

Tax Levy Discussion

October 28, 2014



Topics

- Tax levy uses
 - Current
 - Pre 2010 and Policy Change
- 2014 Tax Levy Update
- 2015-2019 Forecast
- Consideration of Additional Uses
- Taxing Authority
- Recommendations

Levy Uses - Framework

- Legal: Levy may be used for any Port purpose
 - except payment of revenue bond debt service
 - Port has pledged the tax levy to pay debt service on General Obligation (G.O.) bonds
- Policy: Set by the Commission
 - Tax levy resource has traditionally been used to fund investments that are
 - Consistent with the Port's economic development mission
 - Have limited ability to recover costs through revenue
 - The levy may be used as a funding source on a cash basis or in the form of G.O. bonds
 - Limit G.O. bond debt service to 75% of annual tax levy

Levy Uses - Current

- Environmental remediation for legacy liabilities
 - Seaport and Real Estate properties
 - Remediation not tied to current business operations
 - Examples include the Lower Duwamish clean-up, T-91 tank farm
- Regional freight mobility
 - Port contributions to regional transportation projects/freight mobility
 - FAST corridor, Argo Yard Road
 - Transportation and Infrastructure Fund (T&I Fund) to set aside contributions to SR99 tunnel and South Park Bridge
- Port Jobs (Airport portion has been paid by the Airport)
- Beginning in 2010, the tax levy has been used to support the Real Estate division
 - Pays for most capital projects
 - Pays for the annual net operating income shortfall
- Payment of G.O. bond debt service

Levy Uses - Former

- Prior to 2010, the Port used the tax levy to support investment in Seaport job generators:
 - Container Shipping: Between 1994 and 2006 G.O. bonds provided significant funding for expansions at Terminals 5 and 18 and improvements at Terminals 30 and 46
 - Cruise: Tax levy was used to develop the central waterfront including the cruise facilities at P-66
 - Fishing: Tax levy was used to support improvements at T-91 in support of large fishing vessels
- Tax levy was also used to invest in facilities that were moved into the Real Estate Division formed in 2008
 - Fishermen's Terminal

Capital Uses – 1994-2009

Facilities	Tax/G.O. bonds \$ mil.
Terminal 5	210
Terminal 18	156
Terminal 46	71
Dredging	24
Other Container Terminals	<u>46</u>
Total Container Facilities	507
Central Waterfront	122
Terminal 91	47
Other docks	43
Fishermen's Terminal	27
Eastside Rail Corridor (net (1))	39
Other	<u>26</u>
TOTAL CAPITAL SPENDING	811

- Container terminal spending represented 63% of levy funded capital spending during this period

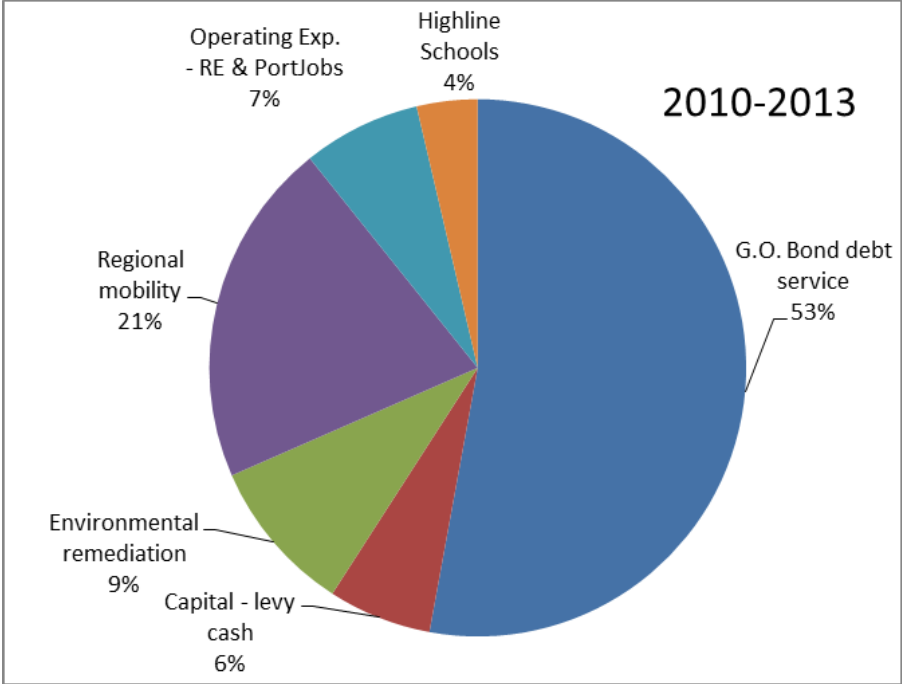
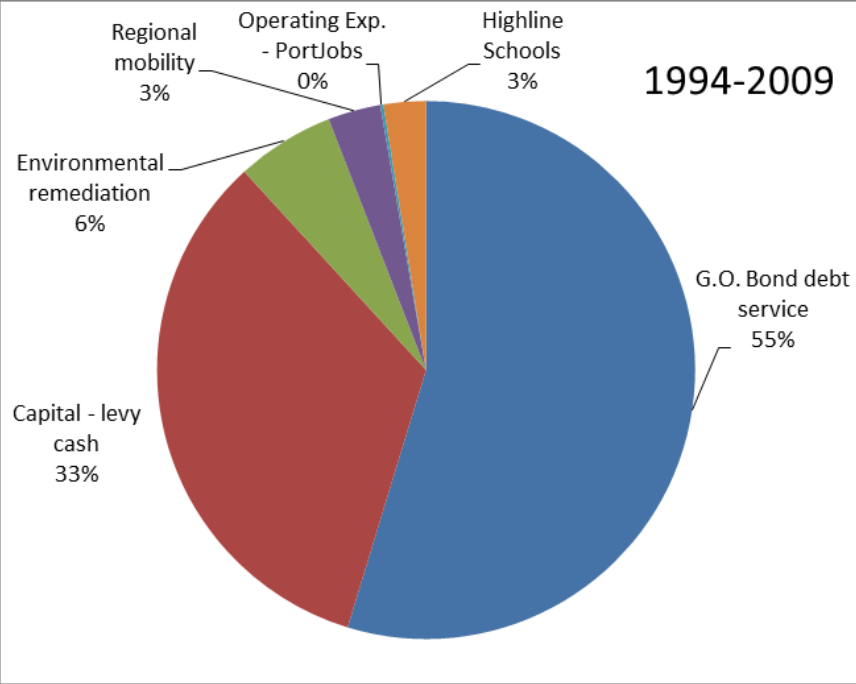
- Seaport capital accounts for 89%

69% of capital was paid with G.O. bonds

Policy Change in 2010

- By 2010 there was no immediate need for levy support of Seaport
 - the Port had record container volumes of over 2 million TEUs
 - Container terminal lease payments were strong
 - Cruise passengers peaked at 932,000
- **Commission ceased use of tax levy cash for Seaport Capital**
- At the same time the Port anticipated other needs
 - Support for environmental remediation was expected to increase
 - The Eastside rail corridor was purchased
 - The Port agreed to contribute up to \$300 million to the SR99 Tunnel Replacement
- **Commission initiated the Transportation Infrastructure Fund to set aside cash for future SR99 payments**

Changes in Tax Levy Uses



- Less levy is now used to fund capital projects
- G.O. bond debt service pays for projects funded between 1994 and 2009

- Other uses have grown including:
 - Regional mobility
 - Environmental remediation
 - Operating expenses (Real Estate)

2014 Tax Levy, Estimated Actuals vs. Budget

Significant Variances

Beginning balance higher due to spending delays

Additional \$2 million deposit to T&I fund due to better than forecast Real Estate net income

Highline School projects budgeted for 2013 occurred in 2014

Real Estate capital spending below budget

\$ million	Budget	Est. Act.
<u>Sources</u>		
Beginning balance	51.7	65.9
Annual Levy	73.0	73.0
Interest Earnings	-	0.3
Environmental Recoveries	7.0	7.0
Rail Corridor Reimbursements	-	-
Total Sources	131.7	146.2
<u>Uses</u>		
Existing G.O. Bond Debt Service (1)	68.9	68.9
Environmental Remediation	16.0	16.0
Regional mobility and T&I Fund deposit	9.4	11.5
Port JOBS (non-Airport share)	0.1	0.1
Highline Noise Insulation and Aviation HS	2.4	6.5
Real Estate Capital Projects	14.8	10.8
Real Estate Operating Support	7.3	7.3
Total Uses	118.8	121.1
Ending balance	12.9	25.1

(1) Includes early redemption of \$15.3 million

Numbers may not add due to rounding

Tax Levy Cash Flow: 2015-2019 – Current Uses

\$ million		<u>2015</u>	<u>5 Years 2015-2019</u>
LEVY SOURCES			
	Beginning Tax Levy Fund Balance	25.1	25.1
	Reimbursements - Environmental	1.4	1.4
	Eastside Rail Corridor Reimbursements	6.1	19.6
	Annual levy	73.0	365.0
	Total Sources:	105.6	411.1
LEVY USES			
<u>General Obligation (G.O.) Bonds Debt Service (DS)</u>			
	G.O. Bonds DS - existing debt	28.4	142.1
	Future G.O. Bonds DS - contribution to SR99 Tunnel	4.5	67.8
	Subtotal G.O. Bond debt service	32.9	209.8
<u>Other uses</u>			
	Regional Mobility & T&I Fund deposits	8.1	11.6
	Highline Schools NOISE Insulation	2.4	4.5
	Environmental Remediation Liabilities	10.4	37.4
	Workforce Development/Port Jobs	0.2	1.0
	Subtotal Other	21.1	54.5
<u>Real Estate Support</u>			
	RE Capital Total	7.0	47.0
	RE Operating Subsidy	6.8	46.7
	Subtotal RE Support	13.8	93.7
	Total Uses:	67.8	358.0
	Projected Ending Tax Levy Fund Balance	37.8	53.1

Numbers may not add due to rounding

Considerations for Potential Uses

Renewed support for Seaport capital investments

- Industry competitive pressures may require significant new investments, e.g. T-5 redevelopment to accommodate large ships
- Revised container rate structure and T-5 lease termination limit ability to provide 100% capital funding from revenues
- Seaport capital plan has a funding gap of \$110 million in 2017
 - G.O. bond for \$110 million would require debt service that would use an estimated \$26 million by the end of 2019
- Use of the levy for Seaport will need to be evaluated in the context of the Seaport Alliance

Additional deposit to Transportation and Infrastructure fund

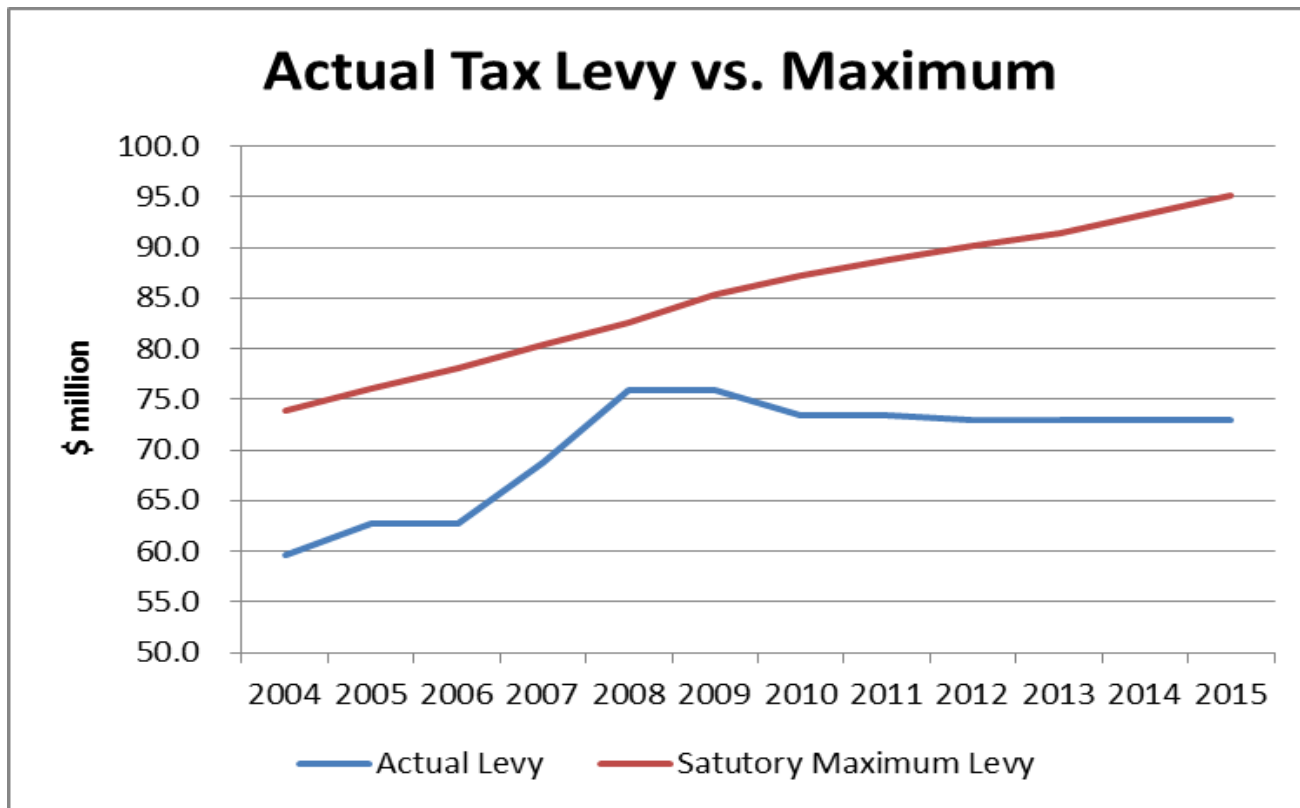
- Add an additional \$15 million toward the SR99 contribution
- Reduces G.O. bond funding need

Port's Taxing Authority

- Washington State port districts have authority to levy a tax on the value of property within the port district (coterminous with King County)
- The Port is subject to two limitations on the amount of tax it may levy
 - 45 cent limit
 - 1% limit
 - The more restrictive 1% applies to the Port
- In 2014, the Port assessed a levy of \$73 million
 - The maximum levy the Port could have assessed was \$93 million based on the 1% limit
 - King County assessed value in 2014 was \$339 billion
 - Preliminary 2015 assessed value is \$385 billion (a 13% increase)
- The Port can levy up to the statutory maximum

Annual Levy vs. Statutory Max

- Annual levy is well below statutory maximum
- Preliminary 2015 maximum levy estimate is \$95 million



Staff Recommendations

- Enhance funding for the Seaport capital program
 - Use levy cash or G.O. bonds as appropriate
 - Primary funding source continues to be revenue generated by Seaport businesses – use levy as needed
- Make an additional T&I deposit to increase the cash contribution to SR99

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- **ADDITIONAL INFORMATION
FOR BACKGROUND ONLY**

Levy Limits

- 45 cent limit
 - The amount of the tax levy in any given year is limited to 45 cents per \$1000 of assessed value (2014 rate is 21.5 cents)
 - For 2014, this limit is \$152.7 million
 - Excludes the amount needed to pay G.O. bond debt service of
- 1% limit
 - The maximum levy is increased each year by the 1% limit factor
 - Based on prior year's maximum
 - Increased by the lessor of 1% or inflation plus an addition for new construction
 - The maximum levy for 2014 would have been \$93 million
- The 1% limit applies - more restrictive for the Port

Tax Levy Uses – G.O. Bonds

- The levy can be pledged to pay general obligation bonds (G.O. bonds)
 - Port currently has \$268 million G.O. bond debt outstanding
 - State statute limits the amount of G.O. bonds
 - Non-voted – limit on the amount of G.O. debt that does not require voter approval
 - 0.25% of assessed value
 - \$849 million total in 2014
 - Voted – limit on the total amount of G.O. debt even with voter approval
 - 0.75% of assessed value
 - \$2.5 billion in 2014
 - Port policy – limit G.O. bond debt so that debt service does not exceed 75% of the annual tax levy

Transportation & Infrastructure Fund

- Commission established in 2010
- Purpose is to set aside funds for Port contributions to regional transportation projects
 - SR99 Tunnel (\$268 million due in 2015/2016)
 - South Park Bridge (payments in 2014 & 2015)
- Funds are restricted by policy, not law

Transportation & Infrastructure Fund Forecast \$ million	2014	2015
Beginning balance	40.8	47.0
Deposit from tax levy fund	8.0	5.0
Interest earnings	0.3	0.1
South Park Bridge payment	<u>(2.1)</u>	<u>(2.1)</u>
Ending balance	47.0	50.0