

Port of Seattle 2017 Preliminary Budget First Reading & Public Hearing

Commission Briefing
November 8, 2016

Outline

- 2017 Budget Process Recap
- 2017 Budget Overview
- 5 Year Net Operating Income Forecast
- 2017 Operating Budget
- 2017 Comprehensive Op & Non-Op Budget
- 2017 FTE Summary
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- 2017 Sources and Uses of Funds
- 2017 Proposed Tax Levy
- Remaining 2017 Budget Schedule

2017 Budget Process

Jun. 14	Strategic Positioning for Growth (SPG) Budgeting Initiative Briefing
Jul. 26	Long Range Plan Update and Budget Considerations beyond the Long Range Plan Briefing
Aug. 9	Commission approval of Long Range Plan
Aug. 19	Memo to Commission regarding key budget assumptions for 2017
Sept. 13	2017 Budget Overview and Key Assumptions Briefing
Sept. 27	2017 Corporate Operating and Capital Budgets Briefing
Oct. 10	2017 Division Operating and Capital Budgets Briefing
Oct. 18	Preliminary Budget document to the Commission
Oct. 20	Preliminary Budget document released to the public
Nov. 8	Preliminary Tax Levy and Draft Plan of Finance Briefing
Nov. 8	First Reading & Public Hearing of the Preliminary Budget
Nov. 22	Second Reading & Final Passage of the Preliminary Budget
Dec. 2	File Statutory Budget with King County
Dec. 15	Release the Final Budget and Draft Plan of Finance

Budget driven by Long Range Plan

2017 is a Growth Year

Port is expanding its efforts to create jobs in line with the Century Agenda:

- Expanded outreach with cities and counties across the state
- Meeting with businesses (current and new) to spur additional development
- Interfacing with community stakeholders to create workforce development opportunities
- Expanded public outreach, education and awareness regarding Port initiatives

Airport is growing:

- 44% growth, 7.6% compounded annual rate, since 2012
- Entering phase of significant capital development

Maritime is growing:

- Expecting 8.8% growth in cruise in 2017 to over 1 million passengers
- Major capital asset renewal and replacement needs

Economic Development is poised for growth:

- Des Moines Creek Business Park expansion
- Preparing Lora Lake site for development
- Real estate strategy will identify significant future development opportunities

Planning for growth and expanded outreach in 2017

2017 Key Initiatives/Budget Drivers

- Enhance public outreach to increase awareness of Port contributions to regional economic vitality and workforce development
- Expand the Port's internship program to increase career opportunities for local students
- Accommodate the growth of core businesses, improve customer service and meet operational challenges
- Implement 100% employee screening at the airport
- Support the airport capital development program
- Complete the Sustainable Airport Master Plan (SAMP)
- Strengthen Centers of Expertise to leverage capabilities Portwide

2017 budget is driven by Portwide initiatives and strong growth

5 Year Net Operating Income Forecast

(\$ in 000's)	Budget 2016	Forecast 2016	Budget 2017	Forecast				Compound Growth 2017 - 2021
				2018	2019	2020	2021	
OPERATING BUDGET								
Aeronautical Revenue	\$ 261,019	253,226	277,379	\$ 297,314	\$ 343,885	\$ 365,489	\$ 407,033	9.3%
Non-Aeronautical Revenue	275,305	295,271	298,774	\$ 309,594	\$ 314,991	\$ 332,191	\$ 340,919	4.4%
NWSA Distributable Revenue	51,829	55,136	46,708	46,328	56,359	55,170	51,394	-0.2%
SLOA III Incentive Straight Line Adj	(3,576)	(3,576)	(3,576)	0	0	0	0	-100.0%
Total Operating Revenues	584,578	600,057	619,285	653,236	715,236	752,849	799,346	6.5%
Total Operating & Maintenance Expenses	335,943	338,934	381,581	390,515	405,277	420,040	437,025	5.4%
Net Operating Income Before Depreciation	248,635	261,123	237,704	262,722	309,959	332,809	362,321	7.8%

Steady growth projected

2017 Budget Highlights

- Operating revenues are budgeted at \$619.3M, \$34.7M or 5.9% higher than 2016 budget
- Operating expenses are budgeted at \$381.6M, \$45.6M or 13.6% increase from 2016 budget
- Net Operating Income is budgeted at \$237.7M, \$10.9M or 4.4% below 2016 budget
- The 2017 capital budget is \$651.6M and the 5-year capital spending plan is \$2.7 billion
- The proposed tax levy for 2017 is \$72 million

The 2017 budget reflects the Port's growth and continued investments for the region

Budget Changes Since 10/10/16

- Aviation Division
 - Aeronautical revenues reduced by \$721K due to lower operating expenses.
 - Non-aeronautical revenues increased by \$77K due to \$100K additional revenue from Employee Parking, slightly offset by lower revenue from Ground Transportation.
 - Operating expenses reduced by \$1.4M due to \$1.2M refinement of Full Employee Screening costs and a \$100K reduction of a maintenance contract in the Fire Department.
- Maritime Division
 - Cruise revenue reduced by \$48K due to a cancelled sailing.
- Economic Development Division
 - Added \$257K for elevator work at Bell St Garage.
- Corporate
 - Expenses increased by a net \$54K due to additional Commission Office FTEs and removal of ICT Risk Assessment outside services by Internal Audit.
- Storm Water Utility refined internal charge calculation resulting in a \$128K expense reduction.
- NWSA Distributable Revenue decreased by \$199K to \$46.7M.

The net change is a \$418K increase in NOI

2017 Operating Budget

(\$ in '000s)	2015	2016	2016	2017	Budget Change		Budget vs Forecast	
	Actual	Budget	Forecast	Budget	\$	%	\$	%
Operating Revenues								
Aeronautical	229,624	261,019	253,226	277,379	16,360	6.3%	24,153	9.5%
SLOA III Incentive Adj.	-3,576	-3,576	-3,576	-3,576	-	0.0%	-	0.0%
Non-Aeronautical	196,844	208,321	225,702	226,681	18,361	8.8%	979	0.4%
Aviation	422,892	465,764	475,352	500,484	34,720	7.5%	25,132	5.3%
Maritime	47,268	49,314	49,801	51,830	2,516	5.1%	2,029	4.1%
Economic Development	18,164	13,745	15,409	16,030	2,285	16.6%	621	4.0%
NWSA Distributable Revenue	61,401	51,829	55,136	46,708	-5,122	-9.9%	-8,428	-15.3%
Stormwater Utility	2,808	3,581	4,014	3,845	264	7.4%	-169	-4.2%
Other	491	345	345	388	44	12.6%	44	12.6%
Total	553,023	584,578	600,057	619,285	34,707	5.9%	19,228	3.2%
Operating Expenses								
Aviation	238,140	267,791	271,683	301,796	34,005	12.7%	30,113	11.1%
Maritime	33,443	42,467	41,052	46,469	4,001	9.4%	5,417	13.2%
Economic Development	19,206	23,446	24,176	28,939	5,493	23.4%	4,763	19.7%
Licensed NWSA Assets	18,077	121	300	1,128	1,007	833.6%	828	275.9%
Stormwater Utility	2,440	1,759	1,378	2,882	1,123	63.9%	1,504	109.2%
Corporate	543	359	345	367	8	2.1%	22	6.5%
Total	311,850	335,943	338,934	381,581	45,638	13.6%	42,647	12.6%
Net Operating Income	241,173	248,635	261,123	237,704	-10,931	-4.4%	-23,419	-9.0%

A record \$619M of operating revenues for 2017

2017 Budget for Tourism

- Economic Development Tourism Initiatives (\$721K total):
 - \$245K for UK Marketing Core Communication
 - \$165K for Other International/Visit Seattle
 - \$150K for Tourism Grant program
 - \$50K for World Trade Market & Familiarization Trips
 - \$39K for Consultant Services related to tourism events
 - \$35K for Program Marketing Cruise & Stay
 - \$37K for Advertising and other
- Tourism Development Department Office expenses
 - \$564K for staffing and other expenses in 2017
- Maritime Tourism Initiatives:
 - \$300K for Best in Class
 - \$157K for Destination Awareness

\$1.7 million budgeted to support Tourism program

2017 Budget for Interns

- Human Resources budgeted for 82 new high school intern positions and a High School Internship Program Manager.
- Workforce Development budgeted for 30 intern positions in the High School Career Exploration and Intern Program Development Program (public private partnership).
- Individual departments budgeted 44 college and graduate interns.
- A total of 156 intern positions in the 2017 budget.

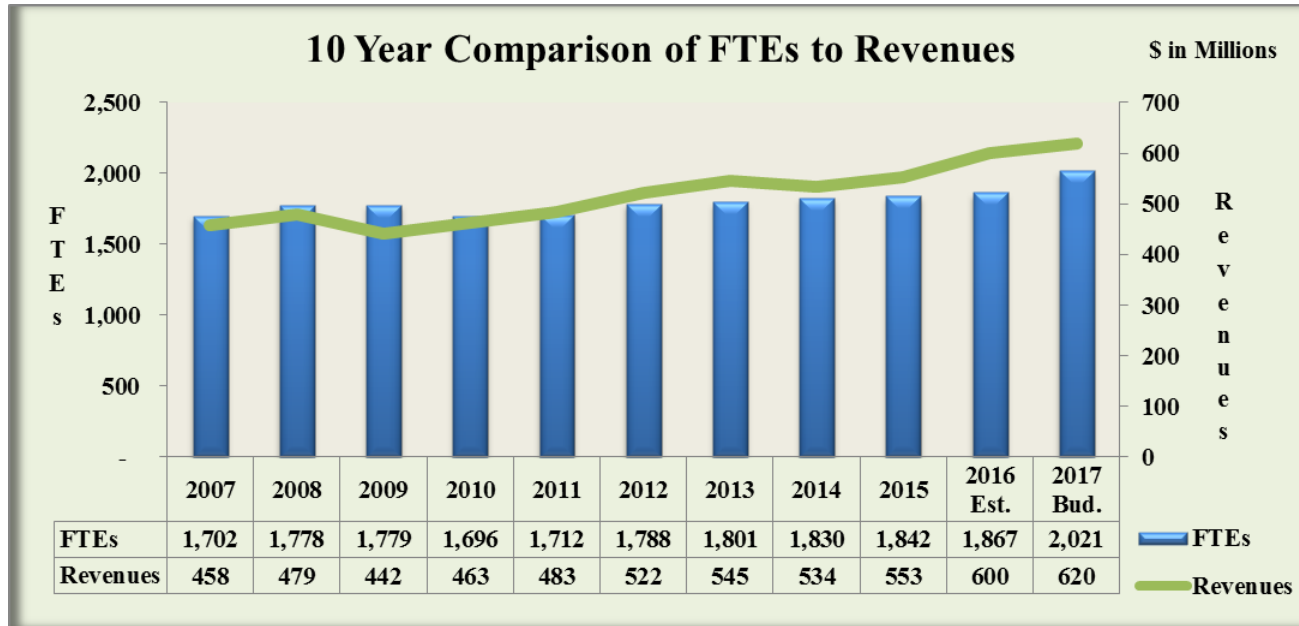
Internship program provides career opportunities for local students

2017 Comprehensive Budget Summary

(\$ in '000s)	2015 Actual	2016 Budget	2016 Forecast	2017 Budget	Budget Change \$	Budget Change %	Budget vs Forecast \$	Budget vs Forecast %
Revenues								
1. Aeronautical Revenues	229,624	261,019	253,226	277,379	16,360	6.3%	24,153	9.5%
2. SLOA III Incentive	(3,576)	(3,576)	(3,576)	(3,576)	-	0.0%	-	0.0%
3. Other Operating Revenues	326,975	327,135	350,407	345,482	18,348	5.6%	(4,925)	-1.4%
4. Tax Levy	72,819	72,000	72,000	72,000	-	0.0%	-	0.0%
5. PFCs	79,209	84,650	85,586	89,087	4,437	5.2%	3,501	4.1%
6. CFCs	23,540	24,963	24,963	26,300	1,337	5.4%	1,337	5.4%
7. Fuel Hydrant	6,957	7,098	7,098	7,024	(74)	-1.0%	(74)	-1.0%
8. Non-Capital Grants and Donations	5,358	3,566	3,566	8,595	5,028	141.0%	5,028	141.0%
9. Capital Contributions	22,804	23,406	18,531	15,000	(8,406)	-35.9%	(3,531)	-19.1%
10. Interest Income	9,091	8,537	12,535	10,822	2,285	26.8%	(1,712)	-13.7%
Total Revenues	772,801	808,799	824,336	848,113	39,314	4.9%	23,777	2.9%
Expenses								
1. O&M Expense	311,850	335,943	338,934	381,581	45,638	13.6%	42,647	12.6%
2. Depreciation	163,338	162,451	164,451	166,300	3,849	2.4%	1,849	1.1%
3. Revenue Bond Interest Expense	110,128	121,423	116,476	122,026	603	0.5%	5,550	4.8%
4. GO Bond Interest Expense	10,490	14,726	9,808	17,714	2,988	20.3%	7,906	80.6%
5. PFC Bond Interest Expense	5,584	5,302	5,302	4,985	(317)	-6.0%	(317)	-6.0%
6. Non-Op Environmental Expense	2,888	5,000	5,000	5,441	441	8.8%	441	8.8%
7. Public Expense	5,023	8,898	8,898	2,488	(6,410)	-72.0%	(6,410)	-72.0%
8. Other Non-Op Rev/Expense	23,498	3,319	10,335	(257)	(3,577)	-107.7%	(10,592)	-102.5%
Sub-Total	632,800	657,064	659,204	700,278	43,215	6.6%	41,074	6.2%
Revenues over Expenses	140,001	151,736	165,132	147,835	(3,901)	-2.6%	(17,297)	-10.5%
9. Special Item	120,000	147,700	147,700	-	(147,700)	-100.0%	(147,700)	-100.0%
10. Retro Adj to Net Position	77,342	-	-	-	-	n/a	-	n/a
Total Expenses	830,142	804,764	806,904	700,278	(104,485)	-13.0%	(106,626)	-13.2%
Change In Net Assets	(57,341)	4,036	17,432	147,835	143,799	3563.3%	130,403	748.1%

A strong financial position for the Port in 2017

10 Year Comparison of FTEs to Revenues



- The annual compound growth rate is 1.0% for FTEs compared to 3.1% for operating revenues from 2007 to 2016.

Moderate FTE growth for the past 10 years

FTE Summary for 2017

	Aviation	Maritime	Econ Dev	Corporate	Total
2016 Approved FTE's	892.8	184.3	33.8	745.4	1,856.3
Mid Year Approval	-	-	1.0	9.0	10.0
Eliminated	(0.3)	-	(1.0)	(2.0)	(3.3)
Net Transfers (<i>note 1</i>)	(50.2)	(30.3)	0.7	79.7	(0.0)
Adjusted 2016 FTE's	842.4	154.0	34.5	832.1	1,863.0
2017 Budget					
Eliminated	(5.0)	-	-	(1.3)	(6.3)
Transfer	-	-	(1.5)	-	(1.5)
New FTE's (<i>note 2</i>)	117.5	7.3	3.0	37.9	165.7
Total 2017 Changes	112.5	7.3	1.5	36.6	157.9
Proposed 2017 FTE's	954.9	161.3	36.0	868.7	2,020.8

Notes:

- 1) Net transfers include all the FTE transfers resulted from Phase II re-org.
- 2) Includes 85 new FTEs for the Screening Function in Aviation and 82 (or 16.4 FTEs) for new High School Interns positions in HR.

FTEs driven by budget priorities and growth initiatives

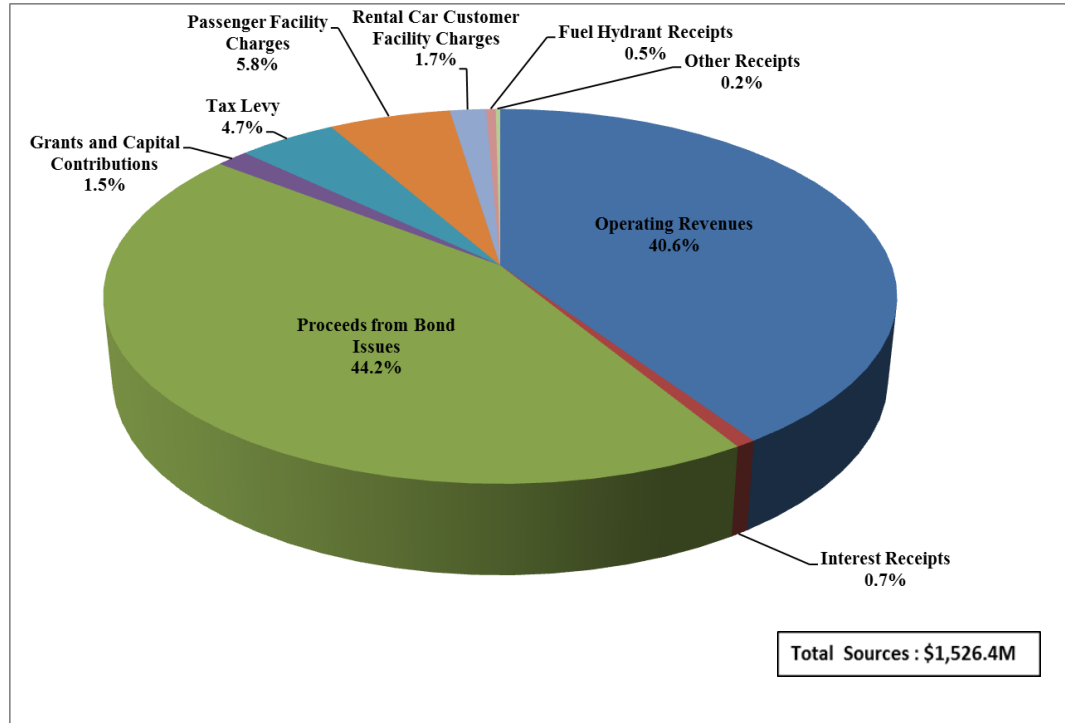
Capital Budget Summary

Capital Budget Summary by Division

\$'s in 000's	2017	2018	2019	2020	2021	2017-2021
Aviation	590,498	663,351	498,316	354,778	294,193	2,401,136
Maritime	35,020	44,340	48,775	14,862	21,638	164,635
Economic Development	15,950	23,952	33,465	4,120	4,130	81,617
Stormwater Utility	2,140	1,650	1,650	2,150	2,150	9,740
Corporate and Other	7,969	9,152	9,002	9,511	9,692	45,326
Total	651,577	742,445	591,208	385,421	331,803	2,702,454

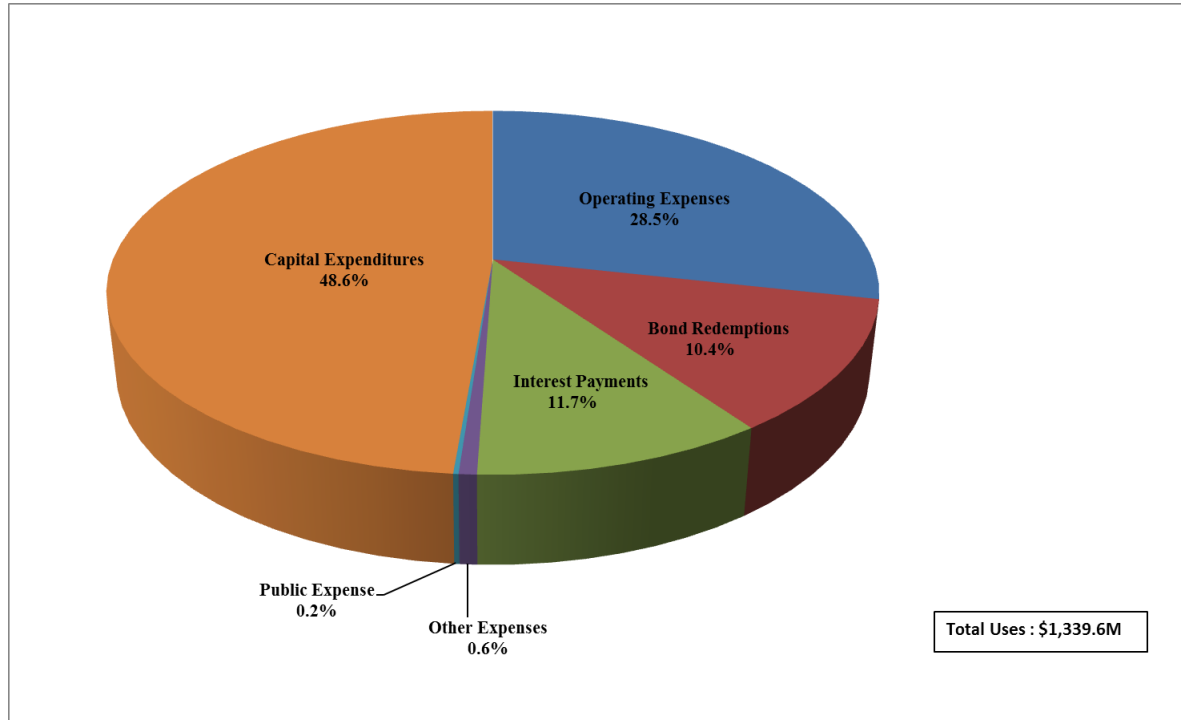
The Port continues to invest in the region with a 5-year capital plan of \$2.7 billion

Sources of Funds



The Port has diversified funding sources

Uses of Funds



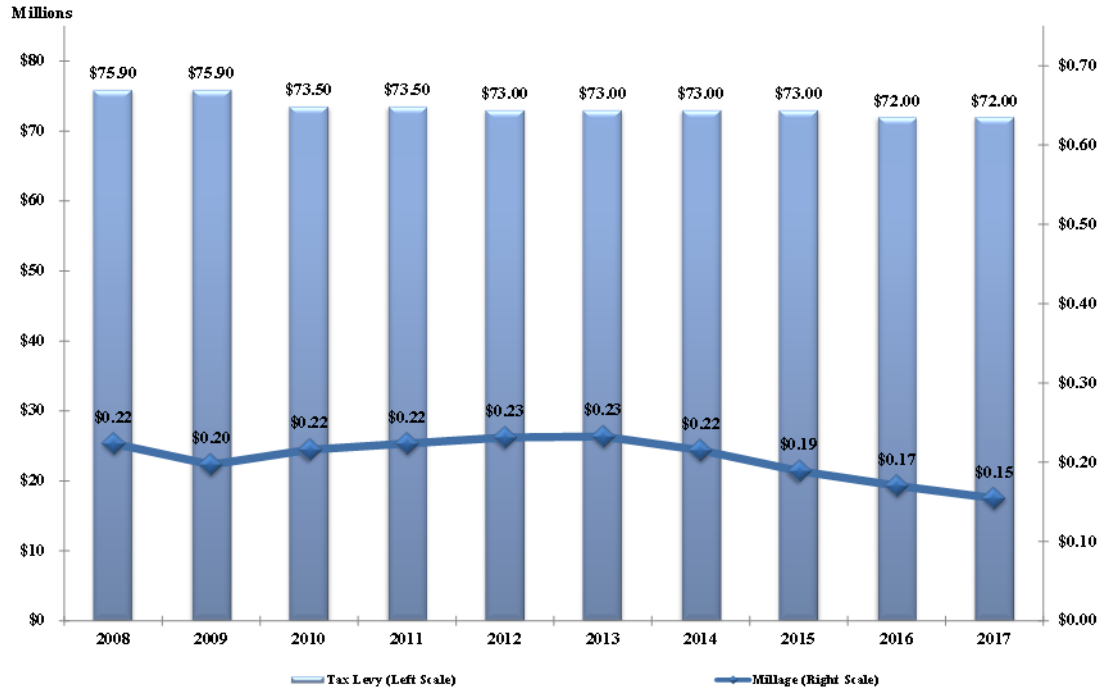
Capital spending comprises nearly half of Port expenditures

2017 Tax Levy

- **Tax Levy Amount:**
 - Levy amount established by the Commission each year as part of the budget process
 - The proposed levy for 2017 is \$72 million
 - The maximum allowable levy for 2017 is estimated to be \$98.7 million
 - Projected rate change from \$0.1704 to \$0.1544

The Port has managed the tax levy prudently

2008-2017 Tax Levy & Millage Rate



The Port has gradually reduced tax levy amount since 2009

2017 Tax Levy

- **Proposed 2017 Tax Levy Uses:**
 - General Obligation (G.O.) Bond Debt Service
 - Regional Transportation projects
 - Environmental remediation
 - Capital improvements at Pier 66
 - Capital projects in support of the fishing industry
 - Other capital projects and initiatives meeting specified criteria endorsed by the Commission
 - Economic development initiatives including workforce development and Economic development partnership program

Tax levy uses include strategic initiatives

Remaining Budget Schedule

- Second Budget Reading Nov. 22, 2016
- File Statutory Budget with King County Dec. 2, 2016
- Release the Final Budget Document Dec. 15, 2016

Statutory budget to be filed with the County on December 2

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