



December 15, 2016

Fund for the Future

This plan (formerly called Growth Plan of Finance) outlines how the Port will: intelligently use its real estate, capital assets, and financial capabilities to drive sustainable growth; champion environmental stewardship; and drive livability, equity, and opportunity by creating 42,000 middle class jobs. Fund for the Future initiatives will be implemented in 2018 after the Commission fine tunes the plan based on a comprehensive stakeholder outreach initiative.

By making transformative, large-scale investments in support of urban manufacturing, aviation and maritime industries, the Port of Seattle can significantly improve economic and employment opportunities and help build livable communities. We will build on the Port's current environmental, economic and workforce initiatives at a time when businesses need expanded port services to compete and grow, when communities need partners committed to improving livability, and when the path towards a globally competitive future depends on visionary investments in economic diversity.

The Port stands uniquely positioned to take on this work. Its distinctive statutory powers, its economic development mission, and its combination of real estate and capital assets make the Port the right leader for investing deeply in urban manufacturing, aviation and maritime industries.

This is the right time to make these investments for the public good. Sharp increases in demand means that businesses cannot wait for expanded port services. At the same time, sharp growth around the region has created a challenging environment for urban manufacturing, aviation and maritime industries. Industries feel insecure about their ability to sustain operations and stay in King County. Uneven economic growth is creating new jobs at the extremes of the income spectrum, and severely reducing opportunities for lower wage workers to advance into the middle class.

The large-scale urban manufacturing, aviation and maritime investments will create tangible economic and community returns. Strategic use of our assets and financial capabilities will support existing businesses, innovators and entrepreneurs in key industry clusters and ultimately help local employers create 42,000 middle class jobs.

We will continue to support livable communities by pursuing the most ambitious environmental and sustainability initiatives. We will build on the Port's leadership by providing more public access to habitats, restoring and creating new habitat, reducing energy use and protecting water quality.

Public Communication on Fund for the Future

We will introduce the vision and initiatives contained in the Fund for the Future through a wide range of communications vehicles. As we develop the initiatives we would closely integrate with third party groups and issue stakeholders. We will invite stakeholders to participate in our communications program, and integrate with our community engagement team to ensure an open community dialogue.

- 1. Port-sponsored launch event.** We recommend bringing together the key public, private and advocacy stakeholders who will directly benefit from the Fund for the Future to be briefed on the Port's vision and to begin collaborating on possible opportunities.

2. **Ongoing commissioner engagements:** We would build a Fund for the Future mini-presentation that could be folded into other “about the Port” speaking events.
3. **CEO engagements:** Similarly we would include Fund for the Future mini-presentation into the existing CEO presentations on the Port of Seattle priorities and actions.
4. **Advertising:** We recommend using digital advertising to express these priorities and the Port’s vision for large-scale investment.
5. **Media outreach:** We recommend 1:1 conversations with leading civic and business reporters, as well as editorial groups, to both express the opportunity and potential risk of not making these investments.

Our communications plan will develop as we solicit input from the Commission and executive office. Our plan will also develop as we add details around funding alternatives.

Key Messages:

- Large-scale investments in support of urban manufacturing, aviation and maritime industries can significantly improve economic opportunities while helping build livable communities.
- The Port stands uniquely positioned to take on this work.
- Failing to act could result in less diverse and less resilient economy, as well as fewer opportunities for workers.
- We will help build livable communities by pursuing more ambitious environmental and sustainability initiatives.
- The large-scale urban manufacturing, aviation and maritime investments will lead to measurable economic, employment and quality of life returns for all communities.

Next Steps: Finalizing the Funding Plan

Per Commission input staff is working to evaluate alternative funding mechanisms to support plan implementation:

- Evaluating Port assets that may not be strategic and could be sold or leased to generate revenue that support Fund for the Future projects;
- Exploring the use of public private partnerships and other creative funding mechanisms that would leverage the Port’s own capital; and
- Investigating different ways to phase Fund for the Future projects over time to reduce reliance on the Port tax levy.

Finance is in the process of hiring a financial consultant to evaluate creative funding mechanisms for both the real estate development and fishing fleet recapitalization initiatives within the Fund for the Future. We expect this analysis will be completed by April 2017.

Staff is also working to update job creation numbers within the plan. Some job estimates are based on older Martin studies that may not accurately reflect current economies. As a result we are in conversations with Martin about updating the Port’s economic impact study.

Port of Seattle -- Fund for the Future

This plan (formerly called the Growth Plan of Finance) outlines how the Port will strategically use its real estate, capital assets and financial capabilities to create 42,000 middle class jobs, drive sustainable growth and champion environmental stewardship. The Fund for the Future will be implemented in 2018 after the Commission fine tunes the plan based on a comprehensive stakeholder outreach initiative.

To accomplish these objectives the Port will invest over \$1.3 billion into key initiatives (not including projects inside airport fence-line); some of these investments are already included in the Port’s current Capital Improvement Plan (CIP) and others are exciting new initiatives:

- Advance the Seaport Alliance by modernizing Terminals 4 and 5 and making other investments that position the region for maritime cargo growth;
- Protect and shape the region’s working waterfront by developing maritime properties (ex. Shilshole, Fishermen’s Terminal, Pier 66 Cruise Terminal);
- Drive real estate development activities that creates jobs and puts Port properties to highest and best use;
- Enhance the natural environment, promote energy conservation, and sustainability; and
- Create and administer a \$100 million fishing fleet development and leasing program.

This memo highlights key projects along with their estimated costs and revenues generated. The Port will implement this comprehensive investment plan over the next ten years. Supporting the Seaport Alliance, developing Port real estate, helping rebuild the fishing fleet, and advancing environmental sustainability projects will create 14,500 direct jobs. These quality jobs will in turn support work in other sectors (e.g. multiplier effect).

Potential Job Creation

	Current Plan	Fund for The Future Jobs	Total
Direct Jobs	10,000	4,500	14,500
Indirect Jobs	19,000	8,787	27,787
Total Jobs Created	29,000	13,287	42,287

Real estate acquisition and development activity will trigger air cargo growth, support the Maritime industry, and provide affordable space for small manufacturers. Whether it’s building a small business incubator at Fishermen’s Terminal or constructing air cargo warehouses near the airport, the Port’s real estate assets and financing muscle can be a powerful force to support key industry clusters and broader regional economic vitality.

Over \$100 million will be devoted to new environmental sustainability initiatives that reflect our commitment to become the greenest most energy efficient port in North America. Investments in the following initiatives advance environmental stewardship and give our organization and region a competitive advantage:

- Restore Duwamish habitat and improve public access;
- Develop renewable energy sources and promote energy conservation;
- Protect Puget Sound water quality; and
- Support regional air quality by providing shore power to cruise ships.

The plan includes four major components – the current CIP includes the capital projects presented in the 2017 budget plus Terminal 5 redevelopment. The Fund for the Future adds to the current CIP (1) new

environmental initiatives, (2) real estate investments and (3) support for fishing fleet recapitalization. Each of the three new elements requires investment funding, but also generates income that can fund future investments. In order to maximize the efficient use of Port funds and minimize future levy increases, the three new elements are added to the current CIP incrementally based on each element's ability to generate new revenues to support future investments. The table below summarizes the results.

2017-2026 Capital & Environmental Funding Plan
(Excluding Airport)

\$ million	Current Plan (includes T5)	Current Plan + Environmental	Current Plan + Environmental + Real Estate Strategic Plan	Current Plan + Environmental + Real Estate Strategic Plan + Fishing Fleet
Existing CIP	756	756	756	756
New Environmental Initiatives	-	110	110	110
Real Estate Development Plan	-	-	356	356
Fishing Fleet Recapitalization	-	-	-	100
TOTAL CIP	756	866	1,221	1,321
Net Income	154	186	275	289
Excess Operating Fund Balance	149	149	149	149
Revenue Bonds	139	169	315	358
Federal Grants	10	10	10	10
G.O. Bonds	84	141	252	293
Excess Tax Levy Fund Balance	136	137	139	140
Tax Levy Cash Flow	83	74	81	81
TOTAL FUNDING	756	866	1,221	1,321
Annual Tax Levy (millions)	77	81	89	92
Annual <u>Dollar</u> Cost to Average Household ⁽¹⁾	\$ 74	\$ 78	\$ 85	\$ 88

(1) Based on the median home value of \$450,000 per the King County Assessor for the 2017 assessment (includes both condos and single family).
Note: totals might not add due to rounding

The table above summarizes planned and proposed investments and the associated funding sources over a 10 year period; the full plan funds \$1.3 billion of investments. Funding will be provided by a combination of general obligation (G.O.) bonds, revenue bonds, income from operations, operating fund cash and tax levy cash.

The scenarios were developed based on maintaining the current CIP and revenues from existing businesses and generating lease revenues from the Terminal 5 redevelopment (assumes a new tenant leases half of the terminal at the Minimum Annual Guarantee rate). The scenario also maintains a minimum operating fund balance of six months of expenses and based on using operating income before relying on the tax levy. Because many of these initiatives generate income, not all of the additional costs will require tax levy funding.

Based on this funding plan, including the associated revenue generating assumptions, total non-airport revenues will provide enough cash and revenue bond capacity to fund sixty percent (60%) of the entire \$1.3 billion investments over the next 10 years. The remaining funding will come from a combination of federal grants, G.O. bonds and tax levy cash, and will require an estimated annual tax levy of \$92 million starting in 2018 (about \$88 per year per household). Without the additional Fund for the Future

investments, the Current Capital Plan of \$756 million would require an estimated levy amount of \$77 million through the period (about \$74 per year per household).

Although the fund for the future scenario requires an increase in the tax levy, the Port would still be below its legally allowed maximum tax levy. Beginning in 2018, the Port could levy up to \$101 million; that amount grows to an estimated \$120 million by 2026 and would provide an additional \$330 million of funding capacity from G.O. bonds and levy cash. The Commission can also consider using an Industrial Development District (IDD) levy to generate additional capital if necessary. An IDD levy could generate up to \$1.3 billion of additional funding but has certain limitations regarding its use.

Current Capital Investment Plan (Updated) – Non-Airport (\$756 MM)

The Port's Current CIP is based on the CIP presented during the 2017 budget and includes investments in a range of Port wide initiatives plus the addition of redevelopment of Terminal 5. Together these comprise the updated Current CIP of \$756 million. Key projects are listed below.

Current CIP 2017-2026 (\$ million)

NWSA (POS share)

NWSA Approved CIP (includes Husky Terminal redevelopment) - 50%	159.2
Terminal 5 Modernization - 50%	140.3
West Waterway deepening - 100%	52.0
East Waterway deepening - 100%	20.0
Port legacy projects - 100%	8.8
TOTAL	380.3

Maritime

Expansion of Pier-66 Cruise Facility	13.0
Fishermen's Terminal Strategic Plan	42.0
Fishermen's Terminal renewal and replacement and net sheds	36.3
Marina dock, pile repair, improvements and Shilshole restrooms and paving	26.5
P66 Façade, gangway and other cruise improvements	26.0
Renewal and Replacement and small projects	27.4
Contingency	87.0
TOTAL	258.1

EDD & Corp

Technology Investments (non-Airport share)	15.8
Tenant Improvements	3.0
P69 Improvements	3.1
Terminal-102 roof & HVAC	4.0
Renewal and Replacement and small projects	11.5
Bell Harbor Conference Center Interior Modernization	7.0
T-91 Uplands	50.0
Contingency	23.5
TOTAL	117.8

TOTAL BASELINE CIP **756.3**

In addition, there are certain non-capital projects that are funded with the tax levy including legacy environmental remediation (including a portion of the Duwamish habitat restoration listed below), freight mobility including the Heavy Haul Corridor, workforce development and a portion of Highline School noise insulation costs.

Real Estate Development Financial Plan – \$356 MM new investments

Over the next ten years the Port of Seattle will advance real estate projects that support 13,000+ middle class jobs within King County. The Port will lease or develop over 200+ acres of its property and concurrently develop over a million square feet of light industrial space to support business growth in its key clusters. We will use our statutory powers and real estate savvy to drive economic vitality throughout King County.

The current CIP includes certain foundational real estate investments:

- \$50 million for pre-development of the T91 uplands;
- \$20 million for buildings 1&2 at Fishermen’s Terminal (included in the FT Strategic Plan); and
- \$18 million for targeted maritime property acquisitions.

Total estimated capital costs for these additional real estate development projects are **\$356 million**.

These investments include:

- \$47 million on infrastructure (e.g., L shape = \$7.7 million for utility work & improvements);
- \$145 million on revenue generating developments (buildings and ground leases); and
- \$193 million for property acquisition/other RE developments.

These investments on existing Port properties are projected to generate \$22 million of new non-airport revenue annually (NOI) when the plan is fully implemented by 2026. Additional revenues will be calculated based on further Port property acquisitions to further increase the overall cash flow.

The cost estimates do not include relocating T91 cruise operations. Staff recommends that the Commission revisit the T91 Cruise terminal location periodically over the coming years as the existing lease come closer to expiration. Our proposed development at T90 contemplates building a parking garage to support cruise in 2021 but that can be revisited at any time.

Implementation Strategy

2017 \$16 MM Capital Requirement

- Initiate ready to go development projects and generate net operating income for EDD and AV.
 - ➔ Pier T2 (City of Seattle) 6.5-acre ground lease
 - ➔ Des Moines Creek Bus. Park (City of SeaTac) 28-acre ground lease
 - ➔ CEM (City of Seattle) 12-acre ground lease
 - ➔ NERA 2 & 3 ground lease
- Initial work on new 75k light industrial building at FT \$0.4 MM investment
- Acquisition of L-Shape \$9.1 MM investment
- Acquisition of 55-Acre site \$6.5 MM investment

2018 \$3.6 MM Capital Requirement –

- Initiate ready to go development projects and generate net operating income for EDD and AV.
 - ➔ Des Moines Creek Bus. Park (City of Des Moines) 17-acre ground lease
- Work on new 75k light industrial building at FT \$2.1 MM investment
- Put options on high priority properties the Port may want to acquire \$1.5 MM investment

2019 \$36.2 MM Capital Requirement

- Initiate ready to go development projects and generate net operating income for EDD and AV.
 - ➔ T91 ground lease

2019 cont.

- ➔ 55-Acre (City of SeaTac) ground lease
- T91 light industrial construction \$10.8 MM investment
- T106 demolition of existing structure \$2.2 MM investment
- L-Shape infrastructure \$7.7 MM investment
- Work on new 75k light industrial building at FT \$14 MM investment
- Put options on high priority properties the Port may want to acquire \$1.5 MM investment

2020 \$72.1 MM Capital Requirement

- Initiate ready to go development projects and generate net operating income for EDD and AV.
 - ➔ T106 ground lease
 - ➔ T91 light industrial ground lease and Build To Suit facility income
- Initial design and infrastructure for T90 parking structure \$9.9 MM investment
- T106 development of Incubator Space \$0.5 MM investment
- Infrastructure cost and build 125k SF air cargo warehouse on L-Shape \$22.2 MM investment
- Consider acquisition of key SODO property \$38 MM investment
- Put options on high priority properties the Port may want to acquire \$1.5 MM investment

2021 \$66.8 MM Capital Requirement

- Initiate ready to go development projects and generate net operating income for EDD and AV.
 - ➔ T91 ground leases and BTS income
 - ➔ L-Shape air cargo warehouse lease
- T90 parking structure \$28.3 MM investment
- T91 light industrial construction \$21.9 MM investment
- Build 125k SF air cargo warehouse on L-Shape \$15.6 MM investment
- Invest in key property land purchase(s) for industrial development \$20 MM investment

2022 \$66.4 MM Capital Requirement

- T91 light industrial construction \$2.4 MM investment
- Build 250k SF air cargo warehouse on L-Shape \$44.4 MM investment
- Invest in key property land purchase(s) for industrial development \$20 MM investment

2023 \$26.9 MM Capital Requirement

- T91 light industrial construction \$6.9 MM investment
- Invest in key property land purchase(s) for industrial development \$20 MM investment

2024 \$31.9 MM Capital Requirement

- T91 light industrial construction \$6.9 MM investment
- Invest in key property land purchase(s) for industrial development \$25 MM investment

2025 \$35.6 MM Capital Requirement

- T91 light industrial construction \$10.6 MM investment
- Invest in key property land purchase(s) for industrial development \$25 MM investment

**Note: The Port may also consider relocating the cruise terminal. We estimate that it would cost \$250 million to move cruise operations.*

Fishing Fleet Modernization Initiative – \$100 MM New Investments

The Port will facilitate fishing fleet modernization by building \$100 million of fishing vessels (approximately four vessels). The Port expects that the vessels will be built in Washington State and that contracting to purchase multiple vessels will provide the builder with the economies of scale necessary to invest in efficient production. The fishing vessels would be leased or “chartered” to the fishing industry. The Port’s participation would provide a critical mass of demand for local ship builders. The Port would receive lease revenues from the fishing companies that charter the Port purchased vessels.

The Port will work with the fishing industry and other government partners to develop this innovative program.

The program will be activated in 2018. It will start generating revenue in 2020; revenues will grow as each vessel is completed and chartered. The plan assumes revenues beginning at \$2.5 million and growing to \$7.2 million annually by 2026.

Environment and Sustainability Initiatives – \$120.5 MM New Investments, including \$109.5 MM of new initiatives)

The Port plans to invest \$35.5 million to enhance marine habitat and improve public access along the Duwamish River of which \$19.5 million is in addition to the Port’s currently funded program. The Port plans to go above and beyond regulatory requirements to create 22 acres of habitat in the Green/Duwamish watershed. This would convert Port-controlled underutilized property to high value habitat along with appropriately planned public access points and will generate revenues from the sale of environmental credits.

The Port will also invest \$20 million in renewable energy and energy conservation measures. This will include installing solar panels on rooftops and underutilized Port properties. Investments in lighting upgrades, capture and transfer of waste heat, mechanical systems upgrades, and HVAC improvements will also be made to increase energy efficiency across the Port.

Additional Port investments (\$45 million) will be made to protect Puget Sound water quality. Rehabilitating and upgrading the Maritime Port’s Stormwater infrastructure at Shilshole Bay Marina, Fisherman’s Terminal, and Terminal 91 will improve the quality of runoff that leaves Port properties and enters the Puget Sound. These investments will help the Port meet or exceed water quality standards.

The Port will support local clean air by investing \$20 million to install an LNG fueling facility allowing cruise ships and other vessels to utilize clean fuel.

<u>Environmental Initiatives 2017-2026 (\$ million)</u>	<u>TOTAL</u>
Duwamish Habitat Restoration (1)	35.5
Solar farm at CEM	6.0
install solar panels on Port facilities	4.0
Energy Conservation investments	10.0
Stormwater infrastructure improvements	45.0
LNG fuel facility for cruise	20.0
TOTAL	<u>120.5</u>

(1) \$11 million spending included Port's currently funded program

Note: It is difficult to quantify revenues (actual savings) from energy conservation investments. Therefore we assumed no savings for this analysis. Our previous experience with energy conservation projects shows that they pay for themselves over time.

Other Initiatives

As described earlier, additional funding capacity could be generated by increasing the tax levy to the maximum allowable amount of \$101 million in 2018 and levying the maximum in each year thereafter. Under the maximum levy the Port could fund an additional \$330 million in projects without employing the \$1.3 billion IDD levy. This could provide funding for additional NWSA projects, relocation of cruise facilities or other initiatives. For example, in order to meet the goal of 6 million TEUs in ten years, the region may need an estimated \$300 million of rail and road improvements, although the specific timing and funding responsibility is unknown at this time. These costs, as well as other NWSA or future Port initiatives, are not included in the table above.

Non-Airport Financial Summary ⁽¹⁾
Entire Growth Plan of Finance
in 000's

Operating Income Resources:

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
Revenues - Current Plan	115,400	119,371	129,464	134,065	137,426	147,367	150,433	149,212	152,524	155,722	1,390,985
Growth Plan of Finance - Real Estate Development	675	1,110	4,068	9,926	12,622	14,148	21,443	26,065	28,393	29,509	147,959
Growth Plan of Finance - Fishing Fleet Recapitalization	-	-	-	2,534	5,914	6,759	6,759	6,890	7,153	7,285	43,294
Growth Plan of Finance - Environmental Initiatives ⁽²⁾	-	9,785	9,554	3,627	3,909	4,038	4,164	3,132	3,226	3,335	44,770
Total Revenues	116,075	130,266	143,085	150,153	159,872	172,311	182,799	185,299	191,297	195,851	1,627,008
Expenses - Current Plan	(79,463)	(81,188)	(80,767)	(83,372)	(85,754)	(88,209)	(90,745)	(93,360)	(96,060)	(98,847)	(877,765)
Expenses - Growth Plan of Finance	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	(79,463)	(81,188)	(80,767)	(83,372)	(85,754)	(88,209)	(90,745)	(93,360)	(96,060)	(98,847)	(877,765)
Revenue Bond Debt Service (DS) - Current Plan	(36,970)	(34,911)	(33,736)	(34,071)	(34,917)	(39,546)	(34,509)	(35,117)	(37,156)	(37,794)	(358,729)
Revenue Bond DS - Growth Plan of Finance	-	-	-	(3,686)	(10,868)	(16,645)	(16,942)	(17,009)	(18,056)	(18,120)	(101,326)
Total Revenue Bond Debt Service	(36,970)	(34,911)	(33,736)	(37,758)	(45,785)	(56,191)	(51,452)	(52,127)	(55,213)	(55,913)	(460,055)

Operating cash flow available for capital investments

	(358)	14,167	28,582	29,023	28,333	27,911	40,602	39,812	40,024	41,091	289,188
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Tax Levy Resources:

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
Tax Levy Collected	72,000	92,000	92,000	92,000	92,000	92,000	92,000	92,000	92,000	92,000	900,000
Tax Levy Cash Uses - Non-Capital	(16,058)	(21,092)	(11,340)	(16,593)	(20,948)	(39,241)	(27,279)	(35,679)	(35,774)	(36,015)	(260,019)
GO Bond DS - Current Plan	(44,694)	(44,694)	(51,052)	(47,385)	(46,111)	(46,969)	(46,980)	(35,628)	(35,655)	(28,423)	(427,591)
GO Bond DS - Growth Plan of Finance	-	(7,630)	(11,898)	(15,950)	(15,950)	(15,950)	(15,950)	(15,950)	(15,950)	(15,950)	(131,179)
Levy Cash Flow Available for Capital Investments	11,248	18,583	17,710	12,072	8,991	(10,160)	1,792	4,743	4,621	11,611	81,211

(1) Funding analysis combines all Non-Airport businesses; Maritime, EDD, NWSA (Port share), and allocated Corporate activity.

(2) Net of annual maintenance expense.