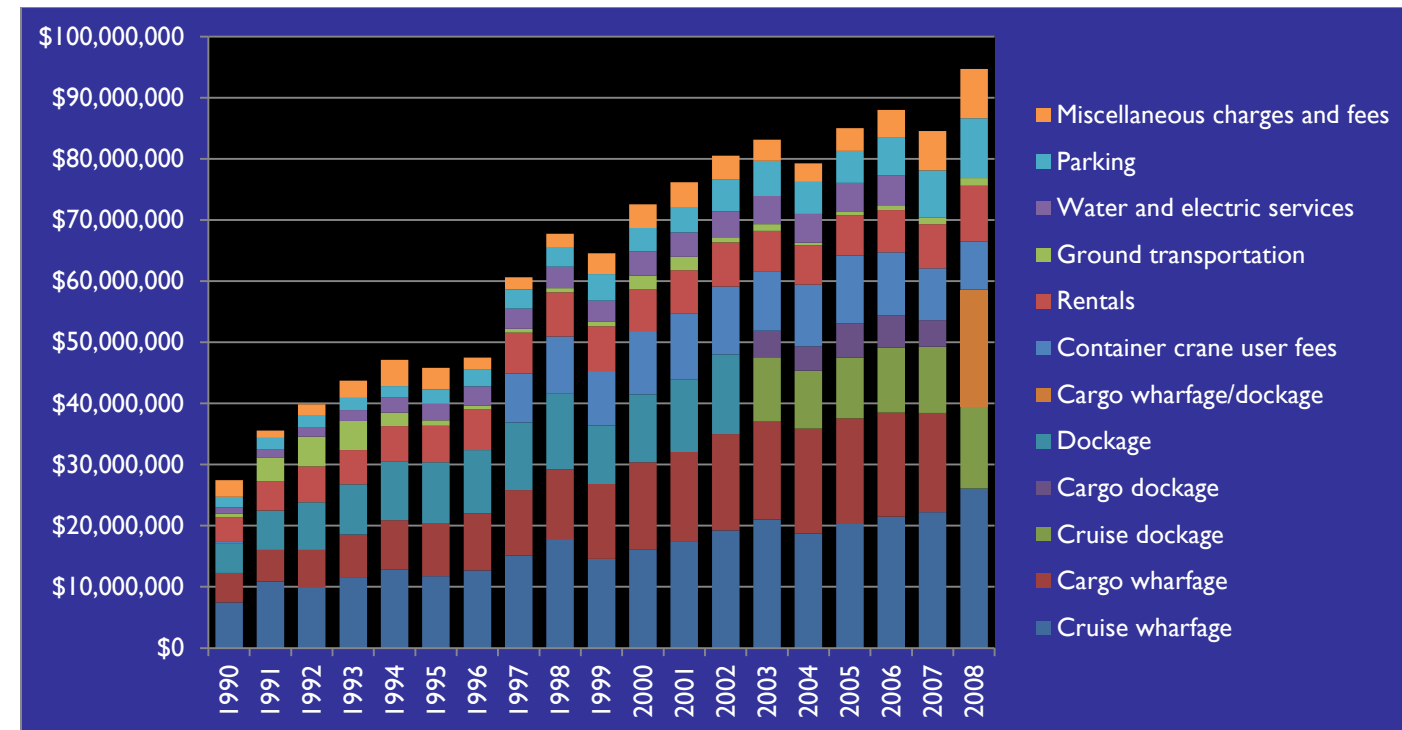
### 9.3 GROSS REVENUES

The application of tariffs to the traffic of the Port has yielded significant growth in the Port's gross revenues. Figure 9.1 shows the historical growth since 1990. Over the years, the Port has changed the classification of certain revenues and/or provided more specificity. Among the changes are:

- Dockage fees up to 2002 were reported as a single line item. Since then, they have been reported as cruise dockage and cargo dockage.
- Cargo charges were consolidated into one line item in 2008.

In the future, there will be further changes that will reflect the new reporting regime.

**FIGURE 9.1: HISTORICAL PORT GROSS REVENUES**



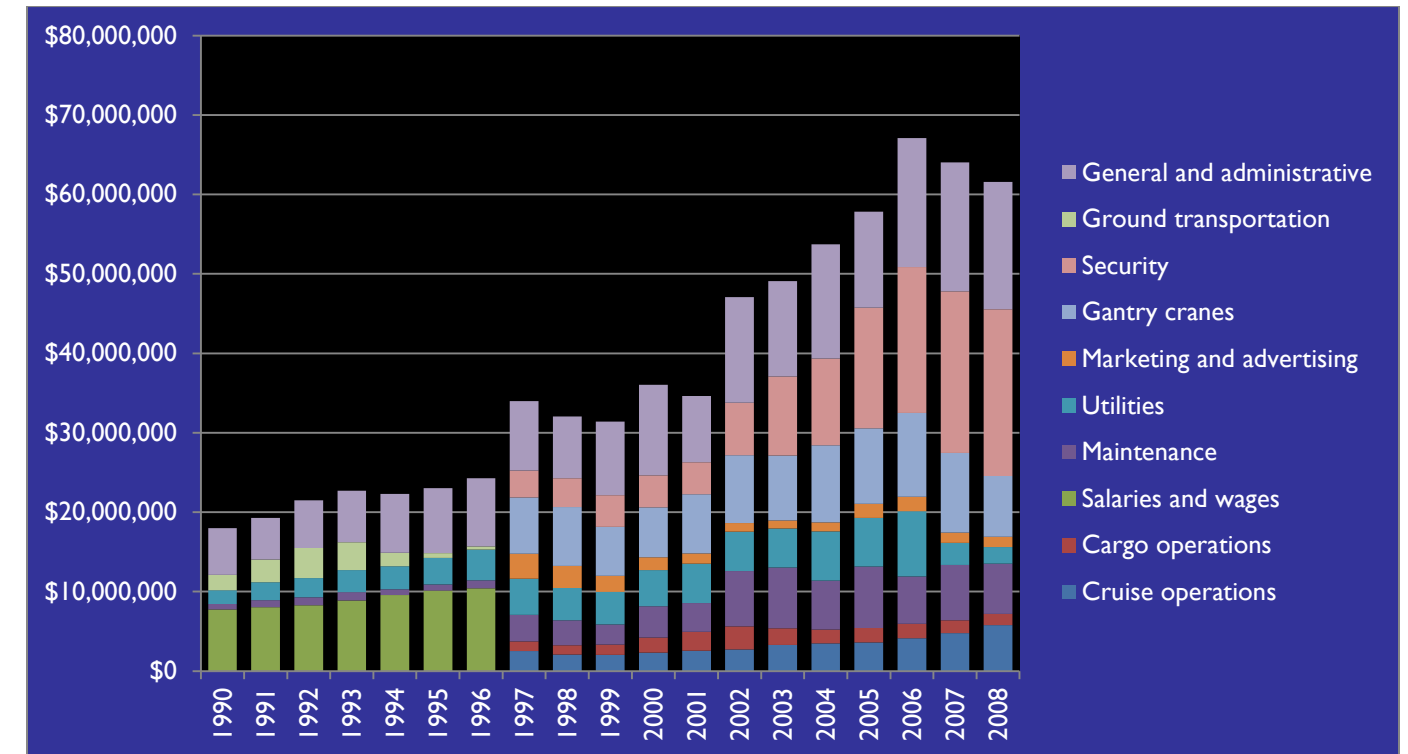
The record reflects a very impressive growth in the Port's revenues over the past two decades and confirms that the Port's strategy to "build to grow" has worked. Were it not for this strategy, the Port of Miami would not have the thriving cruise and cargo industry that it has today.

### 9.4 EXPENSES

The Port's net revenues are generated after paying for all expenses; this has been a challenging area for ports in general. Since 2001, security has been a major issue for the Port and its users. The ability to respond to security standards being established by third parties without revenues has created major financial challenges.

Figure 9.2 shows the overall expenses for the Port during the past two decades. As with the gross revenues, the method and form of reporting expenses has changed. For example, from 1997, more specificity was assigned to each cost reflecting the different businesses of the Port. In some cases, such as utilities in 2007, the Port eliminated the utility sales as an income line item and now reflects the net utility bill after it receives the revenues from charges.

**FIGURE 9.2: HISTORICAL PORT EXPENSES**

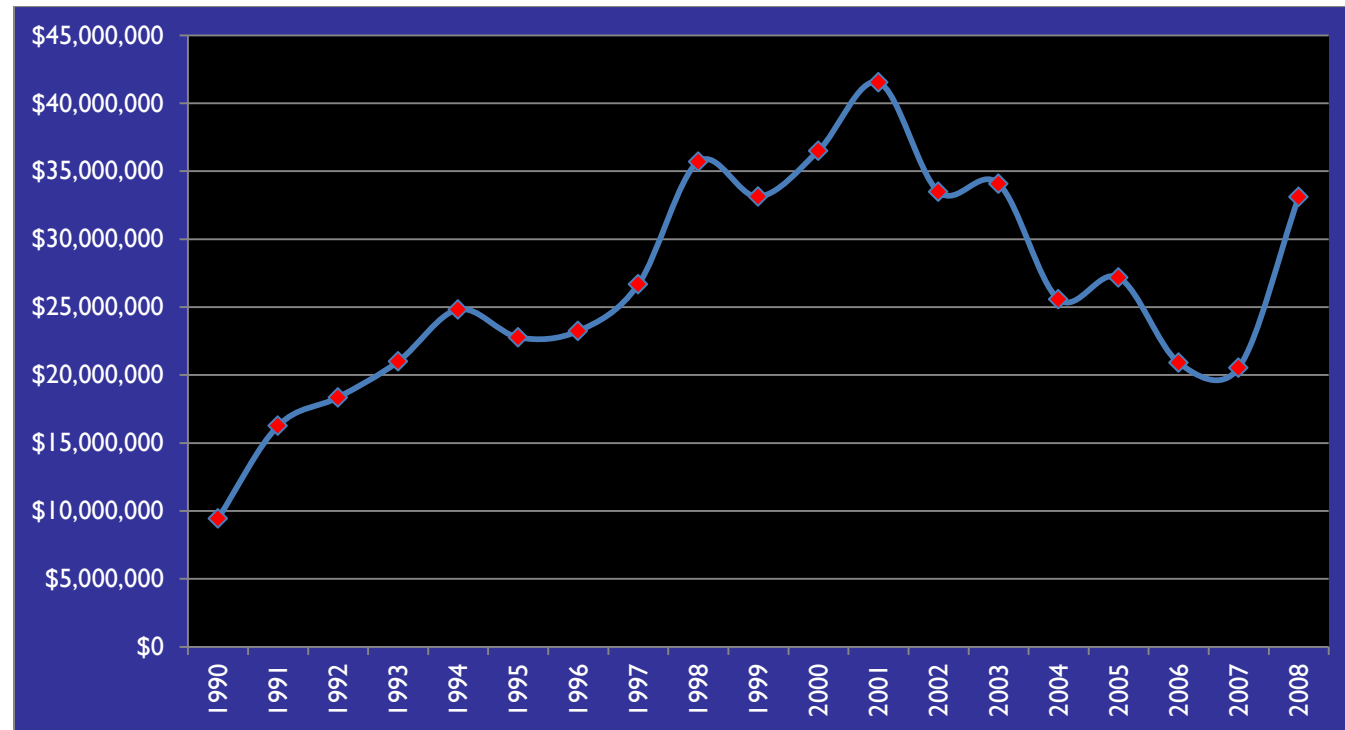


This figure clearly shows the impact of security costs on the Port's financials which began to increase dramatically after 2001. After a large ramp-up period that began from 1997 to 2002 and peaked in 2006, expenses are now being better controlled. This is critical as the Port is relying on the net revenues to fund improvements.

## 9.5 NET REVENUES

The net revenues of the Port have been its most valuable asset. They have been used to pay for improvements, either from cash and/or from the issuance of debt. Figure 9.3 shows the net revenues before depreciation, interest or other payments below the operating line. It does not contain any non-operating income from interest gains, grants, or other sources.

**FIGURE 9.3: HISTORICAL NET REVENUES**



The result of these trends is that, despite significant revenue gains during this period, expenses far outstripped the Port's gains and resulted in a decrease from the peak of approximately \$41 million in net revenues in 2001 to a low of \$20 million in 2007. Since then, the Port has bounced back to recover most of the loss.

Based upon this historical review, the Port's revenue stream has significant fluctuations and is not a stable funding source for future growth.

In 2009, the Port's debt service was approximately \$32 million with a coverage requirement in total net revenues of \$35 million. This alone should be indicative of the business model of the Port; it commits its resources to build for the future.

## 9.6 STRATEGIES

In order to create a sustainable financial program for the Port, several strategies should be considered that will achieve the following:

- Provide a diversified income stream;

- Look for revenues from non-tariff items to allow the Port to maintain competitiveness, in particular, this Master Plan has identified the use of commercial real estate as an asset;
- Establish longer term agreements with customers to reduce revenue fluctuations;
- Establish business units at the Port that have responsibility over profitability for each in lieu of just operating responsibility; and,
- Control costs and look for other revenue sources from ancillary uses such as retail, advertising, etc.

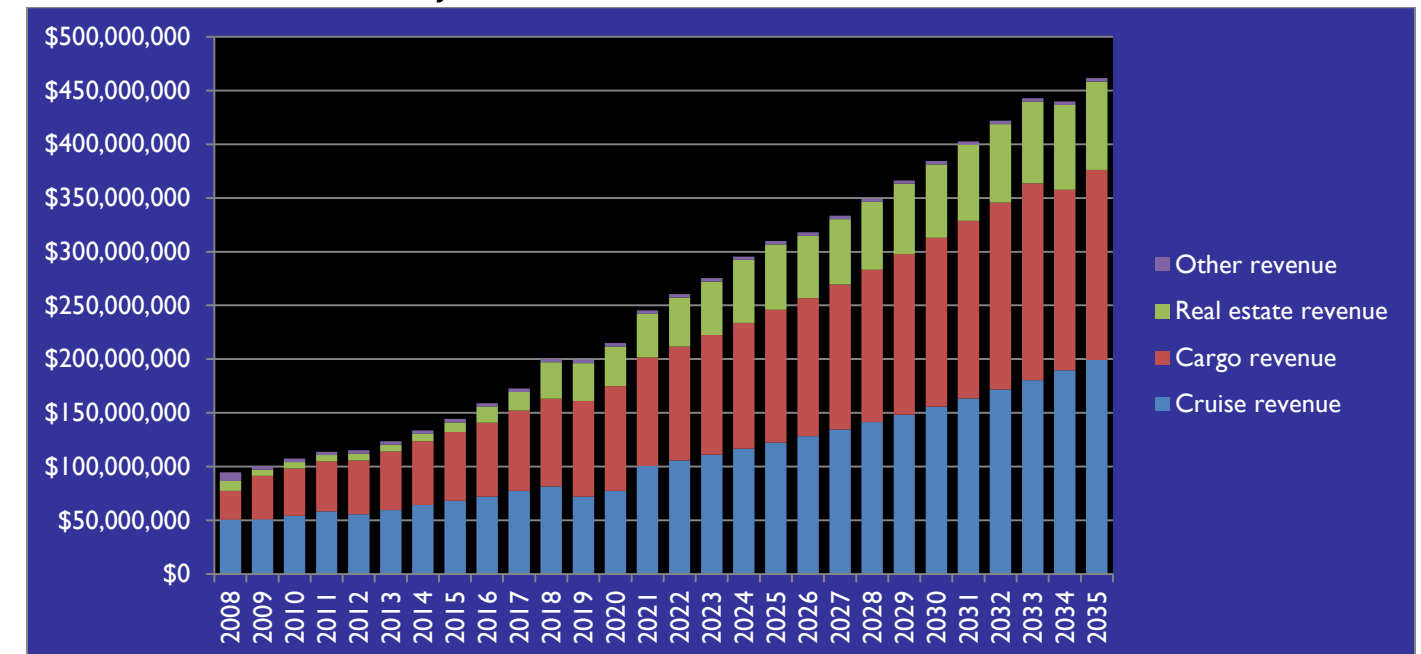
## 9.7 FUTURE REVENUES

Projections have been done for the future traffic based on the cargo and cruise forecasts, as well as the introduction of the strategies mentioned above. Figure 9.4 shows the projected gross revenue forecasts for the Port. The forecasts take into account all contract commitments from users and tenants which will be further described in the section below.

The forecasts have been combined into the three major business units. Cargo and cruise are the predominant units. However, the master plan shows that by 2018, the Port will be in a position to begin to leverage its real estate assets. This is dependent on the real estate cycle.

The forecasts grow due to a built-in 3% escalator for non-contract revenues. Contract revenues are escalated in accordance with the terms of the contracts.

**FIGURE 9.4: GROSS REVENUE PROJECTIONS**



## 9.8 CONTRACTS

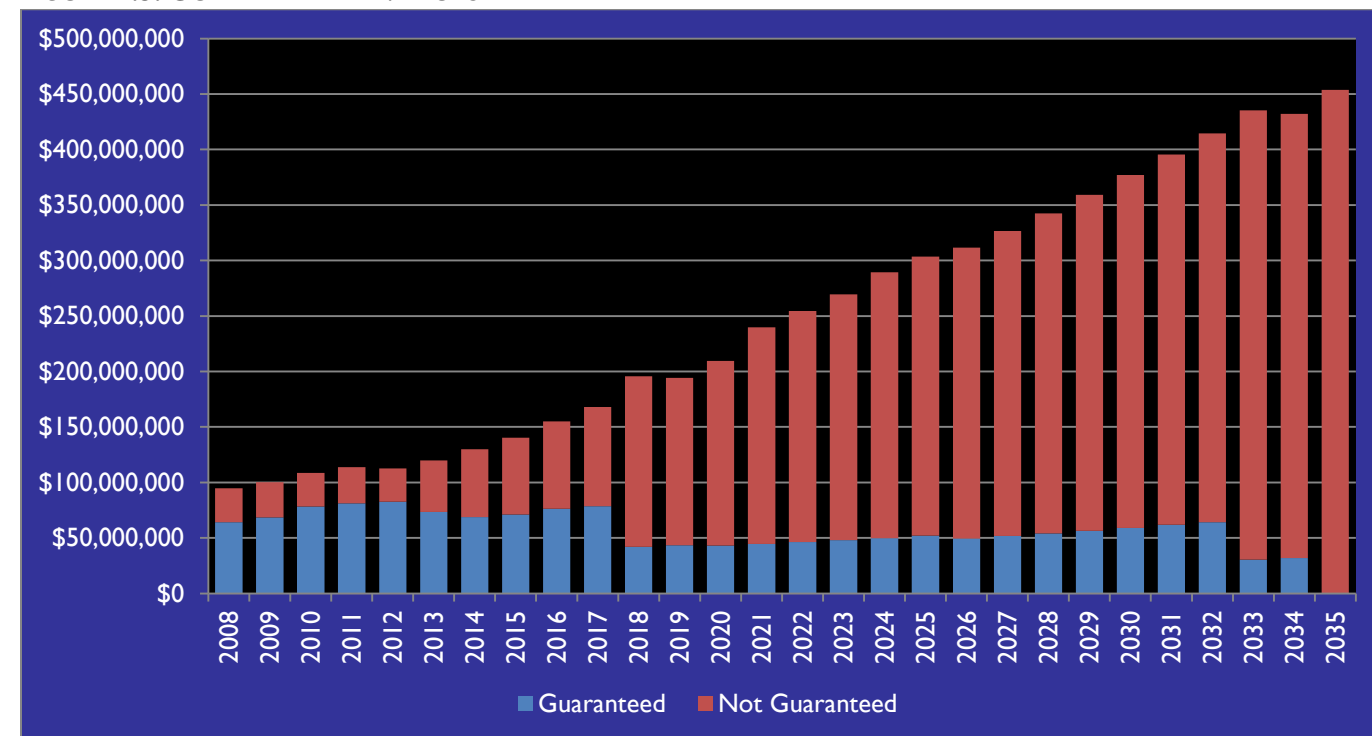
One major change is the prevalence of long-term contracts from Port users. There was a time when all of the traffic at the Port paid tariffs without any long-term contracts or commitments. During the past two years, this trend has totally reversed. Long-term in the industry means contracts over 5 to 10 years in duration.

In the case of the cargo industry, long-term contracts have been used by the Port to allow the tenants to invest their own funds in the improvements they require. Thus, this method relieves the Port from having to pay 100% of the capital for the improvements. In the case of the cruise industry, the lines have been motivated to enter into such agreements as a way of limiting port costs or - at best - making them more predictable in the future.

As with any other business, whether cargo or cruise, when a contract is entered into, the Port will receive assurances of payments and or traffic. It also means that revenues are adjusted to compensate for the transfer of risk. Figure 9.5 shows the percent of the Port's total revenue that is under contract. In this table, guarantees are defined as long-term agreements with cruise lines, cargo lines, or leases with tenants.

This method of contracting for future uses is consistent with the strategies envisioned in this master plan in order to level off fluctuations in income for the future.

**FIGURE 9.5: GUARANTEED REVENUES**

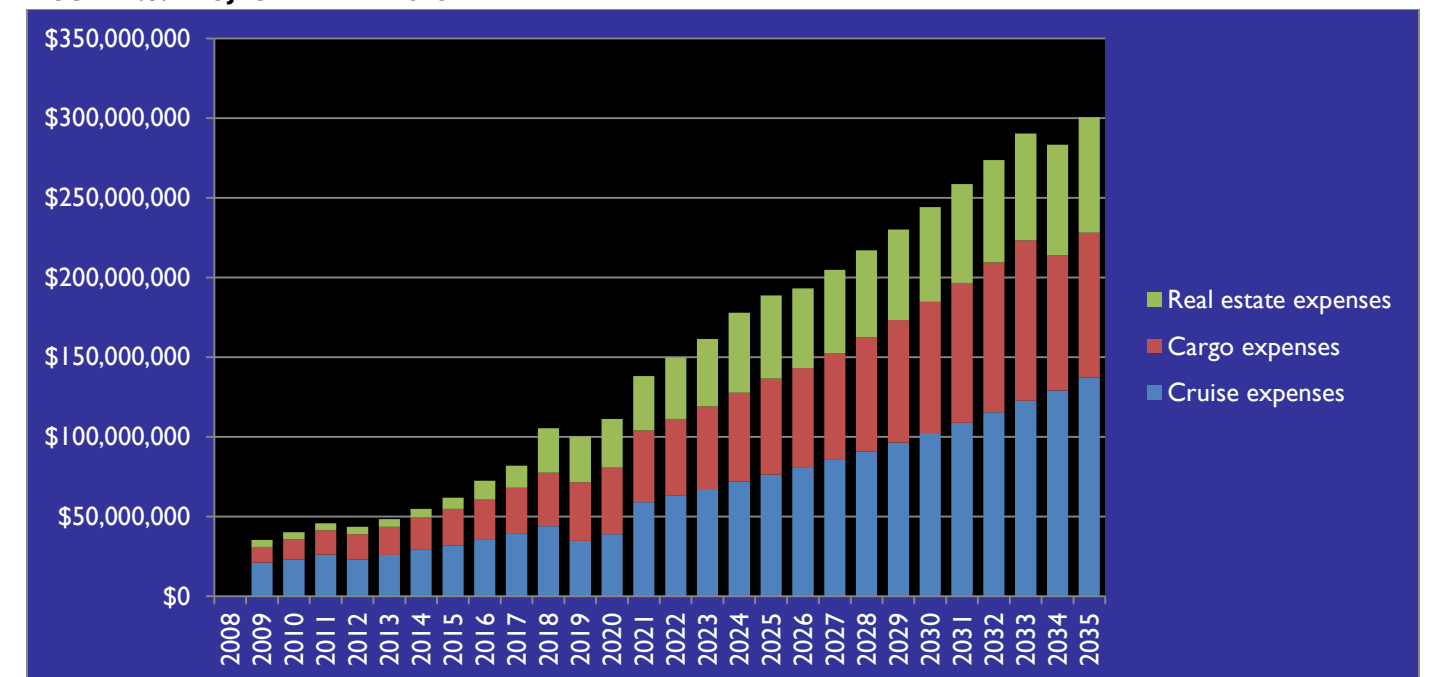


## 9.9 PROJECTED NET REVENUES

Based on the above review, projections have been made for the Port's net revenues. At the request of the Port, expenses have been calculated using a 4.5% annual escalator which far outstrips the 3% tariff escalation. The expense projections are shown in Figure 9.6. The expenses have been allocated to each business unit using the following general guidelines:

- Each business unit carries its direct costs;
- The general overhead of the Port is divided between the units as a proportion of their gross revenues;
- Security costs are split 50/50 between cruise and cargo; and,
- Real estate expenses are based on a model of the Port leasing the land and not owning the real assets.

**FIGURE 9.6: PROJECTED EXPENSES**

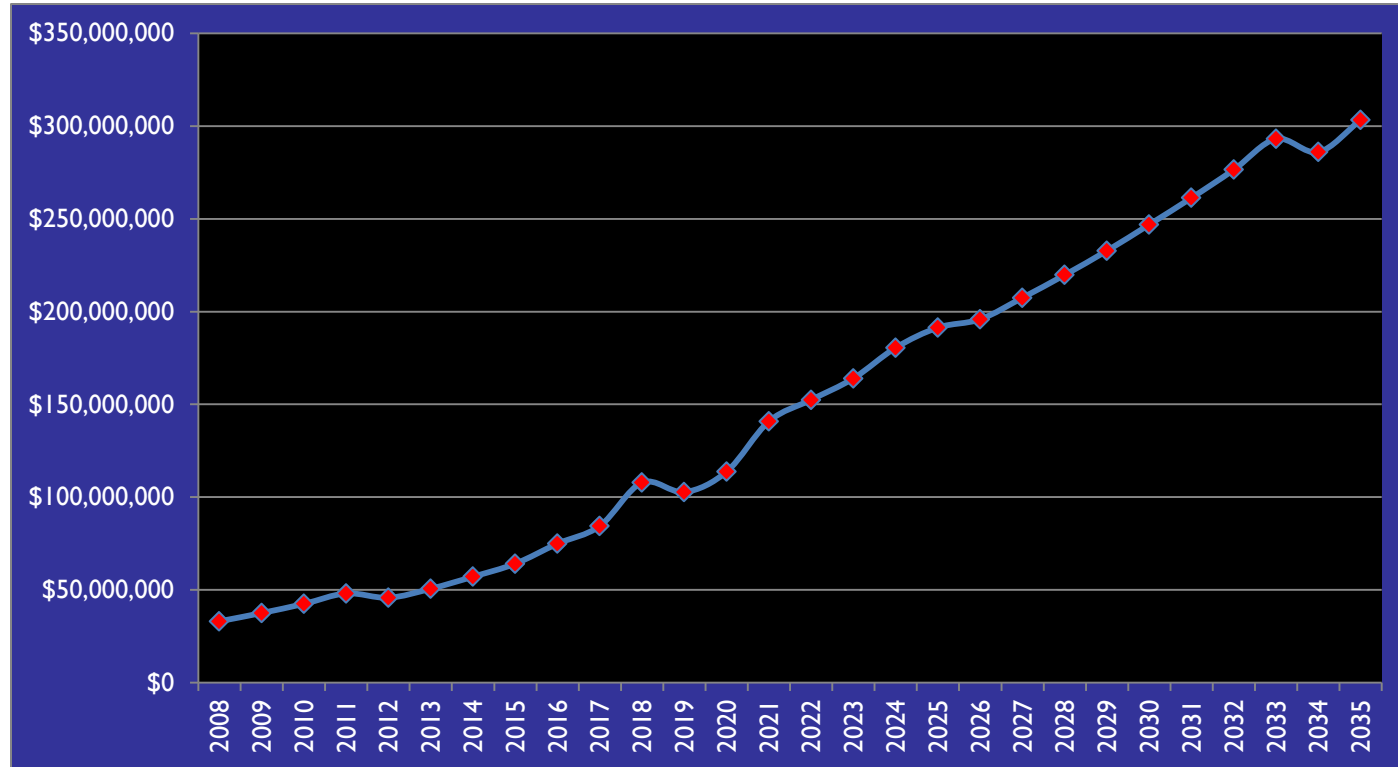


The results shown above reflect the low levels of costs associated with leasing real estate and the higher costs of cargo operations, most of which are due to the costs of the gantry cranes.

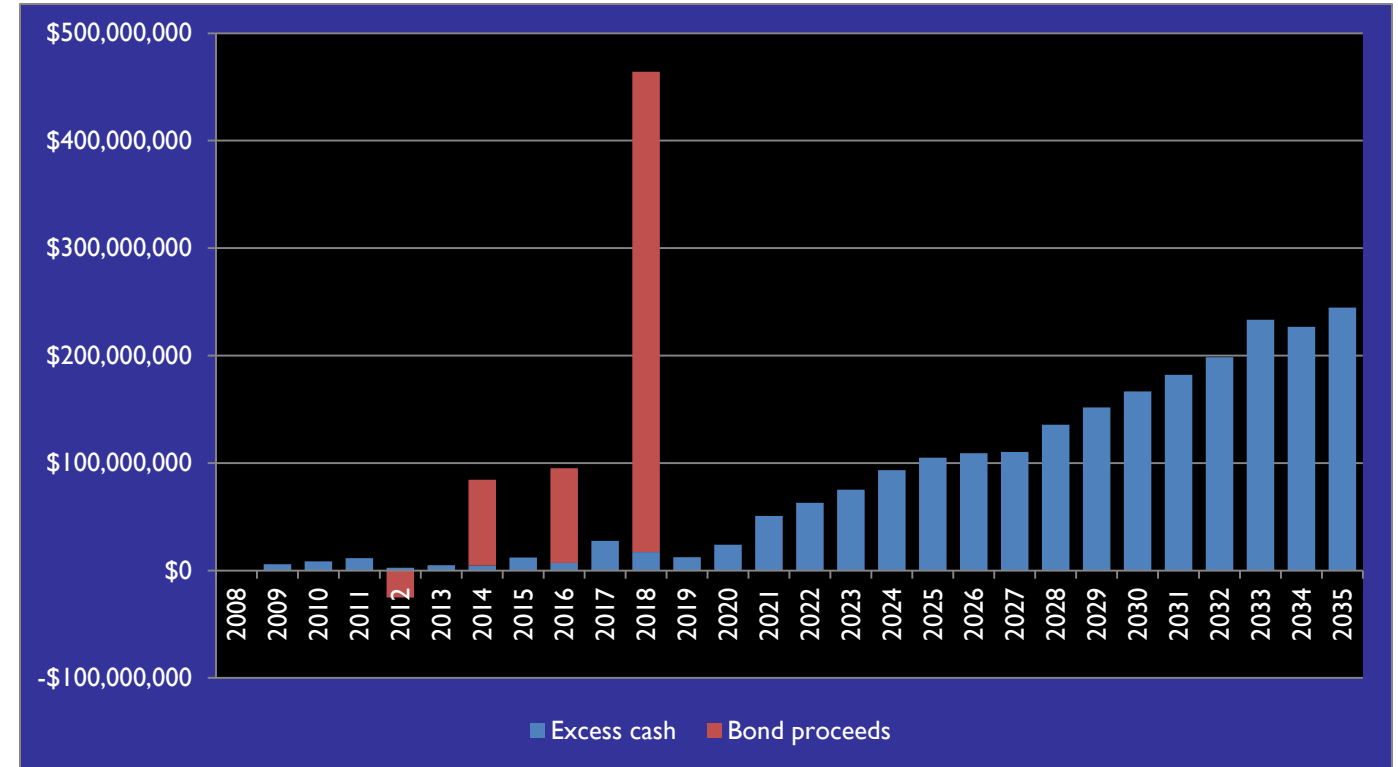
The projected net revenues for the Port have been calculated and are shown in Figure 9.7. The numbers shown are operating net revenues before depreciation, interest expenses, debt service, and/or non-operating income. The net revenues of the Port will grow over time from \$42.5 million in 2010 to \$303 million in 2035, should the business meet the market projections.

Thus, the Port has a very promising future. However, the short-term capital needs are much larger than the Port can handle based on a pure revenue / debt formula.

**FIGURE 9.7: PROJECTED NET REVENUES**



**FIGURE 9.8: AVAILABLE REVENUES FOR CAPITAL**



**9.10 REVENUES AVAILABLE FOR CAPITAL IMPROVEMENTS**

From the net revenues, the Port will need to pay the current debt service, other expenses and, subsequently, meet the coverage imposed by each of the covenants on the existing debt before it can look to issue new debt. However, as a result of this process, the Port will also generate excess cash that can also be used for the capital program.

Figure 9.8 shows the availability of revenues for capital. This is a combination of annual surplus cash and new debt issued once the Port’s periodic debt capacity increases. In general, this tends to occur every two to three years. The chart shows that approximately every two years, the Port will have the ability to raise between \$50 to \$100 million in new revenues. In 2018, should the Port wish to renegotiate certain leases, revenues could substantially increase.

It is unlikely that the Port will be able to increase lease costs much in 2018 as these new leases will need to be renegotiated with existing customers that will not want to increase rentals to such a high degree. However, there is a potential upside to these leases and it may provide a boost to Port revenues in that year.

**9.11 COMPARISON OF FUNDING NEEDS VS. AVAILABILITY**

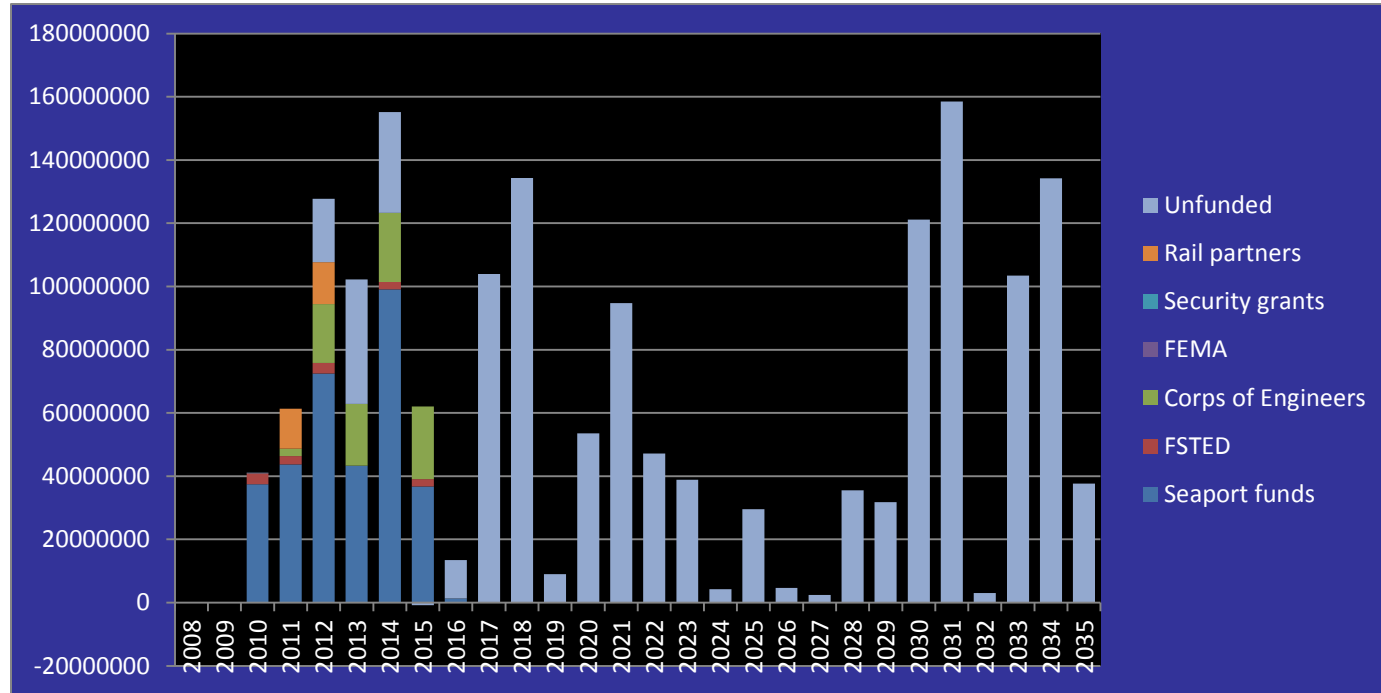
Not all of the Port’s capital needs are funded from operations. Historically, the Port has been able to get a number of grants or contributions from partners to support its capital needs. In particular, the deepening of the channels is being paid-for through funding from the Federal Water Resources Act. The tunnel project has contributions from the State and City governments.

The Port is also the recipient of grants. Some are from the State FSTED program which has annual allocations of modest sums, and from time to time, the Port is funded by Federal Security Grants.

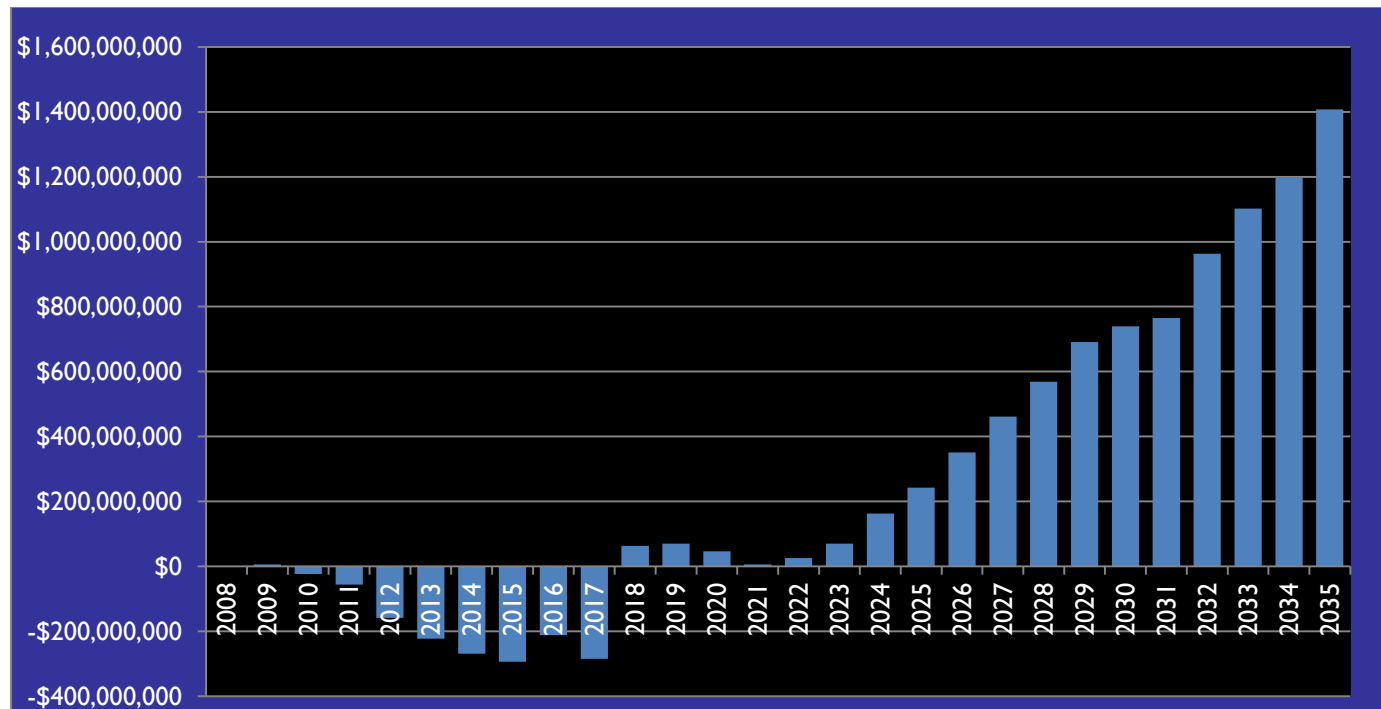
Figure 9.9 shows the sources of funding. The majority of funding falls in the Unfunded or Seaport categories, both of which will need to receive funding from the Port’s revenues.

Both the categories shown as Seaport Funds and Unfunded require allocation of Seaport Resources or an unidentified source. These continue to be the predominant sources. FDOT and city funding is not reflected as the total cost of the tunnel is not in the capital program. This is not an FDOT project.

**FIGURE 9.9: ANNUAL CAPITAL PROGRAM EXPENDITURES BY SOURCE OF FUNDING**



**FIGURE 9.10: ANNUAL CAPITAL SURPLUS / DEFICIT**



The resulting funding surpluses or shortfalls are shown in Figure 9.10. The next ten years calls for a major reconsideration of programs, conservation of capital and potential for deferring certain programs in order to balance these resources.

Once the Port's income stream is more diversified, the financial picture will improve to the point whereby the County can strategically decide on how best to spend these funds.

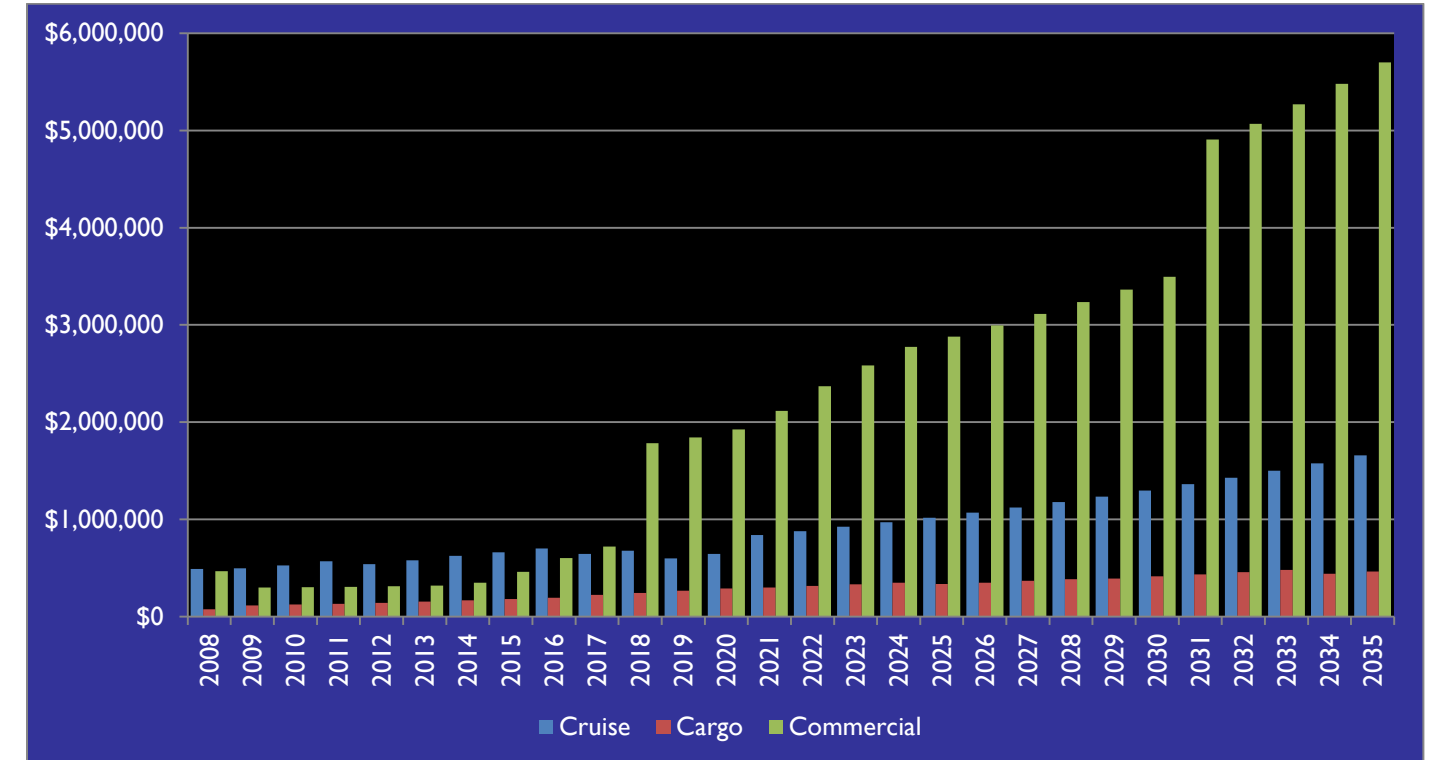
**9.12 FINANCIAL METRICS**

There are several important financial metrics that can assist the Port in making investment decisions. These metrics are also important in future negotiations, allocation of resources, and prioritization. The metrics are:

- Cruise:
  - Gross revenue per terminal;
  - Gross revenue per acre; and,
  - Revenue per lineal feet of berth.
- Cargo:
  - Gross revenue per acre; and,
  - Gross revenue per lineal feet of berth.
- Commercial:
  - Gross revenue per acre.

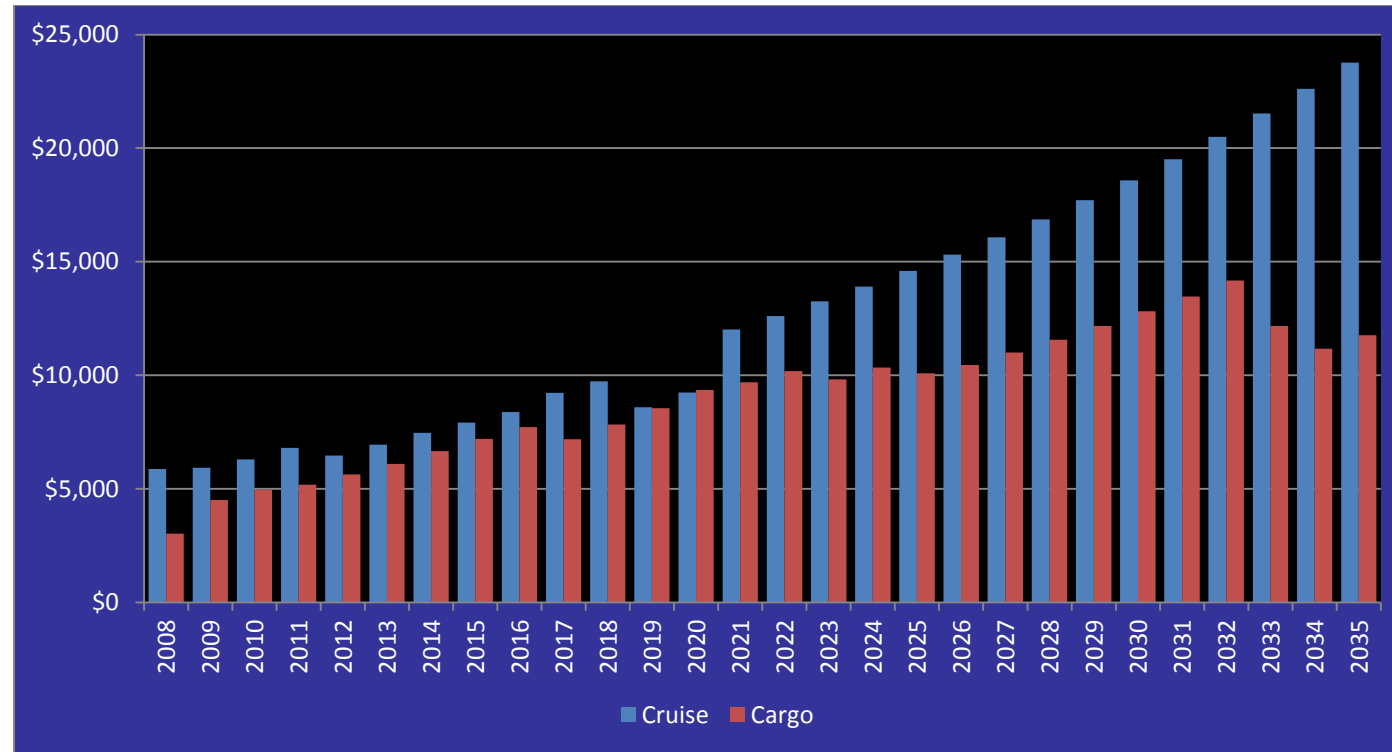
Because of the commonality in all of the per-acre measurements, or per-lineal feet for cargo and cruise, these can be compared to yield an index of effectiveness of uses from a financial return point of view.

**FIGURE 9.11: GROSS REVENUES PER ACRE BY USE**



Figures 9.11 show the comparative yield per acre of the three uses. Figure 9.12 shows the comparison of yield per lineal feet of berth. This latter chart shows the lucrative nature of the Port's real estate assets and the compelling case to put them to work. It also shows that, per acre, cruise, which has a more intensive use of the land, is more efficient.

**FIGURE 9.12: GROSS REVENUES PER LINEAL FEET OF BERTH PER USE**



The conclusions of this analysis show that the Port is yielding better results from cruise activities. However, that is not sufficient to sustain long-term growth of the Port. The Commercial assets of the Port should be put to work to generate new revenues.

Further, when the yields are compared with the investments, the individual IRR of each use varies dramatically, with cargo being the lowest performing sector.

### 9.13 DECISIONS ON FUTURE INVESTMENTS

The decision to make an investment at the Port of Miami has predominately been driven by the economic impact that such uses will have on the community. Over the years the Port has prided itself on the jobs it has created and the economic impacts it has produced. The primary goal of the master plan is job creation.

However, it is also important to make decisions on the financial sustainability of the Port. The need to generate revenues is also paramount if the Port is going to continue to achieve its mission. This Master Plan, along with the 2008 *Local and Regional Economic Impacts of the Port of Miami Study*, provides the tools required for the Port to develop a revised investment policy that weighs both of these primary factors in its decision-making and outlines a priority for future investments.