

# Port of Seattle 2018 Budget First Reading & Public Hearing

Commission Meeting  
November 14, 2017

# Outline

- 2018 Budget Process Recap
- 2018 Budget Overview
- 2018 Operating Budget
- 2018 Comprehensive Operating & Non-Operating Budget
- 2018-2022 Capital Plan
- 2018 Staffing Summary
- 5 Year Financial Forecast
- 2018 Sources and Uses of Funds
- 2018 Proposed Tax Levy
- Remaining 2018 Budget Schedule

# 2018 Budget Process

Jun. 13	Commission 2018 Budget Work Session
Jul. 25	2018 Budget Development Commission
Jul. 25	Long Range Plan (LRP) Commission Draft Review/Briefing
Aug. 22	Memo to Commission regarding key budget assumptions for 2018
Sept. 12	Second LRP Commission Draft Review
Sept. 26	2018 Central Services Operating and Capital Budgets Briefing and LRP Commission Draft Review
Oct. 10	2018 Division Operating and Capital Budgets Briefing
Oct. 24	Tax Levy & Draft Plan of Finance Commission Briefing and
Oct. 24	Preliminary Budget document to the Commission
Oct. 26	Preliminary Budget document released to the public
Nov. 14	First Reading & Public Hearing of the Preliminary Budget and LRP Approval Request
Nov. 28	Second Reading & Final Passage of the Preliminary Budget
Dec. 1	File Statutory Budget with King County
Dec. 15	Release the Final Budget and Draft Plan of Finance

Commission engaged in the budget process

# 2018 Budget Highlights

- Operating revenues are budgeted at \$670.0M, \$49.8M or 8.0% higher than 2017 budget
- Operating expenses are budgeted at \$422.2M, \$37.6M or 9.8% increase from 2017 budget
- Net Operating Income is budgeted at \$247.8M, \$12.2M or 5.2% above 2017 budget
- The 2018 capital budget is \$878.2M and the 5-year capital spending plan is approximately \$3.1 billion
- The proposed tax levy for 2018 is \$72.0M

The 2018 budget reflects the Port's growth and continued investments for the region

# 2018 Business Activity Forecasts

## Aviation Division:

- Forecast 5.0% growth in enplaned passenger for 2018 (from the 2017 year-end forecast, which is expected to be 3.0% higher than 2016)
- Enplaned passengers up 48.5% since 2012 (6.8% annual compounded rate)
- Major capital projects underway at Sea-Tac will improve the customer experience, reduce congestion, and add capacity to accommodate future growth

## Maritime Division:

- 3.1% growth in cruise passengers to over 1 million in 2018
- 11.6% growth in grain volumes in 2018
- Fishing and Commercial Operations occupancy rate average of 86%, above 2017 budget of 84%

## Economic Development Division:

- Commercial Properties target 95% occupancy rate at the end of 2018
- Conference & Event Center revenue up 19% from 2017 budget

**2018 budget supports growth in Port businesses**

# 2018 Key Initiatives/Budget Drivers

Support for Business Growth and Customer Service...



- Continue to improve customer service
- Continue to improve safety & security

- Catch up with strong Sea-Tac growth
- Strengthen the Port's own Centers of Expertise

- Grow international and domestic passenger service
- Increase Air Cargo

- Support the airport capital improvement program
- Address growing airport office space needs

Growth is a key budget driver

# 2018 Key Initiatives/Budget Drivers

Implement Commission Priorities & Initiatives...



- Energy and Sustainability
- Equity Program
- Priority Hire
- WMBE



- Workforce development
- opportunities for small & disadvantaged businesses
- Continue internship program



- Expand tourism opportunities
- Advance real estate development
- Expand public outreach



- Restore and enhance waterside habitat

Budget resources support Commission priorities

# Budget Additions for Commission Priorities

- Energy & Sustainability Committee & Green House Gas Reduction:
  - 3 new FTEs focused on sustainability efforts
  - \$921K in consulting services
- Equity Program:
  - 1 new FTE for the Equity Program in Human Resources
- Priority Hire:
  - 1 new FTE for Priority Hire in Capital Development
- Women and Minority Business Enterprise (WMBE):
  - 1 new FTE for WMBE in Economic Development Division
  - 1 new FTE for WMBE in Central Procurement Office

Adding new FTEs and resources to advance Commission priorities



# Changes Since Preliminary Budget Briefings

- Aviation Division
  - Aeronautical revenues (cost recovery) increased by \$2,185K due to revised janitorial costs and debt service, partially offset by higher revenue sharing
  - Non-aeronautical revenues increased by \$1,275K mainly due to \$1M TNC rate & volume increases and additional \$255K from building permits
  - Operating expenses up by \$2,425K due to:
    - \$236K in new labor contract for bus drivers and revenue specialists
    - \$66K reduction in Airport Building Dept. due to more payroll charges to capital
    - \$1,951K increase in janitorial contract (not in the 2018 Preliminary Budget Book)
    - \$300K for ACDBE consultant and study for ADR (not in the 2018 Preliminary Budget Book)
    - \$4K increase in B&O taxes due to higher badge revenue (not in the 2018 Preliminary Budget Book)
  - Additional budget increase due to the new ILA with City of SeaTac (not in the Budget Book):
    - \$569K increase in operating expense for stormwater fees (to \$1.2M of which \$700K was included in baseline)
    - \$68K increase in operating expense for annual building permit fees
    - \$1.4M non-op expense for annual Public Safety payment (using tax levy fund)

**Additional refinements made to the budget**

# Changes Since Preliminary Budget Briefings

- **Economic Development Division**
  - Added \$130K for a WMBE manager position and related expenses
- **Central Services**
  - Added \$104K for a WMBE Compliance Analyst position and related expenses.
  - Added \$90K for a Priority Hire Coordinator position.
- **NWSA Distributable Revenue**
  - Added \$991K to the Distributable Revenue due to higher Net Income for the NWSA (not in the 2018 Preliminary Budget Book)
- **Maritime/EDD CIP**
  - spending has been reduced by \$106 million from 2018-2022 to align with projected funding capacity

Additional refinements made to the budget

# 2018 Operating Budget for Aviation

(\$ in '000s)	2016	2017	2017	2018	Budget Change		Budget vs Forecast	
	Actual	Budget	Forecast	Budget	\$	%	\$	%
<b>Operating Revenues</b>								
Aeronautical - Net	244,235	274,799	266,637	301,082	26,282	9.6%	34,445	12.9%
Non-Aeronautical	221,021	226,645	232,456	244,786	18,141	8.0%	12,330	5.3%
<b>TOTAL</b>	<b>465,256</b>	<b>501,444</b>	<b>499,093</b>	<b>545,867</b>	<b>44,423</b>	<b>8.9%</b>	<b>46,774</b>	<b>9.4%</b>
<b>Operating Expenses</b>	<b>261,226</b>	<b>302,711</b>	<b>300,631</b>	<b>334,612</b>	<b>31,901</b>	<b>10.5%</b>	<b>33,981</b>	<b>11.3%</b>
<b>Net Operating Income</b>	<b>204,030</b>	<b>198,733</b>	<b>198,462</b>	<b>211,255</b>	<b>12,522</b>	<b>6.3%</b>	<b>12,793</b>	<b>6.4%</b>

Growth driving expenses and revenues

# 2018 Operating Budget for Non-Aviation

(\$ in '000s)	2016	2017	2017	2018	Budget Change		Budget vs Forecast	
	Actual	Budget	Forecast	Budget	\$	%	\$	%
<b>Operating Revenues</b>								
Maritime	50,810	51,830	52,614	54,622	2,792	5.4%	2,008	3.8%
EDD	15,902	16,030	16,547	18,522	2,492	15.5%	1,975	11.9%
NWSA Distributable Revenue	61,584	46,708	51,288	46,647	-61	-0.1%	-4,642	-9.0%
Stormwater Utility - Maritime	3,677	3,845	3,845	4,208	363	9.4%	363	9.4%
Central Services & Others	1,236	388	388	182	-206	-53.2%	-206	-53.2%
<b>Total</b>	<b>133,210</b>	<b>118,801</b>	<b>124,682</b>	<b>124,181</b>	<b>5,380</b>	<b>4.5%</b>	<b>-501</b>	<b>-0.4%</b>
<b>Operating Expenses</b>								
Maritime	40,268	46,502	45,850	49,284	2,781	6.0%	3,434	7.5%
EDD	20,983	29,069	26,792	28,651	-418	-1.4%	1,859	6.9%
Joint Venture/POS	1,590	1,128	1,128	4,442	3,314	293.8%	3,314	293.8%
Stormwater Utility - Maritime	629	2,882	2,882	4,476	1,594	55.3%	1,594	55.3%
Central Services	428	2,367	667	782	-1,585	-67.0%	115	17.2%
<b>Total</b>	<b>63,898</b>	<b>81,949</b>	<b>77,319</b>	<b>87,634</b>	<b>5,686</b>	<b>6.9%</b>	<b>10,315</b>	<b>13.3%</b>
<b>Net Operating Income</b>	<b>69,312</b>	<b>36,852</b>	<b>47,363</b>	<b>36,546</b>	<b>-306</b>	<b>-0.8%</b>	<b>-10,816</b>	<b>-22.8%</b>

Flat NOI versus 2017 Budget

# 2018 Operating Budget - Port wide

(\$ in '000s)	2016	2017	2017	2018	Budget Change		Budget vs Forecast	
	Actual	Budget	Forecast	Budget	\$	%	\$	%
<b>Operating Revenues</b>	598,466	620,245	623,774	670,048	49,803	8.0%	46,274	7.4%
<b>Operating Expenses</b>	325,124	384,660	376,118	422,246	37,587	9.8%	46,129	12.3%
<b>Net Operating Income</b>	<b>273,342</b>	<b>235,585</b>	<b>247,656</b>	<b>247,802</b>	<b>12,217</b>	<b>5.2%</b>	<b>146</b>	<b>0.1%</b>

A record \$670M of operating revenues for 2018

# 2018 Comprehensive Budget

(\$ in '000s)	2016 Actual	2017 Budget	2017 Forecast	2018 Budget	Budget Change		Explanations
					\$	%	
<b>Revenues</b>							
1. Aeronautical Revenue - Net	244,235	274,799	266,637	301,082	26,282	9.6%	Cost recovery under SLOA.
2. Portwide Non-Aeronautical Revenue	354,231	345,446	357,138	368,967	23,521	6.8%	Mainly due to higher revenues from the Airport, Maritime & EDD.
3. Tax Levy	71,678	72,000	72,000	72,000	-	0.0%	Assume no change from 2017.
4. PFCs	85,570	89,087	92,087	91,787	2,700	3.0%	Higher enplanement forecast for 2018.
5. CFCs	24,715	26,300	26,300	22,161	(4,139)	-15.7%	Paid off CFC-funded commercial paper in 2017.
6. Fuel Hydrant	6,992	7,024	7,024	7,023	()	0.0%	
7. Non-Capital Grants and Donations	6,284	8,595	5,595	5,504	(3,091)	-36.0%	Lower state grant for T117 in 2018.
8. Capital Contributions	18,108	15,000	10,000	41,379	26,379	175.9%	Increase grants reimbursement from FAA and TSA.
9. Interest Income	8,448	10,822	15,822	15,713	4,891	45.2%	Slight increase in rates and higher cash balances.
<b>Total Revenues</b>	<b>820,261</b>	<b>849,073</b>	<b>852,603</b>	<b>925,616</b>	<b>76,542</b>	<b>9.0%</b>	
<b>Expenses</b>							
1. O&M Expense	325,124	384,660	376,118	422,246	37,587	9.8%	New budget initiatives and average pay increase.
2. Depreciation	164,336	166,300	164,300	163,309	(2,991)	-1.8%	2017 YTD actual lower than the budget.
3. Revenue Bond Interest Expense	105,567	122,026	107,026	122,544	518	0.4%	Assume \$700M new bond issuance in 2018.
4. GO Bond Interest Expense	9,765	17,714	14,714	13,501	(4,213)	-23.8%	Savings from bond refinancing.
5. PFC Bond Interest Expense	5,251	4,985	4,985	4,437	(548)	-11.0%	Decreased debt service on PFC bonds through amortization.
6. Non-Op Environmental Expense	280	5,441	4,441	2,250	(3,191)	-58.7%	Revise costs estimates for ERL balance and superfund sites.
7. Public Expense	8,560	2,488	1,488	10,794	8,306	333.8%	\$6M for Swift & Safe and \$2M for Heavy Haul in 2018.
8. Other Non-Op Rev/Expense	7,485	(257)	(257)	473	730	-283.8%	
<b>Total Expenses</b>	<b>626,368</b>	<b>703,357</b>	<b>672,815</b>	<b>739,554</b>	<b>36,197</b>	<b>5.1%</b>	
<b>Revenues over Expenses</b>	<b>193,893</b>	<b>145,716</b>	<b>179,788</b>	<b>186,061</b>	<b>40,346</b>	<b>27.7%</b>	
9. Special Item	147,700	-	-	-	-	n/a	Second & third payments for Viaduct contribution in 2016.
<b>Change In Net Assets</b>	<b>46,193</b>	<b>145,716</b>	<b>179,788</b>	<b>186,061</b>	<b>40,346</b>	<b>27.7%</b>	

**A strong financial position for the Port in 2018**

# CIP Prioritization

- Staff has prioritized the Maritime/EDD 5-year CIP to align spending with projected funding capacity; recommendations include:
  - Fund North Harbor channel deepening
  - Provide funding for:
    - Projects under construction or required
    - Projects under \$1 million
    - Contingency and small capital
  - Follow asset stewardship program to avoid premature funding of non-critical renewal projects
  - Retain a targeted \$50 million of unallocated funding capacity reserved for future considerations
  - Additional prioritized projects included on following slide
- Airport CIP is fully funded with Airport resources

Prioritization efforts focused on Maritime and EDD projects

# Additional Maritime/EDD Funded Projects

		<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	3,000	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	119,418			

Projects include new initiatives and asset stewardship



# Prioritized Projects

Project Prioritization - Staff Recommendation

**FOR DISCUSSION**

**Highlighted Projects have updates**

**Blue color indicates staff recommendation for funding**

**Pink color indicates projects to compete again for funding in 2018**

	<u>Project</u>	<u>Update</u>	<u>2018- 2022 Cost</u>
		<u>Notes</u>	<u>(\$ mil.)</u>
<b>Staff Recommended for Inclusion in Funded CIP</b>			
	MT C800525 FT Strategic Plan		33,995
	MT C800995 Restoration		18,848
	MT C800675 P91 South End Fender		3,425
A	<b>MT C800129 New Cruise Gangway at T91</b>	<b>#1</b>	<b>4,490</b>
	MT C800531 FT Dock 3,4,5 Fixed Pier Improvmt		6,239
	MT C800356 SBM Restrms/Service Bldgs Rep, paving		8,390
B	<b>EDD C801006 P66 HVAC Systems Upgrade</b>	<b>#2</b>	<b>3,000</b>
	EDD C801016 CW Elevator Modernizations		2,750
	EDD C800199 WTC HVAC Replacement		1,600
	EDD C800889 BHICC Interior Modernization		6,681
	EDD C800158 T91 Uplands Development		30,000
	Sub total		<b>119,418</b>

	<u>Update</u>	<u>2018- 2022 Cost</u>
	<u>Notes</u>	<u>(\$ mil.)</u>
<b>Staff Recommended for Future Review in 2018</b>		
C	<b>MT C800993 Property ACQ</b>	<b>#3 32,000</b>
D	<b>EDD C800887 P69 Ext &amp; Lobby Improvements</b>	<b>#4 2,500</b>
	MT C800539 BHM Pile Wraps	3,350
	MT C800534 FT S Wall CI Fndr Rp & Cor Prt	13,300
	MT C800528 FT W Wall N Fender Replacement	3,050
	MT C800529 FT W Wall N Sht Pile Crsn Prtn	2,884
	MT C800533 FT W Wall S Sht Pile Cor Protn	2,210
	MT C800530 FT S Wall Wt End Improvements	1,674
E	<b>MT C800678 HIM ABCDE Dock</b>	<b>#5 12,370</b>
	MT C800741 Duwamish Mooring Dolphins	2,300
	MT C800820 P66 Exterior Modernization	12,480
	MT C801020 Maritime Video Camera Project	3,200
	Sub total	<b>91,318</b>

- 1 as originally contemplated, an additional fee (surcharge) will recover costs in an estimated 4 years.
- 2 P66 HVAC capital costs over 2018-2022 reduced by \$14.8 million, some higher maintenance costs will be needed.
- 3 Commission has suggested acquisition may be an addition to be funded.
- 4 Project will focus on Clipper, assuming lease terms provide positive return on investments, lobby accessible furniture, and possibly security improvements.
- 5 HIM dock replacement can be deferred except for possibly dock E. If 2018 evaluation indicates an urgent need it can be paid from contingency, estimate is \$4 million.

**23 projects were reviewed**

# Capital Plan Summary

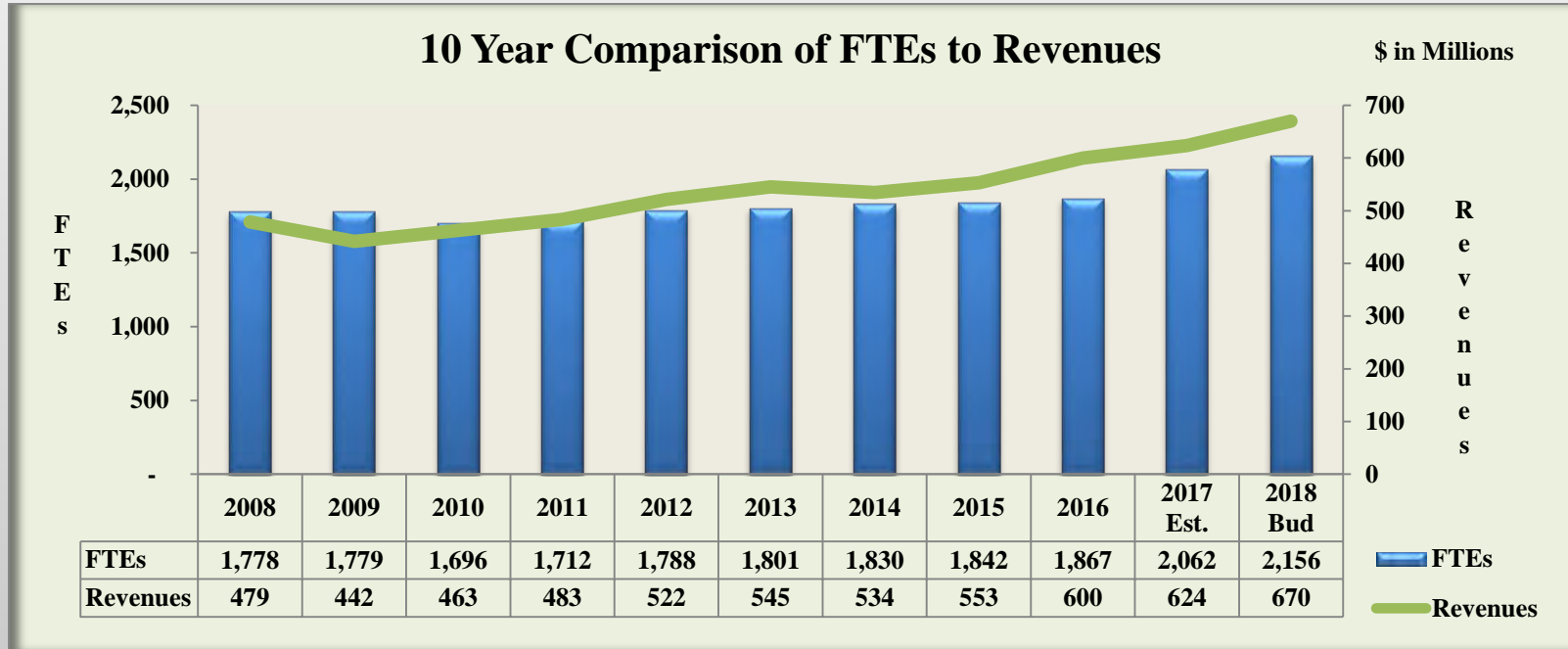
## Capital Plan Summary by Division

\$ in 000's	2017 Fcst	2018	2019	2020	2021	2022	2018-2022
Aviation	340,056	815,704	724,212	507,919	459,023	311,828	2,818,686
Maritime	25,076	38,090	31,821	21,921	20,120	14,845	126,797
Economic Development	4,718	9,178	16,979	22,900	8,580	7,180	64,817
Stormwater Utility	1,407	1,700	1,650	2,592	2,150	2,150	10,242
Central Services and Other	7,328	13,556	12,401	10,071	10,873	11,706	58,607
<b>Total</b>	<b>378,585</b>	<b>878,228</b>	<b>787,063</b>	<b>565,403</b>	<b>500,746</b>	<b>347,709</b>	<b>3,079,149</b>

- Capital projects have been prioritized by staff.
- The capital plan does not include \$249.9M for our share of the NWSA capital spending between 2018 and 2022.

**The Port continues to invest in the region with a 5-year capital plan of over \$3 billion**

# 10 Year Comparison of FTEs to Revenues



- The annual compound growth rate is 1.9% for FTEs compared to 3.4% for operating revenues from 2008 to 2018.

**Operating revenues outgrew FTEs for the past 10 years**

# FTE Summary

	Aviation	Maritime	Econ Dev.	Central Services	Total
2017 Approved FTE's	962.9	162.3	36.0	870.1	2,031.3
Mid Year Approval	15.3	1.0	-	15.5	31.8
Eliminated	-	-	-	(1.0)	(1.0)
Net Transfers	-	1.0	(1.0)	-	-
Adjusted 2017 FTE's (note 1)	978.2	164.3	35.0	884.6	2,062.1
2018 Budget					
Eliminated	-	-	-	(1.6)	(1.6)
Transfer	-	-	-	-	-
New FTE's (note 2)	62.2	3.8	1.0	27.4	94.4
Total 2018 Changes	62.2	3.8	1.0	25.8	92.8
<b>Proposed 2018 FTE's</b>	<b>1,040.4</b>	<b>169.0</b>	<b>36.0</b>	<b>910.5</b>	<b>2,155.9</b>

Notes:

(1) Includes 1.0 FTE for Stormwater Utility in Maritime Division.

(2) Includes 2 new FTEs for WMBE and 1 new FTE for Priority Hire added after the Commission budget briefings.

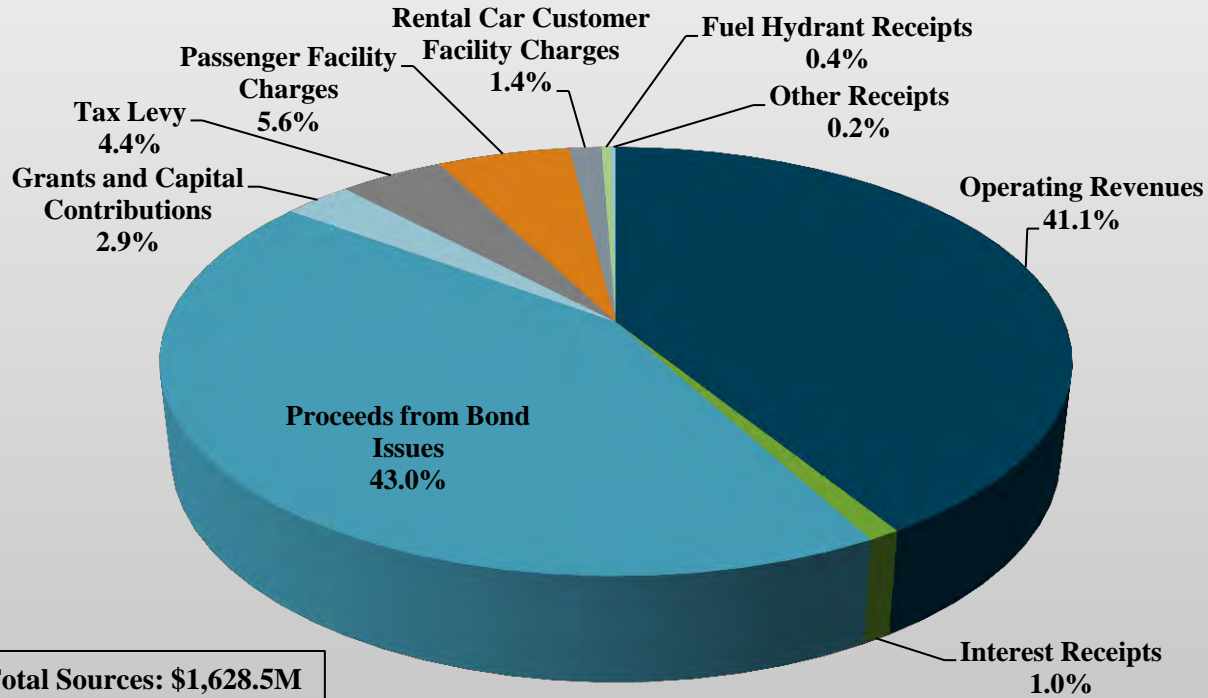
**FTEs driven by Commission priorities and growth initiatives**

# 5 Year Financial Forecast

(\$ in 000's)	Budget 2017	Forecast 2017	Budget 2018	Forecast				Compound Growth 2018 - 2022
				2019	2020	2021	2022	
<b>OPERATING BUDGET</b>								
Aeronautical Revenue - Net	274,799	266,637	301,082	358,885	404,903	463,050	485,623	12.7%
Portwide Non-Aeronautical Revenue	298,738	305,849	322,320	321,429	326,581	333,986	344,049	1.6%
NWSA Distributable Revenue	46,708	51,288	46,647	43,122	42,334	45,815	46,498	-0.1%
<b>Total Operating Revenues</b>	<b>620,245</b>	<b>623,775</b>	<b>670,048</b>	<b>723,436</b>	<b>773,818</b>	<b>842,852</b>	<b>876,171</b>	<b>6.9%</b>
<b>Total Operating Expenses</b>	<b>384,660</b>	<b>376,118</b>	<b>422,246</b>	<b>431,797</b>	<b>452,041</b>	<b>473,164</b>	<b>491,161</b>	<b>3.9%</b>
<b>Net Operating Income Before Depreciation</b>	<b>235,585</b>	<b>247,657</b>	<b>247,802</b>	<b>291,641</b>	<b>321,777</b>	<b>369,688</b>	<b>385,009</b>	<b>11.6%</b>

Steady growth in Net Operating Income projected

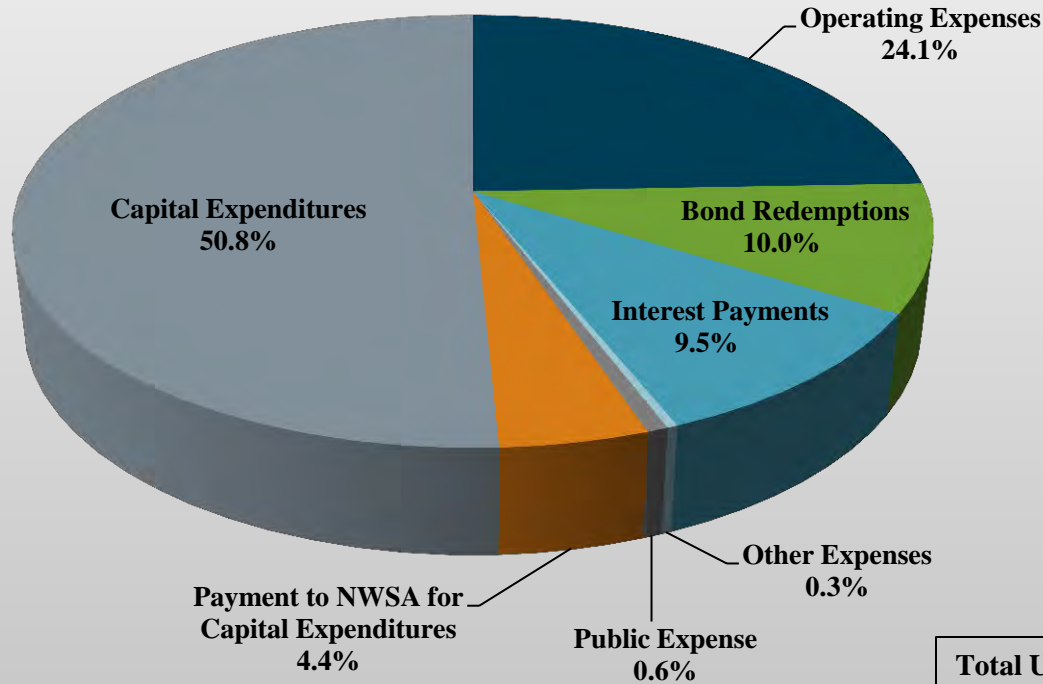
# Sources of Funds



- 84% of funding sources come from bond proceeds and operating income.
- The tax levy makes up less than 5% of the funding sources in 2018.

The Port has diversified funding sources

# Uses of Funds



- Plan to spend more than half of our funds on capital projects in 2018.
- Operating expenses are less than a quarter of total expenditures in 2018.

Capital spending comprises more than half of Port expenditures

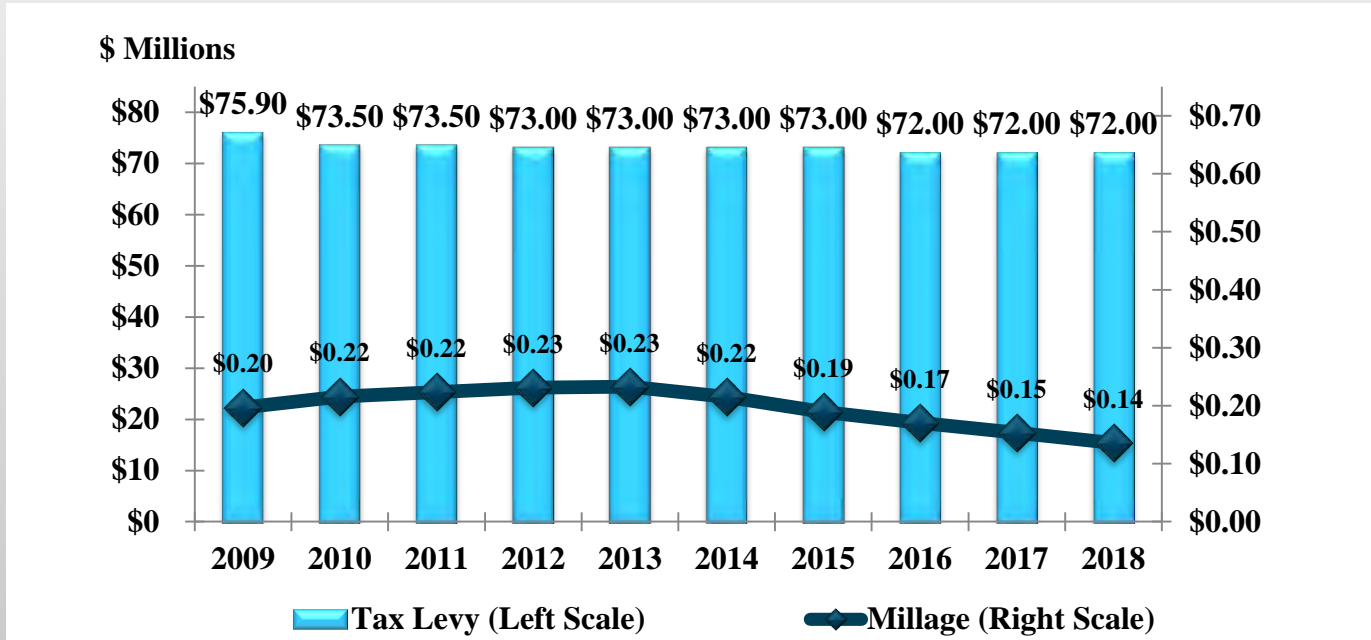
# 2018 Tax Levy

- The maximum allowable levy for 2018 is \$101.6 million.
- For 2018 the levy will be \$72.0 million.
- The estimated millage rate is \$0.1358.
- The 2018 levy will be used for:
  - General Obligation (G.O.) Bonds Debt Service
  - Regional Transportation projects
  - Environmental Remediation
  - Capital projects meeting specified criteria endorsed by the Commission
  - Economic development initiatives including workforce development and economic development partnership programs
  - Other environmental initiatives including Airport Community Ecology funding and energy and sustainability policy directives

The Port uses tax levy for community investments

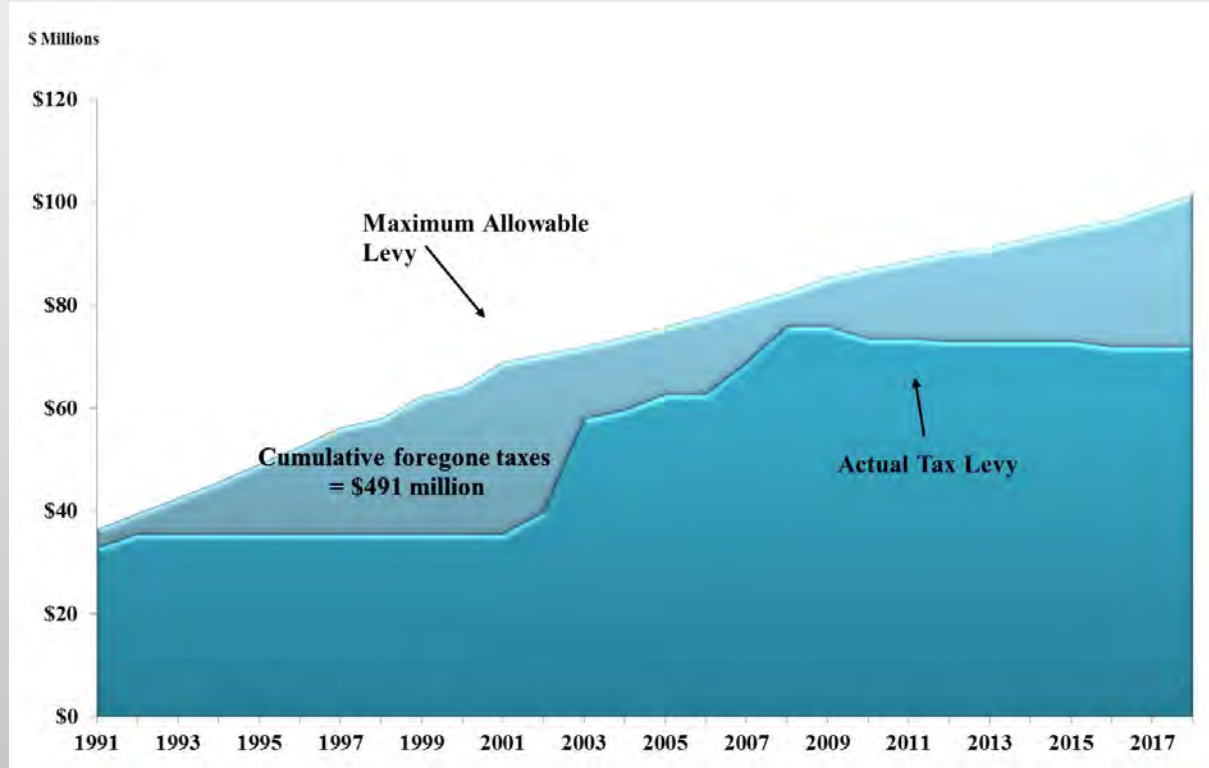


# 2009-2018 Tax Levy & Millage Rate



The Port has gradually reduced the tax levy amount since 2009

# Actual vs. Maximum Allowable Levy



The Port has forgone \$491M in tax revenue since 1991

# Remaining Budget Schedule

- Second Budget Reading Nov. 28, 2017
- File Statutory Budget with King County Dec. 1, 2017
- Release the 2018 Final Budget Document Dec. 15, 2017

Statutory budget to be filed with the County on December 1

# Port of Seattle 2018 Budget First Reading & Public Hearing

Commission Meeting  
November 14, 2017