

Tax Levy and Preliminary Funding Discussion 2018-2022

October 24, 2017

Agenda

- Background and Process
- Tax Levy
- Preliminary Funding
 - Airport Plan of Finance
 - Non-Airport Funding and Project Prioritization
 - Next Steps and 2018 Finance Initiatives
- Appendix

Capital Funding Background

- Capital funding comes primarily from the free cash flow of the operating divisions
- Free cash flow is equivalent to net income after debt service
 - The Airport is self funding
 - Maritime, Economic Development (EDD) and the Northwest Seaport Alliance (NWSA) share funding primarily from:
 - Operating free cash flow
 - Tax levy after payment of General Obligation (G.O.) bond debt service

Tax levy supports Non-Airport capital funding

Process Overview

- Capital funding was discussed with the Commission at the retreat on September, 12
- The operating divisions presented their capital improvement plans (CIP) on October 10
- Preliminary analysis indicates that there is a shortfall in funding available for the Maritime, EDD and NWSA full CIPs
 - A tolerable gap was identified in the 2017-2021 funding plan
 - A larger forecasted 5-year CIP has widened the gap for 2018-2022
- Staff has prioritized projects to close the gap and is providing a recommendation to the Commission

Port establishes funding priorities

TAX LEVY

Port Taxing Authority

- Washington State Ports have authority to levy taxes on property within the Port District (King County)
 - 2017 levy is \$72 million (\$77 per year based on median home value)
 - 2018 levy can be any amount up to \$101.6 million based on statutory limitations

Port has a track record of levying below the maximum

Uses of the Tax levy

- State law allows the levy to be used for any Port purpose
 - Except for the direct payment of Revenue Bond debt service
- Commission direction establishes actual use
- First claim on the levy is payment of G.O. Bond debt service (e.g., recent G.O. Bonds for SR99 Tunnel project)

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
 - Economic Development Partnership and tourism programs
- Capital projects that meet levy funding criteria

The Commission has used the levy for these strategic purposes

Criteria for Levy Funding Projects

Criteria were updated in 2015 for funding projects with the tax levy; consistent with historical practice

	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

Criteria Clarification for Tax Levy

- **Asset Renewal and Replacement**
 - Projects for businesses that may have a positive cash flow, but insufficient to support significant re-investment

Levy supports key operations

Transportation and Infrastructure Fund

- In addition to the tax levy, the Port has a Transportation and Infrastructure Fund (TIF)
 - Tax levy funds are set aside to meet the Port’s transportation obligations
 - Currently has funds for the Heavy Haul Corridor obligations
 - Staff recommends adding funds to meet other obligations, e.g. Safe & Swift

Transportation & Infrastructure Fund Summary

(\$ million)

2017 Beginning Balance	
Deposits from Tax Levy	
Investment earnings	
Transportation Investments	
Estimated Ending TIF Balance	

<i>2017 Budget</i>	<i>2017 Est./Act</i>	<i>Budget Variance</i>
19.3	19.3	-
-	22.4	22.4
-	0.1	0.1
(0.1)	(0.2)	(0.1)
19.2	41.6	

TIF ensures funding for Port transportation commitments

Harbor Development Fund

- As part of the 2017 tax levy discussion, staff recommended issuing G.O. bonds to make the final payment for the SR99 Tunnel Project and reimbursing the Port for its initial cash payment
 - SR99 Project qualified for the lowest cost debt
 - This additional \$65 million would be available to fund Terminal 5 redevelopment which has a higher cost of debt
- Bonds were sold in Feb. 2017 and \$65 million deposited into the tax levy fund

Staff recommends using the \$65 million to establish a fund for Harbor Development

Harbor Development Fund (\$ million)

Beginning Balance 2017	-
Deposit from Tax Levy in 2017	65.0
Future Deposit(s) from Tax Levy	82.3
T-5 Modernization 2018-2022 (1)	<u>(147.3)</u>
Ending Balance 2022	0.0

(1) includes initial costs for channel deepening

Harbor Development Fund provides funding for T-5

2017 Levy Status

SOURCES AND USES OF TAX LEVY

SOURCES (\$ million)

2017 Beginning Fund Balance
Annual Tax Levy
Bond Proceeds - Reimbursement for SR99 payment
Grants & Other Reimbursements
Investment Income during current year
Total Sources

<i>2017 Budget</i>	<i>2017 Est./Act</i>	<i>Budget Variance</i>
60.5	88.4	27.9
72.0	72.0	-
65.0	65.1	0.1
6.7	4.7	(2.0)
-	0.7	0.7
204.2	230.9	26.7

USES (\$ million)

General Obligation Debt Service (Existing)
General Obligation Debt Service (New)
Environmental Remediation Liability
Transportation & Infrastructure Reserve Fund deposit
Regional Transportation
Capital Expenditures - Maritime
Capital Expenditures - EDD
Deposit to Harbor Development Fund
Airport Community Ecology (ACE) Fund
Energy and Sustainability Policy Directives
Workforce Development
Economic Development Partnership Program
Total Uses

34.5	34.5	-
10.2	2.0	8.1
9.4	11.7	(2.3)
-	22.4	(22.4)
2.2	0.6	1.6
23.4	22.4	1.0
5.0	0.8	4.2
-	65.0	(65.0)
1.0	0.2	0.8
1.0	-	1.0
1.7	0.6	1.1
1.0	1.0	(0.0)
89.4	161.4	(72.0)

Estimated Ending Tax Levy Fund Balance

114.8	69.5
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Totals may not add due to rounding

\$65 million
reimbursement with
bond proceeds to be set
aside for Harbor
Development

Additional funds to be
deposited in the TIF to
meet Safe & Swift
Corridor obligations

2018-2022 Tax Levy

- Continue levy support for:
 - Environmental remediation and other environmental initiatives
 - Regional transportation investments
 - Highline Schools current noise mitigation
 - Workforce development, tourism and Economic Development partnership programs
 - Capital projects based on levy policy

Tax levy continues to support the King County community

2018-2022 Tax Levy Projects

- Investments that support the fishing industry
 - Fishermen's Terminal
 - Terminal 91
- Replacement of the P66 heating and ventilation system
- Bell Harbor Conference Center interior improvements
- Public elevators on the central waterfront
- NWSA North Harbor investments in T-46 and T-18 storm water

Capital investments support economic development

PRELIMINARY FUNDING PLAN

Funding Assumptions

- Airport is primarily 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

Funding Resources - Airport

- **Operating funds and operating cash flow** – from both aeronautical and non-aeronautical businesses
- **Revenue bonds** paid from net income
- **Tax levy** – a portion used to benefit communities near the Airport for costs that are ineligible for Airport funding per FAA restrictions
- **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

	2018-2022
Aviation Funding Sources	(\$ million)
Operating Cash Flow	284.4
Tax levy ⁽¹⁾	4.5
Grants	174.3
Passenger Facility Charge	238.0
Customer Facility Charge	17.3
Existing revenue bond proceeds	274.1
Future revenue bond proceeds	1,866.9
TOTAL	2,859.6
Aviation CIP	2,818.7
Allocated Central Services CIP	40.9
Total Aviation Funded CIP	2,859.6
<small>(1) Highline Schools noise insulation.</small>	
<small>Note: totals may not add due to rounding</small>	

Airport is self-funding

Funding Resources – Non-Airport

- **Operating funds and operating cash flow** – from NWSA, Maritime
- **Revenue bonds** - paid from net income – cash flows do not accommodate new revenue bonds during this 2018-2022 period
- **Tax levy** – funds capital per levy policy
- **G.O. bonds** - paid from tax levy
- **Grants** – restricted to specific projects

Operating cash flow and tax levy are the primary funding sources

Funding Resources

- General Fund includes operating cash-on-hand and free cash flow
- Tax Levy Fund includes cash-on-hand, annual levy at \$72 million and G.O. bond proceeds
- TIGER grant for T-46

Funding Source	2018-2022 \$ mil.
General Fund	161
Tax Levy Fund	342
Grants	<u>10</u>
TOTAL	513

Maximizing the use of G.O. bonds adds to funding capacity

Funding Process

- Staff reviewed the Non-Airport CIP and recommends that the following projects are assumed to be funded
 - NWSA – Port's 50% share: \$250 million
 - Port projects: \$89 million
 - Channel deepening
 - Projects under construction or required
 - Projects under \$1 million
 - Contingency and small capital

Prioritization efforts focused on other projects

CIP Prioritization Criteria

- The remaining Maritime and EDD projects were reviewed for funding priority
- Projects were scored based on the following criteria:
 - Contributes to Century Agenda goals
 - Provides other community benefits not included in the Century Agenda, e.g. preservation of public amenities
 - Provides new operating cash flow
 - Is a renewal and replacement project critical to preserving an existing asset or revenues

Criteria balances doing good and doing well

CIP Funding Principles

- Identify projects that can be deferred - based on the Port's asset management assessment program, a number of renewal and replacement projects were deferred to the future
- Prioritize project based on scoring criteria
- Keep 10% of funding capacity as a strategic reserve – dry powder for the future

Balances near-term investments and future flexibility

Prioritization Results

- An additional \$134 million of projects are recommended for funding in 2018-2022
- We will revisit the prioritization annually
- Preserves nearly 8% of funding capacity approximately \$40 million
- Other projects can be deferred

Plan can fund top priority projects

Projects Recommended for Funding

		<u>2018-2022</u>			
<u>Division</u>	<u>Project</u>	<u>\$'000</u>	<u>Score</u>	<u>Rank</u>	<u>Notes</u>
MT	C800525 FT Strategic Plan	33,995	10	1	Fishing industry support and produces new cash flow
MT	C800995 Restoration	18,848	10	1	Environmental remediation and produces new cash flow
MT	C800675 P91 South End Fender	3,425	10	1	Fishing asset and income preservation
MT	C800129 New Cruise Gangway at T91	4,490	10	1	Increases cruise traffic and cruise revenues
MT	C800531 FT Dock 3,4,5 Fixed Pier Improvement	6,239	9	4	Supports the fishing industry and preserves revenue generating assets
MT	C800356 SBM Restrms/Service Bldgs Rep, paving	8,390	9	4	Critical asset renewal and supports new revenues
EDD	C801006 P66 HVAC Systems Upgrade	17,800	8	6	Supports cruise industry key asset renewal
EDD	C801016 CW Elevator Modernizations	2,750	8	6	Public amenity asset renewal
EDD	C800199 WTC HVAC Replacement	1,600	8	6	Asset renewal and revenue preservation
EDD	C800889 BHICC Interior Modernization	6,681	8	6	Asset renewal and revenue preservation and growth
EDD	C800158 T91 Uplands Development	30,000	7	10	Supports maritime industry and produces cash flow
	TOTAL	134,218			

Projects include new initiatives and asset stewardship

Next Steps

- **Revise CIP to reflect Commission guidance on prioritization**
- **Update the Draft Plan of Finance to include non-Airport funding analysis**
- **Provide updated details on the 2018 tax levy sources and uses**

2018 Finance Initiatives

- Issue Revenue bonds as needed to fund a portion of the Airport CIP
- Manage variable rate debt renewals
- 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

- Transportation and Infrastructure Fund
- Tax Levy authority
- Industrial Development District (IDD) levy information
- Bond ratings

Transportation and Infrastructure Fund (TIF)

TIF (\$ million)

2018-2022

Beginning Balance 2018

41.6

Transportation Investments 2018-2022

32.4

Ending Balance 2022

9.2

<u>Project Description (\$'000)</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2018-2022</u>
Seattle Heavy Haul Network	2000	2000	2000	2000	2000	
Fast Corridor I	15					15
Fast Corridor II	250	250	95	730		1,325
N Argo Express Access - Pub Ex	230	-				230
East Marginal Way Phase 2	280					280
Safe and Swift	6,000	6,000	8,000			20,000
P66 Alaskan Way St Improvement	564					564
TOTAL	9,339	8,250	10,095	2,730	2,000	32,414

Ending balance is earmarked for future Heavy Haul Corridor commitments

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
 - Port 2017 rate was only 15.3 cents
 - For 2018, this limit is \$237.9 million
 - Excludes the amount needed to pay G.O. bond debt service of \$43.4 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 2017 would have been ~\$99.0 million

The more restrictive 1% limit applies

2018 Information

- King County preliminary assessed value for 2018 is \$530 billion – an increase of 12.8%
- A \$72 million levy equals a 13.6 cent millage rate
 - A decline from the 2017 rate of 15.3 cents
 - An estimated \$75 per medial home

The Port's levy rate declines as assessed value increases

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 \$1.47 billion over a period of up to 20 years
 - Average amount = \$74 million (13.8 cents for 20 years)
 - Maximum annual amount = \$245 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>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
General Obligation Bonds	Aaa	AAA	AA-
First Lien Revenue Bonds	Aa2	AA-	AA
Intermediate Lien Revenue Bonds	A1	A+	AA-
Subordinate Lien Revenue Bonds	A2	A+	AA-
Passenger Facility Charge Revenue Bonds	A1	A+	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