

CREDIT: NAVY YARD FACEBOOK



PhilaPort VISION

# NAVY YARD LOGISTICS CENTER

## PHILAPORT QUALIFICATIONS SUBMISSION

The Philadelphia Regional Port Authority's SOQ to





**ATTN: Navy Yard RFQ**

**PIDC**

4747 South Broad Street  
Building 101, Suite 120  
Philadelphia, PA 19112

**December 6, 2019**

**To PIDC RFQ Evaluation Team:**

PhilaPort appreciates the opportunity to submit its Submission of Qualifications (SOQ) in response to PIDC's Request for Qualifications (RFQ) for the Philadelphia Navy Yard development opportunity.

We share PIDC's vision that the Navy Yard can serve as a premier community that fosters employment, business growth, innovation, and production. To that end, PhilaPort proposes to work in partnership with PIDC to develop the *Navy Yard Logistics Center* on the Mustin District. PhilaPort envisions a combination of commercial and port-related uses on the site. The Navy Yard property is integral to the next phase of growth and development for the Port and will leverage PhilaPort's investment in a deeper river channel, improved facilities and expanded services to enhance port competitiveness. To develop the *Navy Yard Logistics Center*, PhilaPort will draw on its extensive development capabilities and resources to create best-in-class warehousing and distribution facilities and associated commercial uses.

One of PhilaPort's key missions is to create good, family-sustaining jobs for the Commonwealth. The Port's efforts to increase cargo translate directly to more high-quality, working-class jobs for native Philadelphians. Our proposed development will generate economic activity that will both encourage regional job growth and maximize port-related employment by promoting the use of port infrastructure and by fully realizing the job growth associated with investment in warehousing and distribution. We welcome the opportunity to partner with a well-respected public institution such as PIDC to transform a strategic and underutilized site into a thriving economic engine.

In the following pages, we submit our development concept and qualifications for selection as the developer for the 97-acre Mustin District. Thank you again for your continued consideration of PhilaPort. We look forward to working with you in connection with this exciting opportunity.

**Point of Contact Information:**

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Sincerely,

Jeffery S. Theobald  
Executive Director & CEO, PhilaPort



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\*For more information, and for any reference within this document: <http://www.philaport.com/pidc-sog/>

\*\* For more information and for referenced information: <http://www.philaport.com/pidc-sog/> \*\*

## Narrative Response

### PROMPT 1: NAVY YARD LOGISTICS CENTER DEVELOPMENT STRATEGY

PhilaPort is in the final phase of a \$300 million Port Development Plan (PDP) at the Packer Avenue Marine Terminal and SouthPort Auto Terminal. This plan will provide an additional 150-acres, upgrade berth infrastructure, procure five super post-Panamax cranes, and effectively expand the Port's container handling capacity by 200%. This plan leverages the Commonwealth's investment in the 45' Delaware River Main Channel Deepening project. Since the Deepening Project ends at the Walt Whitman Bridge, future development of land to the south is critical. The next phase of PhilaPort's development includes gaining capacity efficiencies by "densifying" cargo handling operations and land acquisitions that support warehousing, distribution and container support services.

PhilaPort and our private partners' success in the container handling industry is primarily attributed to the ability to provide warehousing and related value-add services. Shippers choose The Port of Philadelphia because of our success in achieving significant supply-chain efficiencies and cost savings for our customers.



To enlarge, click rendering; or visit website: [www.philaport.com/pidc-soq](http://www.philaport.com/pidc-soq)

For the development of the Mustin District, we propose to capitalize on this strength by placing high-value warehousing as well as complementary office space on the site. A conceptual plan demonstrated that three buildings encompassing 1.5 million square feet could be developed as part of the Navy Yard Logistics Center. Given the site's proximity to port

facilities and its access to local highways and rail facilities, this would be a valuable asset for large retailers, shippers, and distribution center developers. Our goal for this development would be to include corporate and regional headquarter relocations for these end users. Over the past several years we have been in discussion with numerous large shippers and other developers who have determined that a warehouse and distribution complex near the Packer and SouthPort Terminals would be extremely marketable.

This development will generate economic activity that will both encourage regional job growth and maximize port-related employment and revenues by promoting the use of port infrastructure. The development of the distribution centers will create family-sustaining jobs and maintain the City's industrial job base. Furthermore, economic growth related to warehouse development adjacent to PhilaPort's marine terminals will drive increases in port-related jobs.

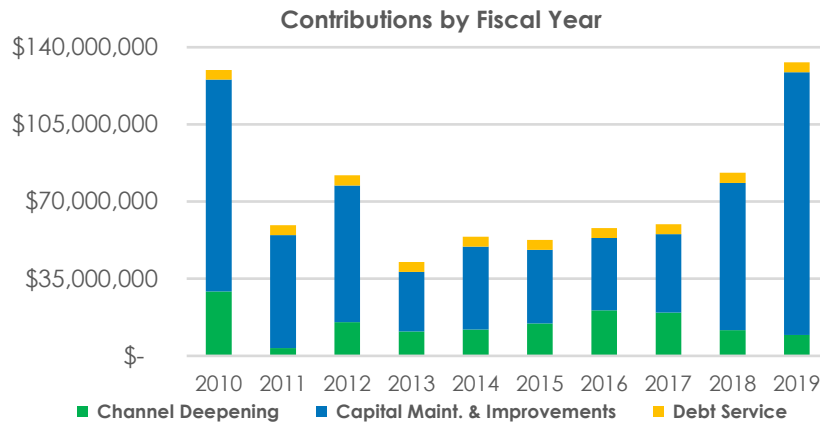
Through the PDP, PhilaPort has executed over \$300M in development projects on port property. Given the similar nature of this development, we believe that we could identify partners that include the Commonwealth, private developers, and high-value shippers. Additionally, we would be willing to discuss future opportunities to jointly market and develop this site for warehousing options in conjunction with PIDC.



## Narrative Response

### PROMPT 2: RELEVANT EXPERIENCE

PhilaPort is uniquely qualified to develop the Mustin District as a premier logistics and distribution center due to its experience developing port-related projects of similar scope and budget. Over the past 10 years PhilaPort has managed a portfolio of development projects worth over \$500M.



Most notably, PhilaPort staff is managing almost \$300M in Commonwealth funding as part of its Port Development Plan (PDP) to improve terminal infrastructure, purchase new container cranes, and acquire and develop new land for warehousing and distribution. In addition, PhilaPort is delegated \$20M annually from the Commonwealth for large capital maintenance and repair projects.

Below are project summaries that demonstrate relevant experience; these projects are discussed in more detail in the Past Performance Section.

#### 1. Port Development Plan

##### A. Packer Avenue Marine Terminal Development

The Packer Avenue Marine Terminal (PAMT) handled approximately 600,000 twenty-foot equivalent units (TEUs) in 2018 and is expected to maintain near double-digit growth. In order to maintain operations and grow, terminal upgrades were needed and PhilaPort proposed and completed a comprehensive infrastructure development plan including: berth and terminal upgrades; the purchase of new cranes; and warehouse relocation. Additionally, PhilaPort is building a \$50M, 200,000 sq. ft. dry warehouse located on a 33-acre off-site parcel.

##### B. SouthPort Auto Terminal Development

PhilaPort and the Commonwealth are investing \$106M to develop a new auto terminal at SouthPort, covering the costs of grading, utilities, paving, fencing and constructing a Vehicle Processing Center (VPC). PhilaPort will have an increased auto storage capacity of approximately 350,000 units.

#### 2. Philadelphia Wholesale Produce Market

The Philadelphia Wholesale Produce Market (PWPM) is the world's largest fully enclosed, fully refrigerated wholesale produce terminal. At 686,000 sq. ft., its most distinguishing operational benefit is cold-chain protection for our fresh produce. PhilaPort completed the development of the PWPM in Fall 2011.

#### 3. Delaware River Main Channel Deepening Project

PhilaPort is the non-federal sponsor for the Delaware River Main Channel Deepening Project. Scheduled to be completed in 2020, the project will deepen the 103-mile navigational channel from 40 ft. to 45 ft. The deepening, in addition to the expansion of the Panama Canal, will allow much larger vessels to transit the river.

## Narrative Response

### PROMPT 3: APPROACH TO DIVERSITY AND INCLUSION

PhilaPort is an equal opportunity employer providing equal opportunity to all personnel and managerial decisions without discrimination on the basis of race, color, relation, age, gender, sexual preferences, national origin, ancestry, or non-job-related handicap.

Not only is PhilaPort committed to diversity and inclusion in the workplace, but PhilaPort is also committed to diversity and inclusion in contracting. It's very important to us that Historically Underutilized Businesses (HUB) have a fair seat at the table.



Women's Transportation Seminar, 2017

In 2017, PhilaPort was recognized for our diversity and inclusion initiatives. Philadelphia's City Council issued a Citation recognizing PhilaPort for being the first in the City to include LGBT businesses in our pool of inclusion. Also, the Women's Transportation Seminar's Philadelphia Chapter awarded PhilaPort the Diversity Award for "significant contributions in promoting diversity and cultural awareness goals within their organization."

Diversity outreach is a year-round commitment at PhilaPort. We participate in panel discussions, partner with other agencies to host outreach events, and are also guest speakers at numerous diversity and inclusion events throughout the area. PhilaPort is currently developing a comprehensive diversity outreach program to intensify our commitment. We want to expand the array of major contractors PhilaPort engages, and we want our major contractors to be aware of the vast network of subcontractors at their disposal.

What distinguishes PhilaPort from other agencies is that our contractor's diversity and inclusion commitment is not an aspirational goal but a requirement of doing business with the Port. Our policy is captured below:

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All contracts awarded for construction will have a minimum HUB participation level set by the Director of Procurement, but in no event shall it be less than **20% of the contract** value. The participation for each award must include at least 2 of the categories that are identified as HUB with no less than 5% participation for every category being included.

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PhilaPort's diversity in contracting commitment levels have exceeded our 20% requirement. Between 2016 and 2019, PhilaPort's Diversity and Inclusion Policy has resulted in a total of 22% participation on closed construction contracts and 25% participation on design professional services:

PROJECT TYPE	TOTAL CONTRACT	TOTAL DIVERSITY	TOTAL PERCENTAGE
<b>Landside Construction</b>	\$72,314,988	\$18,469,138	26%
<b>Waterside Construction</b>	\$10,267,887	\$185,218	2%
<b>Design Prof. Services</b>	\$6,614,464	\$1,445,832	23%
<b>Professional Services</b>	\$340,310	\$151,379.00	44%

*\*NOTE: Waterside projects are typically best efforts projects due to limited scope of work or lack of availability of subcontractors. Both Construction and Design Professional Services have a 20% requirement.*

## Narrative Response

### PROMPT 4: PAST EXPERIENCE – MUSTIN DISTRICT INFRASTRUCTURE AND PHASING REQUIREMENTS



Aerial view of top of now completed VPC at Southport initial paving in background.

PhilaPort and its development partners are investing \$106M to transform an underutilized site, known as the SouthPort Auto Terminal, to a fully customized terminal for vehicle storage, processing and distribution. PhilaPort's experience in permitting, planning, design, and construction at SouthPort, located at the east end of the former Navy Yard, will prove invaluable to our approach in developing the Mustin District. We are keenly aware of the challenges associated with similar land development, which include unknown underground obstacles, required coordination with utility providers, and road access limitations. PhilaPort recently funded the \$1.4M electrical upgrade and expansion at the SouthPort facility and facilitated the Philadelphia Gas Works (PGW) supply line

extension. We have successfully installed new stormwater infrastructure and raised the grade to above the 100-year floodplain, providing for development that is protected from all but catastrophic impacts. We would use this approach to develop the Mustin District in a way that coordinates with and complements the adjacent PIDC and Navy land uses.

The process for the planning, design, and construction of the Vehicle Processing Center (VPC) at SouthPort provides the requisite experience for the development of the proposed warehousing and office buildings. The new 108,000 sq. ft. VPC at SouthPort is equipped with a state-of-the-art body shop, which includes specialized car washes and paint booths. An additional customized feature is its specialty heated floors, which assist productivity in winter. We would apply our experience building this highly specialized, state-of-the-art facility to develop warehousing on Mustin District.

Additionally, a phased approach was utilized to complete PhilaPort's approximately \$200M project at PAMT. This multi-phased approach was necessary because the marine terminal needed to remain at full operating capacity during construction. Significant coordination with PAMT operations staff was required to maintain active operations on the terminal. Most notably, new marine piles were installed to reinforce existing berths while large vessels docked directly adjacent to construction. Also, crane installations and decommissions were planned according to vessel schedules. The 5 new cranes that were installed are much larger than the prior cranes and run on electrical power rather than diesel. Significant utility improvements were required in order to support these infrastructure improvements. Specifically, PhilaPort coordinated with the terminal operator and utility providers to install a brand new on-terminal, electric substation capable of powering the new cranes. The substation also has the capacity to support future electrical needs, as the trend of converting from diesel to clean energy sources continues. Our extensive experience with phased, large infrastructure projects will inform our proposed development of the Mustin District.



PAMT working vessels around on-going construction as needed.

Finally, as part of the PAMT development project, PhilaPort is building a \$50M 200,000 sq. ft. dry warehouse located on a 33-acre off-site parcel. Construction of the PhilaPort Distribution Center will commence in the second quarter of 2020. PhilaPort plans to apply the best practices it develops in building this warehouse to its development of the Mustin District.



**Narrative Response****PROMPT 5: LAND USE AND DEVELOPMENT PLAN, PLACEMAKING EXPERIENCE, AND COMMUNITY PARTNERSHIPS**

PhilaPort understands the importance of developing the Mustin District in a manner which supports and enhances other development in the Navy Yard, and PhilaPort's proposed development will complement the existing commercial and proposed residential development located therein. PhilaPort proposes a mixture of commercial and industrial uses for the Mustin District. As envisioned, the *Navy Yard Logistics Center* would provide warehousing and distribution center support that is critical for fostering Philadelphia's development as a global goods movement gateway. Situated between existing commercial development in the Navy Yard and industrial uses at SouthPort Auto Terminal, PhilaPort envisions a logistics center as the most logical use for the Mustin District, as it will provide a gradual transition from the existing commercial uses at the Navy Yard to the Port uses located on PhilaPort's SouthPort Auto Terminal.

In recognition of PIDC's emphasis on the importance of placemaking in the public realm, PhilaPort further proposes to develop two spaces for recreational use by the Navy Yard community on the Mustin District. First, PhilaPort proposes to construct a green space on the western edge of the Mustin District, comprised of a walking/biking path and open park space for community members to enjoy. This green space would provide a pleasant transition from the commercial and residential activities of the historic district of the Navy Yard to the commercial and light industrial uses of the proposed *Navy Yard Logistics Center*. Second, PhilaPort proposes to extend the existing walking/bike path abutting the Schuylkill River for the entirety of the Mustin District, so the community can enjoy additional waterfront access.

To enhance the aesthetic value of the proposed *Navy Yard Logistics Center* and to ensure continuity with existing Navy Yard development, PhilaPort proposes to design the logistics centers so that the commercial offices face the public streets and pedestrian/biking pathways, employing an architectural style that is similar to some of the more modern office buildings in the Navy Yard, such as GSK's corporate headquarters. In addition, PhilaPort hopes to incorporate public art by local artists, and is in ongoing conversations with Mural Arts Philadelphia to showcase murals which reflect Philadelphia's rich naval and maritime history throughout the *Navy Yard Logistics Center*.

Land use planning analysis conducted by PhilaPort suggests that the Mustin District could accommodate up to three separate warehouse or distribution centers, totaling 1.5M sq. ft. Accordingly, PhilaPort proposes to develop three state-of-the-art distribution or logistics centers, each of which would contain up to three floors of commercial office space for the tenant. PhilaPort proposes to work in collaboration with PIDC and other commercial real estate development partners to secure anchor tenants for the Logistics Center.

As an independent agency of the Commonwealth of Pennsylvania, PhilaPort has a long history of placemaking in the public realm. Specifically, the Port has played a role in restoring environmental habitats which serve as critical recreation spaces for local communities as part of the Deepening Project and SouthPort development; more details on these efforts are provided in the Past Performance Section of this submittal.

PhilaPort also has a long history of community engagement efforts, including "Industry Days" aimed at providing the public an opportunity to learn about the port, and ongoing work with Philadelphia's Maritime Charter School since its inception in 2003. Most recently, PhilaPort was a key partner in the launch of the Citizens Bank Regional Maritime Training Center in Southwest Philadelphia, which houses the region's first formalized maritime training program and provides immersive classroom, simulator-based and hands-on learning opportunities for workforce development in Philadelphia.

## Narrative Response

### PROMPT 6: MASTER PLANNING EXPERIENCE AND APPROACH TO NAVY YARD JOINT PLANNING

PIDC and PhilaPort have facilitated some of the largest commercial and industrial developments in Philadelphia. PIDC manages over 2,800 acres of land in 18 industrial parks throughout the city. Similarly, PhilaPort owns over 1,000 acres of land on its marine terminals and adjacent properties and has directed over \$500M in development projects in and along the Delaware River in the last several decades. PIDC's website identifies "a variety of industrial opportunities at The Navy Yard, including existing buildings and build-to-suit sites for development."<sup>1</sup> PhilaPort sees a natural opportunity for these two organizations to work together in a joint master planning effort to develop the Mustin District for light industrial and associated commercial uses.



Click to enlarge.

PhilaPort's experience with master planning is exemplified by the development and execution of its Port Development Plan (PDP), a multi-phased planning effort several decades in the making which has required extensive collaboration with public entities, most notably the U.S. Army Corps of Engineers, the U.S. Maritime Administration (MARAD), PennDOT, and others. Phase 1 of the PDP was the Deepening Project, a nearly \$500M effort to deepen the Delaware River in order to ensure that PhilaPort is ready to receive the newer, larger ships currently being deployed. This project required extensive coordination with the Army Corps over a period of several decades. PhilaPort was honored by the Army Corps with an External Partnering Team Award for exceptional work related to this lengthy collaboration. This project has greatly increased PhilaPort's competitiveness and marketability, as it enables some of the world's largest shipping lines to bring vessels with capacities of 14,000 TEUs to Philadelphia.

Phase 2 of the PDP included a \$300M investment in improvements to the Port's marine terminals. This investment enables PhilaPort's tenants to double their capacity for containerized cargo and autos, and to increase breakbulk capacity by 21%. Improvements to increase containerized cargo volumes included: berth infrastructure improvements; new fendering to handle larger ships; enhancements to the terminal electric grid to support the additional load; purchase of four new electric post-Panamax gantry cranes; and relocation of 365,000 sq. ft. of warehouse space off-terminal. These improvements have increased PhilaPort's container capacity to 900,000 TEUs. Improvements to increase autos included: grading, paving, fencing and lighting of 155 additional acres for automobile use, and erection of a second vehicle processing location. This \$106M investment dramatically increased the capacity of the Port to 350,000 autos imported annually and is allowing the Port and its tenants to target domestic original equipment manufacturers (OEMs) as potential future exporters. Future planned improvements will lead to the creation of 5,000 new jobs.

Other planning efforts made by PhilaPort include a \$30M investment to upgrade Tioga Marine Terminal which included substantial improvements to rail tracks across North Philadelphia. This investment allowed the Port to attract a new type of cargo – over 400,000 tons of eucalyptus pulp imported from Brazil annually.

PhilaPort's extensive planning efforts have paid off, allowing the marketability and competitive positioning of The Port of Philadelphia to increase dramatically. Infrastructure investments have allowed PhilaPort to retain existing customers, grow new business, and improve PhilaPort's competitiveness as a key goods movement gateway in the region.

<sup>1</sup> <https://www.pidcphila.com/initiatives-projects/industrial-land-management>.

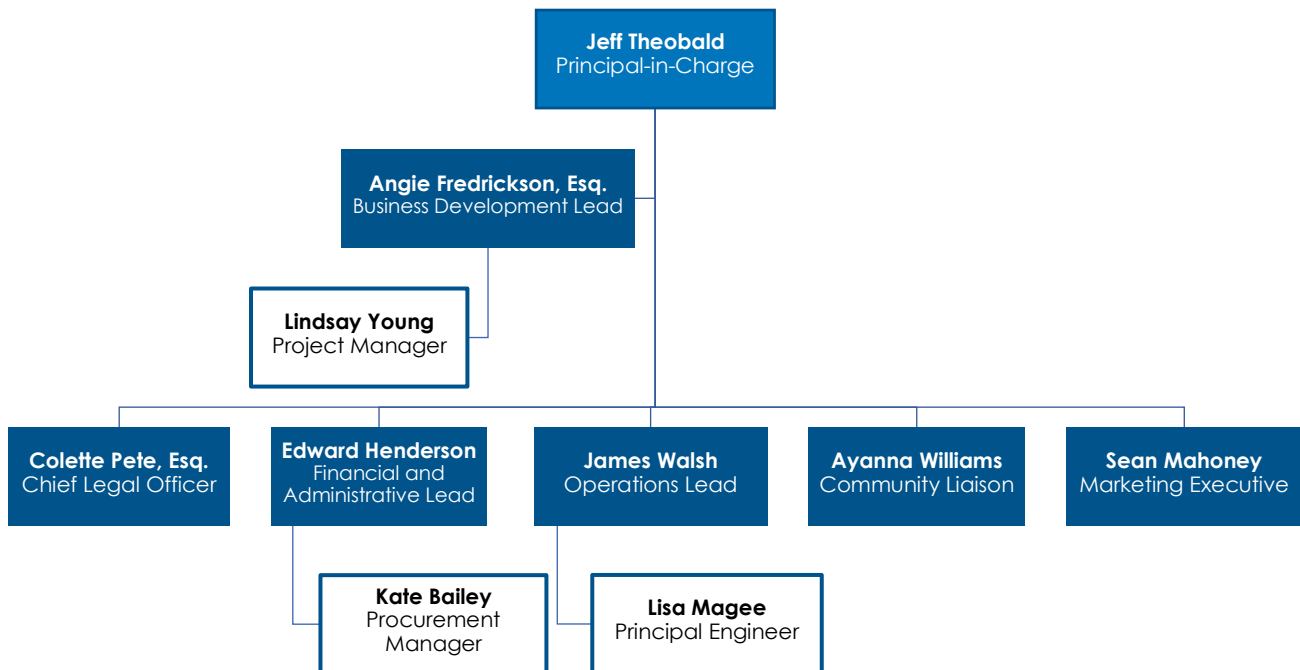
## Development Team Information

### ORGANIZATION CHART

## Respondent Information

PhilaPort is an independent agency of the Commonwealth of Pennsylvania charged with enhancing waterborne trade and commerce in the region. PhilaPort is responsible for overseeing the strategic growth and development of the Port and handling a portfolio of competitively-located real estate, comprised of seventeen port facilities along the Delaware River that are leased to privately-owned terminal operating companies. In 1989, the Philadelphia Regional Port Authority (formally Philadelphia Port Corporation) was created under an act of the Pennsylvania legislature as an independent state agency, effectively transferring city-owned Port facilities to the Commonwealth of Pennsylvania. Under the direction of Board Chairman, Gerard H. Sweeney, PhilaPort is governed by an 11-member Board of Directors, who are appointed by the Governor and the state legislature's majority and minority parties, as well as representatives from the three river counties. PhilaPort's staff of 48 employees is led by Executive Director and CEO, Jeff Theobald. PhilaPort's corporate offices are located across from the Tioga Marine Terminal at 3460 North Delaware Avenue in the City of Philadelphia. PhilaPort is the prime respondent for this RFQ.

The following organization chart outlines the structure of our Project Team:





## Development Team Information

### PROJECT STAFF

The following pages provide resume summaries of PhilaPort's key staff as listed in the organization chart.



#### » JEFF THEOBALD, Principal-in-Charge

As Executive Director and CEO of PhilaPort, Jeff has a wealth of experience in the maritime industry and a proven track record of performance spanning 35 years. He has directed state-of-the-art terminal operations and complex international supply chains, fostered effective labor management relationships, negotiated contracts and managed budgets on a global scale. In his current role, Jeff has provided leadership and direction for major Port projects including the Delaware River Main Channel Deepening as well as implementing Pennsylvania Governor Tom Wolf's \$300M Port Development Plan. **Mr. Theobald will provide leadership and management throughout the project.**



#### » EDWARD HENDERSON, Financial and Administrative Lead

Edward (Ed) Henderson is currently the Senior Director of Finance and Administration for PhilaPort. Ed has spent over twenty-seven years with PhilaPort serving in various roles including strategic planning and capital budgeting. Ed has been a team member on all capital and development programs. Ed has a Bachelor's in Business Administration from Temple University and Master's in Business Administration with a Finance concentration from Widener University. **Mr. Henderson will be charged with financial support and management of the project.**



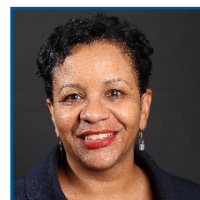
#### » JAMES B. WALSH, Operations Lead

James B. Walsh was hired as PhilaPort's Director of Operations on April 12, 2004. In his role as Senior Director of Operations, he is responsible for ensuring that the lease agreements between the Port and the terminal operators are adhered to. In addition, Mr. Walsh oversees the Engineering, Maintenance, and Real Estate departments. **Mr. Walsh will be charged with managing the operations and engineering tasks associated with the project.**



#### » ANGIE FREDRICKSON, ESQ., Business Development Lead

Angie Fredrickson is the Director of Business Development at PhilaPort. Angie has over ten years of experience working in maritime and transportation. Prior to joining PhilaPort, Angie worked in port development and planning for the Port of Long Beach, California and the Port of Seattle, Washington – two of the largest ports in the nation. Angie holds a J.D. from Drexel University, a Masters of Marine Affairs with a concentration in Global Trade Transportation and Logistics Studies from the University of Washington, and a Bachelor of Arts from Barnard College, Columbia University. **Ms. Fredrickson will be the main liaison between PIDC and PhilaPort throughout the project.**



#### » COLETTE PETE, ESQ., Chief Legal Officer

Colette Pete joined PhilaPort in March 2019 as Chief Counsel. She brings to the Port more than 30 years of diverse legal experience. Just prior to her affiliation with PhilaPort, Ms. Pete was responsible for handling litigation and other business-related matters for the country's largest municipally owned natural gas company. She has also worked in the private sector for one of the nation's largest law firms. **Ms. Pete will advise on all legal matters related to the project.**

## Development Team Information

### PROJECT STAFF (CONT.)



» **LINDSAY C. YOUNG**, Project Manager

Lindsay C. Young joined the PhilaPort team in December 2017. Lindsay brings years of past professional experience in strategic planning and marketing as well as project analysis and management. In her current role as, Project Analyst, she has authored position papers on topics related to PhilaPort's improved competitive positioning and provides planning, project management, development and execution for a variety of port projects. **Ms. Young's role in the project is as a project manager.**



» **LISA MAGEE**, Principal Engineer

Ms. Magee has been with PhilaPort for over 16 years. During that time, she has served as the Director of Special Projects and the Chief Engineer, overseeing both the Delaware River Main Channel Deepening Program and the Port Development Program, as well as annual capital programs. Additionally, she is responsible for all permitting and regulatory programs, as well as project development and implementation. **Ms. Magee will act as PhilaPort's chief engineer in this project and deal with future engineering and construction firms.**



» **SEAN MAHONEY**, Marketing Executive

Mr. Mahoney serves as PhilaPort's Director of Marketing. At PhilaPort, he oversees a team of eight staff members which include three overseas representatives located in Brazil, Australia, and Germany. He entered his career in the maritime industry directly from university working his way up from a steamship agency business. He has over 30 years' experience into the inner works of every public and private marine facility along the Delaware River. **Mr. Mahoney will be responsible for leading all marketing efforts along with his team.**



» **AYANNA WILLIAMS**, Community Liaison

New to the PhilaPort team, Ms. Williams brings years of experience in community relations and public affairs in the Philadelphia Region to her position as Director of Government and Public Affairs. In this role she is responsible for forming and maintaining relationships with state and federal legislature, key city officials and relevant organizations that share in the Port's mission. Ms. Williams also oversees PhilaPort's engagement efforts throughout the local community. **Ms. Williams will be engaging with the community throughout the project.**



» **KATE BAILEY**, Procurement Manager

A graduate of Temple University and a lifelong resident of Philadelphia, Ms. Bailey has held the Director of Procurement position at PhilaPort since September 2013. In her role as Procurement Director, she is responsible for all solicitations as well as the establishment of procedures. Ms. Bailey also aids in policy creation related to purchasing and diversity and inclusion in contracting for PhilaPort. **Ms. Bailey will be handling all procurement-related matters throughout the project.**

**Past Performance**
**GOVERNOR WOLF'S PORT DEVELOPMENT PLAN**

## Packer Avenue Marine Terminal Development

**Name:** Packer Avenue Marine Terminal Development

**Address:** 3301 S. Columbus Blvd.  
Philadelphia, PA 19148

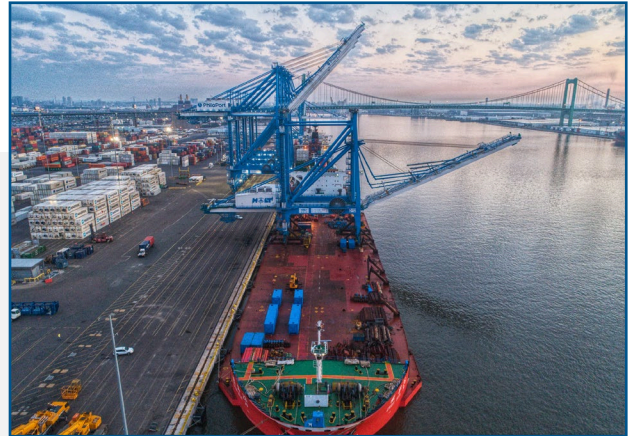
**Location of Project:** South Philadelphia, PA

**PhilaPort**  
Owner/Lead Developer  
**Astro Holdings**  
Operator/Private Investment

**Team Members:** Phase I  
**Cowles, Murphy, Glover**  
Design Engineer of Record  
**JPC Group, Inc**  
General Contractor

Phase II  
**Jacobs Engineering**  
Design Engineer of Record  
**South State, Inc.**  
General Contractor

**References:** **Tom Holt, Jr.**  
Astro Holdings  
**David Whene**  
Greenwich Terminals  
**Gary Cowles**  
Cowles Murphy Glover  
**Jamie Petrongolo**  
JPC Group  
**Jeff Roes**  
South State Inc.  
**Chris Lawrence**  
Jacobs Engineering



### Improved Container Capacity Spurs Economic Development Growth

#### DEVELOPMENT SCOPE

- **Land area:**  
160-acres (total on-terminal area) - Includes 3,800 linear feet of reconstructed marginal wharf, demolition of approximately 200,000 sq. ft. dry warehouse space.

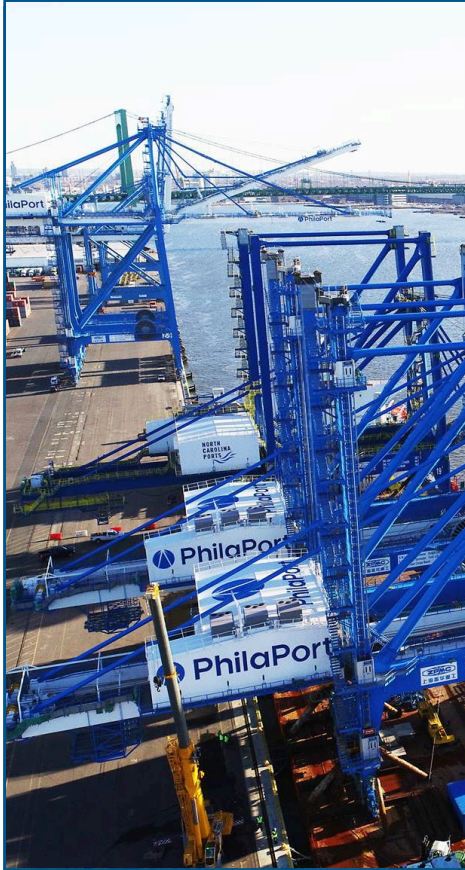
#### Square footage of buildings:

- Demolition of 200,000 sq. ft. of outdated and inefficient dry warehouse space
- Demolition of 2 inefficient diesel-powered ship to shore cranes
- Reconstruction of 3,000 ft. of marginal wharf (waterside beam crane rail beam, 90' gauge crane rail beam)
- Conversion of 2 existing diesel-powered ship to shore cranes to electric power
- Manufacturing, construction and commissioning of 5 new super post-Panamax fully electric ship to shore cranes
- Construction of new 100' gauge crane rail beam, 13.2 kV substation, and 13.2 kV in-dock electrification
- 200,000 sq. ft. dry warehouse with 31 dock doors located on 33-acre off-site parcel
- **Development costs:**
  - \$188M (State funding)
  - \$25.5M (Federal funding)
  - \$66M (Astro Holdings)



## Past Performance

### GOVERNOR WOLF'S PORT DEVELOPMENT PLAN: **PAMT** (CONT.)



## Project Summary and General Information

**The Packer Avenue Marine Terminal (PAMT)** is the largest marine terminal in The Port of Philadelphia. PAMT spans 160-acres and has 3,800 linear ft. of berthing space. In 2018, the facility handled approximately 600,000 TEUs and has experienced a compound annual growth rate of over 10 percent. In order to sustain operations and to prepare for forecasted market demand, upgrades were needed at PAMT and PhilaPort proposed and completed an ambitious and comprehensive infrastructure development plan for the terminal. The full build out of PAMT will increase the existing capacity of the terminal from 450,000 TEUs to 900,000 TEUs, or 558,000 container units, and provide additional berthing and crane capacity. The PAMT development plan has been broken into two phases.

#### Phase 1:

- Land Acquisition for Warehouse Relocation
- Incorporation/development of 40-acre Publicker site
- Berth strengthening at Berths 4-5
- Acquisition of 5 super post-Panamax gantry cranes
- Removal of 3 Kocks cranes

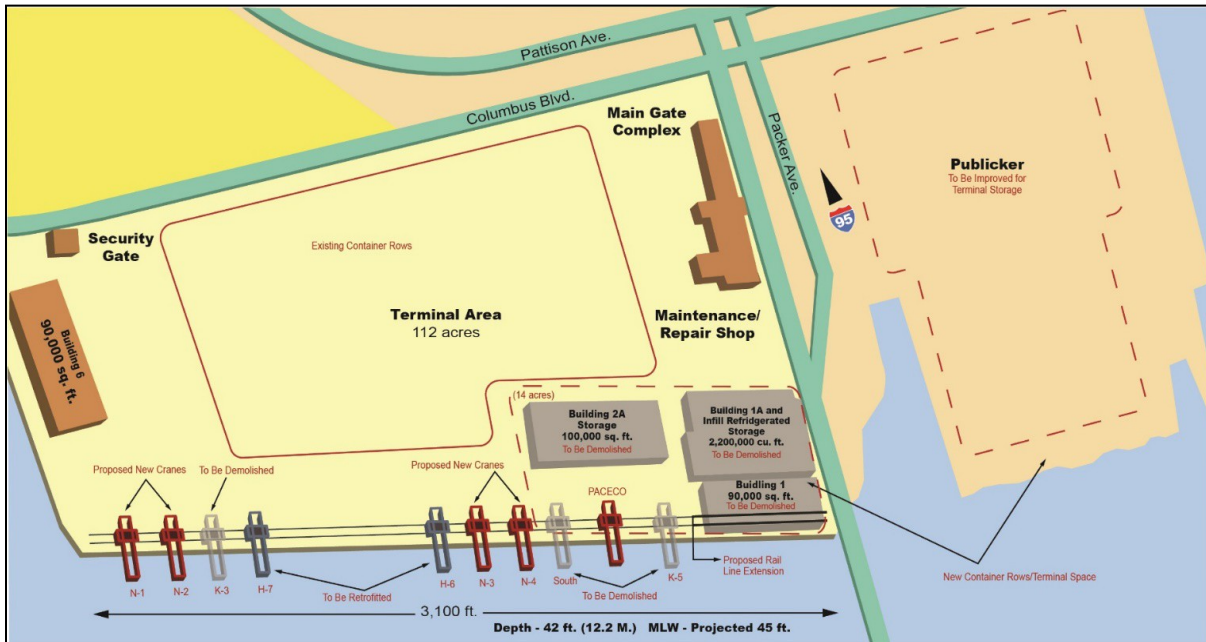
#### Phase 2:

- Warehouse Replacement
- Warehouse Demolition
- Berth Enhancements at Berths 1-3
- Electrification of 2 existing Hyundai cranes

## Past Performance

### GOVERNOR WOLF'S PORT DEVELOPMENT PLAN: PAMT (CONT.)

Relocation of approximately 14-acres of warehouse space, off-terminal, provides substantial operation synergies to the terminal allowing for an increase in container capacity and the terminal infrastructure and crane upgrades enable PAMT to more efficiently handle container shipping demand on the U.S. East Coast while remaining competitive with other regional ports.

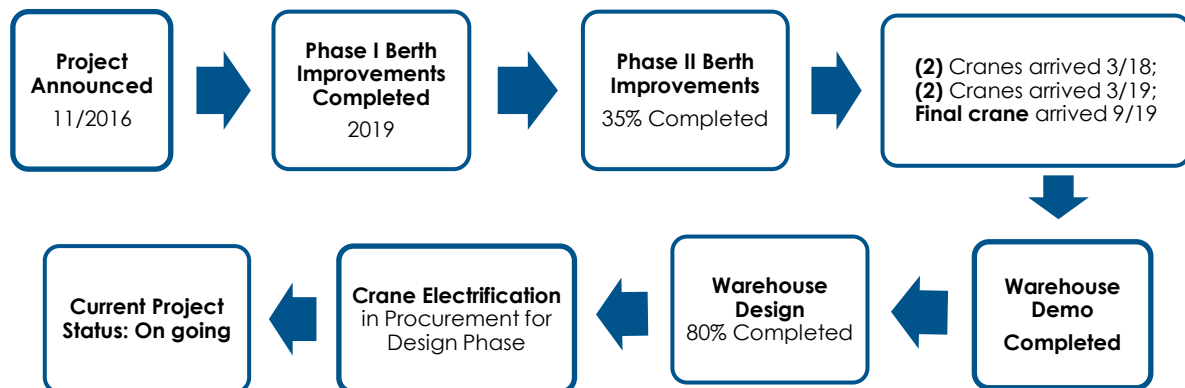


Packer Avenue Marine Terminal Schematic; Overview of development plans. Click to enlarge, or visit: [www.philaport.com/pidc-soq](http://www.philaport.com/pidc-soq).

- The sources and amounts of project funding:**

Commonwealth	\$188M
USDOT	\$25M
Astro Holdings	\$66M

- Project timeline and current project status:**



## Past Performance

### GOVERNOR WOLF'S PORT DEVELOPMENT PLAN: PAMT (CONT.)

#### Project Work Schedule:

	Start Date	Anticipated End Date
Demolition Bldg. 2A and Partial Bldg. 1	Q2 2017	Q4 2019
Berths Enhancements @ Berth 1-3	Q2 2017	Q1 2021
PhilaPort Distribution Center Warehouse	Q4 2018	Q2 2021
Additional Warehouse Demolition	Q4 2019	Q4 2022
Crane Drive Electrification (H6/H7)	Q1 2020	Q4 2021
Additional Warehouse Replacement	Q1 2020	Q2 2022

- **Challenges associated with the project:** Schedule, coordination with active marine terminal operations, in-water work restrictions due to migratory fish moratoriums
- **Approach in diverse and inclusive development:** 20% diversity requirement is in place for all PhilaPort construction contractors.
- **Any environmental remediation or environmental conditions encountered and dealt with in the project:** Lead-based paint remediation within existing warehouses.

**How the Packer Avenue Marine Terminal Development Project compares to the Philadelphia Navy Yard** → Large scale project of similar size and scale to Navy Yard Project. Public/Private Partnership structure. Warehouse relocation and construction project fits in with PIDC's priority area of industrial development.

## Public-Private Partnership Information

- **Response to an open solicitation:** No
- **Total consideration to the government including but not limited to:**
  - **Land value:** N/A
- **Other public benefits.:** The increase in container capacity and cargo growth resulting from the project. Based upon 2016 volumes, there was a total of 3,753 total employment, \$952M of business income and total tax revenues of over \$65.4M. We anticipate that if completed the PAMT development plan will increase local economic impact by adding 1,214 direct jobs, \$309M in business income and over \$21M in total tax revenues.



## Past Performance

### GOVERNOR WOLF'S PORT DEVELOPMENT PLAN: PAMT (CONT.)

## Public Financial Information

- **If the project received public financial assistance, provide the following information:**
  - **Form and structure of public financial assistance:** PhilaPort and the Commonwealth have an executed delegation agreement. PhilaPort also has a signed lease with Astro Holdings, Inc.
- **Amount of assistance / subsidy:**

<b>Commonwealth</b>	\$188M
<b>USDOT</b>	\$25M

#### **PAMT Development Financing Structure and Public Return:**

The Commonwealth contributed \$188M for the PAMT development project. Based upon the development we forecasted that container capacity will increase almost 100% to 900,000 TEUs. Based upon this increased capacity, the incremental revenue over a 30-year period will be \$146M. Additionally, the tenant provided approximately \$80M in capital including two new ship to shore cranes, utilization of the adjacent Publicker site for container handling operations and enhanced, automated gate structure. This public private partnership enabled total tenant's contribution to be 96% of the total debt service. A substantial portion of the project infrastructure has a useful life of more than 30 years and provides a framework to densify yard operations to further increase container capacity.

Past Performance

GOVERNOR WOLF'S PORT DEVELOPMENT PLAN: **SOUTHPORT**

## SouthPort Auto Terminal Development

**Name:** SouthPort Auto Terminal

**Address:** 51 Mustin Street  
Philadelphia, PA 19112

**Location of Project:** South Philadelphia, PA

**PhilaPort**  
Owner  
**DeVal Realty**  
Tenant  
**Glovis America**  
Lessee

**Team Members:** **Kevin Bomboy**  
STV Inc.\*  
**Jesse Lindsay**  
WBCM\*  
**John Mast**  
H&K\*  
**Stephen O'Connor**  
Gilbane Co.\*

\*General Contractors and Design Firms

**References:** **John Mast**  
H&K\*  
**Stephen O'Connor**  
Gilbane Co.\*



### East Coast Distribution Hub for Hyundai and Kia

#### DEVELOPMENT SCOPE

- **Land area:**  
Site 1: 3,631,900 sq. ft.  
Site 2: 2,614,000 sq. ft.  
**(155 acres)**
- **Square footage of buildings:**  
108,000 sq. ft.
- **Parking spaces and orientation:**  
Above 100-year floodplain
- **Construction type:**  
N/A
- **Development costs:**  
\$106M

**Past Performance**

**GOVERNOR WOLF'S PORT DEVELOPMENT PLAN: SOUTHPORT (CONT.)**



## Project Summary and General Information

PhilaPort and the Commonwealth invested \$106M to develop a new auto terminal at SouthPort, covering the costs of grading, utilities, paving, fencing and constructing a new Vehicle Processing Center (VPC), which is the best and most efficient facility of its kind on the East Coast. With the Terminal's official opening in October 2019, PhilaPort has a potential Ro/Ro storage capacity of approximately 350,000 units. Every vehicle unloaded at the port is processed through one of PhilaPort's VPCs prior to delivery to the end user. Cars are inspected for any damage that may have occurred while in transit. Services provided in the VPC include cleaning (car wash), detailing and inserting accessories such as manuals and floor mats. The VPC is capable of processing over 1,000 cars per day and can accommodate 24,000 cars at any one time.

In addition, PhilaPort and the Commonwealth invested in the design and construction, respectively, of the recently completed South Philadelphia Access Road project, which widened pavement and provided new striping along the primary access road, old Delaware Avenue. PhilaPort also invested \$6.5 M on the SouthPort Access Road, which connects PAMT to the east end of SouthPort Auto Terminal.

- Sources and amounts of project funding:**

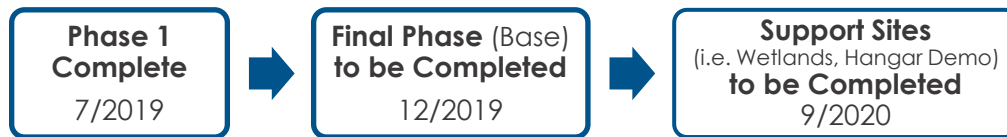
<b>Commonwealth</b>	<b>\$106M</b>
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## Past Performance

### GOVERNOR WOLF'S PORT DEVELOPMENT PLAN: **SOUTHPORT** (CONT.)

#### Project Summary and General Information (continued)

- Project timeline and current project status:**



- Challenges associated with the project:** Coordination issues, weather and multiple design changes
- Approach in diverse and inclusive development:** 20% diversity requirement is in place for all PhilaPort construction contractors.
- Any environmental remediation or environmental conditions encountered and dealt with in the project:** Weather, wetland, historical structures, and permitting challenges.

---

**How the SouthPort Auto Terminal Project compares to the Philadelphia Navy Yard** → Large project of similar size and scale to Navy Yard Project. 2020 will mark a 10-year partnership between PhilaPort, DVR and Glovis. Mustin District is directly adjacent to the SouthPort Marine Terminal and thus it is expected that much of the infrastructure work will be like work already completed at SouthPort. Grading above the 100-year flood plain will be required as well as similar stormwater and utility work.

---

- Photographs and project renderings:**



**SouthPort Auto Terminal (Before)**



**SouthPort Auto Terminal (Current)**



## Past Performance

### GOVERNOR WOLF'S PORT DEVELOPMENT PLAN: **SOUTHPORT** (CONT.)

## Public-Private Partnership Information

- **Response to an open solicitation:** No
- **Total consideration to the government including but not limited to:**
  - **Land value:** N/A
- **Other public benefits:** The new terminal development will stimulate an estimated \$124M in economic activity and create as many as 2,500 family-sustaining jobs.

## Public Benefits and Environmental Placemaking

As part of this project, PhilaPort took the lead in preserving pristine Marshall Island, a 141-acre parcel which has been preserved as habitat for indigenous species and migratory birds. PhilaPort's purchase of this island, along with several riverbank parcels in Tinicum Township, will help ensure that local wildlife is protected, and green space is preserved for future generations.

PhilaPort's restoration efforts can also be seen through its efforts to restore the freshwater and tidal wetlands at Jack's Marina. There, the Port purchased and restored a freshwater tidal wetland at the confluence of the Delaware River and Neshaminy Creek, removing invasive species and creating new intertidal and subtidal habitats for numerous species, including redbelly turtles. The site design includes a public walkway and fishing platform, as well as interpretive signage to educate visitors about the restoration project.

## Public Financial Information

- **If the project received public financial assistance, provide the following information:**
  - » **Form and structure of public financial assistance:** PhilaPort and the Commonwealth have an executed delegation agreement. PhilaPort and DVR Philly, LLC have a signed lease agreement in place and Glovis America subleases from DVR.
- **Amount of assistance / subsidy:**

<b>Commonwealth</b>	<b>\$106M</b>
---------------------	---------------

### **SouthPort Auto Development Financing Structure and Public Return:**

The Commonwealth contributed \$106M for the SouthPort development project. The projected incremental base rent and tonnage fees from adjacent berthing facilities is \$176.8M over a 30-year period. This represents 110% of total debt service for the project. A substantial portion of the project's infrastructure is the land development of over 150 acres. We believe that this investment will have a significant useful life beyond the 30-year period.

**Past Performance**

**PHILADELPHIA WHOLESALE PRODUCE MARKET (PWPM)**

# Philadelphia Wholesale Produce Market

**Name:** Philadelphia Wholesale Produce Market

**Address:** 6700 Essington Avenue  
Philadelphia, PA 19153

**Location of Project:** Philadelphia, PA

**Team Members:**

- PhilaPort**  
Owner
- Essington Avenue Partners II**  
Lead Developer
- Merion Construction**  
General Contractor
- Transystems**  
Architect

**References:**

- Essington Avenue Partners II**  
2701 Renaissance Boulevard 4<sup>th</sup> Fl  
King of Prussia, PA 19406

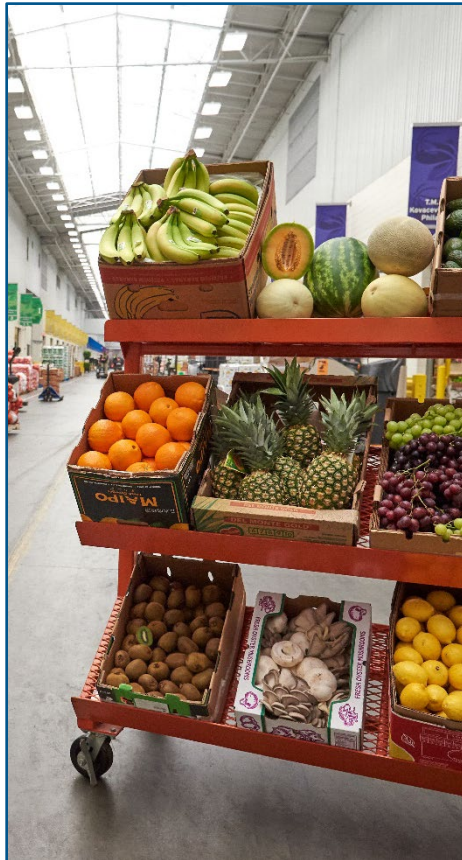
Contact  
**Brian O'Neill**  
610-205-1569



**Philadelphia Perishables Niche: The Largest Refrigerated Produce Market on the East Coast**

## DEVELOPMENT SCOPE

- **Land area: Site1:**  
47.6 Acres
- **Square footage of buildings:**  
1 Building—686,000 sq. ft. Including:
  - 117,627 sq. ft. of office space on the Mezzanine Level
  - 549,950 sq. ft. temperature-controlled space
  - 20,000 sq. ft. recycling building
  - 228 truck loading docks
  - Security building and toll both entry gates
  - 15 acres off-site staging area @ 3062 S. 61st Street
- **Development costs:**  
\$216M

**Past Performance**
**PHILADELPHIA WHOLESALE PRODUCE MARKET (PWPM)**
**(CONT.)**


## Project Summary and General Information

**The Philadelphia Wholesale Produce Market (PWPM)** is the world's largest fully-enclosed, fully-refrigerated wholesale produce terminal, with 686,000 sq. ft. Its most distinguishing operational benefit is cold-chain protection for our fresh fruits and vegetables. PWPM merchants carry a full line of fruits and vegetables and serve all types of food service and grocery businesses. PhilaPort completed the development of the Produce Market along with Essington Avenue Partners II in Fall 2011.

- Sources and amounts of project funding:**

<b>Commonwealth</b>	\$152.5M
<b>PennVEST</b>	\$8.7M
<b>HUD/BEDI</b>	\$4.8M
<b>Tenant Contribution</b>	\$ 50.0M

- Project timeline and current project status:**



\*Site operating and performing as constructed.

## Past Performance

### PHILADELPHIA WHOLESALE PRODUCE MARKET (PWPM)

(CONT.)

#### Project Summary and General Information (continued)

- **Challenges associated with the project:** Refrigeration system. The site was an old landfill. A soil improvement system (Controlled Modulus Columns) was used to improve the ground to be able to construct the building without the need to drive piles.
- **Approach in diverse and inclusive development:** N/A
- **Any environmental remediation or environmental conditions encountered and dealt with in the project:** The project has a methane gas ventilation system that automatically activates when the methane reaches a certain level.

---

**How the Philadelphia Wholesale Produce Market Project compares to the Philadelphia Navy Yard** → Greenfield development that included stormwater, utilities and environmental review. Public-private partnership. Long-term land lease.

---

## Public-Private Partnership Information

- **Response to an open solicitation:** No
- **Total consideration to the government including but not limited to:**
  - **Land value:** Combination of land value, residual asset value at end of lease, repayment of Commonwealth contributed in consideration of economic benefit to region
- **Other public benefits:** Leverage existing transportation system including air and seaport assets

## Public Financial Information

- **If the project received public financial assistance, provide the following information:**
  - **Form and structure of public financial assistance:** Commonwealth contribution was capital PIP funds delegated to PhilaPort.
- **Amount of assistance/subsidy:**

<b>Commonwealth</b>	\$152.5M
<b>PennVEST</b>	\$8.7M
<b>HUD/BEDI</b>	\$4.8M
<b>Tenant Contribution</b>	\$ 50.0M

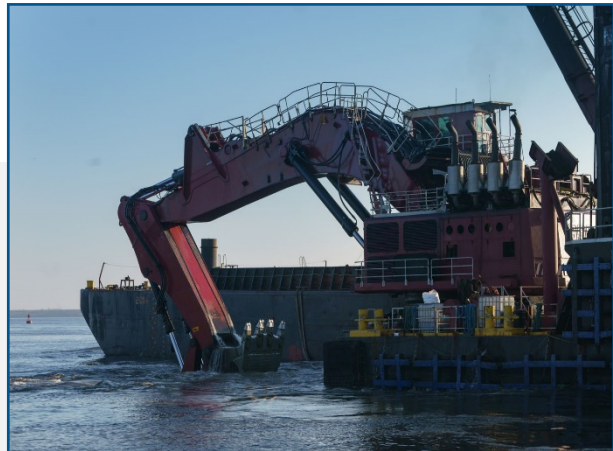


## Past Performance

### DELAWARE RIVER MAIN CHANNEL DEEPENING

## Delaware River Main Channel Deepening

<b>Name:</b>	Delaware River Main Channel Deepening Project
<b>Location of Project:</b>	Within the Delaware Estuary and borders Pennsylvania, New Jersey and Delaware
<b>Team Members:</b>	<p><b>U.S. Army Corps of Engineers</b> (Federal Sponsors)</p> <p><b>Commonwealth of Pennsylvania</b> <b>PhilaPort</b> (Non-Federal Sponsors)</p>
<b>References:</b>	<p><b>Mike Landis</b> Chief of Operations</p> <p><b>USACE Philadelphia District</b> (215) 656-6720 michael.a.landis@usace.army.mil</p>



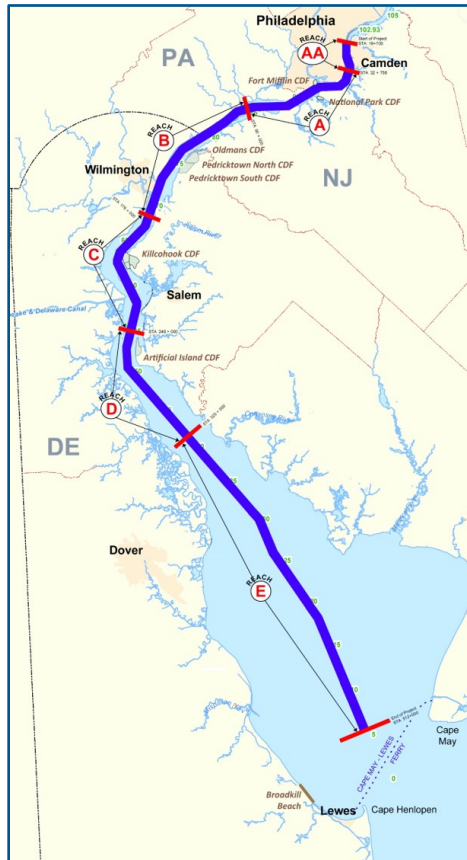
**\$480 Million Partnership Ensuring the Future of Trade and Commerce on the Delaware River**

### DEVELOPMENT SCOPE

- **Land area:**  
102-nautical miles
- **Square footage of buildings:**  
N/A
- **Parking spaces and orientation:**  
N/A
- **Construction:**  
N/A
- **Development costs:**  
\$480M

## Past Performance

### DELAWARE RIVER MAIN CHANNEL DEEPENING (CONT.)



### Project Summary and General Information

PhilaPort is the non-federal sponsor for the Delaware River Main Channel Deepening project. In this capacity, PhilaPort is managing this approximately \$500M project in conjunction with the U.S. Army Corps of Engineers. This project, to deepen the 103-mile channel, has been ongoing for 10 years. Scheduled to be completed in 2020, the project will deepen the navigational channel from 40 ft. to 45 ft. The deepening, in addition to the expansion of the Panama Canal will allow much larger vessels to transit the river. The two developments are expected to boost container growth.

- Sources and Amounts of Project Funding:**

<b>U.S. Army Corps</b>	\$312M
<b>Commonwealth</b>	\$168M

- Project Timeline and Current Project Status:**



- Challenges associated with the project:** Opposition from New Jersey and Delaware, politically and environmentally; all overcome.
- Approach in diverse and inclusive development:** N/A

**Past Performance****DELAWARE RIVER MAIN CHANNEL DEEPENING (CONT.)**

## Project Summary and General Information (continued)

- **Any environmental remediation or environmental conditions encountered and dealt with in the project:** Conducted various studies and environmental modeling. No remediation required.

---

**How the Delaware River Main Channel Deepening Project compares to the Philadelphia Navy Yard** → This project is similar to the Navy Yard endeavor in that there were multiple stakeholders, many with competing interests. The project has been successfully navigated to completion.

---

Public-Private  
Partnership Information

- **Response to an open solicitation:** No
- **Total consideration to the government including but not limited to:**
  - **Land value:** N/A
- **Other public benefits:** Trade and commerce on Delaware River including states of New Jersey and Delaware. Estimated net annualized benefits of more than \$13M to the U.S. economy.

Public Benefits and  
Environmental Placemaking

As part of this effort, PhilaPort has also undertaken extensive habitat restoration projects which enhanced the public's experience of key natural environments in the region. It vastly improved the experiences of thousands of beach visitors each year through its efforts to restore Broadkill Beach in Sussex County, Delaware. At Broadkill Beach, approximately \$30M in good quality sand reclaimed from the Delaware River Main Channel Deepening project was used to replenish the existing beachfront, restoring a beach that had been subjected to the damaging effects of erosion for many years, thereby protecting local residents from the threat of sea level rise and increased storm surge for decades to come.

Public Financial  
Information

- **If the project received public financial assistance, provide the following information:** Yes, Federal Funding U.S. Corp of Engineers; Commonwealth of Pennsylvania
- **Form and structure of public financial assistance:** N/A

**Past Performance****DELAWARE RIVER MAIN CHANNEL DEEPENING (CONT.)**

## Public Financial Information (continued)

- **Amount of assistance/subsidy:**

<b>U.S. Army Corps</b>	<b>\$312M</b>
<b>Commonwealth</b>	<b>\$168M</b>

- **Timing of assistance—when were the funds contributed:** 25% match against federal funding
- **Initial proposed amount, timing, and terms:** See above
- **Final negotiated amount, timing, and terms:** TBD



**FINANCIAL QUALIFICATIONS**

## Financial References

- **Bond Trustee**

**Stephen R. Schaaf, Vice President**

*TD Wealth Management  
Institutional Trust*

1006 Astoria Blvd.  
Cherry Hill, NJ 08034  
**Phone:** (856) 685-5113  
**Email:** [Stephen.Schaaf@TD.com](mailto:Stephen.Schaaf@TD.com)

- **General Checking/Restricted and Investment Accounts**

**Richard J. Welsh, SVP**

*Senior Relationship Manager  
Government and Institutional Banking*

Wells Fargo Bank | 2240 Butler Pike  
Y1466-019 | Plymouth Meeting, PA | 19462  
**Phone:** 610-397-2531  
**Email:** [richard.welsh@wellsfargo.com](mailto:richard.welsh@wellsfargo.com)

**Historical Financials: See 'APPENDIX A' for attachments.**

**LITIGATION, DEFAULTS, BANKRUPTCY, AND CRIMINAL BACKGROUND**

## Outstanding Litigation

### Philadelphia Regional Port Authority ("PhilaPort")

1. **Penn City Investments v. Philadelphia Regional Port Authority**– Case ID# 4183, Initial Claim Submitted 4/18/18 (Board of Claims).

This case involves an alleged breach of contract action pursuant to a certain Lease and Operating Agreement between Penn City Investments and PhilaPort. Plaintiff maintains that as a result of certain Port conditions, coupled with the closure of certain piers, Plaintiff is entitled to recover various damages, including but not limited to fees, cost of operations, business interruption and the like. The case is in the discovery phase.

2. **Ryan Shackleton v. Philadelphia Regional Port Authority, et al.**– Case ID# 180503039, Date of Loss 5/10/17 (Philadelphia Court of Common Pleas).

This matter involves a slip and fall inside of Pier 78 on May 10, 2017, in which Plaintiff sustained a humerus fracture and further claims he is unable to work as a result of the fall. Several entities are named defendants. The pier at issue is owned by PhilaPort, an out of possession landlord and operated and managed by PhilaPort's tenant pursuant to a Lease and Operating Agreement. The tenant is also the Plaintiff's employee. The case is projected for a Pre-Trial Conference in January 2020.

3. **A.P. Construction v. Philadelphia Regional Port Authority** – Case ID#4194, Claim Submitted 12/27/18 (Board of Claims).

This case involves a contract dispute in which the contractor's contract was terminated. Plaintiff alleges loss of anticipated profits on unperformed work. The matter is in the discovery phase.

4. **Francis Plumley v. Philadelphia Regional Port Authority, et al** – Case ID# 190101014, Date of Loss 1/20/19 (Philadelphia Court of Common Pleas)

Plaintiff filed a Complaint on 1/16/19 alleging that on 1/20/17, while in the course and scope of his employment and walking at the Packer Avenue Marine Terminal ("PAMT"), he tripped over a plate covering a hole in a transition area. As a result of the fall, Plaintiff claims to have sustained injuries. The case is in the discovery phase.

5. **South State, Inc. v. Philadelphia Regional Port Authority**– Docket# 4202, Initial Claim Submitted 11/20/19 (Board of Claims).

This matter involves a contractual dispute in which South State seeks compensation for a difference between the length of pilings from tip to cut-off. This case is in its infancy stages.

To the best of our knowledge, information and belief, there are no liens, bankruptcies and/or defaults filed against PhilaPort.

The same applies to criminal backgrounds.

## CONFLICTS OF INTEREST

1. We have identified two individuals as having either direct or indirect conflicts of interest as it relates to the RFQ. The conflicts arise by virtue of their association in one manner or another with PIDC. One individual is on PhilaPort's Port Advisory Committee and the other is a member of PhilaPort's Board of Directors.

PhilaPort has in place measures to avoid such conflicts during the process. These measures include, but are not limited to, 1) recusal from all matters involving PIDC; 2) abstaining from participating in any votes relating to PIDC; 3) refraining from disclosing information, directly or indirectly, confidential or otherwise relating to PIDC projects, development, finances, contracting opportunities, proposals and the like; 4) seeking counsel, advice and guidance from legal counsel and/or the appropriate Board Chair where uncertain whether a contemplated activity may constitute a potential conflict of interest; 5) refraining from influencing or attempting to influence the making of or supervising or in any manner dealing with any contract or potential business dealing involving PIDC.

2. PIDC and PhilaPort have a current agreement in place regarding access to PhilaPort's SouthPort Auto Terminal. The Navy Yard Access Agreement can be found in full on the following website: <http://www.philaport.com/pidc-soq/>
3. PhilaPort was previously involved with the development of a parking lot for the U.S. Navy on PIDC Navy Yard property. The project was completed in the fourth quarter of 2017.

# APPENDIX A



# PHILADELPHIA REGIONAL PORT AUTHORITY

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## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT JUNE 30, 2018 and 2017



# PHILADELPHIA REGIONAL PORT AUTHORITY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Philadelphia Regional Port Authority

We have audited the accompanying financial statements of Philadelphia Regional Port Authority (the "Authority"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 16 to the accompanying financial statements, the Authority is defending various claims brought forth by a leasee and vendors. Several vendors claimed additional compensation were owed due to various events that occurred. Our opinion is not modified with respect to these matters.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison and Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Mithigan & Company, LLC*

Philadelphia, PA  
September 26, 2018



PHILADELPHIA REGIONAL PORT AUTHORITY  
Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018 And 2017

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This section of the Philadelphia Regional Port Authority's (the Authority) annual financial report represents management's discussion and analysis of the Authority's financial performance during the fiscal years that ended June 30, 2018 and 2017.

## **OVERVIEW**

The Authority is an independent agency of the Commonwealth of Pennsylvania (the Commonwealth). With the financial support of the Commonwealth of Pennsylvania, the Authority was created for the purpose of owning and developing the Philadelphia region's public port facilities. The Authority's mission is the management, maintenance, marketing, and promotion of the public port facilities along the Delaware River in Philadelphia. The Authority is a landlord port organization that leases its facilities to terminal operators. The terminal operators are responsible for cargo handling and security operations and pay variable and fixed lease revenues to the Authority.

The CEO reports to an appointed Board of Directors. The Board is responsible for general port policy and decisions. The Board is comprised of eleven members including a Chairman who is selected by the Governor. Four members are appointed by the Governor; four by each legislative caucus; and one from Philadelphia, Delaware, and Bucks County governments.

The Authority works with the terminal operators to modernize and improve its facilities on a regular basis and to market those facilities to current and prospective users. In order to meet the needs of our tenants and shipping customers, the Authority continues to provide capital improvements to enhance the facilities' operational efficiencies and capacities. Having accessible and modern port facilities enables both Pennsylvanian and regional shippers the ability to lower their overall transportation costs.

## **FINANCIAL HIGHLIGHTS**

### ***Fiscal Year 2018***

- The Authority did not issue any new debt or loan obligations during fiscal year 2018.
- Total operating revenue increased 22.7% to \$16,644,907.
- Total operating expenses decreased 6.6% to \$34,915,628.
- Total net position increased 10.2% to \$527,590,980.
- The Authority expended \$18,394,826 for deferred maintenance projects at all the leasehold facilities.
- The Authority advanced the Port Improvement Plan by expending \$48,373,066 for capital improvements.



PHILADELPHIA REGIONAL PORT AUTHORITY  
Management's Discussion and Analysis  
(Unaudited)  
June 30, 2018 And 2017

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- The Authority continued to participate in its role as the non-federal sponsor for the Delaware River Main Channel deepening project. In FY 2018, the Authority contributed \$11,710,158 to the construction and rock removal of Upper Reach B and to provide for additional planning.

***Fiscal Year 2017***

- The Authority did not issue any new debt or loan obligations during fiscal year 2017.
- Total operating revenue increased 10.8% to \$13,569,319.
- Total operating expenses increased 1.7% to \$37,400,752.
- Total net position increased 6.4% to \$478,727,597.
- The Authority expended \$22,104,188 for deferred maintenance projects at all of the leasehold facilities.
- The Authority implemented the initial phases of the updated Port Improvement Plan by expending \$13,468,881 for capital improvements and the acquisition of new land.
- The Authority continued to participate in its role as the non-federal sponsor for the Delaware River Main Channel deepening project. In FY 2017, the Authority contributed \$19,603,729 to the construction and rock removal of Upper Reach E and Reach B and to provide for additional planning.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Authority operates on a fiscal year basis. Accordingly, the Authority's basic financial statements have been presented for the fiscal years ended June 30, 2018 and 2017. This report includes the basic financial statements of the Authority. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows provide information about the activities of the Authority and present a longer-term view of the Authority's finances. These statements also detail the Authority's activities that were financed in the short-term, including amounts that remain for future spending.

The Authority reports its activities as an enterprise fund, a type of proprietary fund. Enterprise funds report business-type activities of a governmental unit. Enterprise fund financial reporting focuses on the determination of operating income (loss), changes in net position and cash flows. These statements report the Authority's net position and changes in it. The Authority's net position - total assets plus deferred outflows of resources less total liabilities and deferred inflows of resources - is one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are indicators of whether its financial health is improving or deteriorating.

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The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are benchmarks that reflect the Authority's financial position. These statements were prepared on an accrual basis of accounting using the economic resources measurement focus in accordance with U.S. generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standard Board (GASB). Revenues are recognized when earned, as opposed to when cash is received, and expenses are recognized when incurred, not when liabilities are paid. With regards to accounting for construction contracts, the Authority does not recognize a capital asset or liability for amounts retained until the construction project is accepted and completed.

**FINANCIAL ANALYSIS**

**CONDENSED STATEMENT OF NET POSITION**

	June 30,			2018	2017
	2018	2017	2016	%	%
				Change	Change
Current Assets	\$ 42,796,647	\$ 26,937,251	\$ 22,757,505	58.9	18.4
Non-current, Restricted Assets	4,549,023	4,525,032	4,520,909	0.5	0.1
Capital Assets, Net	547,846,761	495,863,086	474,257,525	10.5	4.6
Other Non-current Assets	5,587,942	9,958,650	4,101,148	(43.9)	142.8
Total assets	600,780,373	537,284,020	505,637,087	11.8	6.3
Deferred outflows of resources	3,182,587	4,809,039	3,827,623	(33.8)	25.6
Total assets and deferred outflows of resources	603,962,960	542,093,059	509,464,710	11.4	6.4
Current Liabilities	36,836,595	25,904,292	23,260,979	42.2	11.4
Long-term Debt Outstanding	8,997,961	13,258,357	17,323,752	(32.1)	(23.5)
Other Non-current Liabilities	25,279,920	22,999,350	17,955,416	9.9	28.1
Total liabilities	71,114,476	62,161,999	58,540,147	14.4	6.2
Deferred inflows of resources	5,257,507	1,203,465	1,049,460	336.9	14.7
Total liabilities and deferred inflows of resources	76,371,983	63,365,464	59,589,607	20.5	6.3
Net Position:					
Net investment in capital assets	538,229,745	485,038,118	455,804,441	11.0	6.4
Restricted for debt service	4,223,748	4,200,093	4,199,236	0.6	0.0
Restricted for capital grants	181,516	148,848	2,480	21.9	5,901.9
Restricted for other purposes	166	10	2	1560.0	400.0
Unrestricted (Deficit)	(15,044,198)	(10,659,474)	(10,131,056)	41.1	5.2
Total net position	\$ 527,590,977	\$ 478,727,595	\$ 449,875,103	10.2	6.4
Total liabilities, deferred inflows of resources, and net position	\$ 603,962,960	\$ 542,093,061	\$ 509,464,710	11.4	6.4

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**STATEMENT OF NET POSITION**

***Fiscal Year 2018***

Total assets for Fiscal Year 2018 increased 11.8% to \$600,780,374. As of June 30, 2018, current assets were \$42,796,648, an increase of 58.9%. Contributing to this change was the 102.4% increase in restricted cash held by the Authority to \$27,952,668 as a result of the receipt of advanced funding from the Commonwealth dedicated to the port development and expansion project. In addition, the Authority's unrestricted cash increased by 118.4% to \$10,574,165 in part because of the growth of the contingency fund and cash gains realized from increased operating income.

Non-current restricted assets, which consist mostly of debt service reserve funds, increased by 0.5% to \$4,549,023 in FY 2018 mostly because of increased interest earned.

In FY 2018, net capital assets increased by 10.5% to \$547,846,762. Channel Deepening Improvements increased by 9.5% to \$135,145,247 as the Main Channel Deepening Project advanced toward the completion of the final remaining reaches. Buildings and Improvements increased by 1.9% to \$385,640,237 because of hardware and pile repairs at piers 78, 80, 82, and 84 and refrigeration piping replacement at Pier 82. Land improvements increased 17.0% to \$81,704,655 as a result of improvements to the Southport Auto Terminal.

Other non-current assets decreased 43.9% to \$5,587,941. This change was due primarily to the 83.7% decrease to \$749,452 in deferred maintenance dredging cost, net of amortization, because of there were no substantial dredging projects during fiscal year 2018.

Deferred outflows of resources decreased 33.8% to \$3,182,588. This decrease was a result of substantial decreases in deferred outflows of resources related to the SERS net pension liability. Overall, SERS pension deferred outflows of resources decreased by \$1,631,522 driven largely by the approximately \$1.3 million reduction in the net difference between projected and actual earnings on pension plan investments.

Total liabilities increased by 14.4% to \$71,114,476. Current liabilities increased by 42.2% to \$36,836,595. Contributing to this increase was the increase in unearned revenue for capital grants received in advance which increased 128.7% to \$23,366,771. Additional funds were advanced to the authority and held in a restricted account to fund upcoming payments for Port Improvement Plan projects.

Long-term debt outstanding decreased by 32.1% to \$8,997,961 primarily due to a \$4,065,000 decrease in long-term bonds payable. Other non-current liabilities increased by 9.9% to \$25,279,920. This increase was primarily due to the implementation of GASB 75, which requires the Authority to recognize its proportionate share of the REHP net OPEB liability, which is the shortfall of the plan's fiduciary net position as compared to the present value of future benefits payable. In fiscal year 2018, the Authority recognized a net OPEB liability of \$12,545,120.

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Deferred inflows of resources increased by \$4,054,043 to \$5,257,507. Deferred inflows of resources related to changes in the Authority's proportion for the SERS net pension liability caused an increase of \$2,673,190. In addition, the implementation of GASB 75 increased deferred inflows of resources related to the changes in assumptions for the OPEB liability by \$1,125,160.

***Fiscal Year 2017***

Total assets for Fiscal Year 2017 increased by 6.3% to \$537,284,020. As of June 30, 2017, current assets were \$26,937,251, an increase of 18.4%. Contributing to this change was the 40.7% increase in restricted cash held by the Authority to \$13,808,662 as a result of the receipt of advanced funding from the Commonwealth dedicated to the port development and expansion project. In addition, the Authority's unrestricted cash increased by 17.2% to \$4,842,063 in part because of the establishment of a contingency fund that grew to a balance of \$1,003,355 by the close of the fiscal year.

Non-current restricted assets, which consist mostly of debt service reserve funds, increased by 0.1% to \$4,525,032 in FY 2017 largely because of a 1.0% increase to \$324,938 in tenant security deposits held by the Authority.

In FY 2017, net capital assets increased by 4.6% to \$495,863,087. Channel Deepening Improvements increased by 18.9% to \$123,435,089 as the Main Channel Deepening Project advanced toward the completion of the final remaining reaches. Buildings and Improvements increased by \$21,205,952, or 5.9%, as a result of several projects, including marine repairs at Pier 78, the replacement of sprinkler and fire alarm systems at Pier 84, sheet pile and other repairs at Packer Avenue Marine Terminal, and a roof replacement for a building at Tioga Marine Terminal. The Authority also purchased a new parcel of land in accordance with the port development project which increased land by \$10,073,246, or 13.4%, to \$85,372,433.

Other non-current assets increased by 142.8% to \$9,958,650. This change was due primarily to the 528.3% increase to \$4,604,255 in deferred maintenance dredging cost, net of amortization, because of maintenance dredging projects completed at Pier 80, Packer Avenue Marine Terminal, Pier 82, Tioga Bulk Liquid Terminal, and Pier 122. In addition, the Authority recognized a lease incentive in the amount of \$2,020,123 that functions as a credit for a portion of a tenant's future tonnage payments.

Deferred outflows of resources increased 25.6% to \$4,809,039. This increase was a result of substantial increases in deferred outflows of resources related to the SERS net pension liability. Overall, SERS pension deferred outflows of resources increased by \$1,244,900, or 45.6%, driven largely by the changes in actuarial assumptions—specifically reductions to the annual discount rate and the annual inflation rate assumptions—and the changes in the Authority's proportion. Changes of assumptions increased deferred outflows of resources by \$572,109, while changes in proportion increased deferred outflows of resources by \$841,254.

Total liabilities increased by 6.2% to \$62,161,998. Current liabilities increased by 11.4% to \$25,904,291. Contributing to this increase was the increase in accounts payable and accrued liabilities by \$1,513,514, or 190.2%, as a result of the Authority's use of operating funds to cover the costs of

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several projects at leased facilities that will ultimately be reimbursed by the Commonwealth with capital funds. In addition, unearned lease rent increased by \$395,411, or 114.8%, because of significant prepayments in rent from multiple tenants.

Long-term debt outstanding decreased by 23.5% to \$13,258,357 primarily due to a \$3,870,000 decrease in long-term bonds payable. Other non-current liabilities increased by 28.1% to \$22,999,350 in part because of the \$2,241,960 increase to \$16,112,968 in the Authority's portion of the SERS net pension liability. Other non-current liabilities also increased because of the establishment of a long-term, expiring credit in the amount of \$2,020,123 that represents potential tonnage revenue payments that may not be received by the Authority in exchange for prior work completed by a tenant.

Deferred inflows of resources increased by \$154,004 to \$1,203,465. This increase occurred because the decrease (\$239,458) in deferred outflows of resources related to the changes in proportion of the net pension liability was outweighed by the collective increase (\$393,462) of the differences between employer contributions and the proportionate share of contributions and the differences between the expected and actual experience in relation to the net pension liability.

***Changes in Net Position***

The Authority's net position increased by \$58,772,948 and \$28,852,492 for fiscal years 2018 and 2017, respectively. The change in net positions for the years ending June 2018 and 2017 were attributable to:

	<u>2018</u>	<u>2017</u>
Operating and Non-operating Activities	\$ 988,492	\$ (8,704,694)
Depreciation and Amortization	(25,234,360)	(22,165,256)
Capital Grants, Appropriations, Contributions, and Transfers	83,018,815	59,722,442
Change in Net Position	<u>\$ 58,772,947</u>	<u>\$ 28,852,492</u>



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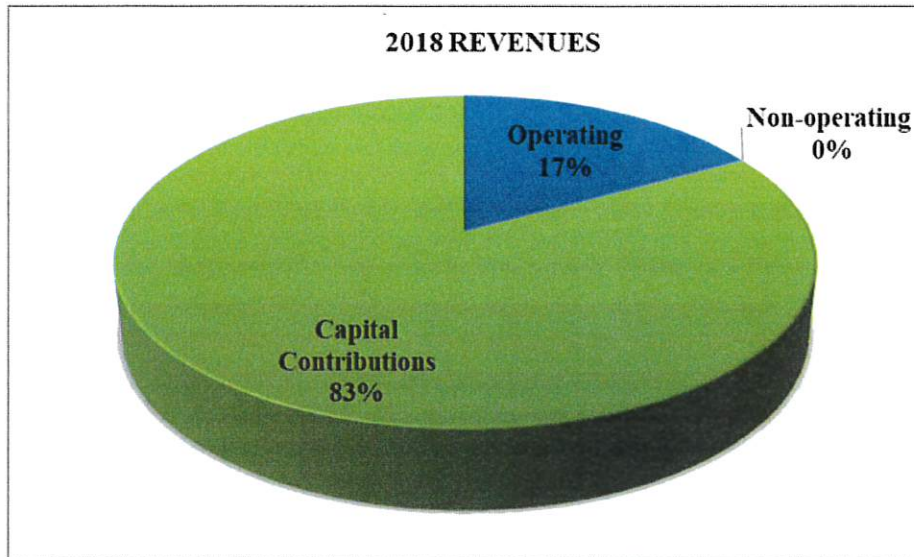
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u> %	<u>2017</u> %
				<u>Change</u>	<u>Change</u>
<b>Operating Revenues</b>					
Leases	\$ 15,996,583	\$ 13,466,597	\$ 12,237,708	18.8	10.0
Other Income	648,325	102,722	3,957	531.1	2496.0
Total Operating Revenues	<u>16,644,908</u>	<u>13,569,319</u>	<u>12,241,665</u>	22.7	10.8
<b>Operating Expenses</b>					
Personnel Expenses	4,432,478	9,961,806	9,039,486	(55.5)	10.2
General and Administrative	1,621,219	1,146,524	907,456	41.4	26.3
Marketing and Business Development	682,932	778,559	566,607	(12.3)	37.4
Port Operations	2,944,639	3,348,607	3,157,725	(12.1)	6.0
Depreciation and Amortization	<u>25,234,360</u>	<u>22,165,256</u>	<u>23,109,631</u>	13.8	(4.1)
Total Operating Expenses	<u>34,915,628</u>	<u>37,400,752</u>	<u>36,780,905</u>	(6.6)	1.7
Operating Loss	<u>(18,270,720)</u>	<u>(23,831,433)</u>	<u>(24,539,240)</u>	(23.3)	(2.9)
<b>Non-operating Revenues (Expenses)</b>					
Investment Income (Loss) - Treasury	37,021	9,159	2,172	304.2	321.7
Interest Income	36,233	1,685	299	2050.3	463.5
Other Governmental Appropriation	-	200,000	240,000	(100.0)	(16.7)
Primary Governmental Appropriation	-	1,500,000	3,121,894	(100.0)	(52.0)
Insurance Proceeds	425	313,399	37,258	(99.9)	741.2
Penalty Fees	-	-	13,489	0.0	(100.0)
Interest Expense	(742,088)	(957,369)	(1,130,901)	(22.5)	(15.3)
Pass through grant expense	(1,163,662)	(200,000)	(2,401,592)	481.8	(91.7)
Loss on Disposal of capital assets	(986,501)	(973,136)	(111,650)	1.4	771.6
Loss on impairment of other assets	-	-	(7,987,993)	0.0	(100.0)
Other Expenses	<u>(3,156,576)</u>	<u>(6,932,255)</u>	<u>(489,537)</u>	(54.5)	1316.1
Net Non-operating Revenues	<u>(5,975,148)</u>	<u>(7,038,517)</u>	<u>(8,706,561)</u>	(15.1)	(19.2)
Change in Net Assets Before Capital Appropriations, Contributions and Transfers	<u>(24,245,868)</u>	<u>(30,869,950)</u>	<u>(33,245,801)</u>	(21.5)	(7.1)
<b>Capital Appropriations, Contributions and Transfers</b>					
Capital Appropriations and Contributions	78,478,050	55,176,797	53,467,363	42.2	3.2
Transfers In - PennDOT Debt Service Payment	<u>4,540,765</u>	<u>4,545,645</u>	<u>4,548,132</u>	(0.1)	(0.1)
Total Capital Appropriations, Contributions and Transfers	<u>83,018,815</u>	<u>59,722,442</u>	<u>58,015,495</u>	39.0	2.9
Change in net position	58,772,947	28,852,492	24,769,694	103.7	16.5
Net Position, Beginning of Year - Prev. Reported	478,727,595	449,875,103	425,105,409	6.4	5.8
GASB 75 - Cumulative Change in OPEB Liability	<u>(9,909,565)</u>	<u>-</u>	<u>-</u>		
Net Position - beginning of year, as restated	<u>468,818,030</u>	<u>449,875,103</u>	<u>425,105,409</u>	4.2	5.8
Total net position, end of year	<u>\$ 527,590,977</u>	<u>\$ 478,727,595</u>	<u>\$ 449,875,103</u>	10.2	6.4

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***Fiscal Year 2018***



For the year ended June 30, 2018, total operating revenues represent 17% of total revenues (including capital appropriations, contributions, and transfers) and increased 22.7% to \$16,644,907. Overall, operating lease revenue increased \$2,529,986 to \$15,996,583. Significant contributors to this increase include base rent for the Auto terminal which increased by \$1,179,661 to \$2,604,936 because the Authority provided additional acreage for vehicle storage; and variable revenue at the Packer Avenue Marine Terminal and Pier 122 which increased \$647,465 and 710,623, respectively. Decreases to revenue were realized from Pier 84 variable revenue (\$194,487) due to a lower cargo volume than prior year and a decrease in base rent at the Food Distribution Center (\$261,528) as a result of concessions adopted in the lease year that were not included in the prior year.

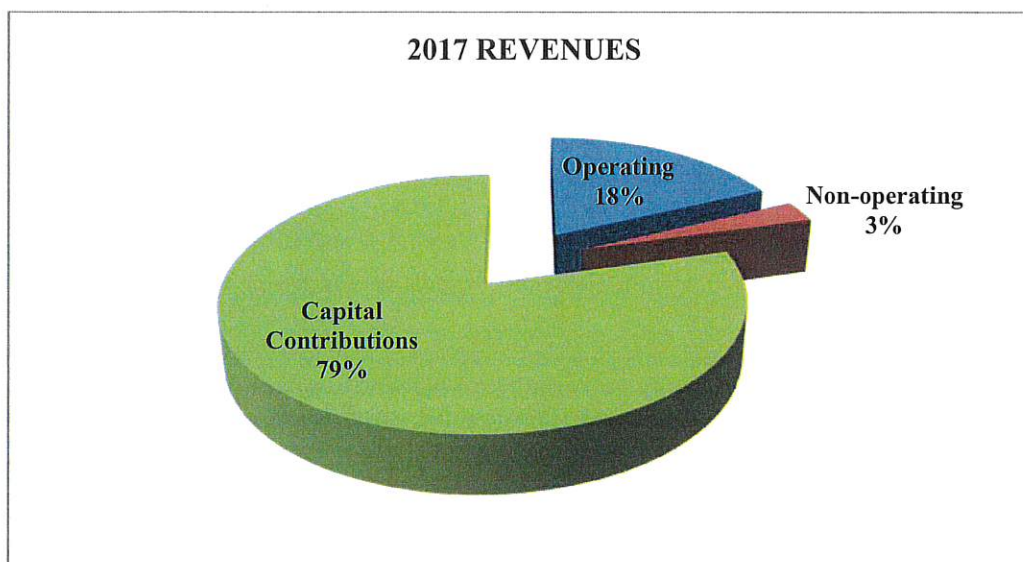
Non-operating revenues represent less than 0.1% of total revenues. Non-operating revenues decreased \$1,950,563 to \$73,680. This decrease mostly resulted from the reduction in the Authority's appropriation from the Commonwealth by \$1,500,000. Additional reductions from the prior year were for PORTS program pass through proceeds (\$200,000) and insurance proceeds (\$312,974).

Capital appropriations and contributions represent 79% of total revenues and increased by \$23,301,252, or 42.2%, to \$78,478,050. During fiscal year 2018, DGS contributions for general capital improvement projects decreased by \$3,523,134, or 16.07%, to \$18,394,826. In addition, contributions for the Main Channel Deepening Project decreased by \$7,893,571 to \$11,710,158. These decreases, however, were offset by an increase of \$34,904,185 to \$48,373,066 for DGS contributions for three projects in accordance with the Authority's port development and expansion plan.

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*Fiscal Year 2017*



For the year ended June 30, 2017, total operating revenues represent 18% of total revenues (including capital appropriations, contributions, and transfers) and increased 10.8% to \$13,569,320. Overall, operating lease revenue increased \$1,228,889 to \$13,466,598 as a result of gains across all three major lease revenue classifications. Base rent revenue (including the Foreign Trade Zone) increased \$631,228, or 8.2%, cargo and tonnage revenue increased \$503,573, or 12.4%, and tenant insurance revenue increased \$94,088, or 20.9%. Base rent increased primarily because of additional revenues generated from the Southport Auto Facility and the Food Distribution Center. In the case of the Southport Auto Facility, a new lease utilizing newly improved acreage contributed to an increase in revenue of \$531,208, or 59.4%. For the Food Distribution Center, lease-scheduled rent adjustments resulted in an increase in revenue of \$87,897, or 7.9%. The increase in tonnage revenue resulted largely from significant increases of revenues at Packer Avenue Marine Terminal (\$339,878 or 35.9%) and Pier 84 (\$318,072 or 68.3%) because of increased cargo throughput. These increases outweighed decreases in tonnage revenues at Pier 82 South, Tioga Marine Terminal, and Tioga Bulk Liquid Terminal. Additionally, "other" operating income increased \$98,766, or 2,496%, to \$102,722 almost entirely because of 2 short-term license agreements that generated rent revenues for the Authority.

Non-operating revenues represent 3% of total revenues. Non-operating revenues decreased \$1,390,869, or 40.7%, to \$2,024,243. This decrease mostly resulted from the reduction in the Authority's appropriation from the Commonwealth by \$1,621,894, or 51.9%, to \$1,500,000.

Capital appropriations and contributions represent 79% of total revenues and increased by \$1,706,947, or 2.9%, to \$59,722,443. During fiscal year 2017, DGS funding for general capital improvement projects decreased by \$10,910,784, or 33.2%, to 21,917,960. In addition, contributions for the Main Channel Deepening Project decreased by \$1,034,891, or 5.0%, to \$19,603,729. These decreases,

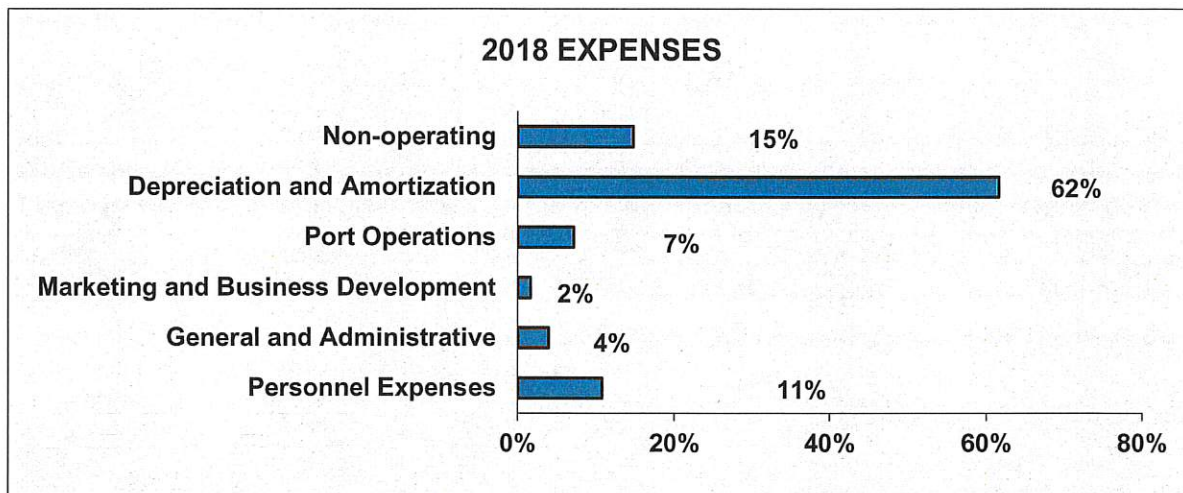


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however, were outweighed by \$13,468,881 of DGS contributions for two projects in accordance with the Authority's port development and expansion plan: the acquisition of new land (\$10,073,099) ultimately related to enhancements at Packer Avenue Marine Terminal and the improvements (\$3,395,782) to the Southport Auto Facility. Lastly, the Authority recognized a contribution in the amount of \$186,228 from PennDOT for a rail freight grant compared with none having been recognized in the prior year.

**Fiscal Year 2018**



For the year ended June 30, 2018, total operating expenses, including depreciation and amortization, were \$34,915,628, representing a decrease of 6.6%. Personnel expenses represent 11% of total expenses and decreased by \$5,529,328 to \$4,432,478. Salaries decreased \$818,766, or 18.5%, to \$3,597,931 and overall benefit expenses decreased \$388,976, or 14.6%, to \$2,238,845. These decreases are due to the departure of several employees in accordance with both voluntary and involuntary separation programs in the second half of FY17. Leave payout was reduced by \$807,416 to \$50,014.

Additionally, personnel expenses for the Authority's share of the SERS Net Pension Liability decreased \$2,609,447, resulting in a \$1,458,383 credit to the accrued liability because of several factors including the overall reduction in the Commonwealth's SERS net pension liability, as well as the Authority experiencing a reduction in its proportionate share of the liability because of staff reductions.

General and Administrative expenses represent 4% of total expenses and increased by \$474,695, or 41.4%, to \$1,621,219. This increase was due mostly to an increase in facility rents which were \$351,875 and \$0 in fiscal years 2018 and 2017, respectively. Recently costs were incurred to expand storage space for automobiles at Southport and had an associated revenue to offset a portion of these costs. Legal fees increased by \$101,358 or 27.3%, to \$472,640 because of several issues, including lease extensions and negotiations as well as general tenant legal matters. Marketing and Business

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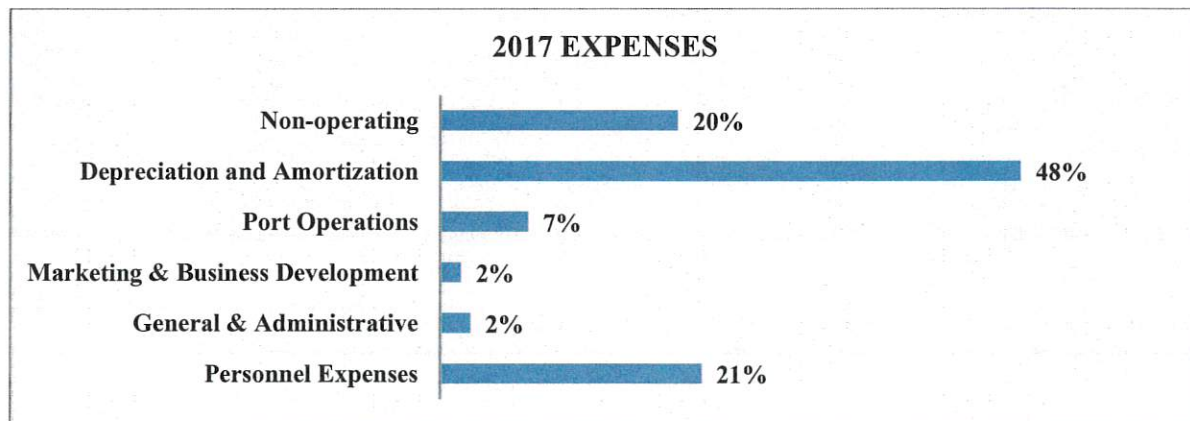
Development expenses represent 2% of total expenses and decreased by 12.3% to \$682,932. Ultimately, decreases of \$160,902 in professional fees related to marketing representatives and other consulting services outweighed increases of \$44,655 for port promotions and advertising.

Port Operations expenses represent 7% of total expenses and decreased by \$403,968, or 12.1%, to \$2,944,639. Contractual expenses for maintenance responsibilities decreased 36.9% to \$509,616. Prior year contractual expenses were inflated primarily due to repairs at Pier 74 Annex and sinkhole repairs at Piers 38/40. Contractual expenses related to security services at Pier 98 Annex were reduced by \$316,558 to \$42,262 because of the Authority's transition of security services to the tenant. Professional fees for engineering services increased by \$173,536 to \$459,599. This increase was driven by the following projects: Pier 80 Annex roof structure investigations (\$111,710), Pier 82 Mechanical services (\$37,210), Packer Avenue Marine Terminal Temporary fendering design And Pier 78 column repair (\$41,150).

In fiscal year 2018, depreciation and amortization expenses represent 62% of total expenses and increased by \$3,069,104, or 13.8%, to \$25,234,360. This increase was a result of maintenance dredging amortization, which increased by \$1,748,234, or 77.6%, to \$4,000,495. This increase is a result of a substantial maintenance dredging projects that were completed mid-year during the prior fiscal year. Depreciation expenses increased by \$752,063, or 3.8%, to \$20,665,058. Additionally, lease amortization for the Pier 122 capital dredging credit resulted in a \$568,807 increase.

Non-operating expenses represent 15% of total expenses and decreased by \$3,013,933, or 33.3%, to \$6,048,827. Interest Expense decreased \$215,281, or 22.5%, to 742,088 primarily because of reduced bond interest costs. Pass through grant expense increased by \$963,662 primarily resulting from an expenditure of \$1,140,000 for the Conrail additional track construction at the Port Richmond Yard. This increase in expenses was offset by a decrease of \$3,775,679 in other expenses. In fiscal year 2017, the Authority realized a onetime expense for costs related to the Southport Development project that did not have a clear and direct association with the ultimate development and use of the Southport property.

***Fiscal Year 2017***





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For the year ended June 30, 2017, total operating expenses, including depreciation and amortization, were \$37,400,752, representing an increase of 1.7%. Personnel expenses represent 21% of total expenses and increased by \$922,320 to \$9,961,806. Salaries decreased \$616,355, or 12.2%, to \$4,416,697 as a result of the departure of several employees in accordance with both voluntary and involuntary separation programs. Overall benefits expenses increased \$1,538,675, or 38.4%, to \$5,545,109. This increase occurred because of adjustments to long-term liabilities and incentive pay offered through the employee separation programs. For instance, expenses for the Authority's share of the SERS Net Pension Liability increased \$511,083, or 79.9%, to \$1,151,064 as a result of several factors including the changes in assumptions that reduced the annual discount and inflation rates. In addition, the Authority reported a self-insurance liability for workers' compensation which increased expenses by \$631,451, while Other Post Employment Benefit (OPEB) expenses increased benefits expenses by \$519,885. The leave payout in connection with the employee separation programs increased expenses by \$857,430. Benefits not directly associated with long-term liabilities and incentive payout actually decreased by \$296,704, or 10.0%, as a result of the departure of several employees.

General and Administrative expenses represent 2% of total expenses and increased by \$239,068, or 26.3%, to \$1,146,524. This increase was due mostly to an increase in legal fees. Legal fees increased by \$268,447, or \$261.1%, to \$371,282 because of several issues, including lease restructurings and negotiations, general tenant legal matters, and an analysis for a pipeline relocation.

Marketing and Business Development expenses represent 2% of total expenses and increased by 37.4% to \$778,559. A significant reason for this increase was the \$145,530 increase in expenses for a rebranding and enhancement campaign for the Authority. In addition, advertising and port promotions increased by \$38,274 largely because of an increase in print, digital, and radio advertising.

Port Operations expenses represent 7% of total expenses and increased by \$190,881, or 6.0%, to \$3,348,607. Although insurance expenses were decreased by \$120,415, or 7.3%, to \$1,523,085 and professional fees were reduced by \$129,040, or 31.1%, to \$286,063, port operations expenses increased largely because of increases in contractual expenses. Contractual expenses increased by \$516,001, or 79.3%, to \$1,166,495. Contractual expenses increased as a result of several projects, including building repairs at Pier 74 Annex, which increased expenses by \$225,516, building repairs and paving projects at Packer Avenue Marine Terminal, which increased expenses by \$52,733, increased security services provided at Pier 98 Annex, which increased expenses by \$50,597, and masonry and roof repairs at Pier 80 South Annex, which contributed to an increase in contractual expenses of \$25,303.

In fiscal year 2017, depreciation and amortization expenses represent 48% of total expenses and decreased by \$944,375, or 4.1%, to \$22,165,256. This decrease was a result of a decrease in maintenance dredging amortization, which was reduced by \$2,675,781, or 54.3%, to 2,252,261. Although no maintenance dredging projects were completed in the prior fiscal year, many projects were still amortizing for most, if not all, of the fiscal year. By comparison, several maintenance dredging projects were completed during Fiscal Year 2017, but almost all of the said projects did not begin amortizing until the final four months of the fiscal year, thereby explaining why maintenance

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dredging expense actually decreased. Conversely, depreciation expenses increased by \$1,731,407, or 9.5%, to \$19,912,995 as a result of the capitalization of several projects, including marine repairs at Pier 78 and sprinkler and alarm system replacements at Pier 84.

Non-operating expenses represent 20% of total expenses and decreased by \$3,058,912, or 25.2%, to \$9,062,760. In the prior fiscal year, the Authority realized a loss on impairments and other disposals of \$8,099,642 largely because of a \$7,987,993 impairment. In fiscal year 2017, the Authority's loss from disposal of fixed assets was only \$973,136, which was a reduction of expenses of \$7,126,506, or 88.0%. In addition, pass-through grant expenses were reduced by \$2,201,592, or 91.7%, to \$200,000 as a result of the Tioga Marine Terminal rail access pass-through grant expiring in the prior fiscal year. These reductions in expenses outweighed the increase of \$6,442,718, or 1,316.1%, to \$6,932,255 in non-operating other expenses. This substantial increase was almost entirely the result of expensing from construction-in-progress the costs associated with the Southport project that did not have a clear and direct association with the ultimate development and use of the Southport property.

**Philadelphia Regional Port Authority Capital Assets**

**CAPITAL ASSETS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Property	\$ 552,722,673	\$ 533,527,388	\$ 499,976,661
Equipment	40,230,963	40,001,794	39,931,668
Channel Deepening Improvement	135,145,247	123,435,089	103,831,361
Construction-in-Progress	55,090,274	14,123,930	26,382,534
Total Capital Assets	783,189,157	711,088,201	670,122,224
Accumulated Depreciation	(235,342,396)	(215,225,115)	(195,864,699)
Net Capital Assets	<u>\$ 547,846,761</u>	<u>\$ 495,863,086</u>	<u>\$ 474,257,525</u>

***Fiscal Year 2018***

The net capital asset value as of June 30, 2018 was \$547,846,761 which represents an increase of \$51,983,675 or 10.5%.

Property increased by 3.6% to \$552,722,673 due to increases in land improvements and buildings and improvements. Land improvements increased by 17.0% largely because of \$9,758,612 of improvements at the Southport Auto facility that expanded vehicle storage. Buildings and improvements increased by \$7,315,518 because of several projects, including pile and hardware repairs at piers 78, 80, 82, and 84, and refrigeration upgrades at Pier 82.

Channel deepening improvements increased by \$11,710,158, or 9.5%, to \$135,145,247 as a result of the Authority's continued role as the local sponsor for the Delaware River Main Channel Deepening Project.

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Construction in progress increased by \$40,966,343 to \$55,090,274, primarily due to the Berth 4-5 upgrade at the Packer Avenue Marine Terminal, which increased construction in progress by approximately \$30 million during fiscal year 2018. In addition, outshore refurbishments at Pier 84 increased construction in progress by approximately \$9 million.

***Fiscal Year 2017***

The net capital asset value as of June 30, 2017 was \$495,863,086 which represents an increase of \$21,605,561 or 4.6%.

Property increased by 6.7% to \$533,527,388 due to additions to land, land improvements and buildings and improvements. Land improvements increased by \$2,271,528 primarily because of paving improvements at the Southport Marine Terminal and Pier 82. Buildings and improvements increased by \$21,205,952 as a result of several different enhancements, including Pier 78 marine repairs, roof replacement at Tioga Marine Terminal (TMT I), sheet pile repair at Packer Avenue Marine Terminal, and the replacement of sprinklers and fire alarms at Pier 84. During FY 2017, the Authority acquired 3309 South Galloway Street and 3401 South Lawrence Street, increasing land by \$10,073,246.

Equipment increased by \$70,126 (this increase, along with all others discussed in this section above, is net of disposals) due to the installation of various infrastructure improvements, including audio/visual upgrades, server and network upgrades, and access control equipment in the combined amount of \$128,908. Equipment was reduced by \$63,752 due to the disposal of ten PRPA vehicles.

Channel deepening improvements increased by \$19,603,729, or 18.9%, to \$123,435,089 as a result of the Authority's continued role as the local sponsor for the Delaware River Main Channel Deepening Project.

Construction in progress decreased by \$12,258,604. This decrease is net of \$19,065,787 in additions and \$31,324,390 in transfers. Additions included work related to numerous construction projects related to pier/terminal improvements, as well as ongoing design for upcoming projects. Transfers included the capitalization of projects completed during FY 17, including the land improvements and building and improvements specifically addressed above totaling \$23,477,480. Additionally, approximately \$6.6M related to the Southport Marine Terminal concessionaire process was transferred to expenses.

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**Philadelphia Regional Port Authority Bonds Payable**

				2018 %	2017 %
	2018	2017	2016	Change	Change
Balance, Beginning of Year	\$ 17,323,752	\$ 21,199,148	\$ 24,894,544	(18.3)	(14.8)
Repayments	(3,870,000)	(3,680,000)	(3,500,000)	5.2	5.1
Amortization of Premium	(195,396)	(195,396)	(195,396)	(0.0)	0.0
Balance, End of Year	<u>\$ 13,258,357</u>	<u>\$ 17,323,752</u>	<u>\$ 21,199,148</u>	(23.5)	(18.3)
Current portion	4,260,396	4,065,395	3,875,396	4.8	4.9
Non-current portion	<u>8,997,961</u>	<u>13,258,357</u>	<u>17,323,752</u>	(32.1)	(23.5)
Total Bonds Payable	<u>\$ 13,258,357</u>	<u>\$ 17,323,752</u>	<u>\$ 21,199,148</u>	(23.5)	(18.3)

**BONDS PAYABLE**

On September 5, 2008, the Authority refunded the Series 2003 bonds to remove an alternate rate condition. The initial principal of the Series 2008 bond was \$41,965,000 and bears interest at rates of 3% to 5%. The net interest cost for Series 2008 bonds interest rate is 4.13%. The bonds do not have a variable rate component. There are two annual debt service payments as follows: principal and interest payments are due in September, and an interest payment is due in March of each fiscal year.

***Fiscal Year 2018***

Bonds payable decreased 23.5% to \$13,258,357. The current portion increased 4.8% to \$4,260,396 and the non-current portion decreased 32.1% to \$8,997,961.

***Fiscal Year 2017***

Bonds payable decreased 18.3% to \$17,323,752. The current portion increased 4.9% to \$4,065,395 and the non-current portion decreased 23.5% to \$13,258,357.

**ECONOMIC/ADDITIONAL FACTORS**

The total metric tonnage handled at the Authority's facilities during the fiscal year 2018 and 2017 was 6,703,895 and 6,581,019, respectively.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Commonwealth and all interested parties with a general overview of the Authority's finances and to illustrate the Authority's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Authority's Finance Department at 3460 N. Delaware Avenue, Philadelphia, PA 19134.

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**BUDGETARY COMPARISON SCHEDULES**

**Fiscal Year 2018**

	2018 Actual	2018 Budget	Variance	% Variance
Operating Revenues				
Leases	\$ 15,996,583	\$ 14,937,844	\$ 1,058,739	7.1
Other Income	648,325	201,092	447,233	222.4
Total Operating Revenues	16,644,908	15,138,936	1,505,972	9.9
Operating Expenses				
Personnel Expenses	4,432,478	6,430,365	(1,997,887)	(31.1)
General and Administrative	1,621,219	1,388,314	232,905	16.8
Marketing and Business Development	682,932	893,690	(210,758)	(23.6)
Port Operations	2,944,639	3,884,801	(940,162)	(24.2)
Depreciation and Amortization	25,234,360	24,778,788	455,572	1.8
Total Operating Expenses	34,915,628	37,375,958	(2,460,330)	(6.6)
Operating Loss	(18,270,720)	(22,237,022)	3,966,302	(17.8)
Non-operating Revenues (Expenses)				
Investment Income (Loss) - Treasury	37,021	9,144	27,877	304.9
Interest Income	36,234	36	36,198	100,550.0
Primary Governmental Appropriation	-	735,000	(735,000)	(100.0)
Insurance Proceeds	425	-	425	100.0
Interest Expense	(742,088)	(762,088)	20,000	(2.6)
Pass Through Grant Expense	(1,163,662)	(200,000)	(963,662)	481.8
Loss on disposals of capital assets	(986,501)	-	(986,501)	100.0
Other Expenses	(3,156,576)	(2,000,000)	(1,156,576)	57.8
Net Non-operating Expenses	(5,975,147)	(2,217,908)	(3,757,239)	169.4
Change in Net Position Before Capital Appropriations, Contributions and Transfers	(24,245,867)	(24,454,930)	209,063	(0.9)
Capital Appropriations, Contributions and Transfers				
Capital Appropriations and Contributions	78,478,050	117,928,300	(39,450,250)	(33.5)
Transfers In - PennDOT Debt Service Payment	4,540,765	4,544,000	(3,235)	(0.1)
Total Capital Appropriations, Contributions and Transfers	83,018,815	122,472,300	(39,453,486)	(32.2)
Change in Net Position	58,772,948	98,017,370	(39,244,423)	(40.0)
Net Position, Beginning of Year - Previously Reported	478,727,595	478,727,595	-	-
Implementation of GASB 75 - Cumulative Change in OPEB Liability	(9,909,565)	(9,909,565)	-	-
Net Position, Beginning of Year, as restated	468,818,030	468,818,030	-	-
Total Net Position, End of Year	\$ 527,590,978	\$ 566,835,400	\$(39,244,423)	(6.9)

For the year ended June 30, 2018, total actual operating revenue surpassed budget projections by \$1,505,972, or 9.9%. Lease revenue increase 7.1% to \$15,996,583. Base rent revenue at the Southport Auto Facility outperformed budget projections by \$441,194 because of a new lease utilizing newly improved acreage for auto storage. Packer Avenue variable revenue, based on increases in container pick fees, increased \$233,090 over budget. Pier 84 variable revenue increased \$136,508 over budget while an accounting treatment for a prepaid rent credit as well as additional volumes at pier 122 led to an increase of \$473,788 over budget. Other revenue increased



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\$447,232 over budget due to temporary leases at Norfolk Southern parcel and the former Food Distribution Center parcel to increase vehicle storage capacity.

Total operating expenses decreased 6.6% from budget projections to \$34,915,628. Personnel expenses were \$1,997,887 below the budget. Salaries were 6.8%, or \$261,421, less than the budget due to several departures during the year and proposed positions that were not filled immediately or at all during the year. Because of the decrease in the overall SERS net pension liability as well as a decrease in the Authority's proportionate share of the SERS pension liability as a result of the reduction of staff, the Authority realized a credit of \$1,458,383 to the SERS pension liability, which was the significant contributor to the decrease in personnel expense under budget.

General and Administrative expenses totaled \$1,621,219, which represents a \$232,905, or 16.8%, increase from the budgeted total. Bad debt expenses of \$114,716 that were not budgeted for were realized by the Authority to provide relief to a tenant for a property insurance pass through that was mistakenly included in the lease. Facility lease rentals for license agreements for property not owned by the Authority were not included in the budget for fiscal year 2018 but contributed additional expenses in the amount of \$351,875. These expenses were mostly offset by tenant revenue received by the Authority and established goodwill for the Southport Auto terminal.

Marketing and Business Development expenses decreased \$210,258, or 23.6% from budget projections to \$682,932. Professional fees for marketing and business development initiatives were \$176,037 below \$294,000 budget forecast. This decrease is a result of certain projects either being deferred or funded by another source.

Port Operations expenses decreased \$940,162, or 24.2%, from the budget projections of \$3,884,801. The primary driver for the decreases from the budget is the contractual expense for facility maintenance which was \$697,884 less than the projected budget of \$1,207,500. Several anticipated projects were not performed because of facilities being vacated. Other decreases to expenses from the budget were crane insurance (\$49,826), due to the new crane not being commissioned in April as previously forecasted, and a general reduction in liability insurance expense (\$107,377) from the budget.

Net non-operating expenses were \$5,975,147, a \$3,757,239, or 169.4%, increase from budget projections. Contributing to this substantial variance were construction in progress facility enhancement projects that were determined to be expenses during the fiscal year. These costs exceeded the budget total amount of \$2,000,000 by \$1,156,576. In addition, the Authority did not budget for the loss of disposals of assets, which increase expenses by \$986,501. Actual pass through grant expenses increased by \$963,662 from the budgeted total of \$200,000 primarily because a rail improvement project was not budgeted for.

Actual capital contributions were \$78,478,050, a \$39,450,250, or 33%, decrease from budget projections. The substantial variance is related to both development and deferred maintenance projects. Approximately \$27M of the \$39M is related to the ongoing development projects at the Packer Avenue Marine Terminal (PAMT), Tioga Marine Terminal (TMT) and Southport Auto Terminal. The difference was due to less than anticipated progress on the assembly of the super

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post Panamax cranes at PAMT, the TMT warehouse, and the Vehicle Processing Center construction. As related to deferred maintenance projects, \$7.5M was budgeted for maintenance dredging. However due to a permit issue out of the Authority's control, the project was delayed. The remaining projects have been deferred but are on track to be completed during the upcoming fiscal year.

**Fiscal Year 2017**

	2017 Actual	2017 Budget	Variance	% Variance
Operating Revenues				
Leases	\$ 13,466,597	12,254,315	\$1,212,282	9.9
Other Income	102,722	7,200	95,522	1,326.7
Total Operating Revenues	13,569,319	12,261,515	1,307,804	10.7
Operating Expenses				
Personnel Expenses	9,961,806	8,620,174	1,341,632	15.6
General and Administrative	1,146,524	1,716,726	(570,202)	(33.2)
Marketing and Business Development	778,559	912,952	(134,393)	(14.7)
Port Operations	3,348,607	3,603,267	(254,660)	(7.1)
Depreciation and Amortization	22,165,256	23,500,000	(1,334,744)	(5.7)
Total Operating Expenses	37,400,752	38,353,119	(952,367)	(2.5)
Operating Loss	(23,831,433)	(26,091,604)	2,260,171	(8.7)
Non-operating Revenues (Expenses)				
Investment Income (Loss) - Treasury	9,159	3,500	5,659	161.7
Interest Income	1,685	50	1,635	3,270.0
Other Governmental Appropriation	200,000	200,000	-	-
Primary Governmental Appropriation	1,500,000	1,500,000	-	-
Insurance Proceeds	313,399	313,399	-	-
Interest Expense	(957,369)	(939,005)	(18,364)	2.0
Other Expenses	(8,105,391)	(200,000)	(7,905,391)	3,952.7
Net Non-operating Expenses	(7,038,517)	877,944	(7,916,461)	(901.7)
Change in Net Position Before Capital Appropriations, Contributions and Transfers	(30,869,950)	(25,213,660)	(5,656,290)	22.4
Capital Appropriations, Contributions and Transfers				
Capital Appropriations and Contributions	55,176,797	50,000,000	5,176,797	10.4
Transfers In - PennDOT Debt Service Payment	4,545,645	4,545,645	-	-
Total Capital Appropriations, Contributions and Transfers	59,722,442	54,545,645	5,176,797	9.5
Change in Fund Net Position	28,852,492	29,331,985	(479,493)	(1.6)
Total Net Position, Beginning of Year	449,875,103	449,875,103	-	-
Total Net Position, End of Year	\$478,727,595	\$479,207,088	\$ (479,493)	(0.1)

For the year ended June 30, 2017, total actual operating revenue surpassed budget projections by \$1,212,282, or 9.9%. Base rent revenue at the Southport Auto Facility outperformed budget

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projections by \$785,846 because of a new lease utilizing newly improved acreage for auto storage. In addition, Pier 84 experienced higher cargo throughput than anticipated, which resulted in actual tonnage revenue outperforming budget projections by \$395,873. Overall, actual revenue driven by cargo throughput surpassed budgeted totals by \$613,257.

Total operating expenses decreased 2.5% from budget projections to \$37,400,752. While General and Administrative, Marketing and Business Development, Port Operations, and Depreciation and Amortization expenses all decreased from budgeted amounts, Personnel expenses increased by \$1,341,632, or 15.6%. Actual Personnel expenses surpassed budget projections because the Authority did not budget for the SERS net pension liability expense, the workers' compensation liability expense, nor the OPEB liability expense. Additionally, the Authority did not budget for an employee separation incentive which increased actual Personnel expenses by \$857,430. Actual salaries expenses fell short of budget projections by \$944,920, or 17.6%, because of downsizing at the Authority.

General and Administrative expenses totaled \$1,146,524, which represents a \$570,202, or 33.2%, decrease from the budgeted total. Although actual Legal fees increased from the prior year in fiscal year 2017, the expenses incurred were \$128,718, or 25.7%, below the budgeted total of \$500,000. In addition, Professional fees fell short of budget projections by \$314,525, or 54.6%, in part because the costs associated with economic impact and other analyses were less than initially anticipated.

Marketing and Business Development expenses decreased 14.7% from budget projections to \$778,559. This shortfall from the budget was partially a result of professional fees for international and domestic marketing representatives coming in under budget by \$21,648. In addition, marketing port promotions expenses, which include attendance at, and sponsorship of, trade association events, decreased from budget projections by \$32,203, or 20.6%.

Port Operations expenses decreased \$254,660, or 7.1%, from the budget projections of \$3,603,267. Insurance expenses for property, liability, and crane insurance all fell short of budget projections for a total decrease of \$179,855, which substantially contributed to the overall shortfall from the Port Operations expenses budget.

Net non-operating expenses were \$7,038,517, a \$7,916,461, or 901.7%, increase from budget projections. Contributing to this substantial variance were the approximately \$6.6 million of preliminary and exploratory costs for the Southport project that were initially expected to be capitalized but were ultimately expensed for lack of having a clear and direct association with the final direction of the project. In addition, \$518,000 of expenses not originally budgeted for were incurred for the removal of a crane at Packer Avenue Marine Terminal.

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	2018	2017
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and cash equivalents	\$ 10,574,165	\$ 4,842,063
Receivables:		
Trade	999,934	586,330
Due from Commonwealth of Pennsylvania	-	3,967,060
Due from other governments	59,324	95,867
Restricted assets:		
Cash and cash equivalents	27,952,668	13,808,662
Due from Commonwealth of Pennsylvania	2,127,437	2,581,771
Other current assets	1,083,119	1,055,498
Total Current Assets	<u>42,796,647</u>	<u>26,937,251</u>
Non-Current Assets:		
Assets limited as to use - held by trustee	4,223,748	4,200,093
Other restricted cash and cash equivalents	325,275	324,939
Capital assets:		
Non-depreciable capital assets:		
Land and land acquisition	85,377,781	85,372,433
Channel improvements	135,145,247	123,435,089
Construction-in-progress	55,090,274	14,123,930
Total non-depreciable capital assets	<u>275,613,302</u>	<u>222,931,452</u>
Depreciable capital assets:		
Buildings and improvements	385,640,237	378,324,719
Cranes and equipment	40,230,963	40,001,794
Land improvements	81,704,655	69,830,236
Total depreciable capital assets	<u>507,575,855</u>	<u>488,156,749</u>
Less accumulated depreciation	<u>(235,342,396)</u>	<u>(215,225,115)</u>
Net depreciable capital assets	<u>272,233,459</u>	<u>272,931,634</u>
Total capital assets, net	547,846,761	495,863,086
Maintenance dredging cost, net of accumulated amortization of \$4,132,670 and \$1,599,456 in 2018 and 2017, respectively	749,453	4,604,255
Other assets	4,838,489	5,354,396
Total Non-Current Assets	<u>557,983,726</u>	<u>510,346,769</u>
<b>TOTAL ASSETS</b>	<u>600,780,373</u>	<u>537,284,020</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Pension	2,343,149	3,974,671
Deferred amount on bonds refunding	570,883	834,368
Post-employment benefits other than pensions (OPEB)	268,555	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>3,182,587</u>	<u>4,809,039</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 603,962,960</u>	<u>\$ 542,093,059</u>

Continued  
See the accompanying notes to these financial statements.

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	2018	2017
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,068,714	\$ 905,916
Accrued capital liabilities	6,317,901	7,149,281
Due to federal government	944,423	2,274,112
Unearned revenue	23,366,771	10,217,364
OPEB liability	265,780	-
Compensated absences	154,506	187,053
Self insurance liability	55,615	86,861
Other current liabilities	188,572	739,892
Liabilities payable from restricted assets:		
Interest payable	213,917	278,417
Bonds payable	4,260,396	4,065,396
Total Current Liabilities	<u>36,836,595</u>	<u>25,904,292</u>
Non-Current Liabilities:		
Accrued expense	1,573,061	2,020,123
Bonds payable	8,997,961	13,258,357
OPEB liability	12,279,340	3,370,281
Compensated absences	658,684	626,221
Self Insurance liability	349,183	544,590
Net pension liability	10,094,179	16,112,968
Other long term liabilities	325,473	325,167
Total Non-Current Liabilities	<u>34,277,881</u>	<u>36,257,707</u>
<b>TOTAL LIABILITIES</b>	<u>71,114,476</u>	<u>62,161,999</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension	4,132,347	1,203,465
OPEB	1,125,160	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>5,257,507</u>	<u>1,203,465</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>76,371,983</u>	<u>63,365,464</u>
<b>NET POSITION</b>		
Net investment in capital assets	538,229,745	485,038,118
Restricted for:		
Debt service	4,223,748	4,200,093
Capital grants	181,516	148,848
Other purposes	166	10
Unrestricted (deficit)	(15,044,198)	(10,659,474)
<b>TOTAL NET POSITION</b>	<u>\$ 527,590,977</u>	<u>\$ 478,727,595</u>

See accompanying notes to these financial statements.



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Statements of Revenues, Expenses, and Changes in Net Position  
For the years ended June 30, 2018 and 2017

	2018	2017
Operating Revenues:		
Leases	\$ 15,996,583	\$ 13,466,597
Other income	648,325	102,722
Total Operating Revenues	<u>16,644,908</u>	<u>13,569,319</u>
Operating Expenses:		
Personnel services	4,432,478	9,961,806
General and administrative	1,621,219	1,146,524
Marketing and business development	682,932	778,559
Port operations	2,944,639	3,348,607
Depreciation and amortization	25,234,360	22,165,256
Total Operating Expenses	<u>34,915,628</u>	<u>37,400,752</u>
Operating Loss	<u>(18,270,720)</u>	<u>(23,831,433)</u>
Non-operating Revenues (Expenses):		
Investment income	37,020	9,159
Interest income	36,233	1,685
Other governmental appropriation	-	200,000
Commonwealth of Pennsylvania appropriation	-	1,500,000
Other income	425	313,399
Interest expense	(742,088)	(957,369)
Other expenses	(5,306,738)	(8,105,391)
Net Non-operating (Expenses)	<u>(5,975,148)</u>	<u>(7,038,517)</u>
Change in Net Position Before Capital Appropriations, Contributions and Transfers	<u>(24,245,868)</u>	<u>(30,869,950)</u>
Capital Appropriations, Contributions and Transfers:		
Capital appropriations and contributions	78,478,050	55,176,797
Transfers in - PennDOT debt service payment	4,540,765	4,545,645
Total Capital Appropriations, Contributions and Transfers	<u>83,018,815</u>	<u>59,722,442</u>
Change in Net Position	<u>58,772,947</u>	<u>28,852,492</u>
Net Position, Beginning of Year - Previously Reported	478,727,595	449,875,103
GASB 75 Restatement - Cumulative Change in OPEB Liability	(9,909,565)	-
Net Position, Beginning of Year - Restated	<u>468,818,030</u>	<u>449,875,103</u>
Net Position, End of Year	<u>\$ 527,590,977</u>	<u>\$ 478,727,595</u>

See the accompanying notes to these financial statements.

PHILADELPHIA REGIONAL PORT AUTHORITY

Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Cash received from leasing activities	\$ 15,233,159	\$ 16,146,717
Cash paid for salaries and wages	(5,987,973)	(8,059,178)
Cash paid for general and administrative	(1,572,928)	(1,081,407)
Cash paid for marketing and business development	(651,649)	(759,319)
Cash paid for port operations	(2,860,172)	(5,145,965)
Net Cash Provided by Operating Activities	<u>4,160,437</u>	<u>1,100,848</u>
Cash Flows from Non-capital Financing Activities:		
Operating appropriation from the Commonwealth of Pennsylvania	-	1,500,000
Non-capital grant/appropriations restricted for mandated projects	-	200,000
Pass-through expense from grant and non-operating other expenses	(4,320,237)	(7,132,255)
Net Cash Used in Non-capital Financing Activities	<u>(4,320,237)</u>	<u>(5,432,255)</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(74,809,803)	(39,960,629)
Payments for maintenance dredging and access road easement	(198,593)	(6,123,663)
Capital grants/appropriations received	95,984,351	55,798,483
Payments on bonds payable	(3,870,000)	(3,680,000)
Interest payments	(738,500)	(950,614)
Lease payment from the Commonwealth of Pennsylvania	4,605,265	4,606,979
(Loss) from disposal of capital assets	(986,501)	(973,138)
Other income	425	313,399
Net Cash Provided by Capital and Related Financing Activities	<u>19,986,644</u>	<u>9,030,817</u>
Cash Flows from Investing Activities:		
Investment income	<u>73,253</u>	<u>10,844</u>
Net Increase in Cash and Cash Equivalents	19,900,097	4,710,254
Cash and Cash Equivalents:		
Beginning of year	<u>23,175,757</u>	<u>18,465,503</u>
End of year	<u>43,075,854</u>	<u>23,175,757</u>
Cash and Cash Equivalents are comprised of the following:		
Non-Restricted Assets	10,574,165	4,842,063
Restricted Assets	32,501,691	18,333,694
Total Cash and Cash Equivalents	<u>\$ 43,075,856</u>	<u>\$ 23,175,757</u>

Continued

See the accompanying notes to these financial statements.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Statements of Cash Flows, Continued  
For the years ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Operating Loss to Net Cash Provided		
by Operating Activities:		
Operating Loss	\$ (18,270,720)	\$ (23,831,433)
Adjustments to Reconcile Operating Loss to Net Cash Provided by		
Operating Activities:		
Depreciation and amortization	25,234,360	22,165,256
Cumulative change in - OPEB liability	(9,909,565)	-
Change in assets and liabilities:		
Trade receivables	(413,605)	158,606
Due from other governments	36,543	(30,136)
Other current assets	(27,621)	(1,865,088)
Deferred outflows of resources - pension and OPEB	1,362,967	(1,244,901)
Accounts payable and accrued liabilities	(284,264)	2,130,162
Compensated absences	(85)	(327,027)
Self insurance liability	(226,654)	631,451
OPEB liability	9,174,839	519,885
Net pension liability	(6,018,789)	2,241,962
Other liabilities	(551,013)	398,106
Deferred inflows of resources - pension and OPEB	4,054,044	154,005
Total Adjustments	22,431,157	24,932,281
Net Cash Provided by Operating Activities	\$ 4,160,437	\$ 1,100,848

See the accompanying notes to these financials statements.

# PHILADELPHIA REGIONAL PORT AUTHORITY

## Notes to Financial Statements

For the years ended June 30, 2018 and 2017

### Note 1 Summary of Significant Accounting Policies:

#### **Organization and Structure**

The Philadelphia Regional Port Authority (the "Authority") was established on July 10, 1989 by Act 1989-50, the Philadelphia Regional Port Authority Act, of the General Assembly of the Commonwealth of Pennsylvania (the "Commonwealth") as an independent agency. The Authority exists as a public instrumentality of the Commonwealth for the conduct of regional port and port-related activities and business along the Delaware River. The Authority was created for the purpose of owning and developing port facilities and assuming, under the terms and conditions of an agreement between the Authority and the Philadelphia Port Corporation (the "PPC"), the functions, powers, rights, duties and obligations exercised by the PPC.

On July 26, 1990, the Authority acquired the port-related assets and assumed the corresponding liabilities from the City of Philadelphia and the PPC. The acquisition has been accounted for as a purchase and, accordingly, the acquired assets and liabilities have been recorded at their fair values at the date of acquisition. The excess of the fair value of the net assets over the purchase price has been allocated to the capital assets.

The Authority operates a port facility and manages port-related activities to promote commerce and economic development in Southeastern Pennsylvania. The Authority charges rental and other fees to port users and obtains other funding from the Commonwealth. The Authority also issues revenue bonds to finance its activities. The Commonwealth appoints all eleven voting board members and can remove board members at will. The Commonwealth provides operating and capital subsidies and pays rent in amounts equal to the Authority's debt service requirements. The Authority is fiscally dependent on the Commonwealth, as the Governor must approve the issuance of its debt.

#### **Reporting Entity**

These financial statements present only financial information about the Authority, an enterprise fund of the Commonwealth. The enterprise fund qualifies for inclusion in the Commonwealth's reporting entity pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*. These financial statements do not purport to, and do not, present fairly the financial position of the Commonwealth and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

#### **Basis of Accounting and Measurement Focus**

The Authority's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. The Authority is an enterprise Fund. Enterprise Funds are used to account for operations that are financed in a manner similar to private business enterprises where periodic determination of

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

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**Note 1     Summary of Significant Accounting Policies, Continued:**

**Basis of Accounting and Measurement Focus, Continued**

revenues earned, expenses incurred and/or change in net assets is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The financial statements of the Authority are presented using the flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of the Authority are included in the Statements of Net Position. Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred. With regards to accounting for construction contracts, the Authority does not recognize a capital asset or liability for amounts retained until the construction project is accepted.

As an enterprise fund, the Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from the proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are leasing revenues from its tenants. All expenses related to operating the Authority are reported as operating expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Net Position**

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. The net investment in capital assets includes capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to acquisition and the unamortized deferred amount on refunding. Net Position is reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net position is unrestricted.

**Appropriations**

The Authority recognizes subsidies received as operating appropriations or capital grants, as appropriate, in the fiscal year due.

The Authority's policy is to accrue capital appropriations and grants to the extent the approved project costs are incurred. Project costs incurred prior to receipt of funds are included in Capital Assets. Lease revenue due from the Commonwealth under the terms of the lease/lease-back agreement between the Authority and the Commonwealth is included in Due from the Commonwealth.

**PHILADELPHIA REGIONAL PORT AUTHORITY**

**Notes to Financial Statements, Continued**

**For the years ended June 30, 2018 and 2017**

**Note 1    Summary of Significant Accounting Policies, Continued:**

**Cash and Cash Equivalents**

The Authority considers cash on hand or in banks and investments with an original maturity of three months or less to be cash and cash equivalents. The accompanying Statements of Cash Flows also include the Authority's restricted cash and cash equivalents.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital Assets**

Capital assets purchased or acquired are reported at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of these assets are depreciated or amortized on the straight-line method over the estimated useful lives of the assets. Construction-in-progress costs are capitalized during the construction period and transferred to other capital assets when placed in service. Channel improvements are capitalized during the improvement period and are classified as non-depreciable capital assets because of the nature of the improvements. Other costs incurred for repairs and maintenance is expensed as incurred. The principal estimated useful lives used in computing depreciation and amortization are as follows:

Property	20 years
Equipment	3 to 20 years
Container Cranes	20 years
Land Improvements	20 years

**Deferred Maintenance Dredging Cost**

The cost of periodic maintenance dredging of berthing areas adjacent to the Authority's piers and of the ship channel not maintained by the federal government is capitalized in deferred maintenance dredging cost and amortized over eighteen months.

Amortization expense for the years ended June 30, 2018 and 2017 was \$4,000,495 and \$2,252,261 respectively, and is included in depreciation and amortization in the Statements of Revenues, Expenses and Changes in Net Position. The unamortized deferred maintenance dredging cost as of June 30, 2018 and 2017 are \$749,453 and \$4,604,255, respectively.

**Deferred Inflows of Resources**

Deferred inflows of resources are defined as an acquisition of net assets by a government that is applicable to a future reporting period. They are required to be reported in the statement of net position in a separate section following liabilities. The Authority recognizes deferred inflows of resources related to pensions and other post-employment benefits.



**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 1     Summary of Significant Accounting Policies, Continued:**

**Deferred Outflows of Resources**

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. They are required to be reported in the statement of net position in a separate section following assets. The Authority recognizes deferred outflows of resources related to pensions and other post-employment benefits and, in accordance with GASB 65, the amounts deferred on defeasance.

The difference between the reacquisition price and the net carrying amount of the old debts (1993 and 2003 Bonds) were consolidated and is being deferred and amortized over the life of the new debt (same as the remaining life of the old debt) as a component of interest expense.

The reacquisition price is the amount required to repay previously issued debt in a refunding transaction and includes the principal of the old debt and any call premium. The net carrying amount is comprised of the amount due at maturity adjusted for any unamortized premium or discount and issue cost related to the debt.

**Revenue Recognition**

The Authority earns income from the leasing of its properties and facilities. The income from these leases is recognized in accordance with the terms of the leases. Lease income received in advance is deferred and recognized in the period earned.

**Compensated Absences**

Employees accumulate annual leave based on 4% to 10% of regular hours paid to a maximum of 80 days. Employees are paid for accumulated annual leave upon termination or retirement. Employees accumulate 15.6 days or 20.8 days of sick leave in any twelve-month period based on 6% or 8%, respectively, of regular hours paid to a maximum of 200 days. Retiring employees are paid 30% of their accumulated unused sick leave. The Commonwealth also includes a predicted sick leave valuation in the calculation. Amounts accumulated are recognized in the Statements of Net Position. This amount is pro-rated as current and non-current liabilities based on Commonwealth estimates for the current year of 19% and 81%, respectively, for 2018 and for the prior year 23% and 77%, respectively, for 2017.

**Federal Income Taxes**

The Authority qualifies as an intergovernmental organization under the provisions of Section 115 of the Internal Revenue Code, and therefore, is exempt from federal income taxes.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 1     Summary of Significant Accounting Policies, Continued:**

**Capital Contributions – Federal and Commonwealth Capital Grants and Appropriations**

Appropriations and grants for capital asset acquisition, facility development and rehabilitation of facilities are reported in the Statements of Revenues, Expenses and Changes in Net Position, after non-operating revenues and expenses, as capital contributions.

**Net Pension Liability and Related Deferred Outflows/Inflows of Resources**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pennsylvania State Employees' Retirement System ("SERS") and additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

SERS is the administrator of a cost-sharing multi-employer defined benefit pension plan established by the Commonwealth to provide pension benefits for employees of state governmental and certain independent agencies. Membership in SERS is mandatory for most state employees.

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. Member retirement benefits are determined by taking years of credited service, multiplied by 2%, multiplied by class of service multiplier. According to the State Employees Retirement Code (SERC), all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

Section 5507 of the SERC (71 PA. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2015 and 2016 was 4.5% and no longer applied effective July 1, 2017.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 1    Summary of Significant Accounting Policies, Continued:**

**Net Pension Liability and Related Deferred Outflows/Inflows of Resources, Continued**

The Authority's contractually required contribution rates for the years ended June 30, 2018 and 2017 were:

	<b>Employee Hired after 1/1/2011</b>	
	<b>(class A-4)</b>	
	<u>FY2018</u>	<u>FY2017</u>
Authority Contribution	23.80%	20.70%
Employee Contribution	9.30%	9.30%

	<b>Employee Hired prior to 1/1/2011</b>	
	<b>(class AA)</b>	
	<u>FY2018</u>	<u>FY2017</u>
Authority Contribution	34.44%	29.95%
Employee Contribution	6.25%	6.25%

Contributions from the Authority to the pension plan were \$1,147,022 and \$1,255,449 for the years ended June 30, 2018 and 2017, respectively.

**Post-employment Benefits Other Than Pensions (OPEB) liability**

This liability is the portion of the actuarial present value of projected post-employment medical and prescription drug plan benefit payments that is attributed to past periods of member service in conformity with the GASB Statements. The total OPEB liability is the liability of the Authority to plan members for benefits provided through a defined benefit OPEB plan that is not administered through a trust that meets the criteria of the GASB Statements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority to make estimates and assumptions that affect certain amounts and disclosures reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

**Current Period Adjustments**

For the current year financial statements ending June 30, 2018, the Authority implemented the GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The implementation of GASB No. 75 established new standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 1    Summary of Significant Accounting Policies, Continued:**

**Current Period Adjustments, Continued**

The result of the implementation of GASB Statement No. 75 was the recognition of the OPEB liability and its related deferred outflows of resources, deferred inflows of resources, and expenses based on the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, as opposed to the former method which measured the OPEB liability based on the cumulative amount of unpaid annual required contributions. The Authority's beginning Net Position for the fiscal year ended June 30, 2018 has been restated to reflect the cumulative effect of this change. The amounts for fiscal year ending June 30, 2017 are not restated because there was not enough actuarial data available to make such a restatement practical.

**Changes as of June 30, 2018 were restated as follows:**

Beginning Net Position July 1, 2017, as previously reported	\$ 478,727,595
Cumulative Effect of Change in Accounting Principle	(9,909,565)
Beginning Net Position July 1, 2017, as restated	<u>\$ 468,818,030</u>

**New Accounting Pronouncements**

GASB Statement No. 87, "*Leases*" was issued in June 2017, with an effective date for reporting periods beginning after December 15, 2019, earlier application is encouraged: This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Authority's management is evaluating the impact of this statement on the financial statements.

GASB Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*" was issued in April 2018, with an effective date for reporting periods beginning after June 15, 2018, earlier application is encouraged: This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. It requires additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The Authority's adoption of this statement had no significant impact on the financial statements.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 1     Summary of Significant Accounting Policies, Continued:**

**New Accounting Pronouncements, Continued**

GASB Statement No. 89, "*Accounting for Interest Cost Incurred Before the End of a Construction Period*" was issued in June 2018, with an effective date for reporting periods beginning after December 15, 2019, earlier application is encouraged. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Authority's management is evaluating the impact of this statement on the financial statements.

**Note 2     Cash and Cash Equivalents:**

Cash and cash equivalents include cash on hand and in banks as well as demand deposits and investments with original maturities of three months or less. Investments are carried at fair market value, which also approximates cost.

As of June 30, 2018 and 2017, the carrying amount of the Authority's unrestricted cash and cash equivalents with financial institutions and banks is shown below:

	<u>2018</u>	<u>2017</u>
Amount insured by the Federal Deposit Insurance Corporation ("FDIC")	\$ 250,000	\$ 250,000
Registered, collateralized and held by the Authority's custodian in the Authority's name	9,643,341	4,029,708
Uncollateralized	525	525
Amount held by the Commonwealth of Pennsylvania in the Authority's name	<u>680,299</u>	<u>561,830</u>
Total	<u>\$ 10,574,165</u>	<u>\$ 4,842,063</u>

The Authority's deposits and investment policy addresses custodian credit risk, interest rate risk and concentration of credit risk, as follows:

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 2    Cash and Cash Equivalents, Continued**

*Custodian credit risk* is the risk that, in the event of a failure of a financial institution, the Authority would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. In accordance with the Pennsylvania Fiscal Code, collateral must be pledged by the banks and other financial institutions to guarantee the Commonwealth's cash on deposit. As of June 30, 2018, and 2017, \$680,299 and \$561,830, respectively, of the Authority's unrestricted cash and cash equivalents was held by the Commonwealth as temporary investments to fund payroll and payroll related expenses of the Authority.

As of June 30, 2018, and 2017, the carrying amount of the Authority's restricted cash and cash equivalents (see note 4) was \$32,501,691 and \$18,333,694, respectively. Of these funds \$4,223,748 and \$4,200,093, respectively, was collateralized and held by the Authority's custodian in the Authority's name. In 2018 and 2017, \$28,277,943 and \$14,133,601, respectively, were held in segregated checking accounts, which were registered, collateralized and held by the Authority's custodian in the Authority's name.

*Interest rate risk* is the risk that changes in market interest rates will adversely affect the fair value of investments. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2018 and 2017, all the Authority's investments and deposits had remaining maturities of one year or less.

*Concentration of credit risk* is the risk of loss due to the magnitude of the Authority's investments in the securities of any single issuer. The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer. Most of the Authority's deposits are placed with Wells Fargo Bank N.A. and amounts over the FDIC limit are collateralized in accordance with Act 72 of the General Assembly of the Commonwealth.

**Note 3    Other Current Assets:**

As of June 30, 2018, and 2017, the balances of other current assets were comprised of:

	<u>2018</u>	<u>2017</u>
Unbilled Revenue	\$ 512,839	\$ 493,912
Prepaid Expenses	570,280	561,586
Total	<u>\$ 1,083,119</u>	<u>\$ 1,055,498</u>



**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 4    Restricted Assets:**

Restricted assets represent funds due from the primary government for debt service interest payments and funds maintained in segregated bank accounts with the exception of the recently received security deposits and other proceeds that have yet to be transferred into the appropriate restricted bank account, which are included in the Authority's general checking account. At June 30, 2018 and 2017, the carrying amount of the Authority's restricted cash and cash equivalents (including interest) with financial institutions and banks is shown below:

	2018	2017
Development Advance - Tioga	\$ 68,303	\$ 199,468
Development Advance - Packer	24,084,482	1,823,300
Development Advance-Auto	2,770,564	9,511,116
Navy project DGS Advance	1,028,637	2,274,112
Main Channel Deepening	682	666
Debt Service Reserve Accounts	4,223,748	4,200,093
Security Deposits	325,275	324,939
Total	<u>\$ 32,501,691</u>	<u>\$ 18,333,694</u>

***Capital Investment Program Advance Funds*** – On March 29, 2017 the Authority entered into a delegation agreement to expend \$293 million for three development projects. By the terms of the delegation agreement funds will be advanced by the Commonwealth based upon a rolling three-month projection of program expenditures.

***Development Advance Tioga*** - As of June 30, 2018 and 2017 funds held in the Tioga development account were \$68,303 and \$199,468, respectively. Funds have been advanced in consideration of payments of the design of a new 100,000 sq. ft. frame supported building.

***Development Advance Packer*** - As of June 30, 2018 and 2017 funds held in the Packer Development account were \$24,084,482 and \$1,823,300, respectively. Funds have been advanced in consideration of payments for a ship to shore crane ("STS") acquisition from Astro Holdings, a progress payment for two (2) STS cranes from Shanghai Zhenhua Heavy Industries Company Limited, and the final construction of the Berth 1-3 project.

***Development Advance Auto*** - As of June 30, 2018 and 2017 funds held in the Auto Development Account were \$2,770,564 and \$9,511,116, respectively. Funds have been advanced in consideration of the site development project.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 4    Restricted Assets, Continued**

***Navy Project Commonwealth Advance*** - In March of 2015, the Department of the Navy granted the Authority ownership of a .595 acre parcel of property located at the Philadelphia Naval Shipyard in exchange for \$2,460,000 in the form of in-kind consideration. The Commonwealth advanced the funds that the Authority required to provide the in-kind consideration in fiscal year 2015. The Authority will dedicate the funds to the design and construction of a road repair project for property owned by the Navy at the Philadelphia Naval Shipyard. As of June 30, 2018, and 2017, the Authority had a remaining restricted balance of \$1,028,637 and \$2,274,112, respectively.

***Channel Deepening Account*** - The Authority receives advance funds from the Commonwealth to fulfill its financial obligation as the non-federal sponsor for the main channel deepening project. As of June 30, 2018, and 2017 the Authority had a restricted balance for the channel deepening project of \$682 and \$666, respectively.

***Debt Service Reserve Accounts*** - The Commonwealth Lease Revenue Bonds, Series 2008, and the currently refunded Series 2003 and 1993 (Bonds) trust indentures required that a certain amount of Bonds proceeds be set aside in restricted asset accounts. Such restricted assets are to be used to meet the debt service requirements (i.e., principal and interest) of the Bonds, if for any reason there are insufficient funds available from other sources, and to provide for payment of arbitrage to the U.S. Treasury as required by certain provisions of the Internal Revenue Code. The debt service reserve fund as of June 30, 2018 and 2017 was \$4,223,748 and \$4,200,093, respectively.

***Security Deposits*** - The Authority holds tenant funds as security deposits. These funds are to be returned to the tenants once the lease is terminated or applied to any lease shortfalls. Security deposits as of June 30, 2018 and 2017 totaled \$325,275 and \$324,939, respectively.

**Note 5    Capital Assets:**

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Non-depreciable Capital Assets:				
Land	\$ 85,372,433	\$ 5,348	\$ -	\$ 85,377,781
Construction-in-Progress	14,123,930	63,265,878	22,299,534	55,090,274
Channel Deepening Improvement	123,435,089	11,710,158	-	135,145,247
Total Non-depreciable Capital Assets	<u>222,931,452</u>	<u>74,981,384</u>	<u>22,299,534</u>	<u>275,613,302</u>
Depreciable Capital Assets:				
Buildings and Improvements	378,324,719	8,143,344	827,826	385,640,237
Land Improvements	69,830,236	11,874,419	-	81,704,655
Cranes and Equipment	40,001,794	240,394	11,225	40,230,963
Total Depreciable Capital Assets	<u>488,156,749</u>	<u>20,258,157</u>	<u>839,051</u>	<u>507,575,855</u>
Less Accumulated Depreciation	<u>(215,225,115)</u>	<u>(20,667,765)</u>	<u>(550,484)</u>	<u>(235,342,396)</u>
Total Depreciable Capital Assets, Net	<u>272,931,634</u>	<u>(409,608)</u>	<u>288,567</u>	<u>272,233,459</u>
Total Capital Assets, Net	<u>\$ 495,863,086</u>	<u>\$ 74,571,776</u>	<u>\$ 22,588,101</u>	<u>\$ 547,846,761</u>

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 5    Capital Assets, Continued:**

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Non-depreciable Capital Assets:				
Land	\$ 75,299,187	\$ 10,083,857	\$ 10,611	\$ 85,372,433
Construction-in-progress	26,382,534	19,065,786	31,324,390	14,123,930
Channel Deepening Improvement	103,831,361	19,603,728	-	123,435,089
Total Non-depreciable Capital Assets	205,513,082	48,753,371	31,335,001	222,931,452
Depreciable Capital Assets:				
Building and Improvements	357,118,767	22,118,560	912,608	378,324,719
Land Improvements	67,558,708	2,306,333	34,805	69,830,236
Cranes and Equipment	39,931,668	133,878	63,752	40,001,794
Total Depreciable Capital Assets	464,609,143	24,558,771	1,011,165	488,156,749
Less Accumulated Depreciation	(195,864,699)	(19,912,995)	(552,579)	(215,225,115)
Total Depreciable Capital Assets, Net	268,744,444	4,645,776	458,586	272,931,634
Total Capital Assets, Net	<u>\$ 474,257,526</u>	<u>\$ 53,399,147</u>	<u>\$ 31,793,587</u>	<u>\$ 495,863,086</u>

Depreciation expense for the years ending June 30, 2018 and 2017 totaled \$20,667,765 and \$19,912,995, respectively and is included in operating expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. All capital assets, except land and channel improvements, are subject to depreciation when placed in service. The carrying amount of idle capital assets are included in Buildings and Improvements at June 30, 2018 and 2017 was \$473,769 and \$716,442. These assets are temporarily idle and the intention is to place them into service in the near future, unless they are removed by an upcoming construction project.

**Note 6    Commonwealth Lease Revenue Bonds Payable:**

The Commonwealth Lease Revenue Bonds payable activity for the year ended June 30, 2018 was:

<u>Revenue Bonds</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Maturity Dates Through</u>	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>
Series 2008	2008	3 - 5	2021	\$ 16,705,000	\$ -	\$ 3,870,000	\$ 12,835,000
Unamortized Bond Premium				618,753	-	195,396	423,357
				17,323,753	-	4,065,396	13,258,357
Deferred Amount on Refunding				(834,368)	-	(263,485)	(570,883)
Total Bonds Payable				<u>\$ 16,489,385</u>	<u>\$ -</u>	<u>\$ 3,801,911</u>	<u>\$ 12,687,474</u>

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 6    Commonwealth Lease Revenue Bonds Payable, Continued:**

The Commonwealth Lease Revenue Bonds payable activity for the year ended June 30, 2017 was:

<u>Revenue</u> <u>Bonds</u>	<u>Issue</u> <u>Date</u>	<u>Interest</u> <u>Rates</u>	<u>Maturity</u> <u>Dates</u> <u>Through</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Series 200	2008	3 - 5	2021	\$ 20,385,000	\$ -	\$ 3,680,000	\$ 16,705,000
Unamortized Bond Premium				814,148	-	195,395	618,753
				21,199,148	-	3,875,395	17,323,753
Deferred Amount on Refunding				(1,097,852)	-	(263,484)	(834,368)
Total Bonds Payable				<u>\$ 20,101,296</u>	<u>\$ -</u>	<u>\$ 3,611,911</u>	<u>\$ 16,489,385</u>

As of June 30, 2018 and 2017, the balances were comprised of:

	<u>2018</u> <u>Series 2008</u>	<u>2017</u> <u>Series 2008</u>
Current Amount	\$ 4,260,396	\$ 4,065,396
Non-current Amount	8,997,961	13,258,357
Total	<u>\$ 13,258,357</u>	<u>\$ 17,323,753</u>

On September 5, 2008 the Authority issued \$41,965,000 of Series 2008 Refunding Revenue Bonds to refund the outstanding \$39,400,000 Series 2003 Commonwealth Lease Revenue Bonds ("Series 2003 Bonds") along with an interest rate swap agreement transaction that was negatively affected by the charging of an alternate floating rate of interest. The Series 2008 refunding transaction resulted in an economic gain of \$2,431,005 and a decrease of \$2,082,061 in future debt service payments.

Principal payments are due each year on September 1, and interest is payable semi-annually on March 1 and September 1 of each year until final maturity on September 1, 2021. Principal and interest are payable commencing September 1, 2010 and March 1, 2010, respectively. These dates correspond to the payment and maturity dates of the refunded Series 2003 Bonds. The Series 2008 Bonds bears interest at a rate of 3% to 5%. The Bonds are payable from a pledge of gross revenues derived from a lease of port facilities to the Commonwealth. The rental payable by the Commonwealth under the lease shall be subject to the annual appropriation of funds for such purpose by the Pennsylvania General Assembly.

The outstanding balance of the Series 2008 Bonds net of unamortized premium of \$423,357 and unamortized deferred amount on refunding of \$570,885 was \$12,687,474 as of June 30, 2018.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 6**    **Commonwealth Lease Revenue Bonds Payable, Continued:**

The outstanding balance of the Series 2008 Bonds, net of unamortized premium of \$618,753 and unamortized deferred amount on refunding of \$834,368 was \$16,489,385 as of June 30, 2017.

The annual debt service requirements to amortize the principal and interest, with interest at the rate of 3.00% to 5.00% of the Series 2008 Bonds outstanding as of June 30, 2018 are as follows:

Year ending June 30,	Principal	Interest	Unamortized Premium	Total
2019	\$ 4,065,000	\$ 540,125	\$ 195,396	\$ 4,800,521
2020	4,275,000	331,625	195,396	4,802,021
2021	4,495,000	112,375	32,565	4,639,940
	<u>\$ 12,835,000</u>	<u>\$ 984,125</u>	<u>\$ 423,357</u>	<u>\$ 14,242,482</u>

**Note 7**    **Changes in Long Term Liability:**

	7/1/17	Additions	Reductions	6/30/18	Due within one year
Accrued Tenant Rent Credit	\$ 2,020,123	\$ -	\$ (447,061)	\$ 1,573,061	\$ -
Revenue Bond	17,323,753	-	(4,065,396)	13,258,357	4,260,396
Compensated Absences	813,274	-	(84)	813,190	154,506
OPEB Liability	3,370,281	12,545,120	(3,370,281)	12,545,120	265,780
Workers' Compensation Liability	631,451	-	(226,653)	404,798	55,615
Net Pension Liability	16,112,968	-	(6,018,789)	10,094,179	-
Tenant Security	\$ 324,927	\$ 181	\$ -	\$ 325,108	\$ -



**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 8     Retirement and Other Postemployment Benefits:**

The Authority contributes to the City of Philadelphia defined benefit municipal retirement system and the Commonwealth's defined benefit retirement system, State Employees Retirement System, ("SERS"). This became effective on July 31, 1991, when employees of the Authority who were former employees of PPC, were required to make an election to either participate in the City of Philadelphia's defined benefit multi-employer municipal retirement system or switch to the Commonwealth's defined benefit multi-employer retirement system. Currently all full-time Authority employees, with the exception of one employee, participate in SERS. In addition, new employees of the Authority are required to participate in SERS.

The Authority, through the Commonwealth's Retired Employees Health Plan ("REHP"), provides healthcare as a post-employment benefit to its employees that qualify for this benefit when they retire. The plan is administered by the Pennsylvania Employee Benefits Trust Fund ("PEBTF"), which acts as a third-party administrator under an administrative agreement with the Commonwealth. The REHP has been established under pertinent statutory authority.

The Authority's contribution to both SERS and REHP, are established by the Office of Administration and the Governor's Budget Office. Contributions to the Commonwealth's retirement system were \$1,147,042 and \$1,255,449 for the years ended June 30, 2018 and 2017, respectively.

None of the plans issue a stand-alone financial report for the Authority and the Authority's portion of the retirement systems' assets and accumulated benefits are not separately determinable.

**Note 9     Postemployment Benefits Other Than Pensions (OPEB):**

*Plan Description and Administration*

The REHP is a single employer defined benefit OPEB the plan includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement for some Commonwealth agencies and component units. For the Commonwealth agencies and component units that participate in the REHP trust, contributions are made at the retiree health assessment rate. The Authority, along with one Commonwealth agency and two Commonwealth component units, do not participate in the REHP trust. The Authority contribute the actual fiscal year benefit payments attributable to their respective retirees. For this reason, the Authority does not participate in either the REHP trust and do not contribute at the retiree health assessment rate.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 9    Postemployment Benefits Other Than Pensions (OPEB), Continued:**

*Plan Description and Administration, Continued*

All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board, and the Secretary of Administration. The REHP does not have a governing board.

The REHP is reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR) as a Pension (and Other Employee Benefit) Trust. The REHP is reported using the economic resources measurement focus and the accrual basis of accounting. The CAFR is an audited financial statement and is available at [www.budget.pa.us](http://www.budget.pa.us).

The Authority's participants consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Inactive employees receiving benefits	29	20
Active employees	48	48

*Contributions*

While most REHP participants make biweekly contributions at the same employer health assessment rate to the OPEB Investment Pool (trust equivalent arrangement), the Authority contributes to REHP under a separate payment arrangement. Effective July 1, 2007, the Commonwealth and the Authority reached an agreement whereby the REHP biweekly contribution rate payable by the Authority would be based on the projected per retiree cost and the number of estimated retirees. During the 2018 and 2017 fiscal years, this charge was \$223.53 and \$100.86, respectively, and amounted to \$268,555 and \$167,204, respectively. Because the number of retirees fluctuates from month to month, the Commonwealth and the Authority conduct a reconciliation at the conclusion of the fiscal year based on the actual allocated number of retirees each month and the average per retiree cost for the year. The Authority has no responsibility to the retirement systems other than to make these required periodic payments.

*Benefits and Eligibility*

The REHP covers retirees and their eligible dependents with medical and prescription drug plans. The Authority pays the insurance premiums for retirees with the exception of the following amounts received from the retiree.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 9    Postemployment Benefits Other Than Pensions (OPEB), Continued:**

*Benefits and Eligibility, Continued*

<b>Retirement Date:</b>	<b>Retiree share of cost of benefits:</b>
Before July 1, 2005	Zero - the Authority pays full cost
July 1, 2005 to June 30, 2007	1% of final annual salary
July 1, 2005 to June 30, 2011	3% for non-Medicare and 1.5% for Medicare eligible retirees of either final gross annual base salary or final average salary, whichever is less
After June 30, 2011	3% for non-Medicare and 1.5% for Medicare eligible retirees final average salary

Employees who retire from the Commonwealth and at any age with 25 or more years of service are eligible to receive REHP benefits. In addition, employees who retire at or over age 60 with a minimum of 20 years of service are eligible for coverage under the REHP. Coverage under disability retirement requires five years of service. Spouses and dependents are eligible for subsidized postemployment medical coverage while the retiree is alive. Surviving spouses of deceased retirees may continue to participate in the plan if they pay the full cost of the coverage.

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

At June 30, 2018, the Authority reported a liability of \$12,545,120 for its OPEB liability. The OPEB liability was measured by an actuarial valuation as of June 30, 2017, with the exception that the census data information used in the valuation from December 31, 2016. For the year ending June 30, 2018, the Authority recognized OPEB expense of \$121,879.

	<b>June 30, 2018</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Authority contributions subsequent to the measurement date	\$ 268,555	\$ -
Change of Assumptions	<u>-</u>	<u>1,125,160</u>
	<u>\$ 268,555</u>	<u>\$ 1,125,160</u>

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following:

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 9    Postemployment Benefits Other Than Pensions (OPEB), Continued:**

Deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date, June 30, 2017, but prior to the reporting date, June 30, 2018, of \$268,555 will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019.

The amount of deferred inflows of resources for changes of assumptions is amortized into pension expense over a period of 5.08 years.

The deferred inflows of resources related to the above item reported as of June 30, 2018 that will be recognized in pension expense in future periods are as follows:

Year ended June 30:	
2019	\$ (7,445)
2020	(276,000)
2021	(276,000)
2022	(276,000)
2023	(21,160)
	<u>\$ (856,605)</u>

***Actuarial Methods and Assumptions***

The following methods and assumptions were used in the June 30, 2017 actuarial valuations.

Actuarial cost method	Entry age, normal
Discount rate	3.58% - Index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date.
Investment rate of return	5.00%
Initial medical trend rate	6.00%
Ultimate medical trend rate	3.90%
Inflation	2.60%
Payroll growth	2.90%
Year ultimate trend rate reached	2075
Mortality rate	Projected RP-2000 Mortality Tables

***Long-term Expect Return on Plan Assets***

There are no assets accumulated in a trust to pay related benefits.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 9    Postemployment Benefits Other Than Pensions (OPEB), Continued:**

*Sensitivity of the OPEB Liability to Changes in the Discount Rate*

The following presents the Authority's 2018 OPEB liability calculated using the discount rate of 3.58%, as well as what the Authority's OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease 2.58%</b>	<b>Current Discount Rate 3.58%</b>	<b>1% Increase 4.58%</b>
Total OPEB liability	\$ 14,555,320	\$ 12,545,120	\$ 10,891,880

*Sensitivity of the OPEB Liability to Changes in the Healthcare Cost Trend Rate*

The following presents the Authority's 2018 OPEB liability calculated using the assumed trend rates of 6.0% grading down to 3.9%, as well as what the Authority's OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease 5.0% down to 2.9%</b>	<b>Current Trend Rate 6.0% down to 3.9%</b>	<b>1% Increase 7.0% down to 4.9%</b>
Total OPEB liability	\$ 10,569,880	\$ 12,545,120	\$ 15,008,880

*Change in OPEB Liability*

	<b>Total OPEB Liability</b>
Measurement Date of June 30, 2016	\$ 13,446,870
Service Cost	374,440
Interest	388,240
Changes In Assumptions - Discount Rate	(1,401,160)
Authority Contributions	(118,680)
Net Change	(757,160)
Adjustment for Change in Proportionate Share with Separate Agency	(144,590)
Measurement Date of June 30, 2017	<u>\$ 12,545,120</u>



**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 10**    **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:**

*Long-term Expected Return on Plan Assets, Continued*

At June 30, 2018 and 2017, the Authority reported a liability of \$10,094,179 and \$16,112,968, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2017 and 2016, the Authority's proportion was 0.06 percent and 0.08 percent, respectively.

For the years ended June 30, 2018 and 2017, the Authority recognized pension revenue/expense of \$1,458,383 and \$2,241,960, respectively. Pension revenue was recognized in 2018 because the positive financial impacts of change in actuarial assumptions and decreased proportionate share of SER's total net pension liability; more than offset the current period pension cost and resulted in a smaller liability.

At June 30, 2018 and 2017 the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>June 30, 2018</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 170,670	\$ 191,664
Net difference between projected and actual earnings on pension plan investments	-	401,340
Changes in proportion	1,003,771	3,463,210
Differences between Authority contributions and proportionate share of contributions	72,314	76,133
Authority contributions subsequent to the measurement date	591,020	-
Change of Assumptions	505,374	-
<b>Total</b>	<b>\$ 2,343,149</b>	<b>\$ 4,132,347</b>

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 10 Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:**

	<u>June 30, 2017</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 232,588	\$ 360,509
Net difference between projected and actual earnings on pension plan investments	1,354,130	-
Changes in proportion	841,254	790,021
Differences between Authority contributions and proportionate share of contributions	29,950	52,935
Authority contributions subsequent to the measurement date	532,536	-
Change of Assumptions	984,213	-
Total	<u>\$ 3,974,671</u>	<u>\$ 1,203,465</u>

Deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date, December 31, 2017 and 2016, but prior to reporting date, June 30, 2018 and 2017, of \$591,020 and \$532,536, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019 and 2018, respectively.

Most of the components of deferred outflows and deferred inflows of resources are amortized into pension expense over a period of 5.2 years. The annual difference between the projected and actual earnings on SERS investments is amortized over a five-year closed period beginning the year in which the difference occurs (current year).

The amounts of deferred outflows of resources and deferred inflows of resources related to the above items reported as of June 30, 2018 that will be recognized in pension expense in future periods are as follows:

<b>Year ended June 30:</b>	
2019	\$ (62,189)
2020	(657,581)
2021	(505,178)
2022	(461,096)
2023	(103,154)
Total	<u>\$ (1,789,198)</u>

**PHILADELPHIA REGIONAL PORT AUTHORITY**

**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 10 Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:**

***Actuarial Methods and Assumptions***

Actuarial cost method	Entry age
Amortization method	Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees who are provided benefits
Investment rate of return	7.25% net of manager fees including inflation for both 2017 and 2016
Projected salary increases	Average of 5.60% with range of 3.70% - 8.90% including inflation for both 2017 and 2016
Asset valuation method	Fair (market) value
Inflation	2.60% for 2017 and 2016
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement

***Long-term Expect Return on Plan Assets***

The long-term expected real rate of return on pension plan investments is determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of manager fees and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major class included in SERS current and target asset allocation as of December 31, 2017 are summarized in the following table:

<b><u>Asset Class</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-term real rate of return</u></b>
Private Equity	16.00%	8.00%
Global Public Equity	43.00	5.30
Real Estate	12.00	5.44
Multi-Strategy	12.00	5.10
Fixed Income	14.00	1.63
Cash	<u>3.00</u>	(0.25)
Total	<u>100.00%</u>	

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 10** **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:**

*Long-term Expected Return on Plan Assets, Continued*

The information above is based on a 7.5% assumed investment rate of return. At its April 2017 meeting, SERS Board approved a reduction in the assumed investment rate of return to 7.25%. As a result of a portfolio examination, several changes were made to the asset allocation during the fourth quarter of 2017. The portfolio was restructured to add Multi-Strategy as a new asset class. Targets will be updated to reflect the new assumed investment rate of return and asset classes in the *2018-2019 Investment Plan*.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.25% in 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Authority's portion of the 2018 collective net pension liability of SERS calculated using the discount rate of 7.25% in 2018 and 2017, as well as what the Authority's portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease 6.25%</b>	<b>Current Discount Rate 7.25%</b>	<b>1% Increase 8.25%</b>
2018 Net pension liability	\$ 12,812,662	\$ 10,094,179	\$ 7,765,484
	<b>1% Decrease 6.25%</b>	<b>Discount Rate 7.25%</b>	<b>1% Increase 8.25%</b>
2017 Net pension liability	\$ 19,940,547	\$ 16,112,968	\$ 12,835,198

**PHILADELPHIA REGIONAL PORT AUTHORITY**

**Notes to Financial Statements, Continued**

**For the years ended June 30, 2018 and 2017**

**Note 11 Minimum Future Rentals:**

The Authority operates as a port landlord and has twelve leases with private entities for marine terminal and cargo operations. The Authority's assets encompass over 1,000 acres, 19 working berths totaling 16,000 linear feet, 4 million square feet of warehouse space, and 7 ship-to-shore cranes. For fiscal year 2018, total operating revenue was \$16,644,908, approximately 35% (\$5,875,197) of which was generated from the variable components of the leases. The variable components are assessed on vessel and cargo handling activity. The Authority also owns a three story office building that serves as its headquarters. The Authority leases a portion of office space of this building to private entities. For fiscal year 2018, the carrying value of the Authority assets under lease is \$271,761,783. The following chart depicts the minimum projected rental for the next five year period:

Year Ended June 30,

2019	\$ 15,179,291
2020	16,657,710
2021	16,777,479
2022	17,057,634
2023	17,285,965
	<u>\$ 82,958,079</u>

**Note 12 Capital and Non-Capital Grants and Appropriations:**

During the years ended June 30, 2018 and 2017, the Authority received capital grants and appropriations in the amount of \$78,478,050 and \$55,176,797, respectively, from the Commonwealth. For fiscal years 2018 and 2017, \$11,710,158 and \$19,603,729, respectively, were utilized for the Authority's share of the Main Channel Deepening project and \$66,767,892 and \$35,386,841, respectively, were utilized for capital improvements to leased facilities.

In fiscal year 2017, the Authority received \$200,000 of non-capital grants entirely comprised of equal contributions from the Diamond State Port Corporation and the South Jersey Port Corporation for the National Oceanic & Atmospheric Administration Physical Oceanographic Real Time System (NOAA PORTS) navigation project. No additional funding was required during fiscal year 2018.

**Note 13 Commitments:**

Contract commitments and purchase orders for pier and marine terminal rehabilitation and improvements of which materials or services were not received as of June 30, 2018 and 2017 amounted to approximately \$51,093,018 and \$53,118,373 respectively.

Of this amount, \$50,114,471 and \$51,987,871 relates to capital appropriations from the Commonwealth for 2018 and 2017, respectively. The capital commitments in fiscal year 2018 and 2017 are due to major development projects at Packer Avenue Marine Terminal and Southport Marine Terminal.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2018 and 2017**

**Note 14    Retainage:**

Contracts with the Authority for terminal improvements may include a provision for the retainage of a portion of the amount due the contractor in order to insure the proper completion of the project. The Authority does not recognize retainage withheld for contracts in process as a liability on the Statement of Net Position because retainage is not due and payable until the contractor satisfies the obligations of the contracted retainage provision and substantially completes the job. Retainage withheld for open contracts as of June 30, 2018 and 2017 was \$1,234,330 and \$988,468, respectively.

**Note 15    Reclassifications:**

Certain prior year balances have been reclassified to conform to current year presentation. None of the reclassifications, however, affected the prior year change in net position.

**Note 16    Contingencies:**

Contingencies arise when there is a situation for which the outcome is uncertain, and which should be resolved in the future, possibly creating a gain or loss. Gains are recognized when they are realized. Losses are recognized when they are probable and for which the loss amount can be reasonably estimated. The following is a listing of some claims brought against the Authority.

**Pier 38-80 Lease Claim**

The tenant at Pier 38-80, Penn City and affiliated companies, submitted a claim before the Commonwealth of Pennsylvania Board of Claims alleging that the Authority neglected to fulfill its maintenance obligations as outlined in the lease. The Authority believes that lease obligations have been met. While the Authority is confident in its position the claim is currently in the discovery phase and it is difficult to assess an outcome.

**Construction Claims**

A construction contractor submitted a claim related to the Demolition of Buildings/Tanks & Site Improvements at the Authority's Auto Terminal. The contractor and the Authority have resolved the outstanding claim and agreed upon a final payment. This resolution is pending final document execution. All work was incurred prior to June 30, 2018 and the claim amount was recorded in the current fiscal year. This claim will be funded by Commonwealth capital funds. The Commonwealth is aware of this claim and management believes this expenditure will be paid for with currently obligated funds.

A construction contractor was awarded a contract for the Emergency Removal of the K-3 Crane at the Packer Avenue Marine Terminal. The contractor did not comply with the contract requirements and, prior to any work being complete, the contract was terminated. The contractor claims this contract was wrongfully terminated and submitted a claim with a specified amount. The claim is in the preliminary stages and at this point it is hard to assess a likely outcome.



**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Concluded**  
**For the years ended June 30, 2018 and 2017**

**Note 16   Contingencies, Continued:**

**Other Claims**

The Authority is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Authority's financial position.

**Note 17   Subsequent Events:**

The Authority has evaluated subsequent events through September 26, 2018, the date which the financial report was available to be issued.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Required Supplementary Information

**Schedule of Proportionate Share of the Net Pension Liability \*\* - Unaudited**

	<u>June 30,</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability	0.06%	0.08%	0.08%	0.08%	0.08%
Authority's proportionate share of the net pension liability	\$ 10,094,179	\$ 16,112,968	\$ 13,871,008	\$ 12,406,911	\$ 11,432,177
Authority's covered payroll	\$ 3,621,191	\$ 5,041,842	\$ 4,598,807	\$ 4,983,575	\$ 4,989,975
Authority's proportionate share of the net pension liability as percentage of its covered-employee payroll	278.75%	319.58%	301.62%	248.96%	229.10%
Plan fiduciary net position as a percentage of the total pension liability	57.80%	57.80%	58.90%	64.80%	66.70%

**Schedule of Contributions\*\* - Unaudited**

	<u>June 30,</u>				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 1,147,022	\$ 1,255,449	\$ 1,180,219	\$ 967,186	\$ 765,162
Contributions in relation to the contractually required	<u>\$ (1,147,022)</u>	<u>\$ (1,255,449)</u>	<u>\$ (1,180,219)</u>	<u>\$ (967,186)</u>	<u>\$ (765,162)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 3,621,191	\$ 5,041,842	\$ 4,598,807	\$ 4,983,575	\$ 4,989,975
Contributions as a percentage of covered-employee payroll	31.68%	24.90%	25.66%	19.41%	15.33%

\*\*GASB Statement No. 68 requires this information to be reported for 10 years. Additional years will be displayed as the information is available.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Required Supplementary Information

**Schedule of Changes in Total OPEB Liability and Related Ratios\*\*\* - Unaudited**

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Measurement Date of June 30, 2016	\$ 13,446,870	N/A
Service Cost	374,440	N/A
Interest	388,240	N/A
Changes In Assumptions - Discount Rate	(1,401,160)	N/A
Authority Contributions	(118,680)	N/A
Net Change	(757,160)	N/A
Adjustment for Change in Proportionate Share with Separate Agency	(144,590)	N/A
Measurement Date of June 30, 2017	<u>\$ 12,545,120</u>	<u>\$ 13,446,870</u>
 Total OPEB Liability	 \$ 12,545,120	 \$ 13,446,870
 Authority's covered payroll	 \$ 3,678,160	 N/A
 Contributions as a percentage of covered-employee payroll	 341.07%	 N/A

\*\*\*GASB Statement No. 75 requires this information to be reported for 10 years. Additional years will be displayed as the information is available.

# PHILADELPHIA REGIONAL PORT AUTHORITY

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## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT JUNE 30, 2019 and 2018



# PHILADELPHIA REGIONAL PORT AUTHORITY

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Philadelphia Regional Port Authority

We have audited the accompanying financial statements of Philadelphia Regional Port Authority (the "Authority"), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 16 to the accompanying financial statements, the Authority is defending various claims brought forth by a leasee and vendors. Several vendors claimed additional compensation were owed due to various events that occurred. Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison and Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Mulligan & Company, LLC*

Philadelphia, PA  
September 23, 2019



PHILADELPHIA REGIONAL PORT AUTHORITY  
Management's Discussion and Analysis  
(Unaudited)  
June 30, 2019 and 2018

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This section of the Philadelphia Regional Port Authority's (the "Authority") annual financial report represents management's discussion and analysis of the Authority's financial performance during the fiscal years that ended June 30, 2019 and 2018.

## OVERVIEW

The Authority is an independent agency of the Commonwealth of Pennsylvania (the "Commonwealth"). With the financial support of the Commonwealth, the Authority was created for the purpose of owning and developing the Philadelphia region's public port facilities. The Authority's mission is the management, maintenance, marketing, and promotion of the public port facilities along the Delaware River in Philadelphia. The Authority is a landlord port organization that leases its facilities to terminal operators. The terminal operators are responsible for cargo handling and security operations and pay variable and fixed lease revenues to the Authority.

The Authority's Chief Executive Officer reports to an appointed Board of Directors. The Board is responsible for general port policy and decisions. The Board is comprised of eleven members including a Chairman who is selected by the Governor. Four members are appointed by the Governor; four by each legislative caucus; and one from Philadelphia, Delaware, and Bucks County governments.

The Authority works with the terminal operators to modernize and improve its facilities on a regular basis and to market those facilities to current and prospective users. In order to meet the needs of the tenants and shipping customers, the Authority continues to provide capital improvements to enhance the facilities' operational efficiencies and capacities. Having accessible and modern port facilities enables both Pennsylvanian and regional shippers the ability to lower their overall transportation costs.

## FINANCIAL HIGHLIGHTS

### *Fiscal Year 2019*

- The Authority did not issue any new debt or loan obligations during fiscal year 2019.
- Total operating revenue decreased 3.7% to \$16,026,651.
- Total operating expenses increased 17.8% to \$41,131,852.
- Total net position increased 19.0% to \$627,990,587.
- The Authority expended \$17,228,003 for deferred maintenance projects at all the leasehold facilities.
- The Authority advanced the Port Improvement Plan by expending \$98,214,061 for capital improvements.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Management's Discussion and Analysis  
(Unaudited)  
June 30, 2019 and 2018

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- The Authority continued to participate in its role as the non-federal sponsor for the Delaware River Main Channel deepening project by contributing \$9,430,335 during fiscal year 2019.
- The Authority began expending federal INFRA grant funds in the amount of \$3,584,264 for improvements at the Packer Avenue Marine Terminal.

***Fiscal Year 2018***

- The Authority did not issue any new debt or loan obligations during fiscal year 2018.
- Total operating revenue increased 22.7% to \$16,644,907.
- Total operating expenses decreased 6.6% to \$34,915,628.
- Total net position increased 10.2% to \$527,590,977.
- The Authority expended \$18,394,826 for deferred maintenance projects at all the leasehold facilities.
- The Authority advanced the Port Improvement Plan by expending \$48,373,066 for capital improvements.
- The Authority continued to participate in its role as the non-federal sponsor for the Delaware River Main Channel deepening project. In FY 2018, the Authority contributed \$11,710,158 to the construction and rock removal of Upper Reach B and to provide for additional planning.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Authority operates on a fiscal year basis. Accordingly, the Authority's basic financial statements have been presented for the fiscal years ended June 30, 2019 and 2018. This report includes the basic financial statements of the Authority. The Statements of Net Position, Revenues, Expenses, and Changes in Net Position, and Cash Flows provide information about the activities of the Authority and present a longer-term view of the Authority's finances. These statements also detail the Authority's activities that were financed in the short-term, including amounts that remain for future spending.

The Authority reports its activities as an enterprise fund, a type of proprietary fund. Enterprise funds report business-type activities of a governmental unit. Enterprise fund financial reporting focuses on the determination of operating income (loss), changes in net position and cash flows. These statements report the Authority's net position and changes in it. The Authority's net position - total assets plus deferred outflows of resources less total liabilities and deferred inflows of resources - is one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are indicators of whether its financial health is improving or deteriorating.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Management's Discussion and Analysis  
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The Statements of Net Position and Revenues, Expenses, and Changes in Net Position are benchmarks that reflect the Authority's financial position. These statements were prepared on an accrual basis of accounting using the economic resources measurement focus in accordance with U.S. generally accepted accounting principles ("GAAP") promulgated by the Governmental Accounting Standard Board ("GASB"). Revenues are recognized when earned, as opposed to when cash is received, and expenses are recognized when incurred, not when liabilities are paid. With regards to accounting for construction contracts, the Authority does not recognize a capital asset or liability for amounts retained until the construction project is accepted and completed.

**FINANCIAL ANALYSIS**

**CONDENSED STATEMENTS OF NET POSITION**

	June 30,			2019 %	2018 %
	2019	2018	2017	Change	Change
Current Assets	\$ 96,828,756	\$ 42,796,647	\$ 26,937,251	126.3	58.9
Non-current, Restricted Assets	4,599,111	4,549,023	4,525,032	1.1	0.5
Capital Assets, Net	637,515,943	547,846,761	495,863,086	16.4	10.5
Other Non-current Assets	9,099,276	5,587,942	9,958,650	62.8	(43.9)
Total assets	<u>748,043,086</u>	<u>600,780,373</u>	<u>537,284,019</u>	24.5	11.8
Deferred outflows of resources	4,354,180	3,182,587	4,809,039	36.8	(33.8)
Total assets and deferred outflows of resources	<u>752,397,266</u>	<u>603,962,960</u>	<u>542,093,058</u>	24.6	11.4
Current Liabilities	87,683,170	36,836,595	25,904,292	138.0	42.2
Long-term Debt Outstanding	4,527,565	8,997,961	13,258,357	(49.7)	(32.1)
Other Non-current Liabilities	22,989,161	25,279,920	22,999,350	(9.1)	9.9
Total liabilities	<u>115,199,896</u>	<u>71,114,476</u>	<u>62,161,999</u>	62.0	14.4
Deferred inflows of resources	9,206,781	5,257,507	1,203,465	75.1	336.9
Total liabilities and deferred inflows of resources	<u>124,406,677</u>	<u>76,371,983</u>	<u>63,365,464</u>	62.9	20.5
Net Position:					
Net investment in capital assets	636,470,541	538,229,745	485,038,118	18.3	11.0
Restricted for debt service	4,273,185	4,223,748	4,200,093	1.2	0.6
Restricted for capital grants	166,352	181,516	148,848	(8.4)	21.9
Restricted for other purposes	7,705	166	10	4541.6	1,560.0
Unrestricted (Deficit)	(12,927,194)	(15,044,198)	(10,659,474)	(14.1)	41.1
Total net position	<u>\$ 627,990,589</u>	<u>\$ 527,590,977</u>	<u>\$ 478,727,595</u>	19.0	10.2
Total liabilities, deferred inflows of resources, and net position	<u>\$ 752,397,266</u>	<u>\$ 603,962,960</u>	<u>\$ 542,093,059</u>	24.6	11.4

PHILADELPHIA REGIONAL PORT AUTHORITY  
Management's Discussion and Analysis  
(Unaudited)  
June 30, 2019 and 2018

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**STATEMENT OF NET POSITION**

***Fiscal Year 2019***

Total assets for Fiscal Year 2019 increased 24.5% to \$748,043,086. As of June 30, 2019, current assets were \$96,828,756, an increase of 126.3%. Contributing to this change was the 104.8% increase to \$57,253,030 in restricted cash held by the Authority as a result of the receipt of advanced funding from the Commonwealth dedicated to the port development and expansion project. In addition, the Authority's receivables for the port expansion project increased by \$21,347,074.

Non-current restricted assets, which consist mostly of debt service reserve funds, increased by 1.1% to \$4,599,111 in FY 2019 mostly because of increased bond interest earned.

In FY 2019, net capital assets increased by 16.4% to \$637,515,943. Cranes and Equipment increased by \$34,599,438, or 86.0%, largely because of the acquisition of three new ship-to-shore cranes at Packer Avenue Marine Terminal. The completion of Site 1 at the SouthPort Auto Facility was the major driver of the \$27,264,964, or 33.4%, increase in Land Improvements. Buildings and Improvements increased by 9.9% to \$423,649,639, largely because of significant structural, electrical, and crane rail upgrades to berths 4 and 5 at Packer Avenue Marine Terminal and an outshore refurbishment project at Pier 84.

Other non-current assets increased 62.8% to \$9,099,276. This change was due primarily to the 470.2% increase to \$4,273,530 in deferred maintenance dredging cost, net of amortization, because of the completion of maintenance dredging projects at several facilities, including Pier 80, Pier 82, Pier 84, Pier 122, Packer Avenue Marine Terminal, and Tioga Liquid Bulk Terminal.

Deferred outflows of resources increased 36.8% to \$4,354,180. This increase was driven largely by the \$1,110,158 increase in the net difference between projected and actual earnings on the SERS pension plan investments.

Total liabilities increased by 62.0% to \$115,199,896. Current liabilities increased by 138.0% to \$87,683,170. Contributing to this change was the increase of \$42,895,694 to \$50,158,017 in accrued liabilities for capital expansion and improvement projects. The Authority also increased its liability for capital funds held in advance by \$7,189,744.

Long-term debt outstanding decreased by 49.7% to \$4,527,565 primarily due to a \$4,275,000 decrease in long-term bonds payable. Other non-current liabilities decreased by 9.1% to \$22,989,161. This decrease was primarily caused by a \$3,056,472, or 24.9%, decrease to \$9,222,867 in the Authority's non-current portion of the total OPEB liability.

Deferred inflows of resources increased by \$3,949,274, or 75.1%, to \$9,206,781. Increases in deferred inflows of resources resulting from both the changes in proportion for the SERS net pension liability in the amount of \$1,413,070 and the difference between the expected and the actual experience for the Retired Employees Health Program (REHP) total OPEB liability in the amount of \$2,885,382 were the major drivers of this increase.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Management's Discussion and Analysis  
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**STATEMENT OF NET POSITION**

***Fiscal Year 2018***

Total assets for Fiscal Year 2018 increased 11.8% to \$600,780,373. As of June 30, 2018, current assets were \$42,796,647, an increase of 58.9%. Contributing to this change was the 102.4% increase in restricted cash held by the Authority to \$27,952,668 as a result of the receipt of advanced funding from the Commonwealth dedicated to the port development and expansion project. In addition, the Authority's unrestricted cash increased by 118.4% to \$10,574,165 in part because of the growth of the contingency fund and cash gains realized from increased operating income.

Non-current restricted assets, which consist mostly of debt service reserve funds, increased by 0.5% to \$4,549,023 in FY 2018 mostly because of increased interest earned.

In FY 2018, net capital assets increased by 10.5% to \$547,846,761. Channel Deepening Improvements increased by 9.5% to \$135,145,247 as the Main Channel Deepening Project advanced toward the completion of the final remaining reaches. Buildings and Improvements increased by 1.9% to 385,640,237 because of hardware and pile repairs at piers 78, 80, 82, and 84 and refrigeration piping replacement at Pier 82. Land improvements increased 17.0% to \$81,704,655 as a result of improvements to the Southport Auto Terminal.

Other non-current assets decreased 43.9% to \$5,587,942. This change was due primarily to the 83.7% decrease to \$749,452 in deferred maintenance dredging cost, net of amortization, because of there were no substantial dredging projects during fiscal year 2018.

Deferred outflows of resources decreased 33.8% to \$3,182,587. This decrease was a result of substantial decreases in deferred outflows of resources related to the SERS net pension liability. Overall, SERS pension deferred outflows of resources decreased by \$1,631,522 driven largely by the approximately \$1.3 million reduction in the net difference between projected and actual earnings on pension plan investments.

Total liabilities increased by 14.4% to \$71,114,476. Current liabilities increased by 42.2% to \$36,836,595. Contributing to this increase was the increase in unearned revenue for capital grants received in advance which increased 128.7% to \$23,366,771. Additional funds were advanced to the authority and held in a restricted account to fund upcoming payments for Port Improvement Plan projects.

Long-term debt outstanding decreased by 32.1% to \$8,997,961 primarily due to a \$4,065,000 decrease in long-term bonds payable. Other non-current liabilities increased by 9.9% to \$25,279,920. This increase was primarily due to the implementation of GASB 75, which requires the Authority to recognize its proportionate share of the REHP net OPEB liability, which is the shortfall of the plan's fiduciary net position as compared to the present value of future benefits payable. In fiscal year 2018, the Authority recognized a net OPEB liability of \$12,545,120.



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Deferred inflows of resources increased by \$4,054,043 to \$5,257,507. Deferred inflows of resources related to changes in the Authority's proportion for the SERS net pension liability caused an increase of \$2,673,190. In addition, the implementation of GASB 75 increased deferred inflows of resources related to the changes in assumptions for the OPEB liability by \$1,125,160.

***Changes in Net Position***

The Authority's net position increased by \$100,399,610 and \$58,772,947 for fiscal years 2019 and 2018, respectively. The change in net positions for the years ending June 2019 and 2018 were attributable to:

	<u><b>2019</b></u>	<u><b>2018</b></u>
Operating and Non-operating Activities	\$ (4,145,595)	\$ 988,492
Depreciation and Amortization	(28,643,026)	(25,234,360)
Capital Appropriations, Contributions, and Transfers	<u>133,188,231</u>	<u>83,018,815</u>
Change in Net Position	<u>\$ 100,399,610</u>	<u>\$ 58,772,947</u>

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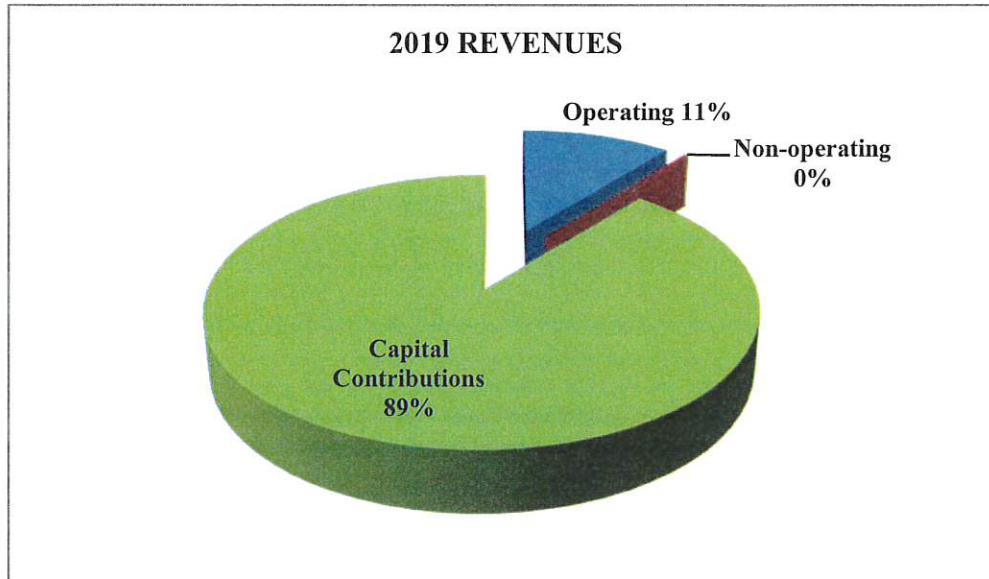
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u> %	<u>2018</u> %
				<u>Change</u>	<u>Change</u>
Operating Revenues					
Leases	\$ 15,991,826	\$ 15,996,583	\$ 13,466,597	(0.03)	18.79
Other Income	34,825	648,325	102,722	(94.63)	531.15
Total Operating Revenues	<u>16,026,651</u>	<u>16,644,908</u>	<u>13,569,319</u>	(3.71)	22.67
Operating Expenses					
Personnel Expenses	6,629,403	4,432,478	9,961,806	49.56	(55.51)
General and Administrative	1,726,147	1,621,219	1,146,524	6.47	41.40
Marketing and Business Development	658,966	682,932	778,559	(3.51)	(12.28)
Port Operations	3,474,310	2,944,639	3,348,607	17.99	(12.06)
Depreciation and Amortization	28,643,026	25,234,360	22,165,256	13.51	13.85
Total Operating Expenses	<u>41,131,852</u>	<u>34,915,628</u>	<u>37,400,752</u>	17.80	(6.64)
Operating Loss	<u>(25,105,201)</u>	<u>(18,270,720)</u>	<u>(23,831,433)</u>	37.41	(23.33)
Non-operating Revenues (Expenses)					
Investment Income - Treasury	164,938	37,020	9,159	345.54	304.19
Interest Income	123,520	36,233	1,685	240.90	2050.33
Other Governmental Appropriation	54,227	-	200,000	100.00	(100.00)
Primary Governmental Appropriation	-	-	1,500,000	0.00	(100.00)
Insurance Proceeds	822	425	313,399	93.41	(99.86)
Penalty Fees	-	-	-	0.00	0.00
Interest Expense	(540,463)	(742,088)	(957,369)	(27.17)	(22.49)
Pass Through Grant Expense	(944,666)	(1,163,662)	(200,000)	(18.82)	481.83
Loss on Disposal of Capital Assets	(5,320,053)	(986,500)	(973,136)	439.29	1.37
Loss on Impairment of Other Assets	-	-	-	0.00	0.00
Other Expenses	<u>(1,221,745)</u>	<u>(3,156,576)</u>	<u>(6,932,255)</u>	(61.30)	(54.47)
Net Non-operating Expenses	<u>(7,683,420)</u>	<u>(5,975,148)</u>	<u>(7,038,517)</u>	28.59	(15.11)
Change in Net Assets Before Capital Appropriations, Contributions and Transfers	<u>(32,788,621)</u>	<u>(24,245,868)</u>	<u>(30,869,950)</u>	35.23	(21.46)
Capital Appropriations, Contributions and Transfers					
Capital Appropriations and Contributions	128,675,619	78,478,050	55,176,797	63.96	42.23
Transfers In - PennDOT Debt Service Payment	<u>4,512,612</u>	<u>4,540,765</u>	<u>4,545,645</u>	(0.62)	(0.11)
Total Capital Appropriations, Contributions and Transfers	<u>133,188,231</u>	<u>83,018,815</u>	<u>59,722,442</u>	60.43	39.01
Change in Net Position	100,399,610	58,772,947	28,852,492	70.83	103.70
Net Position, Beginning of Year - Prev. Reported	527,590,977	478,727,595	449,875,103	10.21	6.41
GASB 75 - Cumulative Change in OPEB Liability	-	(9,909,565)	-		
Net Position - Beginning of Year, As Restated	<u>527,590,977</u>	<u>468,818,030</u>	<u>449,875,103</u>	12.54	4.21
Total Net Position, End of Year	<u>\$ 627,990,587</u>	<u>\$ 527,590,977</u>	<u>\$ 478,727,595</u>	19.03	10.21

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*Fiscal Year 2019*



For the year ended June 30, 2019, total operating revenues represent 10.7% of total revenues (including capital appropriations, contributions, and transfers) and decreased 3.7% to \$16,026,651. Overall, operating lease revenue decreased \$4,757 to \$15,991,826. An increase to total rent for the Forest Products Distribution Center of \$1,872,556 was offset by a reduction in rent for the Southport Auto terminal of \$1,902,405 due to proposed lease credit accruals and reductions for non-usable parcels under construction during the fiscal year. A variable rent increase of \$377,035 to \$2,312,528 was realized for the Packer Avenue Marine Terminal as a result of increases from the container pick fee. Decreases to variable revenue were realized for Pier 84 by \$119,061 to \$470,237 and for Pier 124 by \$220,054 to \$150,426.

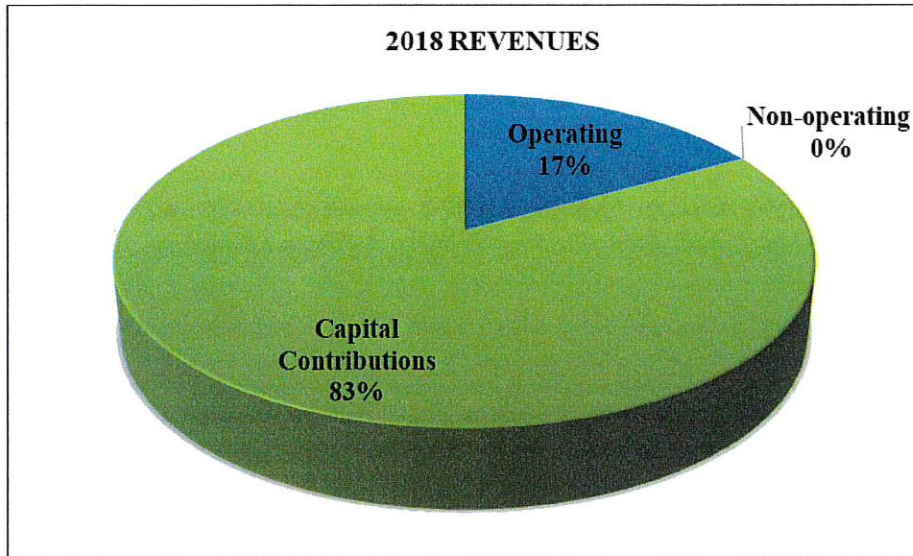
Non-operating revenues represent less than two tenths of 1.0% of total revenues. Non-operating revenues increased \$269,827 to \$343,507. This change is a result of increases in investment and interest income related to funds maintained in excess operating and restricted capital accounts.

Capital appropriations and contributions represent 89.1% of total revenues and increased by \$50,169,416, or 60.4%, to \$133,188,231. The port development project funding increased by \$49,840,995, or 103%, to 98,214,061. Additionally, \$3,584,264 in grant contributions from the U.S. Department of Transportation to support the Packer Avenue Marine Terminal Development were recognized during fiscal year 2019.

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***Fiscal Year 2018***



For the year ended June 30, 2018, total operating revenues represent 17% of total revenues (including capital appropriations, contributions, and transfers) and increased 22.7% to \$16,644,908. Overall, operating lease revenue increased \$2,529,986 to \$15,996,583. Significant contributors to this increase include base rent for the Auto terminal which increased by \$1,179,661 to \$2,604,936 because the Authority provided additional acreage for vehicle storage; and variable revenue at the Packer Avenue Marine Terminal and Pier 122 which increased \$647,465 and 710,623, respectively. Decreases to revenue were realized from Pier 84 variable revenue (\$194,487) due to a lower cargo volume than prior year and a decrease in base rent at the Food Distribution Center (\$261,528) as a result of concessions adopted in the lease year that were not included in the prior year.

Non-operating revenues represent less than 0.1% of total revenues. Non-operating revenues decreased \$1,950,563 to \$73,680. This decrease mostly resulted from the reduction in the Authority's appropriation from the Commonwealth by \$1,500,000. Additional reductions from the prior year were for the ports program pass through proceeds (\$200,000) and insurance proceeds (\$312,974).

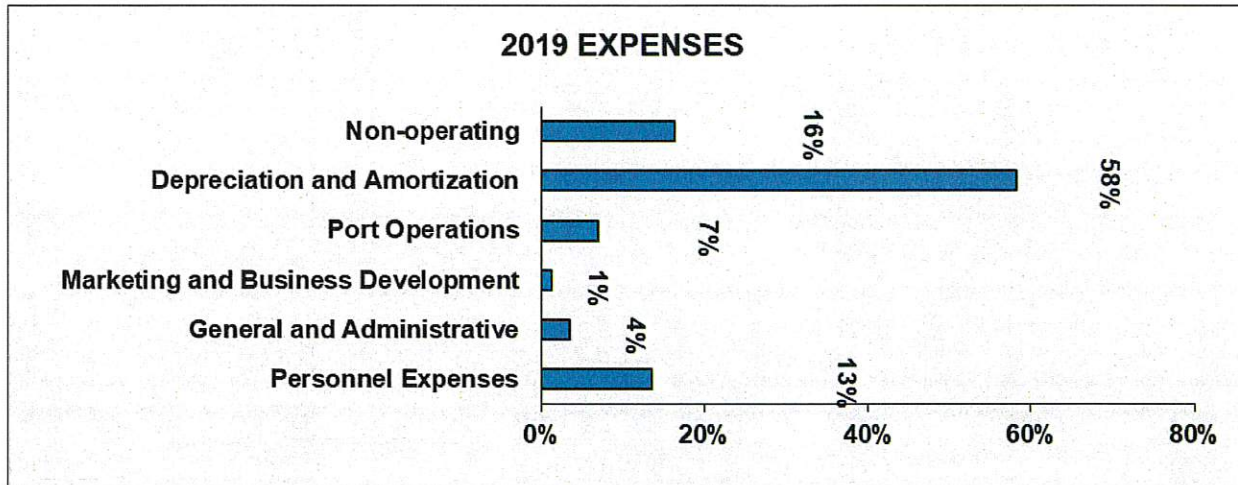
Capital appropriations and contributions represent 79% of total revenues and increased by \$23,301,252, or 42.2%, to \$78,478,050. During fiscal year 2018, Department of General Services (DGS) contributions for general capital improvement projects decreased by \$3,523,134, or 16.07%, to \$18,394,826. In addition, contributions for the Main Channel Deepening Project decreased by \$7,893,571 to \$11,710,158. These decreases, however, were offset by an increase of \$34,904,185 to \$48,373,066 for DGS contributions for three projects in accordance with the Authority's port development and expansion plan.



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**Fiscal Year 2019**



For the year ended June 30, 2019, total operating expenses, including depreciation and amortization, were \$41,131,852 representing an increase of 17.8%. Personnel expenses represent 13.5% of total expenses and increased by \$2,196,925 to \$6,629,403. This change was driven largely by a \$2,727,426 increase in expenses related to the Authority's portion of the State Employee Retirement Systems (SERS) net pension liability outweighing a decrease in expenses of \$683,200 related to the total OPEB liability. Salaries increased \$81,611, or 2.3%, to \$3,679,542 and overall benefits expenses increased \$24,770, or 1.1%, to \$2,308,615.

General and Administrative expenses represent 3.5% of total expenses and increased by \$104,928, or 6.5%, to \$1,726,147. Legal fees increased by \$294,098, or 62.2%, to \$766,738 because of several issues including contractor disputes and tenant legal matters, as well as expenditures for interim chief counsel services. This increase was offset by a reduction in facility rents of \$155,552 which were incurred in the prior year for additional vehicle storage space.

Marketing and Business Development expenses represent 1.3% of total expenses and decreased by 3.5% to \$658,966. Port promotions and travel-related expenditures decreased \$20,660, or 6.1%, to \$316,592. Professional fees increased \$15,977, or 13.5%, to \$133,940 for facility access planning.

Port Operations expenses represent 7.1% of total expenses and increased by \$529,671, or 18.0%, to \$3,474,310. Contractual expenses for maintenance responsibilities increased \$509,615, or 112%, to \$1,082,845. This increase was driven by the following projects: Pier 82 Sprinkler and plumbing repairs (\$67,991), Tioga Marine terminal plumbing and sewer repairs (\$137,873), Pier 78 cargo relocation expenses (\$116,401), and Port administration Building HVAC repairs (\$64,299). Professional fees for engineering services decreased by \$210,358, or 45.8%, to \$249,241. This decrease is due to several large expenses occurring in fiscal year 2018, such as the Pier 80 Annex roof structure investigation. Utility Expenses increased by \$186,470 to \$472,929. This increase is primarily due to several parcels

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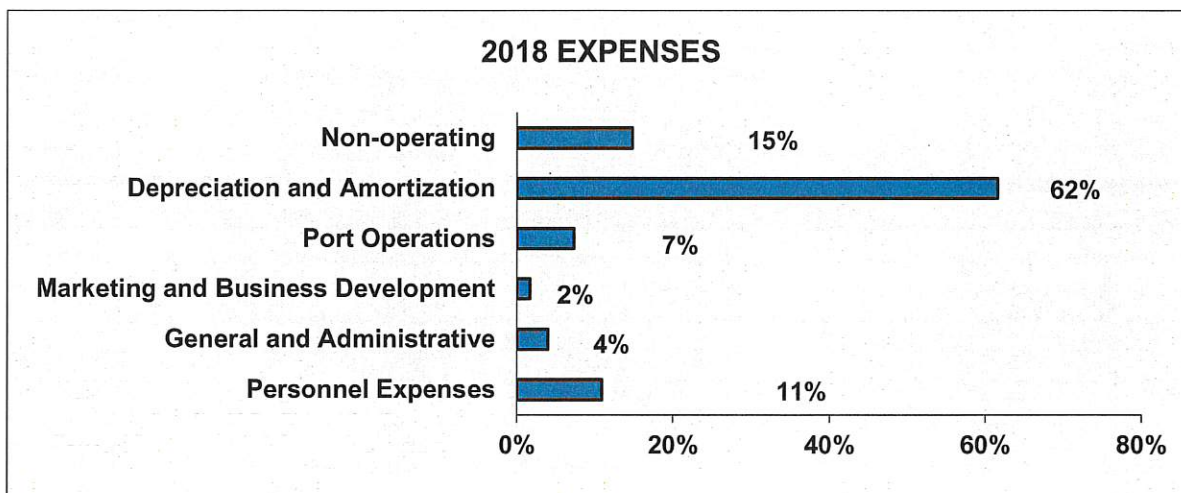
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being under Construction or in transition including the Former Produce Market (\$93,372), Piers 38 and 40 (\$23,762), and the Food Distribution Center offsite area (\$44,226).

In fiscal year 2019, depreciation and amortization expenses represent 58.3% of total expenses and increased by \$3,408,667, or 13.5%, to \$28,643,026. This increase was, in part, a result of maintenance dredging amortization, which increased by \$645,869, or 16.1%, to \$4,646,364. Depreciation expenses increased by \$2,265,646, or 12.7%, to \$23,290,704 as a result of several new projects being capitalized at Packer Avenue Marine Terminal, SouthPort, and Pier 84.

Non-operating expenses represent 16.3% of total expenses and decreased by \$1,978,101, or 32.7%, to \$8,026,927. Interest Expense decreased \$201,625, or 27.22%, to \$540,463 primarily because of reduced bond interest costs. Capital loss expenses increased by \$4,333,552, or 439.3%, to \$5,320,053 primarily because of losses recognized at Packer Avenue Marine Terminal for the demolition of building 2A, the disposal of fenders and bollards that have been or will be replaced from marginal berths, and the demolition costs related to the removal of the K-2 container crane. Additionally, a capital loss was incurred for the Pier 84 berth repair project as prior repairs were removed and replaced.

#### Fiscal Year 2018



For the year ended June 30, 2018, total operating expenses, including depreciation and amortization, were \$34,915,628, representing a decrease of 6.6%. Personnel expenses represent 11% of total expenses and decreased by \$5,529,328 to \$4,432,478. Salaries decreased \$818,766, or 18.5%, to \$3,597,931 and overall benefit expenses decreased \$388,976, or 14.6%, to \$2,238,845. These decreases are due to the departure of several employees in accordance with both voluntary and involuntary separation programs in the second half of FY17. Leave payout was reduced by \$807,416 to \$50,014.



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Additionally, personnel expenses for the Authority's share of the SERS Net Pension Liability decreased \$2,609,447, resulting in a \$1,458,383 credit to the accrued liability because of several factors including the overall reduction in the Commonwealth's SERS net pension liability, as well as the Authority experiencing a reduction in its proportionate share of the liability because of staff reductions.

General and Administrative expenses represent 4% of total expenses and increased by \$474,695, or 41.4%, to \$1,621,219. This increase was due mostly to an increase in facility rents which were \$351,875 and \$0 in fiscal years 2019 and 2018, respectively. Recently costs were incurred to expand storage space for automobiles at Southport and had an associated revenue to offset a portion of these costs. Legal fees increased by \$101,358 or 27.3%, to \$472,640 because of several issues, including lease extensions and negotiations as well as general tenant legal matters. Marketing and Business Development expenses represent 2% of total expenses and decreased by 12.3% to \$682,932. Ultimately, decreases of \$160,902 in professional fees related to marketing representatives and other consulting services outweighed increases of \$44,655 for port promotions and advertising.

Port Operations expenses represent 7% of total expenses and decreased by \$403,968, or 12.1%, to \$2,944,639. Contractual expenses for maintenance responsibilities decreased 36.9% to \$509,616. Prior year contractual expenses were inflated primarily due to repairs at Pier 74 Annex and sinkhole repairs at Piers 38/40. Contractual expenses related to security services at Pier 98 Annex were reduced by \$316,558 to \$42,262 because of the Authority's transition of security services to the tenant. Professional fees for engineering services increased by \$173,536 to \$459,599. This increase was driven by the following projects: Pier 80 Annex roof structure investigations (\$111,710), Pier 82 Mechanical services (\$37,210), Packer Avenue Marine Terminal Temporary fendering design And Pier 78 column repair (\$41,150).

In fiscal year 2018, depreciation and amortization expenses represent 62% of total expenses and increased by \$3,069,104, or 13.8%, to \$25,234,360. This increase was a result of maintenance dredging amortization, which increased by \$1,748,234, or 77.6%, to \$4,000,495. This increase is a result of a substantial maintenance dredging projects that were completed mid-year during the prior fiscal year. Depreciation expenses increased by \$752,063, or 3.8%, to \$20,665,058. Additionally, lease amortization for the Pier 122 capital dredging credit resulted in a \$568,807 increase.

Non-operating expenses represent 15% of total expenses and decreased by \$3,013,933, or 33.3%, to \$6,048,827. Interest Expense decreased \$215,281, or 22.5%, to 742,088 primarily because of reduced bond interest costs. Pass through grant expense increased by \$963,662 primarily resulting from an expenditure of \$1,140,000 for the Conrail additional track construction at the Port Richmond Yard. This increase in expenses was offset by a decrease of \$3,775,679 in other expenses. In fiscal year 2017, the Authority realized a onetime expense for costs related to the Southport Development project that did not have a clear and direct association with the ultimate development and use of the Southport property.

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**Philadelphia Regional Port Authority Capital Assets**

**CAPITAL ASSETS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Property	\$ 617,997,039	\$ 552,722,673	\$ 533,527,388
Equipment	74,830,401	40,230,963	40,001,794
Channel Deepening Improvement	144,575,598	135,145,247	123,435,089
Construction-in-Progress	57,208,419	55,090,274	14,123,930
Total Capital Assets	<u>894,611,457</u>	<u>783,189,157</u>	<u>711,088,201</u>
Accumulated Depreciation	<u>(257,095,514)</u>	<u>(235,342,396)</u>	<u>(215,225,115)</u>
Net Capital Assets	<u>\$ 637,515,943</u>	<u>\$ 547,846,761</u>	<u>\$ 495,863,086</u>

***Fiscal Year 2019***

The net capital asset value as of June 30, 2019 is \$637,515,943 which represents an increase of \$89,669,182 or 16.4%.

Property increased by 11.8% to \$617,997,039 due to increases in land improvements and buildings and improvements. Land improvements increased by \$27,264,964, or 33.4%, largely because of \$18,096,281 of improvements for the completion of Site 1 at the SouthPort Auto facility. In addition, crane rail improvements at berths 4 and 5 at Packer Avenue Marine Terminal increased land improvements by \$6,771,330. Buildings and improvements increased by \$38,009,402, or 9.9%, because of several projects, including \$25,607,644 of structural and electrical enhancements at berths 4 and 5 at Packer Avenue Marine Terminal and approximately \$15 million of improvements for an outshore refurbishment project at Pier 84.

Equipment increased by \$34,599,438, or 86.0%, to \$74,830,401 almost entirely because of the acquisition of three ship-to-shore container cranes (Z-9, Z-10, and Z-11) at Packer Avenue Marine Terminal.

Channel deepening improvements increased by \$9,430,351, or 7.0%, to \$144,575,598 as a result of the Authority's continued role as the local sponsor for the Delaware River Main Channel Deepening Project.

Construction-in-Progress increased by \$2,118,145, or 3.8%, to \$57,208,419 as the Authority continues several projects, including infrastructure improvements at berths 1-3 at Packer Avenue Marine Terminal, development of Site 2 at the SouthPort Auto facility, and the construction of the Vehicle Processing Center.

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***Fiscal Year 2018***

The net capital asset value as of June 30, 2018 was \$547,846,761 which represents an increase of \$51,983,675 or 10.5%.

Property increased by 3.6% to \$552,722,673 due to increases in land improvements and buildings and improvements. Land improvements increased by 17.0% largely because of \$9,758,612 of improvements at the Southport Auto facility that expanded vehicle storage. Buildings and improvements increased by \$7,315,518 because of several projects, including pile and hardware repairs at piers 78, 80, 82, and 84, and refrigeration upgrades at Pier 82.

Channel deepening improvements increased by \$11,710,158, or 9.5%, to \$135,145,247 as a result of the Authority's continued role as the local sponsor for the Delaware River Main Channel Deepening Project.

Construction in progress increased by \$40,966,343 to \$55,090,274, primarily due to the Berth 4-5 upgrade at the Packer Avenue Marine Terminal, which increased construction in progress by approximately \$30 million during fiscal year 2018. In addition, outshore refurbishments at Pier 84 increased construction in progress by approximately \$9 million.

**Philadelphia Regional Port Authority Bonds Payable**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019 %</u> <u>Change</u>	<u>2018 %</u> <u>Change</u>
Balance, Beginning of Year	\$ 13,258,357	\$ 17,323,752	\$ 21,199,148	(23.5)	(18.3)
Repayments	(4,065,000)	(3,870,000)	(3,680,000)	5.0	5.2
Amortization of Premium	(195,396)	(195,396)	(195,396)	0.0	0.0
Balance, End of Year	<u>\$ 8,997,961</u>	<u>\$ 13,258,356</u>	<u>\$ 17,323,752</u>	(32.1)	(23.5)
Current portion	4,470,397	4,260,396	4,065,395	4.9	4.8
Non-current portion	<u>4,527,565</u>	<u>8,997,961</u>	<u>13,258,357</u>	(49.7)	(32.1)
Total Bonds Payable	<u>\$ 8,997,962</u>	<u>\$ 13,258,357</u>	<u>\$ 17,323,752</u>	(32.1)	(23.5)

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**BONDS PAYABLE**

On September 5, 2008, the Authority refunded the Series 2003 bonds to remove an alternate rate condition. The initial principal of the Series 2008 bond was \$41,965,000 and bears interest at rates of 3% to 5%. The net interest cost for Series 2008 bonds interest rate is 4.13%. The bonds do not have a variable rate component. There are two annual debt service payments as follows: principal and interest payments are due in September, and an interest payment is due in March of each fiscal year.

***Fiscal Year 2019***

Bonds payable decreased 32.1% to \$8,997,962. The current portion increased 4.9% to \$4,470,397 and the non-current portion decreased 49.7% to \$4,527,565.

***Fiscal Year 2018***

Bonds payable decreased 23.5% to \$13,258,357. The current portion increased 4.8% to \$4,260,396 and the non-current portion decreased 32.1% to \$8,997,961.

**ECONOMIC/ADDITIONAL FACTORS**

The total metric tonnage handled at the Authority's facilities during the fiscal years 2019 and 2018 was 6,712,140 and 6,703,895, respectively.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Commonwealth and all interested parties with a general overview of the Authority's finances and to illustrate the Authority's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Authority's Finance Department at 3460 N. Delaware Avenue, Philadelphia, PA 19134.

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**BUDGETARY COMPARISON SCHEDULES**

**Fiscal Year 2019**

	2019 Actual	2019 Budget	Variance	% Variance
Operating Revenues				
Leases	\$ 15,991,826	\$ 16,401,584	\$ (409,758)	(2.5)
Other Income	34,825	34,287	538	1.6
Total Operating Revenues	<u>16,026,651</u>	<u>16,435,871</u>	(409,220)	(2.5)
Operating Expenses				
Personnel Expenses	6,629,403	6,426,424	202,979	3.2
General and Administrative	1,726,147	1,906,528	(180,381)	(9.5)
Marketing and Business Development	658,966	688,023	(29,057)	(4.2)
Port Operations	3,474,310	3,050,526	423,784	13.9
Depreciation and Amortization	<u>28,643,026</u>	<u>28,388,655</u>	254,371	0.9
Total Operating Expenses	<u>41,131,852</u>	<u>40,460,156</u>	671,696	1.7
Operating Loss	<u>(25,105,201)</u>	<u>(24,024,285)</u>	(1,080,916)	4.5
Non-operating Revenues (Expenses)				
Investment Income	164,938	9,141	155,796	1,704.4
Interest Income	123,520	36	123,484	343,011.1
Other Governmental Appropriation	54,227	-	54,227	100.0
Insurance Proceeds	822	-	822	100.0
Interest Expense	(540,463)	(540,463)	-	-
Pass Through Grant Expense	(944,666)	(500,000)	(444,666)	88.9
Loss on disposals of capital assets	(5,320,053)	(4,500,000)	(820,053)	18.2
Other Expenses	<u>(1,221,745)</u>	<u>(200,000)</u>	(1,021,745)	510.9
Net Non-operating Expenses	<u>(7,683,420)</u>	<u>(5,731,286)</u>	(1,952,134)	34.1
Change in Net Position Before Capital Appropriations, Contributions and Transfers	<u>(32,788,621)</u>	<u>(29,755,571)</u>	(3,033,050)	10.2
Capital Appropriations, Contributions and Transfers				
Capital Appropriations and Contributions	128,675,619	138,295,520	(9,619,901)	(7.0)
Transfers In - PennDOT Debt Service Payment	<u>4,512,612</u>	<u>4,512,612</u>	-	-
Total Capital Appropriations, Contributions and Transfers	<u>133,188,231</u>	<u>142,808,132</u>	(9,619,901)	(6.7)
Change in Net Position	100,399,610	113,052,561	(12,652,951)	(11.2)
Net Position, Beginning of Year	<u>527,590,977</u>	<u>527,590,977</u>	-	-
Total Net Position, End of Year	<u>\$ 627,990,587</u>	<u>\$ 640,643,538</u>	\$ (12,652,951)	(2.0)

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For the year ended June 30, 2019, total actual operating revenue fell short of budget projections by \$409,220, or 2.5%. Lease revenue decreased by 2.5% to \$15,991,826. Although base rent at the Forest Products Facility outperformed budget projections by \$2,485,482 because of a restructuring of rental payments based on an appraisal, base rent for SouthPort fell short of budget projections by \$1,724,279 because of decreased rent for facilities under construction and a rent credit recognized related to a proposed lease amendment. In addition, several facilities realized decreases from the budgeted variable revenue amounts, including Pier 122, Pier 124, and Pier 84.

Total operating expenses increased by 1.7% from budget projections to \$41,131,852. Personnel expenses were \$202,979 above the budget. Even though salaries were 5.5%, or \$215,114, below the budgeted amount and benefits were 8.8%, or \$223,153, below the budgeted amount, the Authority did not budget for the significant expenses resulting from the total OPEB liability and the SERS net pension liability, which combined to add a net of additional expenses in the amount of \$707,721.

General and Administrative expenses totaled \$1,726,147, which represents a \$180,381, or 9.5%, decrease from the budgeted total. Legal Fees outpaced the budget by \$266,738, or 53.4%, because of interim general counsel fees and additional costs for tenant negotiation matters. This increase over budget was outweighed by a \$450,023, or 69.6%, decrease from the budget for rents that the Authority pays for certain facilities under license agreements. The Authority anticipated having a greater need than realized for such facilities.

Marketing and Business Development expenses decreased \$29,057, or 4.2% from budget projections to \$658,966. Advertising expenses were \$30,036 below the \$134,000 budget forecast, which contributed to this minor variance.

Port Operations expenses increased \$423,784, or 13.9%, from the budget projections of \$3,474,310. Contributing significantly to the increase from the budget is the contractual expense for facility maintenance which was \$432,845 above the projected budget of \$650,000. This increase above budget was driven by several projects, including sprinkler and plumbing repairs at Pier 82, plumbing and sewer repairs at Tioga Marine Terminal, and HVAC repairs at the Port Administration Building.

Net non-operating expenses were \$7,683,419, a \$1,952,133, or 34.1%, increase above the budget projections of \$5,731,286. Contributing to this substantial variance were construction in progress facility enhancement projects that were determined to be expenses during the fiscal year. These costs exceeded the budget total amount of \$200,000 by \$1,021,746 largely because of a cancelled sprinkler replacement project at Pier 78. In addition, capital loss expenses exceeded the budget total of \$4,500,000 by \$820,053 because of several disposals at Packer Avenue Marine Terminal and Pier 84.

Actual capital contributions (not including debt service contributions) were \$128,675,619, a \$9,619,901, or 7.0%, decrease from budget projections. The substantial variance is related to development, channel deepening and deferred maintenance projects. Cost incurred for the ongoing development projects at the Packer Avenue Marine Terminal (PAMT), Tioga Marine Terminal

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(TMT) and Southport Auto Terminal projects were approximately \$6.7M less than the budgeted amounts. The difference was due to less than anticipated progress on the super post Panamax cranes at PAMT, the TMT warehouse, and the Vehicle Processing Center construction. As related to the deferred maintenance projects, costs incurred were approximately \$10.9M less than the budget projections. The difference was due to less than anticipated progress on Pier 122 pile repairs, maintenance dredging and various smaller projects. Additionally, the Pier 78 Sprinkler project was cancelled. Counteracting these budget shortfalls, PhilaPort advanced an additional \$8M in Main Channel Deepening funds to the United States Army Corps. These channel deepening costs were not originally included in budget projections.

**Fiscal Year 2018**

	2018 Actual	2018 Budget	Variance	% Variance
Operating Revenues				
Leases	\$ 15,996,583	\$ 14,937,844	\$ 1,058,739	7.1
Other Income	648,325	201,092	447,233	222.4
Total Operating Revenues	16,644,908	15,138,936	1,505,972	9.9
Operating Expenses				
Personnel Expenses	4,432,478	6,430,365	(1,997,887)	(31.1)
General and Administrative	1,621,219	1,388,314	232,905	16.8
Marketing and Business Development	682,932	893,690	(210,758)	(23.6)
Port Operations	2,944,639	3,884,801	(940,162)	(24.2)
Depreciation and Amortization	25,234,360	24,778,788	455,572	1.8
Total Operating Expenses	34,915,628	37,375,958	(2,460,330)	(6.6)
Operating Loss	(18,270,720)	(22,237,022)	3,966,302	(17.8)
Non-operating Revenues (Expenses)				
Investment Income (Loss) - Treasury	37,020	9,144	27,877	304.9
Interest Income	36,233	36	36,198	100,550.0
Primary Governmental Appropriation	-	735,000	(735,000)	(100.0)
Insurance Proceeds	425	-	425	100.0
Interest Expense	(742,088)	(762,088)	20,000	(2.6)
Pass Through Grant Expense	(1,163,662)	(200,000)	(963,662)	481.8
Loss on disposals of capital assets	(986,500)	-	(986,501)	100.0
Other Expenses	(3,156,576)	(2,000,000)	(1,156,576)	57.8
Net Non-operating Expenses	(5,975,147)	(2,217,908)	(3,757,239)	169.4
Change in Net Position Before Capital Appropriations, Contributions and Transfers	(24,245,867)	(24,454,930)	209,063	(0.9)
Capital Appropriations, Contributions and Transfers				
Capital Appropriations and Contributions	78,478,050	117,928,300	(39,450,250)	(33.5)
Transfers In - PennDOT Debt Service Payment	4,540,765	4,544,000	(3,235)	(0.1)
Total Capital Appropriations, Contributions and Transfers	83,018,815	122,472,300	(39,453,486)	(32.2)
Change in Net Position	58,772,948	98,017,370	(39,244,423)	(40.0)
Net Position, Beginning of Year - Previously Reported	478,727,595	478,727,595	-	-
Implementation of GASB 75 - Cumulative Change in OPEB Liability	(9,909,565)	(9,909,565)	-	-
Net Position, Beginning of Year, as restated	468,818,030	468,818,030	-	-
Total Net Position, End of Year	\$ 527,590,978	\$ 566,835,400	\$ (39,244,423)	(6.9)



PHILADELPHIA REGIONAL PORT AUTHORITY  
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For the year ended June 30, 2018, total actual operating revenue surpassed budget projections by \$1,505,972, or 9.9%. Lease revenue increase 7.1% to \$15,996,583. Base rent revenue at the Southport Auto Facility outperformed budget projections by \$441,194 because of a new lease utilizing newly improved acreage for auto storage. Packer Avenue variable revenue, based on increases in container pick fees, increased \$233,090 over budget. Pier 84 variable revenue increased \$136,508 over budget while an accounting treatment for a prepaid rent credit as well as additional volumes at pier 122 led to an increase of \$473,788 over budget. Other revenue increased \$447,232 over budget due to temporary leases at Norfolk Southern parcel and the former Food Distribution Center parcel to increase vehicle storage capacity.

Total operating expenses decreased 6.6% from budget projections to \$34,915,628. Personnel expenses were \$1,997,887 below the budget. Salaries were 6.8%, or \$261,421, less than the budget due to several departures during the year and proposed positions that were not filled immediately or at all during the year. Because of the decrease in the overall SERS net pension liability as well as a decrease in the Authority's proportionate share of the SERS pension liability as a result of the reduction of staff, the Authority realized a credit of \$1,458,383 to the SERS pension liability, which was the significant contributor to the decrease in personnel expense under budget.

General and Administrative expenses totaled \$1,621,219, which represents a \$232,905, or 16.8%, increase from the budgeted total. Bad debt expenses of \$114,716 that were not budgeted for were realized by the Authority to provide relief to a tenant for a property insurance pass through that was mistakenly included in the lease. Facility lease rentals for license agreements for property not owned by the Authority were not included in the budget for fiscal year 2018 but contributed additional expenses in the amount of \$351,875. These expenses were mostly offset by tenant revenue received by the Authority and established goodwill for the Southport Auto terminal.

Marketing and Business Development expenses decreased \$210,258, or 23.6% from budget projections to \$682,932. Professional fees for marketing and business development initiatives were \$176,037 below \$294,000 budget forecast. This decrease is a result of certain projects either being deferred or funded by another source.

Port Operations expenses decreased \$940,162, or 24.2%, from the budget projections of \$3,050,526. The primary driver for the decreases from the budget is the contractual expense for facility maintenance which was \$697,884 less than the projected budget of \$1,207,500. Several anticipated projects were not performed because of facilities being vacated. Other decreases to expenses from the budget were crane insurance (\$49,826), due to the new crane not being commissioned in April as previously forecasted, and a general reduction in liability insurance expense (\$107,377) from the budget.

Net non-operating expenses were \$5,975,147, a \$3,757,239, or 169.4%, increase from budget projections. Contributing to this substantial variance were construction in progress facility enhancement projects that were determined to be expenses during the fiscal year. These costs exceeded the budget total amount of \$2,000,000 by \$1,156,576. In addition, the Authority did not budget for the loss of disposals of assets, which increase expenses by \$986,501. Actual pass through

PHILADELPHIA REGIONAL PORT AUTHORITY  
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grant expenses increased by \$963,662 from the budgeted total of \$200,000 primarily because a rail improvement project was not budgeted for.

Actual capital contributions were \$78,478,050, a \$39,450,250, or 33%, decrease from budget projections. The substantial variance is related to both development and deferred maintenance projects. Approximately \$27M of the \$39M is related to the ongoing development projects at the Packer Avenue Marine Terminal (PAMT), Tioga Marine Terminal (TMT) and Southport Auto Terminal. The difference was due to less than anticipated progress on the assembly of the super post Panamax cranes at PAMT, the TMT warehouse, and the Vehicle Processing Center construction. As related to deferred maintenance projects, \$7.5M was budgeted for maintenance dredging. However due to a permit issue out of the Authority's control, the project was delayed. The remaining projects have been deferred but are on track to be completed during the upcoming fiscal year.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Statements of Net Position  
June 30, 2019 and 2018

	2019	2018
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and cash equivalents	\$ 12,794,659	\$ 10,574,165
Receivables:		
Trade	1,246,455	999,934
Due from other governments	58,357	59,324
Restricted assets:		
Cash and cash equivalents	57,253,030	27,952,668
Due from Commonwealth of Pennsylvania	23,406,762	2,127,437
Other current assets	2,069,493	1,083,119
Total Current Assets	<u>96,828,756</u>	<u>42,796,647</u>
Non-Current Assets:		
Assets limited as to use - held by trustee	4,273,185	4,223,748
Other restricted cash and cash equivalents	325,926	325,275
Capital assets:		
Non-depreciable capital assets:		
Land and land acquisition	85,377,781	85,377,781
Channel improvements	144,575,598	135,145,247
Construction-in-progress	57,208,419	55,090,274
Total non-depreciable capital assets	<u>287,161,798</u>	<u>275,613,302</u>
Depreciable capital assets:		
Buildings and improvements	423,649,639	385,640,237
Cranes and equipment	74,830,401	40,230,963
Land improvements	108,969,619	81,704,655
Total depreciable capital assets	<u>607,449,659</u>	<u>507,575,855</u>
Less: accumulated depreciation	<u>(257,095,514)</u>	<u>(235,342,396)</u>
Net depreciable capital assets	<u>350,354,145</u>	<u>272,233,459</u>
Total capital assets, net	<u>637,515,943</u>	<u>547,846,761</u>
Maintenance dredging cost, net of accumulated amortization of \$4,128,545 and \$4,132,670 in 2019 and 2018, respectively	4,273,530	749,453
Other assets	4,825,746	4,838,489
Total Non-Current Assets	<u>651,214,330</u>	<u>557,983,726</u>
<b>TOTAL ASSETS</b>	<u>748,043,086</u>	<u>600,780,373</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Pension	3,326,424	2,343,149
Deferred amount on bonds refunding	307,399	570,883
Post-employment benefits other than pensions (OPEB)	720,357	268,555
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>4,354,180</u>	<u>3,182,587</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 752,397,266</u>	<u>\$ 603,962,960</u>

Continued  
See the accompanying notes to these financial statements.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Statements of Net Position, Continued  
June 30, 2019 and 2018

	2019	2018
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 889,116	\$ 1,068,714
Accrued capital liabilities	49,790,759	6,317,901
Due to federal government	367,259	944,423
Unearned revenue	30,556,515	23,366,771
OPEB liability	199,624	265,780
Compensated absences	145,328	154,506
Self insurance liability	35,234	55,615
Other current liabilities	1,082,771	188,572
Liabilities payable from restricted assets:		
Interest payable	146,167	213,917
Bonds payable	4,470,397	4,260,396
Total Current Liabilities	<u>87,683,170</u>	<u>36,836,595</u>
Non-Current Liabilities:		
Accrued expense	1,086,858	1,573,061
Bonds payable	4,527,565	8,997,961
OPEB liability	9,222,867	12,279,340
Compensated absences	619,558	658,684
Self Insurance liability	331,326	349,183
SERS net pension liability	11,410,331	10,094,179
Other long term liabilities	318,221	325,473
Total Non-Current Liabilities	<u>27,516,726</u>	<u>34,277,881</u>
<b>TOTAL LIABILITIES</b>	<u>115,199,896</u>	<u>71,114,476</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Pension	5,068,513	4,132,347
OPEB	4,138,268	1,125,160
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>9,206,781</u>	<u>5,257,507</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>124,406,677</u>	<u>76,371,983</u>
<b><u>NET POSITION</u></b>		
Net investment in capital assets	636,470,541	538,229,745
Restricted for:		
Debt service	4,273,185	4,223,748
Capital grants	166,352	181,516
Other purposes	7,705	166
Unrestricted (deficit)	(12,927,194)	(15,044,198)
<b>TOTAL NET POSITION</b>	<u>\$ 627,990,589</u>	<u>\$ 527,590,977</u>

See accompanying notes to these financial statements.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Statements of Revenues, Expenses, and Changes in Net Position  
For the years ended June 30, 2019 and 2018

	2019	2018
Operating Revenues:		
Leases	\$ 15,991,826	\$ 15,996,583
Other income	34,825	648,325
Total Operating Revenues	<u>16,026,651</u>	<u>16,644,908</u>
Operating Expenses:		
Personnel services	6,629,403	4,432,478
General and administrative	1,726,147	1,621,219
Marketing and business development	658,966	682,932
Port operations	3,474,310	2,944,639
Depreciation and amortization	28,643,026	25,234,360
Total Operating Expenses	<u>41,131,852</u>	<u>34,915,628</u>
Operating Loss	<u>(25,105,201)</u>	<u>(18,270,720)</u>
Non-operating Revenues (Expenses):		
Investment income	164,938	37,020
Interest income	123,520	36,233
Other governmental appropriation	54,227	-
Insurance proceeds	822	425
Interest expense	(540,463)	(742,088)
Pass through grant expense	(944,666)	(1,163,662)
Loss on disposal of capital assets	(5,320,053)	(986,500)
Other expenses	(1,221,745)	(3,156,576)
Net Non-operating expenses	<u>(7,683,420)</u>	<u>(5,975,148)</u>
Change in Net Position Before Capital Appropriations, Contributions and Transfers	<u>(32,788,621)</u>	<u>(24,245,868)</u>
Capital Appropriations, Contributions and Transfers:		
Capital appropriations and contributions	128,675,619	78,478,050
Transfers in - PennDOT debt service payment	4,512,612	4,540,765
Total Capital Appropriations, Contributions and Transfers	<u>133,188,231</u>	<u>83,018,815</u>
Change in Net Position	<u>100,399,610</u>	<u>58,772,947</u>
Net Position, Beginning of Year - Previously Reported	527,590,977	478,727,595
Implementation of GASB 75 - Cumulative Change in OPEB Liability	-	(9,909,565)
Net Position, Beginning of Year - Restated	<u>527,590,977</u>	<u>468,818,030</u>
Net Position, End of Year	<u>\$ 627,990,587</u>	<u>\$ 527,590,977</u>

See the accompanying notes to these financial statements.

PHILADELPHIA REGIONAL PORT AUTHORITY

Statements of Cash Flows

For the years ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Cash received from leasing activities	\$ 16,181,240	\$ 15,233,159
Cash paid for salaries and wages	(6,010,511)	(5,987,973)
Cash paid for general and administrative	(1,804,824)	(1,572,928)
Cash paid for marketing and business development	(670,059)	(651,649)
Cash paid for port operations	(4,547,620)	(2,860,172)
Net Cash Provided by Operating Activities	3,148,226	4,160,437
Cash Flows from Non-capital Financing Activities:		
Non-capital grant/appropriations restricted for mandated projects	54,227	-
Pass-through expense from grant and non-operating other expenses	(2,166,412)	(4,320,237)
Net Cash Used in Non-capital Financing Activities	(2,112,185)	(4,320,237)
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(70,064,191)	(74,809,803)
Payments for maintenance dredging and access road easement	(8,863,659)	(198,593)
Capital grants/appropriations received	114,518,289	95,984,351
Payments on bonds payable	(4,065,000)	(3,870,000)
Interest payments	(540,125)	(738,500)
Lease payment from the Commonwealth of Pennsylvania	4,580,362	4,605,265
(Loss) from disposal of capital assets	(5,320,053)	(986,501)
Other income	822	425
Net Cash Provided by Capital and Related Financing Activities	30,246,445	19,986,644
Cash Flows from Investing Activities:		
Investment income	288,458	73,253
Net Increase in Cash and Cash Equivalents	31,570,944	19,900,097
Cash and Cash Equivalents:		
Beginning of year	43,075,856	23,175,757
End of year	\$ 74,646,800	\$ 43,075,854
Cash and Cash Equivalents are comprised of the following:		
Non-Restricted Assets	\$ 12,794,659	\$ 10,574,165
Restricted Assets	61,852,141	32,501,691
Total Cash and Cash Equivalents	\$ 74,646,800	\$ 43,075,856

Continued

See the accompanying notes to these financial statements.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Statements of Cash Flows, Continued  
For the years ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash Provided		
by Operating Activities:		
Operating Loss	\$ (25,105,201)	\$ (18,270,720)
Adjustments to Reconcile Operating Loss to Net Cash Provided by		
Operating Activities:		
Depreciation and amortization	28,643,026	25,234,360
Cumulative change in - OPEB liability	-	(9,909,565)
Change in assets and liabilities:		
Trade receivables	(246,521)	(413,605)
Due from other governments	969	36,543
Other current assets	(986,374)	(27,621)
Deferred outflows of resources - pension and OPEB	(1,435,076)	1,362,967
Accounts payable and accrued liabilities	(665,800)	(284,264)
Compensated absences	(48,303)	(85)
Self insurance liability	(38,238)	(226,654)
OPEB liability	(3,122,629)	9,174,839
Net pension liability	1,316,152	(6,018,789)
Other liabilities	886,947	(551,013)
Deferred inflows of resources - pension and OPEB	3,949,274	4,054,044
Total Adjustments	28,253,427	22,431,157
Net Cash Provided by Operating Activities	\$ 3,148,226	\$ 4,160,437

See the accompanying notes to these financials statements.



**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements**  
**For the years ended June 30, 2019 and 2018**

**Note 1    Summary of Significant Accounting Policies:**

**Organization and Structure**

The Philadelphia Regional Port Authority (the "Authority") was established on July 10, 1989 by Act 1989-50, the Philadelphia Regional Port Authority Act, of the General Assembly of the Commonwealth of Pennsylvania (the "Commonwealth") as an independent agency. The Authority exists as a public instrumentality of the Commonwealth for the conduct of regional port and port-related activities and business along the Delaware River. The Authority was created for the purpose of owning and developing port facilities and assuming, under the terms and conditions of an agreement between the Authority and the Philadelphia Port Corporation (the "PPC"), the functions, powers, rights, duties and obligations exercised by the PPC.

On July 26, 1990, the Authority acquired the port-related assets and assumed the corresponding liabilities from the City of Philadelphia and the PPC. The acquisition has been accounted for as a purchase and, accordingly, the acquired assets and liabilities have been recorded at their fair values at the date of acquisition. The excess of the fair value of the net assets over the purchase price has been allocated to the capital assets.

The Authority operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The Authority charges rental and other fees to port users and obtains other funding from the Commonwealth. The Authority also issues revenue bonds to finance its activities. The Commonwealth appoints all eleven voting board members and can remove board members at will. The Commonwealth provides operating and capital subsidies and pays rent in amounts equal to the Authority's debt service requirements. The Authority is fiscally dependent on the Commonwealth, as the Governor must approve the issuance of its debt.

**Reporting Entity**

These financial statements present only financial information about the Authority, an enterprise fund of the Commonwealth. The Enterprise Fund qualifies for inclusion in the Commonwealth's reporting entity pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*. These financial statements do not purport to, and do not, present fairly the financial position of the Commonwealth and the changes in its financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 1     Summary of Significant Accounting Policies, Continued:**

**Basis of Accounting and Measurement Focus**

The Authority's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. The Authority is an enterprise fund. Enterprise funds are used to account for operations that are financed in a manner similar to private business enterprises where periodic determination of revenues earned, expenses incurred and/or change in net assets is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The financial statements of the Authority are presented using the flow of economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of the Authority are included in the Statements of Net Position. Under the accrual basis of accounting, revenues are recognized in the period earned, and expenses are recognized in the period incurred. With regards to accounting for construction contracts, the Authority does not recognize a capital asset or liability for amounts retained until the construction project is accepted.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected not to adopt the Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless the GASB specifically adopts the FASB statement or interpretation.

As an enterprise fund, the Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from the proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are leasing revenues from its tenants. All expenses related to operating the Authority are reported as operating expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Net Position**

Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. The net investment in capital assets include capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to acquisition and the unamortized deferred amount on refunding. Net Position is reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net position is unrestricted.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 1    Summary of Significant Accounting Policies, Continued:**

**Appropriations**

The Authority recognizes subsidies received as operating appropriations or capital grants, as appropriate, in the fiscal year due.

The Authority's policy is to accrue capital appropriations and grant revenue to the extent the approved project costs are incurred. Project costs incurred prior to receipt of funds are included in Capital Assets. Lease revenue due from the Commonwealth under the terms of the lease/lease-back agreement between the Authority and the Commonwealth is included in Due from Commonwealth.

**Cash and Cash Equivalents**

The Authority considers cash on hand or in banks and investments with an original maturity of three months or less to be cash and cash equivalents. The accompanying Statements of Cash Flows also include the Authority's restricted cash and cash equivalents.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**Capital Assets**

Capital assets purchased or acquired are reported at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of these assets are depreciated or amortized on the straight-line method over the estimated useful lives of the assets. Construction-in-progress costs are capitalized during the construction period and transferred to other capital assets when placed in service. Channel improvements are capitalized during the improvement period and are classified as non-depreciable capital assets because of the nature of the improvements. Other costs incurred for repairs and maintenance is expensed as incurred. The principal estimated useful lives used in computing depreciation and amortization are as follows:

Property	20 years
Equipment	3 to 20 years
Container Cranes	20 years
Land Improvements	20 years

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 1     Summary of Significant Accounting Policies, Continued:**

**Deferred Maintenance Dredging Cost**

The cost of periodic maintenance dredging of berthing areas adjacent to the Authority's piers and of the ship channel not maintained by the federal government is capitalized in deferred maintenance dredging cost and amortized over eighteen months.

Amortization expense for the years ended June 30, 2019 and 2018 was \$4,646,364 and \$4,000,495, respectively, and is included in depreciation and amortization in the Statements of Revenues, Expenses, and Changes in Net Position. The unamortized deferred maintenance dredging cost as of June 30, 2019 and 2018 was \$4,273,530 and \$749,453, respectively.

**Deferred Outflows of Resources**

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. They are required to be reported in the Statements of Net Position in a separate section following assets. The Authority recognizes deferred outflows of resources related to pensions and other post-employment benefits.

The difference between the reacquisition price and the net carrying amount of the old debts (1993 and 2003 Bonds) were consolidated and are being deferred and amortized over the life of the new debt (same as the remaining life of the old debt) as a component of interest expense.

The reacquisition price is the amount required to repay previously issued debt in a refunding transaction and includes the principal of the old debt and any call premium. The net carrying amount is comprised of the amount due at maturity adjusted for any unamortized premium or discount and issue cost related to the debt.

In accordance with GASB 65, the amounts deferred on defeasance are shown as a deferred outflow of resources.

**Deferred Inflows of Resources**

Deferred inflows of resources are defined as an acquisition of net assets by a government that is applicable to a future reporting period. They are required to be reported in the Statements of Net Position in a separate section following liabilities. The Authority recognizes deferred inflows of resources related to pensions and other post-employment benefits.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 1     Summary of Significant Accounting Policies, Continued:**

**Revenue Recognition**

The Authority earns income from the leasing of its property and facilities. The income from these leases is recognized in accordance with the terms of the leases. Lease income received in advance is deferred and recognized in the period earned.

**Compensated Absences**

Employees accumulate annual leave based on 4% to 10% of regular hours paid, to a maximum of 80 days. Employees are paid for accumulated annual leave upon termination or retirement. Employees accumulate 15.6 days or 20.8 days of sick leave in any twelve-month period based on 6% or 8%, respectively, of regular hours paid, to a maximum of 200 days. Retiring employees are paid 30% of their accumulated unused sick leave. The Commonwealth also includes a predicted sick leave valuation in the calculation. Amounts accumulated are recognized in the Statements of Net Position. This amount is pro-rated as current and non-current liabilities based on Commonwealth estimates of 19% and 81%, respectively, for 2019 and 2018.

**Federal Income Taxes**

The Authority qualifies as an intergovernmental organization under the provisions of Section 115 of the Internal Revenue Code, and therefore, is exempt from federal income taxes.

**Capital Contributions – Federal and Commonwealth Capital Grants and Appropriations**

Appropriations and grants for capital asset acquisition, facility development and rehabilitation of facilities are reported in the Statements of Revenues, Expenses and Changes in Net Position, after non-operating revenues and expenses, as capital contributions.

**Net Pension Liability and Related Deferred Outflows/Inflows of Resources**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pennsylvania State Employees' Retirement System ("SERS") and additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

SERS is the administrator of a cost-sharing multi-employer defined benefit pension plan established by the Commonwealth to provide pension benefits for employees of state governmental and certain independent agencies. Membership in SERS is mandatory for most state employees.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 1    Summary of Significant Accounting Policies, Continued:**

**Net Pension Liability and Related Deferred Outflows/Inflows of Resources, Continued**

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. Member retirement benefits are determined by taking years of credited service, multiplied by 2%, multiplied by class of service multiplier. According to the State Employees Retirement Code (SERC), all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

Section 5507 of the SERC (71 PA. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due.

The Authority's contractually required contribution rates for the years ended June 30, 2019 and 2018 were:

	<b>Employee Hired after 1/1/2011</b>	
	<b>(class A-4)</b>	
	<u>FY2019</u>	<u>FY2018</u>
Authority Contribution	23.94%	23.80%
Employee Contribution	9.30%	9.30%
	<b>Employee Hired prior to 1/1/2011</b>	
	<b>(class AA)</b>	
	<u>FY2019</u>	<u>FY2018</u>
Authority Contribution	34.63%	34.44%
Employee Contribution	6.25%	6.25%

Contributions from the Authority to the pension plan were \$1,148,804 and \$1,147,022 for the years ended June 30, 2019 and 2018, respectively.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 1    Summary of Significant Accounting Policies, Continued:**

**Post-employment Benefits Other Than Pensions (OPEB) liability**

This liability is the portion of the actuarial present value of projected post-employment medical and prescription drug plan benefit payments that is attributed to past periods of member service in conformity with the GASB Statements. The total OPEB liability is the liability of the Authority to plan members for benefits provided through a defined benefit OPEB plan that is not administered through a trust that meets the criteria of the GASB Statements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority to make estimates and assumptions that affect certain amounts and disclosures reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

**New Accounting Pronouncements**

GASB Statement No. 83, "*Certain Asset Retirement Obligations*": The Statement establishes accounting and financial reporting standards for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Authority's adoption of this statement had no significant impact on the financial statements.

GASB Statement No. 87, "*Leases*" was issued in June 2017, with an effective date for reporting periods beginning after December 15, 2019, earlier application is encouraged: This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Authority's management is evaluating the impact of this statement on the financial statements.

GASB Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*": The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Authority's adoption of this statement had no significant impact on the financial statements.



**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 1**     **Summary of Significant Accounting Policies, Continued:**

**New Accounting Pronouncements**

GASB Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*": This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Specifically, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Authority's adoption of this statement had no significant impact on the financial statements.

**Note 2**     **Cash and Cash Equivalents:**

As of June 30, 2019 and 2018, the carrying amount of the Authority's unrestricted cash and cash equivalents with financial institutions and banks is shown below:

	<u>2019</u>	<u>2018</u>
Amount insured by the Federal Deposit Insurance Corporation ("FDIC")	\$ 250,000	\$ 250,000
Registered, collateralized and held by the Authority's custodian in the Authority's name	11,475,944	9,643,341
Uncollateralized	525	525
Amount held by the Commonwealth in the Authority's name	<u>1,068,190</u>	<u>680,299</u>
Total	<u>\$ 12,794,659</u>	<u>\$ 10,574,165</u>

The Authority's deposits and investment policy addresses custodian credit risk, interest rate risk and concentration of credit risk, as follows:

*Custodian credit risk* is the risk that, in the event of a failure of a financial institution, the Authority would not be able to recover deposits, the value of its investments, or collateral securities that are in the possession of an outside party. In accordance with the Pennsylvania Fiscal Code, collateral must be pledged by the banks and other financial institutions to guarantee the Commonwealth's cash on deposit. As of June 30, 2019, and 2018, \$1,068,190 and \$680,299, respectively, of the Authority's unrestricted cash and cash equivalents were held by the Commonwealth as temporary investments to fund payroll and payroll related expenses of the Authority.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 2    Cash and Cash Equivalents, Continued:**

As of June 30, 2019, and 2018, the carrying amount of the Authority's restricted cash and cash equivalents (see Note 4) were \$61,852,141 and \$32,501,691, respectively. Of these funds \$4,273,185 and \$4,223,748, respectively, was collateralized and held by the Authority's custodian in the Authority's name. In FY 2019 and 2018, \$57,578,956 and \$28,277,943, respectively, were held in segregated checking accounts, which were registered, collateralized and held by the Authority's custodian in the Authority's name.

*Interest rate risk* is the risk that changes in market interest rates will adversely affect the fair value of investments. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2019, and 2018, all the Authority's investments and deposits had remaining maturities of one year or less.

*Concentration of credit risk* is the risk of loss due to the magnitude of the Authority's investments in the securities of any single issuer. The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer. Most of the Authority's deposits are placed with Wells Fargo Bank N.A. and amounts over the FDIC limit are collateralized in accordance with Act 72 of the General Assembly of the Commonwealth.

**Note 3    Other Current Assets:**

As of June 30, 2019, and 2018, the balances of other current assets were comprised of:

	<u>2019</u>	<u>2018</u>
Unbilled Revenue	\$ 1,469,752	\$ 512,839
Prepaid Expenses	599,741	570,280
Total	<u>\$ 2,069,493</u>	<u>\$ 1,083,119</u>

**Note 4    Restricted Assets:**

Restricted assets represent funds due from the primary government for debt service interest payments and funds maintained in segregated bank accounts with the exception of the recently received security deposits and other proceeds that have yet to be transferred into the appropriate restricted bank account, which are included in the Authority's general checking account. At June 30, 2019 and 2018, the carrying amount of the Authority's restricted cash and cash equivalents (including interest) with financial institutions and banks is shown below:

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 4    Restricted Assets, Continued:**

	2019	2018
Development Advance - Tioga	\$ 656,777	\$ 68,303
Development Advance - Packer	36,612,693	24,084,482
Development Advance - Auto	19,505,498	2,770,564
Navy project DGS Advance	478,062	1,028,637
Main Channel Deepening	-	682
Debt Service Reserve Accounts	4,273,185	4,223,748
Security Deposits	325,926	325,275
Total	<u>\$ 61,852,141</u>	<u>\$ 32,501,691</u>

**Capital Investment Program Advance Funds** – On March 29, 2017 the PRPA entered into a delegation agreement, to expend \$293 million for three development projects. By the terms of the delegation agreement, funds will be advanced by the Commonwealth based upon a rolling three-month projection of program expenditures.

**Development Advance Tioga** - As of June 30, 2019 and 2018 funds held in the Tioga development account were \$656,777 and \$68,303, respectively. Funds have been advanced in consideration of payments of the design and preliminary construction costs of a new 100,000 square foot frame supported building.

**Development Advance Packer** - As of June 30, 2019 and 2018 funds held in the Packer Development account were \$36,612,693 and \$24,084,482, respectively. Funds have been advanced in consideration of payments for two ship to shore crane (STS) acquisitions, from Shanghai Zhenhua Heavy Industries Company Limited (“ZPMC”) that have arrived and are currently being commissioned, and two marginal berth construction projects to handle the additional crane capacity.

**Development Advance Auto** - As of June 30, 2019 and 2018 funds held in the Auto Development Account were \$19,505,498 and \$2,770,564, respectively. Funds have been advanced in consideration of the Vehicle Processing Center and Site 1 and 2 land development projects.

**Navy Project Commonwealth Advance** - In March of 2015, the Department of the Navy granted the Authority ownership of a .595 parcel of property located at the Philadelphia Naval Shipyard in exchange for \$2,460,000 in the form of in-kind consideration. The Commonwealth advanced the funds to the Authority in FY 2015. The Authority will dedicate the funds to the design and construction of a road repair project for property owned by the Navy at the Philadelphia Naval Shipyard. As of June 30, 2019, and 2018, the Authority had a remaining restricted balance of \$478,062 and \$1,028,637, respectively.

**Channel Deepening Account** - The Authority receives advance funds from the Commonwealth to fulfill its financial obligation as the non-federal sponsor for the main channel deepening project. As of June 30, 2019, and 2018 the Authority had a restricted balance for the channel deepening project of \$0 and \$682, respectively.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 4    Restricted Assets, Continued:**

***Debt Service Reserve Accounts*** - The Commonwealth Lease Revenue Bonds, Series 2008, and the currently refunded Series 2003 and 1993 (Bonds) trust indentures required that a certain amount of Bonds proceeds be set aside in restricted asset accounts. Such restricted assets are to be used to meet the debt service requirements (i.e., principal and interest) of the Bonds, if for any reason there are insufficient funds available from other sources, and to provide for payment of arbitrage to the U.S. Treasury as required by certain provisions of the Internal Revenue Code. The debt service reserve fund as of June 30, 2019 and 2018 was \$4,273,185 and \$4,223,748, respectively.

***Security Deposits*** - The Authority holds tenant funds as security deposits. These funds are to be returned to the tenants once the lease is terminated or applied to any lease shortfalls. Security deposits as of June 30, 2019 and 2018 totaled \$325,926 and \$325,275, respectively.

**Note 5    Capital Assets:**

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Non-depreciable Capital Assets				
Land	\$ 85,377,781	\$ -	\$ -	\$ 85,377,781
Construction-in-Progress	55,090,274	109,305,224	107,187,079	57,208,419
Channel Deepening Improvement	135,145,247	9,430,351	-	144,575,598
Total Non-depreciable Capital Assets	<u>275,613,302</u>	<u>118,735,575</u>	<u>107,187,079</u>	<u>287,161,798</u>
Depreciable Capital Assets				
Buildings and Improvements	385,640,237	42,079,722	4,070,320	423,649,639
Land Improvements	81,704,655	27,264,964	-	108,969,619
Cranes and Equipment	40,230,963	34,647,938	48,500	74,830,401
Total Depreciable Capital Assets	507,575,855	103,992,624	4,118,820	607,449,659
Less: Accumulated Depreciation	<u>(235,342,396)</u>	<u>(23,290,720)</u>	<u>(1,537,602)</u>	<u>(257,095,514)</u>
Total Depreciable Capital Assets, Net	272,233,459	80,701,904	2,581,218	350,354,145
Total Capital Assets, Net	<u>\$ 547,846,761</u>	<u>\$ 199,437,479</u>	<u>\$ 109,768,297</u>	<u>\$ 637,515,943</u>

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 5    Capital Assets, Continued:**

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Non-depreciable Capital Assets:				
Land	\$ 85,372,433	\$ 5,348	\$ -	\$ 85,377,781
Construction-in-Progress	14,123,930	63,265,878	22,299,534	55,090,274
Channel Deepening Improvement	123,435,089	11,710,158	-	135,145,247
Total Non-depreciable Capital Assets	<u>222,931,452</u>	<u>74,981,384</u>	<u>22,299,534</u>	<u>275,613,302</u>
Depreciable Capital Assets:				
Buildings and Improvements	378,324,719	8,143,344	827,826	385,640,237
Land Improvements	69,830,236	11,874,419	-	81,704,655
Cranes and Equipment	40,001,794	240,394	11,225	40,230,963
Total Depreciable Capital Assets	<u>488,156,749</u>	<u>20,258,157</u>	<u>839,051</u>	<u>507,575,855</u>
Less: Accumulated Depreciation	<u>(215,225,115)</u>	<u>(20,667,765)</u>	<u>(550,484)</u>	<u>(235,342,396)</u>
Total Depreciable Capital Assets, Net	<u>272,931,634</u>	<u>(409,608)</u>	<u>288,567</u>	<u>272,233,459</u>
Total Capital Assets, Net	<u>\$ 495,863,086</u>	<u>\$ 74,571,776</u>	<u>\$ 22,588,101</u>	<u>\$ 547,846,761</u>

Depreciation expense for the years ending June 30, 2019 and 2018 totaled \$23,290,720 and \$20,667,765, respectively and is included in operating expenses in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. All capital assets, except land and channel improvements, are subject to depreciation when placed in service. The carrying amount of idle capital assets at June 30, 2019 and 2018 were \$170,380 and \$473,769. These assets are temporarily idle and the intention is to place them into service in the near future, unless they are removed by an upcoming construction project.

**Note 6    Commonwealth Lease Revenue Bonds Payable:**

The Commonwealth Lease Revenue Bonds payable activity for the year ended June 30, 2019 was:

<u>Revenue Bonds</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Maturity Dates Through</u>	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>
Series 2008	2008	3 - 5	2021	\$ 12,835,000	\$ -	\$ 4,065,000	\$ 8,770,000
Unamortized Bond Premium				423,357	-	195,395	227,962
				13,258,357	-	4,260,395	8,997,962
Deferred Amount on Refunding				(570,883)	-	(263,484)	(307,399)
Total Bonds Payable				<u>\$ 12,687,474</u>	<u>\$ -</u>	<u>\$ 3,996,911</u>	<u>\$ 8,690,563</u>

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 6**    **Commonwealth Lease Revenue Bonds Payable, Continued:**

The Commonwealth Lease Revenue Bonds payable activity for the year ended June 30, 2018 was:

Revenue Bonds	Issue Date	Interest Rates	Maturity Dates Through	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Series 2008	2008	3 - 5	2021	\$ 16,705,000	\$ -	\$ 3,870,000	\$ 12,835,000
Unamortized Bond Premium				618,753	-	195,396	423,357
				17,323,753	-	4,065,396	13,258,357
Deferred Amount on Refunding				(834,368)	-	(263,485)	(570,883)
Total Bonds Payable				\$ 16,489,385	\$ -	\$ 3,801,911	\$ 12,687,474

As of June 30, 2019 and 2018, the balances were comprised of:

	2019 Series 2008	2018 Series 2008
Current Amount	\$ 4,470,397	\$ 4,260,396
Non-current Amount	4,527,565	8,997,961
Total	\$ 8,997,962	\$ 13,258,357

On September 5, 2008, the Authority issued \$41,965,000 of Series 2008 Refunding Revenue Bonds to refund the outstanding \$39,400,000 Series 2003 Commonwealth Lease Revenue Bonds ("Series 2003 Bonds") along with an interest rate swap agreement transaction that was negatively affected by the charging of an alternate floating rate of interest. The Series 2008 refunding transaction resulted in an economic gain of \$2,431,005 and a decrease of \$2,082,061 in future debt service payments.

Principal payments are due each year on September 1, and interest is payable semi-annually on March 1 and September 1 of each year until final maturity on September 1, 2020. Principal and interest are payable commencing September 1, 2010 and March 1, 2010, respectively. These dates correspond to the payment and maturity dates of the refunded Series 2003 Bonds. The Series 2008 Bonds bears interest at a rate of 3% to 5%. The Bonds are payable from a pledge of gross revenues derived from a lease of port facilities to the Commonwealth. The rental payable by the Commonwealth under the lease shall be subject to the annual appropriation of funds for such purpose by the Pennsylvania General Assembly.

The outstanding balance of the Series 2008 Bonds, net of unamortized premium of \$227,962 and unamortized deferred amount on refunding of \$307,399 was \$8,690,563 as of June 30, 2019.

The outstanding balance of the Series 2008 Bonds, net of unamortized premium of \$423,357 and unamortized deferred amount on refunding of \$570,883 was \$12,687,474 as of June 30, 2018.

The annual debt service requirements to amortize the principal and interest, with interest at the rate of 3.00% to 5.00% of the Series 2008 Bonds outstanding as of June 30, 2018 are as follows:

Year ending June 30,	Principal	Interest	Unamortized Premium	Total
2020	\$ 4,275,000	\$ 331,625	\$ 195,396	\$ 4,802,021
2021	4,495,000	112,375	32,566	4,639,941
	\$ 8,770,000	\$ 444,000	\$ 227,962	\$ 9,441,962

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 7    Changes in Long Term Liability:**

	<u>7/1/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/19</u>	<u>Due within one year</u>
Accrued Tenant Rent Credit	\$ 1,573,061	\$ -	\$ (486,203)	\$ 1,086,858	\$ -
Revenue Bond	13,258,357	-	(4,260,397)	8,997,962	4,470,396
Compensated Absences	813,190	-	(48,304)	764,886	145,328
OPEB Liability	12,545,120	-	(3,122,629)	9,422,491	199,624
Workers' Compensation Liability	404,798	-	(38,238)	366,560	35,234
Pension (SERS)	10,094,179	1,316,152	-	11,410,331	-
Tenant Security	325,108	914	(7,801)	318,221	-

**Note 8    Retirement and Other Postemployment Benefits:**

The Authority contributes to the City of Philadelphia defined benefit municipal retirement system and the Commonwealth's defined benefit retirement system, SERS. This became effective on July 31, 1991, when employees of the Authority who were former employees of PPC, were required to make an election to either participate in the City of Philadelphia's defined benefit multi-employer municipal retirement system or switch to the Commonwealth's defined benefit multi-employer retirement system. Currently all full-time Authority employees, with the exception of one employee, participate in SERS. In addition, new employees of the Authority are required to participate in SERS.

The Authority, through the Commonwealth's Retired Employees Health Plan ("REHP"), provides healthcare as a post-employment benefit to its employees that qualify for this benefit when they retire. The plan is administered by the Pennsylvania Employee Benefits Trust Fund ("PEBTF"), which acts as a third-party administrator under an administrative agreement with the Commonwealth. The REHP has been established under pertinent statutory authority.

The Authority's contribution to both SERS and REHP, are established by the Office of Administration and the Governor's Budget Office. Contributions to the Commonwealth's SERS system were \$1,148,804 and \$1,147,042 for the years ended June 30, 2019 and 2018, respectively.

None of the plans issue a stand-alone financial report for the Authority and the Authority's portion of the retirement systems' assets and accumulated benefits are not separately determinable.



**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 9    Postemployment Benefits Other Than Pensions (OPEB):**

*Plan Description and Administration*

The REHP is a single employer defined benefit OPEB the plan includes Commonwealth agencies and some component units. The REHP is established as a trust equivalent arrangement for some Commonwealth agencies and component units. For the Commonwealth agencies and component units that participate in the REHP trust, contributions are made at the retiree health assessment rate. The Authority, along with one Commonwealth agency and two Commonwealth component units, do not participate in the REHP trust. The Authority contributes the actual fiscal year benefit payments attributable to their respective retirees. For this reason, the Authority does not participate in the REHP trust and does not contribute at the retiree health assessment rate.

All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board, and the Secretary of Administration. The REHP does not have a governing board.

The REHP is reported in the Commonwealth's Comprehensive Annual Financial Report ("CAFR") as a Pension (and Other Employee Benefit) Trust. The REHP is reported using the economic resources measurement focus and the accrual basis of accounting. The CAFR is an audited financial statement and is available at [www.budget.pa.us](http://www.budget.pa.us).

The Authority's participants consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Inactive employees receiving benefits	29	29
Active employees	45	48

*Contributions*

While most REHP participants make biweekly contributions at the same employer health assessment rate to the OPEB Investment Pool (trust equivalent arrangement), the Authority contributes to REHP under a separate payment arrangement. Effective July 1, 2007, the Commonwealth and the Authority reached an agreement whereby the REHP biweekly contribution rate payable by the Authority would be based on the projected per retiree cost and the number of estimated retirees. During the 2019 and 2018 fiscal years, this charge was \$213.68 and \$223.53, respectively, and amounted to \$252,708 and \$268,555, respectively. Because the number of retirees fluctuates from month to month, the Commonwealth and the Authority conduct a reconciliation at the conclusion of the fiscal year based on the actual allocated number of retirees each month and the average per retiree cost for the year. The Authority has no responsibility to the retirement systems other than to make these required periodic payments.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 9    Postemployment Benefits Other Than Pensions (OPEB), Continued:**

*Benefits and Eligibility*

The REHP covers retirees and their eligible dependents with medical and prescription drug plans. The Authority pays the insurance premiums for retirees with the exception of the following amounts received from the retiree.

<b>Retirement Date:</b>	<b>Retiree share of cost of benefits:</b>
Before July 1, 2005	Zero - the Authority pays full cost
July 1, 2005 to June 30, 2007	1% of final annual salary
July 1, 2005 to June 30, 2011	3% for non-Medicare and 1.5% for Medicare eligible retirees of either final gross annual base salary or final average salary, whichever is less
After June 30, 2011	3% for non-Medicare and 1.5% for Medicare eligible retirees final average salary

Employees who retire from the Commonwealth and at any age with 25 or more years of service are eligible to receive REHP benefits. In addition, employees who retire at or over age 60 with a minimum of 20 years of service are eligible for coverage under the REHP. Coverage under disability retirement requires five years of service. Spouses and dependents are eligible for subsidized postemployment medical coverage while the retiree is alive. Surviving spouses of deceased retirees may continue to participate in the plan if they pay the full cost of the coverage.

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

The Authority reported a liability of \$9,422,491 and \$12,545,120, respectively, for its OPEB liability for the fiscal years ending June 30, 2019 and 2018. The OPEB liability for fiscal year 2019 was measured by an actuarial valuation as of June 30, 2018, which utilized census data from December 31, 2017. The OPEB liability for fiscal year 2018 was measured by an actuarial valuation as of June 30, 2017, which utilized census data from December 31, 2016. For the years ending June 30, 2019 and 2018, the Authority recognized OPEB (revenue) expense of (\$561,321) and \$121,879, respectively.

At June 30, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following:

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 9      Postemployment Benefits Other Than Pensions (OPEB), Continued:**

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, Continued*

	<b>June 30, 2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Authority contributions subsequent to the measurement date	\$ 252,708	\$ -
Change in proportionate share and differences between actual and prop. share employer contributions	467,649	-
Change of assumptions	-	1,238,628
Difference between expected and actual experience	-	2,885,382
Difference between projected and actual earnings on plan investments	-	14,258
Total	<u>\$ 720,357</u>	<u>\$ 4,138,268</u>

	<b>June 30, 2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Authority contributions subsequent to the measurement date	\$ 268,555	\$ -
Change of assumptions	-	1,125,160
Total	<u>\$ 268,555</u>	<u>\$ 1,125,160</u>

Deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement dates of June 30, 2018 and 2017, but prior to the reporting dates of June 30, 2019 and 2018, of \$252,708 and \$268,555, respectively, are recognized as reductions of the OPEB liability in their respective following fiscal year.

The amount of deferred inflows of resources for changes of assumptions is amortized into OPEB expense over a period of 5.08 years. The amount of deferred inflows of resources for the change in proportionate share and differences between actual and proportionate share of employer contributions is amortized into OPEB expense over a period of 5 years.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 9    Postemployment Benefits Other Than Pensions (OPEB), Continued:**

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, Continued*

The deferred inflows of resources related to the above item reported as of June 30, 2019 that will be recognized in pension expense in future periods are as follows:

Year ended June 30:	
2020	\$ (556,085)
2021	(808,792)
2022	(808,792)
2023	(735,722)
2024	(502,432)
Thereafter	(6,088)
Total	<u>\$ (3,417,911)</u>

*Actuarial Methods and Assumptions*

The following methods and assumptions were used in the June 30, 2018 and 2017, actuarial valuations.

Actuarial cost method	Entry age, normal
Discount rate	2018: 3.87%; 2017: 3.58% - Index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date.
Investment rate of return	5.00%
Initial medical trend rate	2018: 6.2/5.9% and 2017: 6.00%
Ultimate medical trend rate	2018: 4.1% and 2017: 3.90%
Inflation	2.60%
Payroll growth	2.90%
Year ultimate trend rate reached	2075
Mortality rate	Projected RP-2000 Mortality Tables

*Long-term Expect Return on Plan Assets*

There are no assets accumulated in a trust to pay related benefits.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 9    Postemployment Benefits Other Than Pensions (OPEB), Continued:**

*Sensitivity of the OPEB Liability to Changes in the Discount Rate*

The following presents the Authority's 2019 and 2018 OPEB liability calculated using the discount rate of 3.87% and 3.58%, respectively, as well as what the Authority's OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

2019			
	<b>1% Decrease 2.87%</b>	<b>Current Discount Rate 3.87%</b>	<b>1% Increase 4.87%</b>
Total OPEB liability	\$ 10,794,785	\$ 9,422,491	\$ 8,291,686

2018			
	<b>1% Decrease 2.58%</b>	<b>Current Discount Rate 3.58%</b>	<b>1% Increase 4.58%</b>
Total OPEB liability	\$ 14,555,320	\$ 12,545,120	\$ 10,891,880

*Sensitivity of the OPEB Liability to Changes in the Healthcare Cost Trend Rate*

The following presents the Authority's 2019 OPEB liability calculated using the assumed trend rates of 6.2% / 5.9% grading down to 4.1%, as well as what the Authority's OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current rate:

2019			
	<b>1% Decrease 5.2% / 4.9% down to 3.1%</b>	<b>Current Trend Rate 6.2% / 5.9% down to 4.1%</b>	<b>1% Increase 7.2% / 6.9% down to 5.1%</b>
Total OPEB liability	\$ 8,088,515	\$ 9,422,491	\$ 11,079,937

The following presents the Authority's 2018 OPEB liability calculated using the assumed trend rates of 6.0% grading down to 3.9%, as well as what the Authority's OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current rate:

2018			
	<b>1% Decrease 5.0% down to 2.9%</b>	<b>Current Trend Rate 6.0% down to 3.9%</b>	<b>1% Increase 7.0% down to 4.9%</b>
Total OPEB liability	\$ 10,569,880	\$ 12,545,120	\$ 15,008,880

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 9    Postemployment Benefits Other Than Pensions (OPEB), Continued:**

*Change in OPEB Liability*

	Total OPEB Liability
Measurement Date of June 30, 2017	\$ 12,545,120
Service Cost	338,281
Interest	472,948
Changes in Assumptions - Discount Rate	(370,206)
Differences Between Expected and Actual Experience	(3,494,734)
Authority Contributions	(379,795)
Administrative Expenses	3,358
Other Income	(17,553)
Net Change	(3,447,701)
Adjustment for Change in Proportionate Share with Separate Agency	325,072
Measurement Date of June 30, 2018	<u>\$ 9,422,491</u>
	Total OPEB Liability
Measurement Date of June 30, 2016	\$ 13,446,870
Service Cost	374,440
Interest	388,240
Changes in Assumptions - Discount Rate	(1,401,160)
Authority Contributions	(118,680)
Net Change	(757,160)
Adjustment for Change in Proportionate Share with Separate Agency	(144,590)
Measurement Date of June 30, 2017	<u>\$ 12,545,120</u>

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 10 Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:**

At June 30, 2019 and 2018, the Authority reported a liability of \$11,410,331 and \$10,094,179, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2018 and 2017, the Authority's proportion was 0.05 percent and 0.06 percent, respectively.

For the years ended June 30, 2019 and 2018, the Authority recognized pension expense/(revenue) of \$1,269,043 and (\$1,458,383), respectively. Pension revenue was recognized in 2018 because the positive financial impacts of change in actuarial assumptions and decreased proportionate share of SER's total net pension liability more than offset the current period pension cost and resulted in a smaller liability.

At June 30, 2019 and 2018 the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>June 30, 2019</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 171,230	\$ 123,643
Net difference between projected and actual earnings on pension plan investments	1,110,158	-
Changes in proportion	1,066,579	4,876,280
Differences between Authority contributions and proportionate share of contributions	106,994	68,590
Authority contributions subsequent to the measurement date	567,464	-
Change of assumptions	303,999	-
Total	<u>\$ 3,326,424</u>	<u>\$ 5,068,513</u>



**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 10**    **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:**

	<b>June 30, 2018</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 170,670	\$ 191,664
Net difference between projected and actual earnings on pension plan investments	-	401,340
Changes in proportion	1,003,771	3,463,210
Differences between Authority contributions and proportionate share of contributions	72,314	76,133
Authority contributions subsequent to the measurement date	591,020	-
Change of assumptions	505,374	-
<b>Total</b>	<b>\$ 2,343,149</b>	<b>\$ 4,132,347</b>

Deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date, December 31, 2018 and 2017, but prior to reporting date, June 30, 2019 and 2018, of \$567,464 and \$591,020, respectively, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019 and 2018, respectively.

Most of the components of deferred outflows and deferred inflows of resources are amortized into pension expense over a period of 5.3 and 5.2 years for 2019 and 2018, respectively. The annual difference between the projected and actual earnings on SERS investments is amortized over a five-year closed period beginning the year in which the difference occurs (current year).

The amounts of deferred outflows of resources and deferred inflows of resources related to the above items reported as of June 30, 2019 that will be recognized in pension expense in future periods are as follows:

**Year ended June 30:**

2020	\$ (95,363)
2021	(783,962)
2022	(976,349)
2023	148,571
2024	(34,986)
<b>Total</b>	<b>\$ (1,742,089)</b>

**PHILADELPHIA REGIONAL PORT AUTHORITY**

**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 10 Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:**

*Actuarial Methods and Assumptions*

Actuarial cost method	Entry age
Amortization method	Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees who are provided benefits
Investment rate of return	7.25% net of manager fees including inflation for both 2018 and 2017
Projected salary increases	Average of 5.60% with range of 3.70% - 8.90% including inflation for both 2018 and 2017
Asset valuation method	Fair (market) value
Inflation	2.60% for 2018 and 2017
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement

*Long-term Expected Return on Plan Assets*

The long-term expected real rate of return on pension plan investments is determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of manager fees and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major class included in SERS current and target asset allocation as of December 31, 2018 and 2017 are summarized in the following tables:

	<u>2018:</u>	
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term real rate of return</u>
Private Equity	16.00%	7.25%
Global Public Equity	48.00	5.15
Real Estate	12.00	5.26
Multi-Strategy	10.00	4.44
Fixed Income	11.00	1.26
Cash	3.00	-
Total	<u>100.00%</u>	

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 10** **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued:**

*Long-term Expected Return on Plan Assets, Continued*

	<u><b>2017:</b></u>	
<u><b>Asset Class</b></u>	<u><b>Target Allocation</b></u>	<u><b>Long-term real rate of return</b></u>
Private Equity	16.00%	8.00%
Global Public Equity	43.00	5.30
Real Estate	12.00	5.44
Multi-Strategy	12.00	5.10
Fixed Income	14.00	1.63
Cash	<u>3.00</u>	<u>(0.25)</u>
Total	<u>100.00%</u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 7.25% in 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the Authority's portion of the 2019 collective net pension liability of SERS calculated using the discount rate of 7.25% in 2019 and 2018, as well as what the Authority's portion of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u><b>1% Decrease 6.25%</b></u>	<u><b>Current Discount Rate 7.25%</b></u>	<u><b>1% Increase 8.25%</b></u>
2019 Net pension liability	\$ 14,010,956	\$ 11,410,331	\$ 9,181,739
	<u><b>1% Decrease 6.25%</b></u>	<u><b>Current Discount Rate 7.25%</b></u>	<u><b>1% Increase 8.25%</b></u>
2018 Net pension liability	\$ 12,812,662	\$ 10,094,179	\$ 7,765,484

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 11 Minimum Future Rentals:**

The Authority operates as a landlord port and has twelve leases with private entities for marine terminal and cargo operations. The Authority's assets encompass over 1,000 acres, 19 working berths totaling 16,000 linear feet, 4 million square feet of warehouse space, and 7 ship-to-shore cranes. For fiscal year 2019, total operating revenue was \$16,026,651, approximately 34% (\$5,395,433) of which was generated from the variable components of the leases. For fiscal year 2018, total operating revenue was \$16,644,908, approximately 35% (\$5,875,197) of which was generated from the variable components of the leases. The variable components are assessed on vessel and cargo handling activity. The Authority also owns a three story office building that serves as its headquarters. The Authority leases a portion of office space of this building to private entities. For fiscal year 2019 and 2018, the carrying value of the Authority assets under lease is \$350,354,144 and \$271,761,783, respectively.

The following chart depicts the minimum projected base rental for the next five year period:

Year Ended June 30,	
2020	\$ 13,600,679
2021	14,993,932
2022	15,308,628
2023	15,544,864
2024	12,586,276
	<u>\$ 72,034,379</u>

**Note 12 Capital and Non-Capital Grants and Appropriations:**

During the years ended June 30, 2019 and 2018, the Authority received capital grants and appropriations in the amount of \$128,675,619 and \$78,478,050, respectively. For fiscal years 2019 and 2018, \$9,430,335 and \$11,710,158, respectively, were contributed from the Commonwealth for the Authority's share of the Main Channel Deepening project, while \$115,442,064 and \$66,767,892, respectively, were recognized from the Commonwealth for capital improvements to leased facilities. During fiscal year 2019, the Authority also recognized \$3,584,264 of federal Infrastructure For Rebuilding America (INFRA) grant contributions for upgrades at Packer Avenue Marine Terminal.

**Note 13 Commitments:**

Contract commitments and purchase orders for pier and marine terminal rehabilitation and improvements of which materials or services were not received as of June 30, 2019 and 2018 amounted to approximately \$66,083,654 and \$51,093,018, respectively.

Of this amount, \$65,436,214 and \$50,114,471 relates to capital appropriations from the Commonwealth for 2019 and 2018, respectively. The capital commitments in fiscal year 2019 and 2018 are due to major development projects at Packer Avenue Marine Terminal and Southport Marine Terminal.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Continued**  
**For the years ended June 30, 2019 and 2018**

**Note 14   Retainage:**

Contracts with the Authority for terminal improvements may include a provision for the retainage of a portion of the amount due the contractor in order to insure the proper completion of the project. The Authority does not recognize retainage withheld for contracts in process as a liability on the Statements of Net Position because retainage is not due and payable until the contractor satisfies the obligations of the contracted retainage provision and substantially completes the job. Retainage withheld for open contracts as of June 30, 2019 and 2018 was \$6,213,379 and \$1,234,330, respectively.

**Note 15   Reclassifications:**

Certain prior year balances have been reclassified to conform to current year presentation. None of the reclassifications; however, affected the prior year change in net position.

**Note 16   Contingencies:**

Contingencies arise when there is a situation for which the outcome is uncertain, and which should be resolved in the future, possibly creating a gain or loss. Gains are recognized when they are realized. Losses are recognized when they are probable and for which the loss amount can be reasonably estimated. The following is a listing of some claims brought against the Authority.

**Pier 38-80 Lease Claim**

The tenant at Pier 38-80, Penn City and affiliated companies, submitted a claim before the Commonwealth of Pennsylvania Board of Claims alleging that the Authority neglected to fulfill its maintenance obligations as outlined in the lease. The tenant further alleges that this has and will continue to lead to lost profits. The Authority believes that lease obligations have been satisfied. While the Authority is confident in its position the claim is currently in the discovery phase and it is difficult to assess an outcome.

**Construction Claims**

A construction contractor was awarded a contract for the Emergency Removal of the K-3 Crane at the Packer Avenue Marine Terminal. The contractor did not comply with the contract requirements and, prior to any work being completed, the contract was terminated. The contractor claims this contract was wrongfully terminated and submitted a claim with a specified amount. The claim is in the preliminary stages and at this point it is hard to assess a likely outcome.

The Authority is also internally attempting to resolve several construction disputes utilizing the prescribed process. These claims are considered routine and have not been filed with the Board of Claims.

**PHILADELPHIA REGIONAL PORT AUTHORITY**  
**Notes to Financial Statements, Concluded**  
**For the years ended June 30, 2019 and 2018**

**Note 16   Contingencies, Continued:**

**Other Claims**

The Authority is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Authority's financial position.

**Note 17   Subsequent Events:**

The Authority has evaluated subsequent events through September 23, 2019, the date which the financial report was available to be issued.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Required Supplementary Information  
For the year ended June 30, 2019

**Schedules of Proportionate Share of the Net Pension Liability \*\* - Unaudited**

	June 30,					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability	0.05%	0.06%	0.08%	0.08%	0.08%	0.08%
Authority's proportionate share of the net pension liability	\$ 11,410,331	\$ 10,094,179	\$ 16,112,968	\$ 13,871,008	\$ 12,406,911	\$ 11,432,177
Authority's covered payroll	\$ 3,519,137	\$ 3,621,191	\$ 5,041,842	\$ 4,598,807	\$ 4,983,575	\$ 4,989,975
Authority's proportionate share of the net pension liability as percentage of its covered-employee payroll	324.24%	278.75%	319.58%	301.62%	248.96%	229.10%
Plan fiduciary net position as a percentage of the total pension liability	56.40%	57.80%	57.80%	58.90%	64.80%	66.70%

**Schedules of Contributions\*\* - Unaudited**

Contractually required contribution	\$ 1,148,804	\$ 1,147,022	\$ 1,255,449	\$ 1,180,219	\$ 967,186	\$ 765,162
Contributions in relation to the contractually required contribution	\$ (1,148,804)	\$ (1,147,022)	\$ (1,255,449)	\$ (1,180,219)	\$ (967,186)	\$ (765,162)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered payroll	\$ 3,519,137	\$ 3,621,191	\$ 5,041,842	\$ 4,598,807	\$ 4,983,575	\$ 4,989,975
Contributions as a percentage of covered-employee payroll	32.64%	31.68%	24.90%	25.66%	19.41%	15.33%

**Notes to Schedules of Pension Contributions, Liability, and Related Ratios\*\* - Unaudited**

Methods and Assumptions Used to Determine OPEB Liability:

Measurement date - December 31,	2018	2017	2016	2015	2014	2013
Actuarial cost method	Entry Age for all years shown					
Amortization method	Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits for all years shown					
Investment rate of return, net of manager fees including inflation	7.25%	7.25%	7.25%	7.50%	7.50%	7.50%
Projected salary increases	5.60%	5.60%	5.60%	5.70%	5.70%	5.70%
Asset valuation method	Fair (market) value for all years shown					
Inflation	2.60%	2.60%	2.60%	2.75%	2.75%	2.75%
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan experience and future improvement for all years shown					

\*\*GASB Statement No. 68 requires this information to be reported for 10 years. Additional years will be displayed as the information is available.

PHILADELPHIA REGIONAL PORT AUTHORITY  
Required Supplementary Information  
For the year ended June 30, 2019

**Schedule of Changes in Total OPEB Liability and Related Ratios\*\*\* - Unaudited**

	<b>June 30,</b>		
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Beginning balance	\$ 12,545,120	\$ 13,446,870	N/A
Service cost	338,281	374,440	N/A
Interest	472,948	388,240	N/A
Changes in assumptions - discount rate	(370,206)	(1,401,160)	N/A
Differences between expected and actual experience	(3,494,734)	-	N/A
Authority contributions	(379,795)	(118,680)	N/A
Administrative expenses	3,358	-	N/A
Other income	(17,553)	-	N/A
Net change	<u>(3,447,701)</u>	<u>(757,160)</u>	<u>N/A</u>
Adjustment for change in proportionate share with separate agency	<u>325,072</u>	<u>(144,590)</u>	<u>N/A</u>
Ending balance (Measurement Date of June 30)	<u><u>\$ 9,422,491</u></u>	<u><u>\$ 12,545,120</u></u>	<u><u>\$ 13,446,870</u></u>
Total OPEB liability	\$ 9,422,491	\$ 12,545,120	\$ 13,446,870
Authority's covered payroll	\$ 3,384,398	\$ 3,678,160	N/A
Total OPEB liability as a percentage of covered-employee payroll	278.41%	341.07%	N/A

**Schedules of OPEB Contributions\*\*\* - Unaudited**

Contractually required contribution	\$ 268,555	\$ 167,204	N/A
Contributions in relation to the contractually required contribution	268,555	167,204	N/A
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	N/A
Authority's covered payroll	\$ 3,384,398	\$ 3,678,160	N/A
Contributions as a percentage of covered-employee payroll	7.94%	4.55%	N/A

**Notes to Schedules of OPEB Contributions, Liability, and Related Ratios\*\*\* - Unaudited**

Contributions - The bi-weekly contribution rate payable by the Authority is based on the projected per retiree cost and the number of estimated retirees. The per retiree bi-weekly rate was:	\$ 223.53	\$ 100.86	N/A
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Methods and Assumptions Used to Determine OPEB Liability:

Actuarial cost method	Entry Age for all years shown		
Discount rate	3.87%	3.58%	N/A
Initial medical trend rate	6.2%/5.9%	6.00%	N/A
Ultimate medical trend rate	4.10%	3.90%	N/A
Year ultimate trend rate reached	2075	2075	N/A
Mortality rate	Project RP-2000 Mortality Tables for all years shown		

\*\*\*GASB Statement No. 75 requires this information to be reported for 10 years. Additional years will be displayed as the