

Tax Levy and Draft Plan of Finance 2017-2021

October 25, 2016

Agenda

- Tax Levy
 - Background and 2016 update
 - 2017 – 2021 Forecast
- Draft Plan of Finance
 - Assumptions
 - Funding for 2017-2021 Capital Improvement Plan
- Appendix

TAX LEVY

Port Taxing Authority

- Washington State Ports have authority to levy taxes on property within the Port District (King County)
 - 2016 levy is \$72 million
 - 2017 levy can be any amount up to \$98.7 million based on statutory limitations

Port has a track record of levying below the maximum

Uses of the Tax levy

- Statute allows the levy to be used for any Port purpose
- Commission direction establishes actual use
- First claim on the levy is payment of General Obligation (G.O.) bond debt service
 - Revenue bond debt service cannot be paid from the tax levy

Commission sets the policy on tax levy use

Traditional Uses of the Tax Levy

- Legacy environmental liability
- Regional transportation
- Highline Schools noise mitigation
- Economic Development initiatives
 - Workforce Development
 - Partnership Program (added in 2016)
- Capital projects that meet levy funding criteria
 - Fishing industry support
 - Strategic investment in Pier 66 cruise redevelopment

The Commission has used the levy for these strategic purposes

Criteria for Levy Funding Projects

As part of last year's levy discussion, criteria was established for funding projects with the tax levy

	Operating Cash	Tax Levy
Asset Renewal & Replacement	Positive net income from business unit	Economic benefit
Strategic Initiatives	Short payback/ Self funding	No or long payback
Location	South Harbor	North Harbor

Levy funding criteria supports Century Agenda

2016 Levy Update

SOURCES (\$ million)

2016 Beginning Fund Balance
Annual Tax Levy
Tsubota Property Sale
Grants & Other Reimbursements
Rail Corridor Reimbursements (Snohomish County)
Investment Income during current year
Total Sources

<i>2016 Budget</i>	<i>2016 Est./Act</i>	<i>Budget Variance</i>
57.6	71.3	13.7
72.0	72.0	-
8.0	-	(8.0)
-	1.4	1.4
-	3.5	3.5
-	0.4	0.4
137.6	148.7	11.0

USES (\$ million)

General Obligation Debt Service (Existing)
General Obligation Debt Service (New)
Environmental Remediation Liability
Transportation & Infrastructure Reserve Fund deposit
Capital Expenditures
Workforce Development
Economic Development Partnership Program
Total Uses

34.5	34.5	-
3.6	-	3.6
7.0	9.8	(2.8)
21.3	21.3	-
16.0	20.0	(4.0)
1.5	1.6	(0.1)
-	1.0	(1.0)
83.8	88.1	(4.3)

Estimated Ending Tax Levy Fund Balance

Totals may not add due to rounding

53.8	60.5	6.7
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There is also \$20 million in the Transportation & Infrastructure fund for Heavy Haul Corridor projects

Balance rolls forward to fund future obligations

Estimated 2016 levy fund balance \$6.7 million higher than budget

SR99 Tunnel Funding Update

- Original funding plan sought to minimize debt
- G.O. bonds issued for SR99 enjoy the Port's lowest interest rates
 - Exempt from all federal income tax
 - G.O. bonds for other projects, e.g. Terminal 5 redevelopment or real estate initiatives would be subject to alternative minimum tax or be fully taxable
- Bond funding all SR99 costs frees \$65 million in cash to use for other projects instead of bond funding at higher interest cost

\$ million	Original Plan	Modified Plan
2015 bonds	120.0	120.0
2016 cash	65.0	0
2016/7 bonds	<u>82.7</u>	<u>147.7</u>
Total	267.7	267.7

Proposal to free-up \$65 million for future growth initiatives

Baseline Projects for Levy Funding 2017-2021

Projects meeting the levy funding criteria

Status	Projects	\$ million
Included in 2016 Plan	Fishing Industry Support	62.2
Included in 2016 Plan	Strategic Investment in Cruise	13.1
Added during 2016	Fishing Support – T91 C-173 roof overlay	1.5
Recommended for addition	Strategic Investment in Cruise – P66 Facade	11.4
Recommended for addition	Strategic Investment in Real Estate – T-91 uplands	<u>50.0</u>
TOTAL		138.2

Detailed project list in Appendix

Excluded From the 2017-2021 Forecast

- Terminal 5 modernization
 - Would require an increase in the tax levy to \$77 million per year beginning in 2018
 - Based on Port funding of an estimated \$147 million 2017-2021
 - Expected to generate additional operating revenues
- New real estate and environmental initiatives in support of the Century Agenda

Inclusion of these items will require additional resources

2017-2021 Tax Levy Baseline Forecast

SOURCES (\$ million)

2017 Beginning Fund Balance

Annual Tax Levy

Bond Proceeds - reimbursement of SR99 payment

Grants & Other Reimbursements

Total Sources

<i>2017</i>	<i>2017-2021</i>
60.5	60.5
72.0	360.0
65.0	65.0
6.7	6.7
204.2	492.2

USES (\$ million)

General Obligation Debt Service (Existing)

General Obligation Debt Service (New)

Environmental Remediation Liability

Regional Transportation

Highline Schools Noise Mitigation

Baseline Capital Expenditures

EDD: Workforce Development & Partnership Program

Total Uses

34.5	164.0
10.2	50.8
9.4	47.4
2.2	8.0
-	3.5
28.4	138.2
2.6	13.8
87.3	425.6

Estimated Ending Tax Levy Fund Balance

116.9	66.6
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Totals may not add due to rounding

Additional G.O. bonds to reimburse the \$65 million SR99 cash payment; provides low cost funding for projects beyond the baseline

The baseline levy projects can be funded with a \$72 million levy

Alternative 2017-2021 Tax Levy Forecast – with T-5

SOURCES (\$ million)

	2017	2017-2021
2017 Beginning Fund Balance	60.5	60.5
Annual Tax Levy	72.0	380.0
Bond Proceeds - reimbursement of SR99 payment	65.0	65.0
Bond Proceeds - capital expenditure	-	78.0
Grants & Other Reimbursements	6.7	6.7
Total Sources	204.2	590.2

USES (\$ million)

General Obligation Debt Service (Existing)	34.5	164.0
General Obligation Debt Service (New)	10.2	68.6
Environmental Remediation Liability	9.4	47.4
Regional Transportation	2.2	8.0
Highline Schools Noise Mitigation	-	3.5
Baseline Capital Expenditures	28.4	138.2
Capital Expenditure - Terminal 5	15.6	146.6
EDD: Workforce Development & Partnership Program	2.6	13.8
Total Uses	102.9	590.0

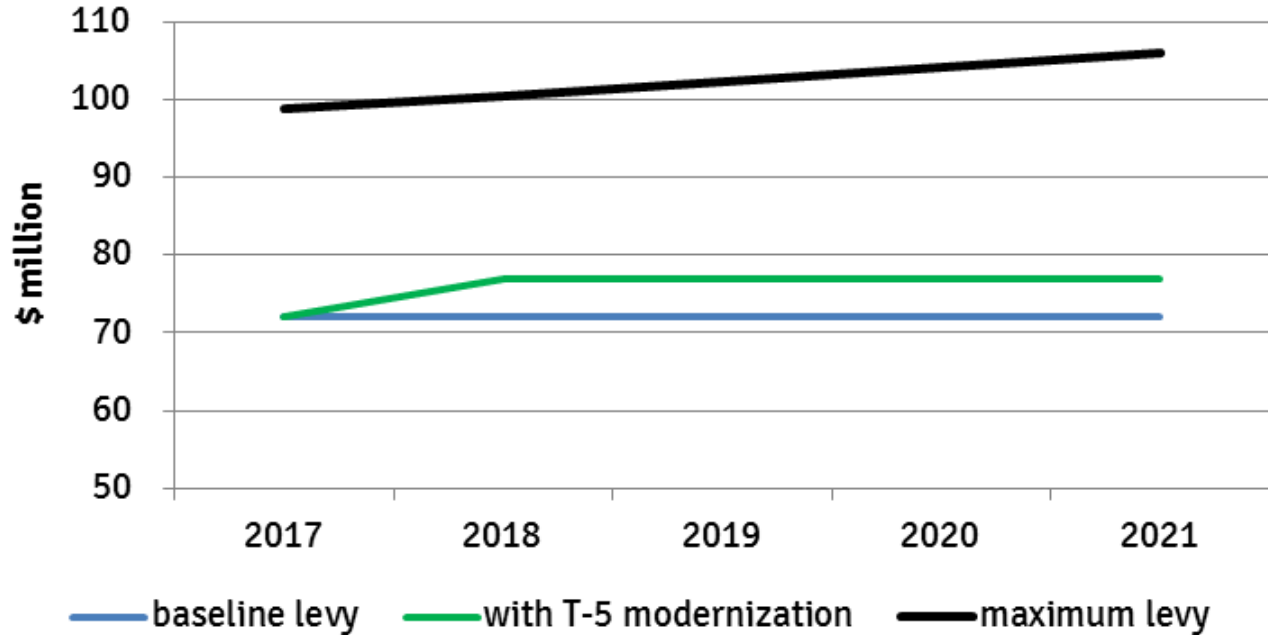
Estimated Ending Tax Levy Fund Balance

Totals may not add due to rounding

101.3	0.2
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Funding baseline levy projects plus T-5 requires a ~\$77 million annual levy beginning in 2018

Tax Levy Forecast Options



Port's levy forecast is below the maximum allowable levy

DRAFT PLAN OF FINANCE

Draft Plan of Finance 2017-2021

Key assumptions:

- Airport is self-funding (exception is Highline School noise mitigation)
- Maritime, Economic Development and Northwest Seaport Alliance share non-Airport funding resources
- The Port maintains financial planning targets in support of the Port's credit ratings
 - Revenue bond debt service coverage: 1.25x Airport, 1.50x non-Airport
 - Minimum fund balance based on O&M: 10 months Airport, 6 months non-Airport
 - Borrowing against the tax levy is limited – G.O. bond debt service no more than 75% of annual tax levy

Staff provides a draft funding plan to inform Commission decisions

Capital Improvement Plan (CIP)

\$ million		2017	2017-2021
Airport ⁽¹⁾		590.5	2,401.1
Non-Airport	Maritime	35.0	164.6
	Economic Development	16.0	81.6
	NWSA – Port 50% share	43.9	109.2
	NWSA – Legacy Port Projects	<u>0.2</u>	<u>1.8</u>
	Total Non-Airport	95.1	357.2
Stormwater Utility ⁽²⁾		2.1	9.7
Corporate ⁽³⁾		<u>7.7</u>	<u>43.5</u>
TOTAL Port Funded CIP		695.4	2,811.5

(1) Excludes SAMP projects.

(2) Funded with stormwater utility funds only.

(3) Funded by Airport and non-Airport resources on an allocated basis.

Note: totals may not add due to rounding

Details were presented in prior budget meetings

Funding Resources

- **Operating funds and net income** – separate for Airport and non-Airport
- **Revenue bonds** paid from net income – separate for Airport and non-Airport
- **Tax levy** – primarily non-Airport
- **G.O. bonds** paid from tax levy – non-Airport
- **Capital grants** – restricted to specific projects
- **Passenger Facility Charges (PFCs)** – restricted to FAA approved projects
- **Customer Facility Charges (CFCs)** – restricted to consolidated rental car facility uses

Many funding sources are restricted in use

Airport Funding Plan

	2017-2021
Aviation Funding Sources	(\$ million)
Net income	282.4
Tax levy ⁽¹⁾	3.5
Grants	187.8
Passenger Facility Charge	258.5
Customer Facility Charge	1.8
Existing revenue bond proceeds	130.0
Future revenue bond proceeds	1,572.7
TOTAL	2,436.8
Aviation CIP	2,401.1
Allocated Corporate CIP	35.6
Total Aviation Funded CIP	2,436.8
<small>(1) Highline Schools noise insulation.</small>	
<small>Note: totals may not add due to rounding</small>	

Airport is self-funding

Non-Airport Funding Plan

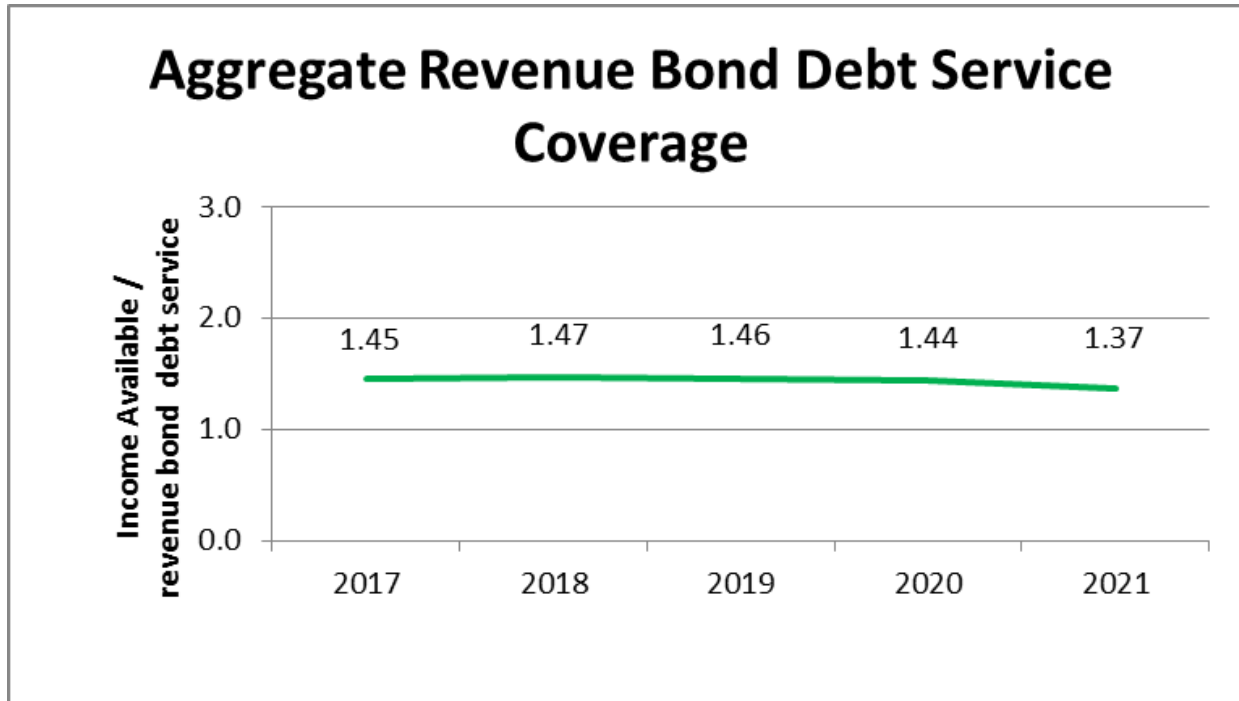
	2017-2021
	(\$ million)
Non-Aviation Funding Sources	
Operating Funds	110.2
Operating Cash Flow	67.0
Grants	10.3
Tax levy	138.2
Future revenue bond proceeds	-
TOTAL	325.6
Non-Aviation CIP	357.2
Allocated Corporate CIP	7.9
Total Non-Aviation Funded CIP	365.2
Funding Shortfall	(39.5)
Note: totals may not add due to rounding	

Funds baseline CIP only; assumes a \$72 million tax levy per year

Shortfall can be resolved by project deferrals or increased use of tax levy funding

Funding is available for most of the Non-Airport CIP

Projected Revenue Bond Debt Service Coverage



Revenue bond debt service coverage remains in an acceptable range

2017 Finance Initiatives

- Issue G.O. bonds to finish funding SR99 Tunnel contribution – recommend full \$147.7 million
- Issue Revenue bonds as needed to fund a portion of the Airport CIP
- Monitor opportunities to refund bonds for savings
- Evaluate innovative funding strategies
 - Including Public Private Partnerships (P3) for future projects

Finance initiatives support the operating businesses and the Century Agenda

APPENDIX



Appendix

- **Baseline Levy Funded Project detail 2017-2021**
- **Regional Transportation Projects 2017-2021**
- **Tax Levy authority**
- **Industrial Development District (IDD) levy information**
- **Bond ratings**

Tax Levy Funded Projects

Division	CIP Number	CIP Description	2017	2018	2019	2020	2021	Total 2017-2021
Maritime - Fishing Industry Support								
	C800528	FT W Wall N Fender Replacement	10	190	2,750			2,950
	C800529	FT W Wall N Sheet Pile Corrosion Protection	10	190	2,575			2,775
	C800530	FT S Wall End Improvements	169	970	530			1,669
	C800531	FT Dock 3 Fixed Pier Improvement	150	840	2,000			2,990
	C800532	FT Dock 4 Fixed Pier Corrosion Protection	150	1,540	1,800			3,490
	C800533	FT W Wall S Sheet Pile Corrosion Protection			10	190	1,000	1,200
	C800534	FT S Wall Fender Repair and Corrosion Protection			10	190	4,150	4,350
	C800526	FT Net Shed 3,4,5 &6 Roof Replacement	3,928	179				4,107
	C800525	FT Strategic Plan	1,200	6,600	15,650	1,350	8,700	33,500
	C800005	FT Paving/Storm Upgrades	90	800	55			945
	C800750	C15 Building Tunnel Improvement	400	300				700
	C800137	FT C15 HVAC Improvements	8					8
	C800829	T91 Building C-173 Roof Overlay	1,397	54				1,451
	C800439	T91 Substation Upgrades	17	-				17
	C800675	P91 South End Fender	2,278	-				2,278
	C800821	T91 P91W Slope Stabilization	650	600				1,250
Maritime - Strategic Investments - Cruise Facilities								
	C800592	Cruise Terminal Tenant Improvement	12,800	200				13,000
	C800819	Cruise Terminal Improvement Staff Oversight	121					121
	C800820	P66 Exterior Modernization	-	4,470	6,850	30		11,350
Economic Development - Strategic Investments								
	C800158	T91 Uplands Pre-Development	5,000	15,000	30,000			50,000
TOTAL			28,378	31,933	62,230	1,760	13,850	138,151

Three new projects added

Regional Transportation Projects

CIP Number	CIP Description	2017	2018	2019	2020	2021	Total 2017-2021
TAX LEVY FUNDED							
C001725	Fast Corridor I	50					50
C001786	Fast Corridor II ⁽¹⁾	605	69	2,500	2,500	730	6,404
C800401	North Argo Express Access	200					200
C800606	East Marginal Way Phase 2	350					350
C800759	P66 Alaskan Way St Improvement	960	15				975
TOTAL TAX LEVY FUNDED		2,165	84	2,500	2,500	730	7,979
TRANSPORTATION & INFRASTRUCTURE FUNDED							
C800823	Seattle Heavy Haul Network ⁽²⁾	130	3,000	2,000	2,000	2,000	9,130

(1) Includes anticipated \$5.0 million contribution to the Lander Street project in 2019-2020.

(2) Estimated cash flows, but no specific projects identified yet. Total committed is \$20 million over 20 years.

Forecast contributions of regional mobility

Port's Taxing Authority

- 45 cent limit
 - The amount of the tax levy in any given year is limited to 45 cents per \$1000 of assessed value (2016 rate is 16.95 cents)
 - For 2017, this limit is \$209.8 million
 - Excludes the amount needed to pay G.O. bond debt service of \$34.5 million
- 1% limit
 - The maximum levy is increased each year by the 1% limit factor
 - Based on prior year's maximum
 - Increased by the lesser of 1% or inflation plus an addition for new construction
 - The maximum levy for 2016 would have been \$96.5 million

The more restrictive 1% limit applies

2017 Information

- King County preliminary assessed value for 2017 is \$466 billion – an increase of 9.3%
- A \$72 million levy equals a 15.44 cent millage rate

IDD Levy - Background

- Port can levy property tax within an Industrial Development District (IDD)
 - In addition to regular property tax
 - A port can form multiple districts
 - Coextensive with port district, or
 - Smaller area within the Port district
 - The Port already has two Industrial Development Districts
- Port can implement the levy twice - Port of Seattle implemented first round in 1963
- Purpose is to provide for harbor improvements or industrial development of marginal lands
 - Broadly defined
 - Includes areas of poor planning or declining tax receipts

The IDD levy provides a potential additional funding source

IDD Levy - Implementation

- Port may implement a second round based on a new formula
 - Maximum of \$1.26 billion over a period of up to 20 years
 - Average amount = \$63 million (13.5 cents for 20 years)
 - Maximum annual amount = \$210 million (45 cents for 6 years)
 - Port can establish a smaller IDD or collect a lesser amount
- Process to implement
 - Publish notice by April 1 to begin collecting the next year
 - If within 90 days a petition of 8% of voters (voting in the most recent gubernatorial election) opposes, the Port must hold a special election to approve the levy

Implementation may require voter approval

IDD Levy Information: “Marginal lands” are defined to include property subject to the following (RCW 53.25.030) conditions:

- 1. An economic dislocation, deterioration, or disuse resulting from faulty planning.
- 2. The subdividing and sale of lots of irregular form and shape and inadequate size for proper usefulness and development.
- 3. The laying out of lots in disregard of the contours and other physical characteristics of the ground and surrounding conditions.
- 4. The existence of inadequate streets, open spaces and utilities.
- 5. The existence of lots or other areas which are subject to being submerged by water.
- 6. By a prevalence of depreciated values, impaired investments, and social and economic maladjustment to such an extent that the capacity to pay taxes is reduced and tax receipts are inadequate for the cost of public services rendered.
- 7. In some parts of marginal lands, a growing or total lack of proper utilization of areas, resulting in a stagnant and unproductive condition of land potentially useful and valuable for contributing to the public health, safety and welfare.
- 8. In other parts of marginal lands, a loss of population and reduction of proper utilization of the area, resulting in its further deterioration and added costs to the taxpayer for the creation of new public facilities and services elsewhere.
- 9. Property of an assessed valuation of insufficient amount to permit the establishment of a local improvement district for the construction and installation of streets, walks, sewers, water and other utilities.
- 10. Lands within an industrial area which are not devoted to industrial use but which are necessary to industrial development within the industrial area.

Current Bond Ratings

	<u>Fitch</u>	<u>Moody's</u>	<u>S&P</u>
General Obligation Bonds	AAA	Aa1	AAA
First Lien Revenue Bonds	AAA	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

A solid capital funding plan is critical to investors and for strong credit ratings