Item No. 7c_supp_1
Date: October 28, 2014

2015-2019 Draft Plan of Finance

October 28, 2014

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Topics

- Background and Assumptions
- 2015-2019 Capital Funding
- Forecasted Debt Service Coverage
- Finance Activity for 2015

Draft Plan of Finance 2015-2019

- Each year at the end of the budget process, staff provides a summary five-year Port-wide capital funding plan (The Draft Plan of Finance). The 2015-2019 Plan is based on:
  - CDD & Corporate Division capital improvement plans (CIPs) and operating budgets discussed with the Commission on September 30, 2014.
  - Aviation Division capital improvement plans (CIPs) and operating budget discussed with the Commission on October 7, 2014.
  - Seaport & Real Estate Division capital improvement plans (CIPs) and operating budgets discussed with the Commission on October 14, 2014.
- 2015 operating budgets are the basis of the 5-yr forecast of operating cash flow available for capital funding.

Financial Policies

- The Plan is developed to adhere to the Port's financial management policies for prudent cash reserves and leverage
  - Operating funds maintain a minimum of 9 months O&M:
    - 6 months operating and maintenance (O&M) expenses in the general fund
    - 10 months O&M expenses in the airport development fund
  - Maximum 75% of tax levy used to pay General Obligation bonds debt service
  - Net income provides Revenue bonds coverage:
    - 1.50x debt service for Seaport debt
    - 1.25x debt service for Airport debt
  - Tax levy is sufficient to fund levy planned levy uses
- These policies have been in place for 10 years

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Funding Sources

- Port capital funding is primarily derived from cash flow generated by business operations
  - Cash flow can pay costs directly or pay debt service for bond funded assets
- The Draft Plan of Finance includes funding from:
  - Net operating income (after payment of revenue bond debt service)
  - Operating fund balances (above minimum requirement)
  - Existing and future revenue bond proceeds
  - Passenger Facility Charges
  - Grants
  - Tax levy

Aviation Capital Funding 2015-2019

The Airport is a self-funding operation

Aviation Funding Sources	**2015-2019 ($million)**
Net income	206.4
Operating funds	
Tax levy [1]	4.5
Grants	171.8
Passenger Facility Charge	183.4
Customer Facility Charge	-
Existing revenue bond proceeds	-
Future bond proceeds	1,153.3
TOTAL	1,719.4
Total Aviation CIP	1,719.4

(1) Highline Schools noise insulation

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Seaport Funding Shortfall

Seaport funding shortfall over 5 year period is ~$110 million.

Funding shortfall is the result of the competitive pressures in the container terminal business. Specific changes:

- Reduction of container revenues as a result of the terminal leases amendments effective in 2013 (Most Favored Nations).
- Reduction of Terminal 5 revenues as a result of its planned shutdown.
- Increased capital spending forecast associated with the redevelopment of Terminal 5 to accommodate large ships, e.g. EEE class.

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Seaport Capital Funding 2015-2019

Seaport can fund much of its capital program, but a funding shortfall is forecast

	2015-2019 ($million)
Seaport Funding Sources	
Net income	97.9
Operating funds	118.0
Grants	20.6
Tax levy [(1)]	1.0
Existing revenue bond proceeds	3.7
Future revenue bond proceeds	14.2
TOTAL	255.4
Total Seaport CIP	365.1
Funding Shortfall	**(109.7)**

(1) Argo Yard Roadway capital spending (excludes public expense spending by tax levy)

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Real Estate Capital Funding 2015-2019

Real Estate forecast assumes funding from net income and general fund balance for certain self-sustaining businesses including recreational marinas

	2015-2019 ($million)
Real Estate Funding Sources	
Tax levy	47.0
Net Income and General Fund Balance [1]	17.1
ADF Fund Balance [1]	1.5
Existing revenue bond proceeds	0.6
TOTAL	66.2
Total Real Estate CIP	66.2

(1) Includes funding from Seaport & Aviation division operating funds for allocated Pier 69 capital spending

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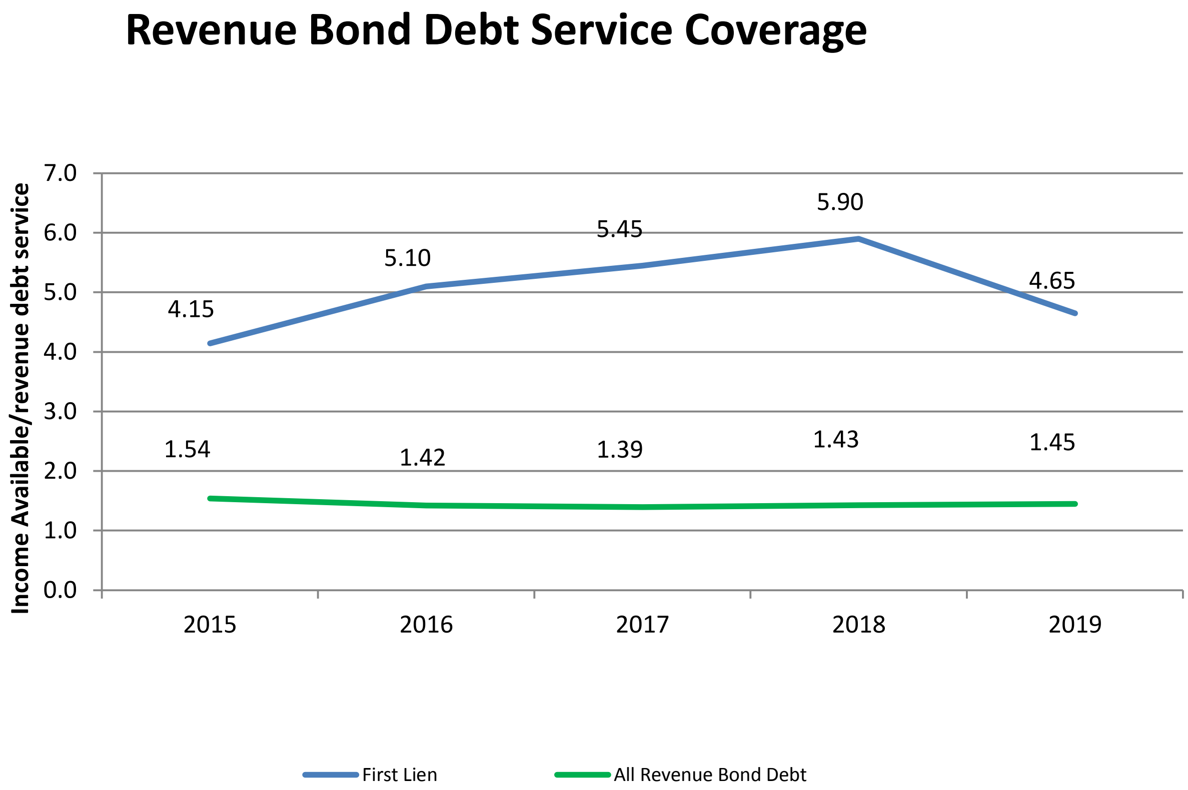
Corporate Capital Funding 2015-2019

Primarily technology investments and small capital. Spending is allocated to the operating divisions and cash funded.

	2015-2019 ($million)
Corporate Funding Sources	
Airport	33.7
Seaport	7.8
Real Estate	2.2
TOTAL	43.7
Total Corporate CIP	43.7

Revenue Bond Debt Service Coverage
2015-2019 Port-Wide Forecast



Current Bond Ratings

A solid capital funding plan is critical to the Port's investors, rating agencies and credit providers

	Rating Agency		
	Fitch	Moody's	S&P
General obligation bonds	AAA	Aa1	AAA
First lien revenue bonds	AA	Aa2	AA-
Intermediate lien revenue bonds	A+	A1	A+
Subordinate lien revenue bonds	A	A2	A
Passenger Facility Charge revenue bonds	A	A1	A+
Fuel Hydrant Special Facility bonds		A2	A-

Noted Credit Strengths:

- Diverse asset and revenue base
- Airport's market position and enplanement levels
- Solid coverage and liquidity levels
- Conservative debt structure
- Pro-active Port Commission and deep and experienced staff
- Vibrant and resilient area economy

2015 Planned Finance Activity

- G.O. bonds to fund $120 million of the Port's contribution to the SR99 project due May 1, 2015
- Airport bond issue to fund project spending
    - $400 - $500 million
    - First new money issuance since 2010
- Monitor existing debt for refunding opportunities
    - 2005 Intermediate Lien Revenue bonds
        - Funded Airport projects
        - Callable in March 2015 and currently show savings
- Evaluate options for extending and/or replacing letters of credit (LOCs) expiring in 2015/2016
    - LOCs provide credit and liquidity enhancement for the Port's variable rate debt, resulting in lower cost of capital

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Appendix: Revenue Bond Coverage Calculation

- Calculation of coverage on all revenue bonds
  - Management tool
  - Not a legal requirement
- Operating divisions meet their management coverage targets
- Tax levy after G.O. debt service can legally be used to pay operating expenses regardless of how the levy is actually used
- PFCs and CFCs are used to pay revenue bond debt service reducing the debt service paid from revenue

$ million	2015 Forecast
Net Operating Income	220.1
Adjustments for non-pledged revenues and non-ops	(7.6)
Pledged net revenues	212.5
Tax Levy available to off-set operating expenses	40.1
Available for debt service	252.6
First Lien	60.9
Intermediate Lien	134.6
Subordinate Lien	22.5
Total Revenue Bond Debt Service	218.0
PFC & CFC applied to pay debt service	(54.1)
Net Revenue Bond Debt Service	163.9
Total Revenue Bond Coverage	1.54

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