

Port of Seattle 2010 Budget Planning

August 11, 2009

Overview

- Aviation Budget Preview
 - Seaport Budget Preview
 - Real Estate Budget Preview
 - 2010 Budget Assumptions
 - 2010 Budget Calendar
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- The background of the slide is a dark blue image with silhouettes. On the left, there is a large cargo ship at a port with a crane. On the right, there are silhouettes of people walking, including one person talking on a mobile phone, suggesting an airport or transit hub.

Airline Industry

- Domestic airline industry lost \$9.5 billion in 2008
 - Oil price rise followed by financial collapse and deep economic recession
- Since 2001, industry has lost \$37 billion, and was only profitable in 2006 and 2007
- Airlines responded by reducing capacity by 12% in past two years, and cutting costs
- Weak economy has depressed travel demand in 2009
 - Top ten US airlines have lost nearly \$2.5 billion in first half of 2009
 - In spite of new fees, revenues dropped 26% for June compared to June 2008
 - Fewer first class and business class tickets sold

Airline Industry

- Recent airline decisions/announcements:
 - Delta: will reduce international capacity by 15%
 - Reduced combined workforce by 10%
 - Continental: will cut 1,700 more jobs (already cut 1,200)
 - Southwest: Will cut capacity 5-6% in 2009 compared to 2008
 - 1,400 Southwest employees (4%) took voluntary separation buyout
 - United: will reduce international flights by 7%
 - American: will reduce system wide capacity by 7.5%
- Outlook for remainder of 2009:
 - Continued weak demand, low yields
 - Relatively high and volatile oil prices
 - Industry profits unlikely; liquidity concerns could lead to bankruptcy and/or liquidation
 - Additional capacity cuts possible in fall/winter

Sea-Tac Outlook

- 2009 Enplanement growth has remained strong:
 - 2009 budget -3.0%
 - Feb. 2009 revision -7.0%
 - YTD June -5.1%
 - Projection for 2009: -5.0% – 7.0%
- Economy may be bottoming out, but demand for travel will likely lag the recovery
- Financial challenges will persist for airline industry
 - Unclear how needed capacity reductions will affect Seattle market
 - Alaska's scheduled seats for Q4 2009 at Sea-Tac are down 5.3% vs. 2008
 - Still a competition-induced capacity bubble on west coast?
- Currently assuming no passenger growth for 2010.

Key Revenue Assumptions

- Airline revenues
 - Rates set to recover costs, so capital and operating budget decisions will affect revenues
 - Passenger volume and landed weight is down, putting pressure on rates
- Non-airline revenues:
 - Parking, rental car and concessions revenues affected by reduced enplanement levels and economy
 - Parking has declined faster than enplanements
 - Concessions sales per enplanement has dropped
 - Rental car transaction percentage has dropped
 - Commercial properties, utilities more stable

Expense Trends and Risks

- Achieving 5% expense reduction target is challenging
- Much of expense savings plan implemented in 2009 not sustainable
- Zero-based budget process designed to identify sustainable cuts
- Over 60% of budget composed of payroll-related costs
 - Achieving budget target will require reduction in staff
- Rising maintenance costs for old elevators and escalators
- More snow?

Seaport 2010 Budget Preview

- Operating Revenue (excluding grants and reimbursements) is projected to be approximately flat compared to 2009 Budget
- Primary components of revenue:
 - In place leases
 - Volume: Cruise, Grain, Crane Rent
 - Grants/Reimbursements

Seaport 2010 Budget Preview

Key Revenue Assumptions

- TEU volume 8% decrease from 2009 budget
- Eagle Rate increase in July
- Container Terminal Customer Support Plan
- T25/30 lease – full year of lease payments in 2010
- Cruise forecast 6% increase in passengers
- Grain volume
- Properties in transition

Seaport 2010 Budget Preview

Expenses 10% below 2009 Budget (excluding Grant Expenses)

Expense Trends and Risks

- Asset Condition Assessments
- Repair Costs
- Environmental Reserves
- Stormwater
- Implementation of NW Clean Air Strategy
- Maintenance Dredging
- Fender Piling Expense Projects

Real Estate 2010 Budget Preview

Operating Revenues expected to be flat or up slightly relative to 2009 Budget

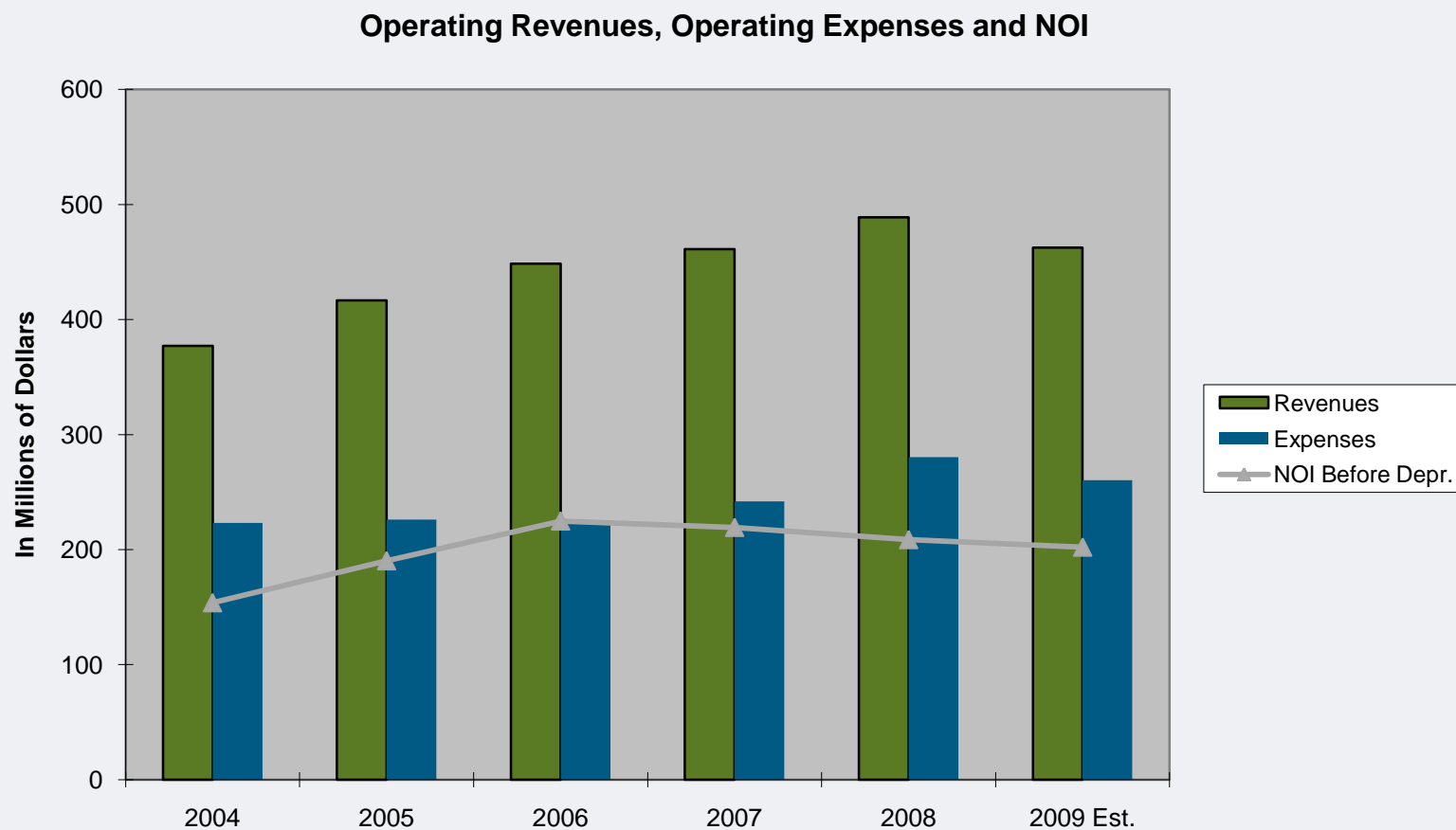
- Third party revenue may increase due to addition of Maritime Event Center venue
- Harbor Services revenue may be up slightly if rate changes warranted
- Potential higher vacancies in commercial properties and recreational marinas
- Eastside Rail Corridor

Real Estate 2010 Budget Preview

Expense Trends and Risks

- Deferred maintenance projects
- Tenant improvements (expenses related to lease renewals)
- Eastside Rail Corridor unknowns
- Audit implications unknown

Net Operating Income Comparison



Payroll Assumptions (2010 Projected Salary and Benefits Rate)

- Average pay for performance of 3.75% (and funding for the increases is 2.8%)
- Salary ranges increase of 1.5%
- Reduction in benefit costs: average benefit rate projected at 38.7% (vs. 39.4% in 2009)
- Better forecast by the end of August

Other Budgeting Issues

- Revenue assumptions yet to be finalized
- Focus on sustainable O&M cost reductions (using Modified Zero Based Budgeting)
- Voluntary Separation Program (VSP)
- FTE reductions
- Recognize majority of severance costs in 2009

2010 Budget Calendar

August

- Commission workshops on division business plans and strategies
- Budget Guidelines released on 8/12
- Budget system available by 8/17
- Finalize all the ZBB decisions by the end of Aug.

2010 Budget Calendar - Cont.

September

- Preparation of preliminary operating and capital budgets
- Internal budget reviews by depts and divisions
- Executive preliminary budget reviews
- Commission tax levy workshop(s)

October

- Commission budget workshops
 - Operating and capital budgets
 - Draft Plan of Finance & Tax Levy

2010 Budget Calendar - Cont.

November

- Preliminary budget document released
- First and second reading of budget resolution

December

- Statutory budget filed

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