

Inflation

PCCHPA Meeting
April 5, 2024

Inflation

too many dollars chasing too few goods

- ▶ “The arithmetic makes it plain that inflation is a far more devastating tax than anything that has been enacted by our legislatures. The inflation tax has a fantastic ability to simply consume capital.”
 - ▶ Warren Buffett

Inflation

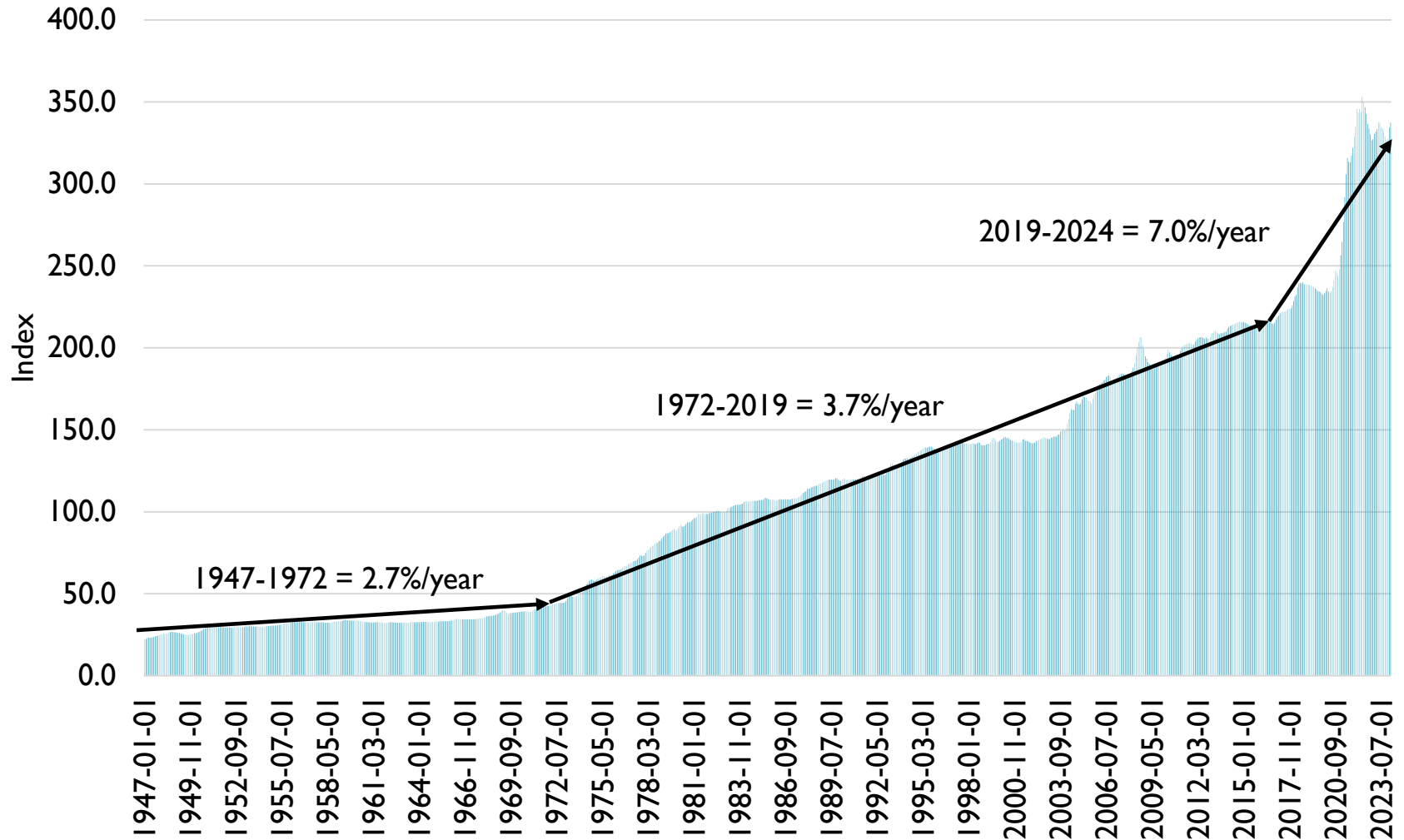
Other lighter definitions

- ▶ Interviewer: What do you mean by Competitive Salary?
HR: It means your salary will be competing with your bills.
- ▶ The great thing about inflation is if you spend the same on groceries, the bags are lighter and easier to carry home.
 - ▶ Shrinkflation
- ▶ "Inflation in the US is so bad right now that... Parents in Beverly Hills fired their nannies and learned their children's names."

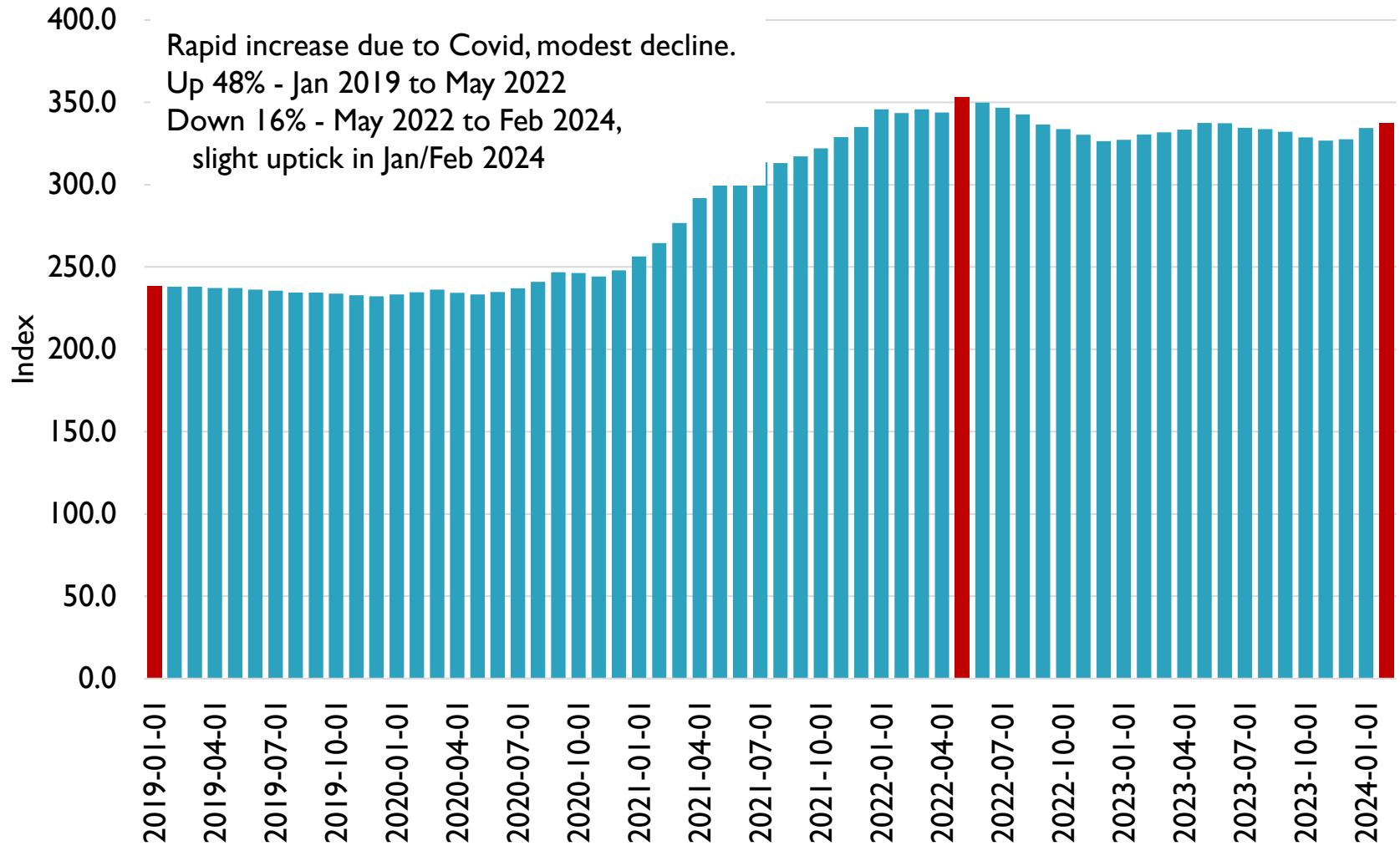
Agenda

- ▶ How inflation impacts harbor development
 - ▶ Cost of rebuilds & new construction
 - ▶ Financing
 - ▶ Impact on O&M costs
 - ▶ Impact on workers

PPI Construction Materials



PPI Construction Materials



Future

▶ Uncertainty

- ▶ Industrial construction costs spiked more than other commercial types because of its highly concentrated materials mix.
- ▶ Costs will likely increase
- ▶ Decisions
 - ▶ Build new vs Rebuild existing
 - ▶ Type
 - Revenue generating (moorage, hoists, uplands...)
 - Non-revenue generating (dredging, breakwaters, seawalls...)

Bremerton

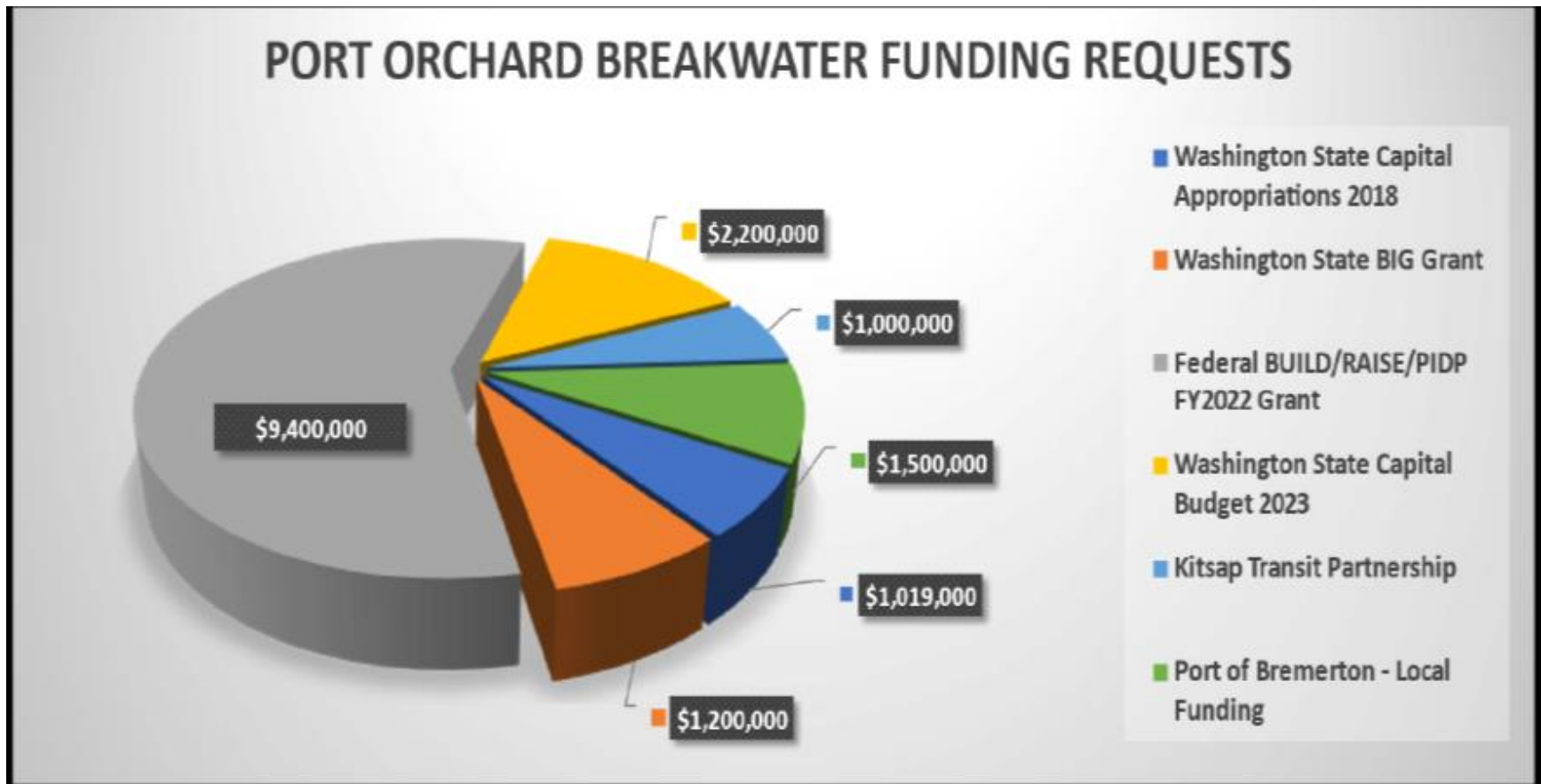


PORT ORCHARD MARINA BREAKWATER REPLACEMENT Project Funding

- 48-year-old breakwater
- Functionally Obsolete & Structurally Failing
- 2-Year Data Collection & Design Process
- 1.5-Year Permitting Process
- 1.5-Year Construction Process



Bremerton Funding



Newport – Dock 7

▶ Port Dock 7 rebuild

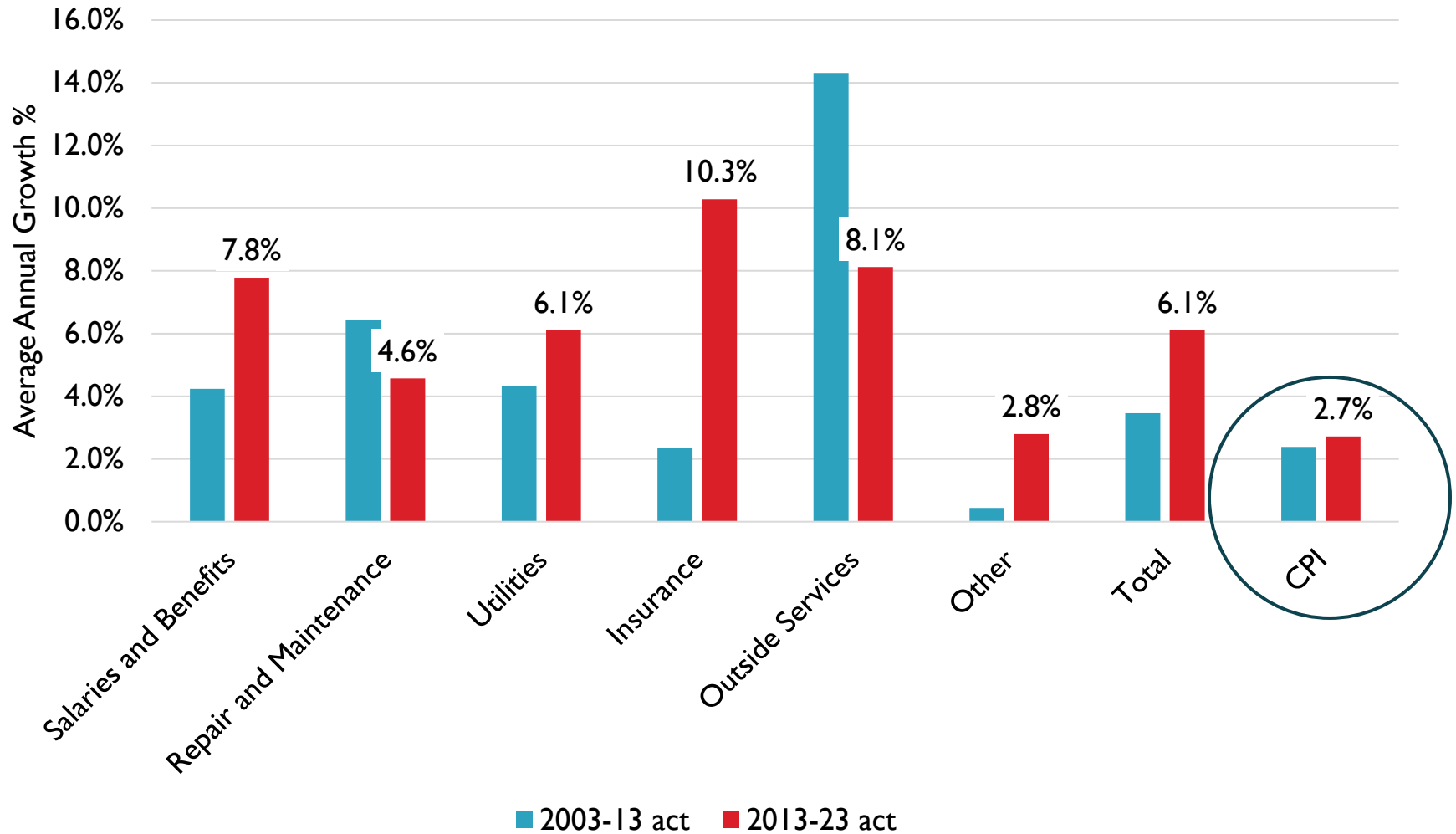
- ▶ Critical project
 - ▶ At the end of it's life.
 - ▶ Port turns boats away.
- ▶ Cost has grown to \$34.5 million.
- ▶ Uncertainty - core sampling.

▶ Plan

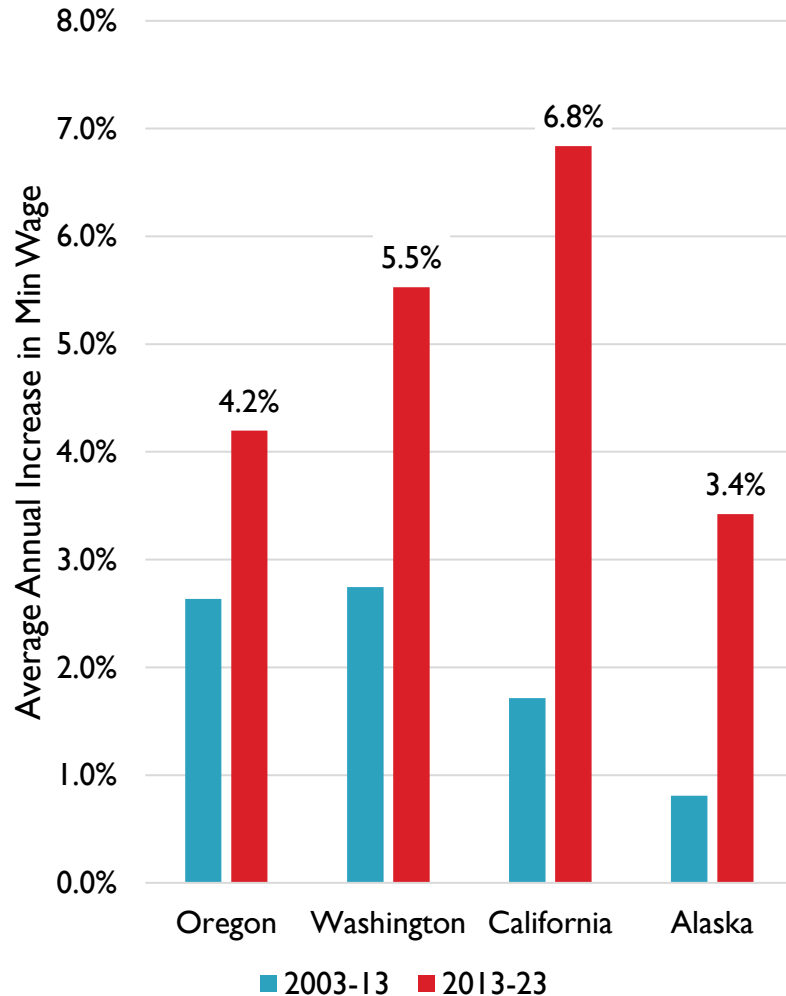
- ▶ Raise grant - \$25 million.
- ▶ Connect Oregon - \$9.5 million.
- ▶ Backup - Loan or a bond.
 - ▶ Need to have sufficient net revenue to cover match.

Operating Revenues & Expenses

Annual Operating Cost Increases



Salaries & Benefits



- ▶ Account for ~45% or more of expenses
 - ▶ Wages & Benefits increased 7.8%/year for client
 - ▶ Minimum wage increased by 3.4% to 6.8% per year in US West Coast states
- ▶ Likely to continue
 - ▶ Competition for employees
 - ▶ Aging out
 - ▶ Bonuses to sign temporary workers
 - ▶ Unionization

CorePlus – Maritime Education

- ▶ **NMTA Supports Marine Trade School**
 - ▶ NMTA and Core Plus Maritime hope to place 25 students in jobs or internships in the recreational boating industry by June 30.
 - ▶ “We had just come out of the Great Recession and that was the first time I became aware that there was going to be a significant labor shortage, particularly for our skilled workers,”
 - ▶ George Harris, president/CEO of the Northwest Marine Trades Association in Seattle, Wash., told Trade Only Today.

Insurance

- ▶ One client is in an insurance pool
 - ▶ Could lose insurance if another incident occurs.
- ▶ “Protection gap” between insurance and climate change
 - ▶ In 2020, just 60% of the \$165 billion in total economic losses from climate-related disasters were covered by insurance.
 - ▶ We see impacts of every kind from:
 - ▶ Boat ramps silting in
 - ▶ Breakwaters eroding
 - ▶ Structures destroyed

Other expenses

▶ Maintenance & Repair

- ▶ Up 4.6% per year.
- ▶ Deferred maintenance is the number one problem for aging harbors.

▶ Utilities

- ▶ Increased use, ? On capturing all charges
- ▶ Up 6.1% for client

▶ Outside services

- ▶ Up 8.1% for client
- ▶ Related to workload.

Marina Rates

- ▶ Base on competitive marina rates
- ▶ Increase at CPI or other index
- ▶ Set to cover costs and ROI
 - ▶ Demand and capital expenditures
 - ▶ Market comparison and recover costs/ROI

Marina Rates

▶ Rate structure

- ▶ 92% increase by length of slip
 - Selling square feet of water space – as boat gets longer, it is also wider; bigger sqft of space
- ▶ 8% keep lineal foot rate the same by length of slip

▶ Many different presentations of rates

- ▶ Some marinas do not present clear information (buyer beware)
- ▶ What is the all-in rate (base rate, fees, other charges)



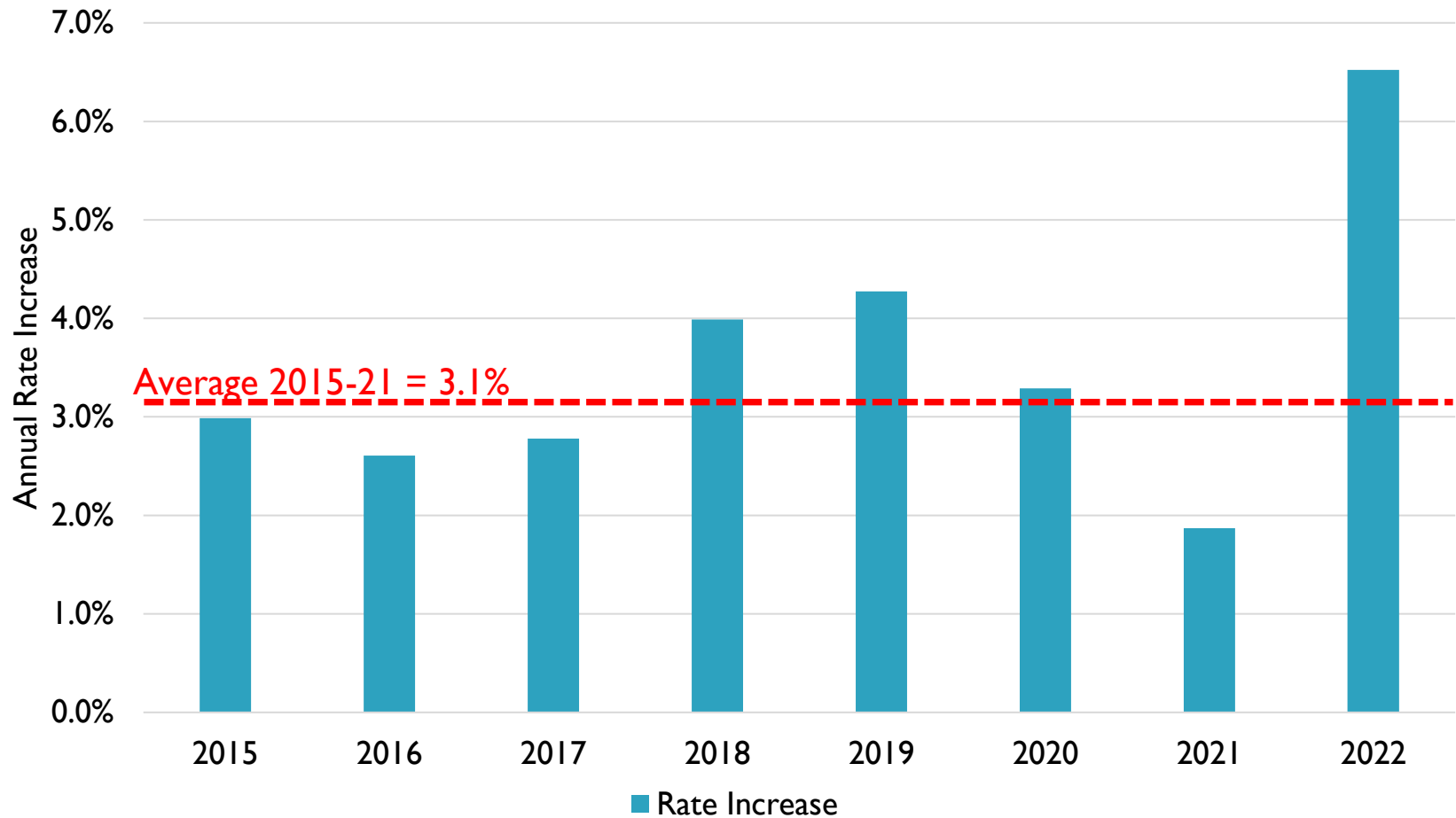
Marina Rates

▶ Rate methodology

- ▶ Based on what competitive marinas are doing = 63%
- ▶ CPI or other index = 16%
- ▶ Cover costs and ROI = 5%
- ▶ Combination of these = 32%
- ▶ Other (please explain) = 16%
 - Marina revenues pay for operating /capital expenses/ capital projects, bond financing, overhead, operating reserves, bonding reserves
 - Check with comparable marinas, but also based on the strength of our demand.
 - Whatever our owners want to do. Used to be CPI.
 - Condition of the marina plus all of the above.



Port of Edmonds Rate Increases



San Francisco Moorage rates



- ▶ The San Francisco Recreation and Park Department notified boat owners this week that it would like to bump berthing fees by a whopping **31.4% by summer 2025**. If the fee increases are approved, it would affect about 600 vessels
- ▶ Purpose:
 - ▶ "It's to make the marina self-sufficient"
 - ▶ "We can't subsidize it. We think our funding should go toward recreation, not for subsidizing the marina."

Marina Rates - Findings

- ▶ Needs
 - ▶ Fund capital repair and replacement of the marina.
 - ▶ Fund other capital requirements (seawall, breakwater, dredging, replace and upgrade bathrooms; and other dock improvements).
 - ▶ Operating expenses go up as the docks get older.
- ▶ Costs are increasing
 - ▶ In-water work, permitting takes longer and costs more, environmental mitigation.
- ▶ Demand (recreational) is strong, commercial (uncertain)
 - ▶ Wait lists demonstrate that there is more demand than supply.
 - ▶ Occupancy is high.
- ▶ Financial capacity is limited.
- ▶ Therefore, net operating income from the marina must increase.
- ▶ Increase rates and get rid of bad contracts...

Questions?

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