

ITEM NO: Supp 1
DATE OF MEETING: June 13, 2017

2018 Budget Work Session

June 13, 2017



Agenda

- 2018 Budget Process Overview
- Industry/Business Context
- Aviation Division Budget Preview
- Maritime Division Budget Preview
- Economic Development Budget Preview
- Tax Levy Forecast
- Commission Budget Priorities

2018 Budget Process Overview

- 06/13 – 2018 Budget Work Session
- 06/27 – 2018 Budget Work Session
- 07/11 – 2018 Budget Development Session
- 07/25 – 2018 Budget Development Session
- 08/08 – Long Range Plan Commission Approval
- 08/22 – 2018 budget assumptions memo to the Commission
- 09/26 – Commission briefing on the proposed Corporate budget
- 10/10 – Commission briefing on the proposed operating division's budgets??
- 10/17 – All operating budget issues resolved by the Commission
- 10/24 – 2018 Preliminary Budget document available to the Commission
- 10/24 – Commission briefing on Tax levy & Draft Plan of Finance
- 10/25 – Publish first public notice on the 2018 budget public hearing
- 10/26 – Public release of 2018 Preliminary Budget document
- 11/14 – Approval of the ILA/Service Directives (POS & NWSA)
- 11/14 – First reading of budget resolution and public hearing
- 11/28 – Second reading and final passage of the 2018 budget
- 12/01 – File the 2018 statutory budget with King county
- 12/15 – Release the 2018 Final Budget & Draft Plan of Finance Document

Commission Meetings Highlighted in Blue

Aviation Industry/Business Context

- U.S. Airline industry continues to be profitable
 - U.S. airline industry profitable each year 2010-2016
 - Benefits of consolidation
- Security threats impacting aviation industry worldwide
- U.S. economy growing, but for how long? History suggests there will be a downturn at some point
- Airline competition and strength of regional economy driving demand for air service at Sea-Tac
- Sea-Tac: two strong hub airlines (Alaska and Delta), continued growth in international service and cargo

Passenger Growth Rate		
	Actual	
2013	4.8%	
2014	7.7%	
2015	12.9%	
2016	8.0%	
2017	3.0%	Est.
2018	5.0%	Est.

Regional economy driving growth at Sea-Tac

Maritime Industry/Business Context

- Alaska Cruise - forecast 7% increase in passenger volumes
- Building or buying – space needs for North Pacific Fishing Fleet are changing
- Recreational boating industry – demand for Destination Marina model with new amenities and services
- Grain – holding steady / impacted by international politics
- Maintenance – time for Collective Bargaining Agreement negotiations / impacted by market, shifting business needs
- Port and Local commitment to Sustainability and recognition of locally underserved communities

Growth and Opportunity

EDD Industry/Business Context

- Strong real estate market expected to continue through 2018
 - Current favorable market conditions aids in new leases and renewals
 - Strong demand for new development
- Continued expansion of Chinese tourism
- Substantial growth in Cruise industry – new Cruise Ship investment
- Substantial lodging inventory growth
- New transportation options causing disruption
- Continued challenges of contracting with women & minority owned businesses (WMBE)
 - Assistance is needed to help businesses be successful and competitive for Port projects
- Attracting, retaining & developing talent a significant concern
 - March unemployment rate in Seattle at 2.8%

Growth Continues – Real Estate to Cycle in 2-3 years

2018 Budget Preview Aviation Division

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2018 Key Initiatives--Operating

Drivers:

- Enhancing security
- Improving customer service
- Mitigating construction impacts
- Maintaining assets
- Delivering capital program
- Planning future capacity
- Innovation/technology

Initiatives:

- Phase II of security master plan
- Customer service department
- Asset condition assessments
- Environmental review of Sustainable Airport Master Plan (SAMP)
- Advance planning for SAMP projects
- Image processing, facial recognition, smart dynamic signage

Manage growth, plan capacity improvements

2018 Key Initiatives--Capital

Existing Projects:

- Concourse D Hardstand Terminal construction
- NSAT construction
- IAF construction
- Baggage Optimization construction
- South Satellite Renovation – project planning

New Projects:

- Automated screening lanes
- Main Terminal (north) renovation
- Concourse A extension to add additional gates
- Ongoing renewal and replacement

Need to add gate capacity

2018 Budget Preview Maritime Division

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2018 Key Initiatives--Operating

Drivers:

- Growth in Cruise/stability in other businesses
- Changes in workforce, technology & regulations
- Improving customer service
- Maintaining assets

Initiatives:

- Plan for demand, engage new players, offer new programs
- Engagement with labor, implement Vessel Mgmt System, Environ & Sustainability programs
- Cruise valet program, more large vessel moorage, traffic congestion mgmt
- Asset condition assessments, key project completion, avoid deferring maintenance

Manage growth, plan capacity improvements

2018 Key Initiatives--Capital

- **P66 Modernization Project – Conference Center & Building Façade**
 - Alaskan Way Street Improvements at P66 must be completed by April 2018
- **Fishermen’s Terminal Redevelopment**
 - Net Net Shed Roof Replacement
 - Light industrial building development
- **Terminal 90/91**
 - Pier 90 Berth 6 & 8 redevelopment
 - Pier 91 Fender Pile replacement , IT connectivity improvements and Dolphin asset stabilization
- **Shilshole Bay Marina**
 - Construction of new restrooms and potential Green Boat Wash system
- **Investment in energy and Stormwater infrastructure**

Investment & Commitment to Businesses & Environment

2018 Budget Preview

Economic Development Division

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Key Business Drivers

- Real Estate:
 - Maintain high occupancy despite approximately 25% of existing lease agreements turning over
 - Strong demand for light industrial space
- Workforce Development & Small Business:
 - Construction boom creating a shortage of skilled labor
 - Need to address equity issues with workforce development
- Tourism:
 - High growth in both personal and business travel from China
 - New technologies continue to cause disruption in transportation
- Facilities:
 - Addressing greater use of mobile technology and challenges of an open work environment
 - Maintaining and enhancing work environment for employee satisfaction

Region will continue to boom and spur growth related challenges

2018 Key Budget Initiatives

Operating Budget

1. Development of new Small Business policy and related program changes
2. Expansion of small business assistance and incubator programs
3. Implementation of the Priority Hire Program
4. Workforce Development Initiatives Continue to Grow & Mature
5. Real Estate Plan implementation
 - i. Development of existing properties and potential acquisitions

Capital Budget

- Pier 66 Modernization – Conference Center & Exterior façade
- Fishermen’s Terminal development of new/existing buildings
- Potential property acquisitions and development
 - Salmon Bay Marina
 - Pier Two & CEM
- Pre-development/infrastructure for T-91 Uplands
- P-69 enhancements
 - lobby, Commission Chambers, and exterior enhancements

Promoting Equity Will Require Resources – Implementing RE Plan will Drive Capital Requests

Major Capital Projects

- Pier 66 Modernization – Conference Center & Exterior façade
- Potential property acquisitions and development
 - Salmon Bay Marina
 - Pier Two & CEM
 - T106 Redevelopment
 - Aviation: AOB and SAMP implementation
- Pre-development/infrastructure for T-91 Uplands
 - Dependent on results of ongoing study
- P-69 enhancements
 - lobby, Commission Chambers, and exterior enhancements

Implementing Real Estate Strategic Plan

Current Plan of Finance 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>	2017-2021
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

Totals may not add due to rounding

116.9	66.6
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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

Plan of Finance Tax Levy Forecast – with T-5

SOURCES (\$ million)

2017 Beginning Fund Balance
Annual Tax Levy
Bond Proceeds - reimbursement of SR99 payment
Bond Proceeds - capital expenditure
Grants & Other Reimbursements
Total Sources

<i>2017</i>	<i>2017-2021</i>
60.5	60.5
72.0	380.0
65.0	65.0
-	78.0
6.7	6.7
204.2	590.2

USES (\$ million)

General Obligation Debt Service (Existing)
General Obligation Debt Service (New)
Environmental Remediation Liability
Regional Transportation
Highline Schools Noise Mitigation
Baseline Capital Expenditures
Capital Expenditure - Terminal 5
EDD: Workforce Development & Partnership Program
Total Uses

34.5	164.0
10.2	68.6
9.4	47.4
2.2	8.0
-	3.5
28.4	138.2
15.6	146.6
2.6	13.8
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

2018 Budget Commission Priority Issues

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2017 Commission Work-Program

- Expand and Improve Small, Minority and Women Business Programs
- Optimize Port Role in Regional Economic Prosperity
- Improve Port Related Job Quality
- Define and Establish Next Steps for Equity Policy
- Enhance Port Environmental Leadership
- Strengthen Collaborative Engagement with Governments and Communities
- Other Priorities