

ITEM NO. 9a Supp-1

DATE OF
MEETING September 17, 2009

Preliminary Tax Levy Discussion

September 17, 2009



Topics

- Background – historical levy uses
- Century Agenda – New Funding Policy
- Self Sustaining Seaport
- Levy Use for Real Estate
- Preliminary Levy Scenario

Tax Levy Background

- General Purpose tax levy authorized for “any lawful Port purpose”
- Statutory limitations on annual collection; Port is below maximum
- By policy generally restricted to Seaport/Real Estate capital investments, environmental expenses, freight mobility projects
- Federal restrictions on use of airport revenues for non-airport purposes

Prior Levy Funding Criteria*

- Projects with long lead times where revenues significantly lag capital expenditures; or
- Project financial return won't support revenue bond financing; and
- Project generates significant regional economic or community benefits

* Policy endorsed by Port Commission in 1990s

1994-2008 Seaport & Real Estate Invested \$1.5 Billion, Approximately ½ was Levy Funded

	Levy Funding* (\$ million)
Container terminal expansion and development	447
Harbor wide dock renewal and upgrades	90
Central Waterfront redevelopment	84
Cruise Terminals	35
Environmental costs	49
Fishermen's Terminal improvements	27
Freight Mobility (FAST Corridor)	25
Highline Schools Noise Mitigation	15
Eastside Corridor	11
Other (NorthBay, parks, security, small projects)	20

*Includes cash and General Obligation bond funding; represents partial funding of some projects
 Approximately \$90 million is non-capital spending

2009 Levy Uses - Budget

- Levy uses include debt service on G.O. bonds primarily used to fund Seaport projects
- Levy cash can be used for either Seaport or Real Estate projects

	2009 Budget
<u>SOURCES</u>	
Projected Tax Levy Collection	75,899
Prior Year Levy Fund Balance	36,800
Total Projected Sources	112,699
<u>USES</u>	
Existing G.O. Debt Service - Seaport	38,031
Existing G.O. Debt Service - Real Estate	2,391
Subtotal Existing Debt Service	40,422
Projected new G.O. Debt Service - Seaport	6,764
Projected new G.O. Debt Service - Real Estate	10,586
Subtotal New Debt Service	17,350
Total Projected G.O. Debt Service	57,772
Committed Capital Expenditures	32,476
BP Prospective Capital Expenditures	4,000
Expense	
Public Expense: Seaport (Fast Corridor I & II)	6,705
Environmental Expense	4,232
Port Jobs	46
Aviation NOISE Projects	650
Total Projected Expenses	11,633
Total Projected Uses	105,881
Projected Ending Balance	6,818

Existing G.O. Bond Debt Service

	2009 (in 000's)
Containers	
Stage II Dredge- Phase I	\$922
T-5 Expansion & Upgrades	18,089
T-46 Expansion Redevelopment	4,458
T-18 Expansion & Upgrade	12,074
Total Containers	\$35,544
Docks and Commercial Properties	
T-91 Apron & Infrastructure Improvements	2,219
Pier 17 Dock Replacement	122
T-86 Terminal Upgrades	120
Total Docks and Commercial Properties	\$2,461
Commercial Properties	
World Trade Center Garage	640
Fishing	
Fishermen's Terminal Docks & Seawall Renewal	1,778
Total G.O. Bond Debt Service	\$40,423

Century Agenda: Funding Policy & Strategy Principles

- The Port should be primarily funded through the self-sustaining enterprises that are at the core of its mission. Revenues from the Port's tax levy should be used for activities that are not fully self-sustaining and cannot be funded in another manner. These activities should directly support the Port's core mission, provide for critical infrastructure investments, or provide environmental mitigation that cannot be funded through its enterprises.
- The Port should demonstrate to the public that it has managed its financial resources as a disciplined steward of the public interest, guided by priorities set forth in its strategic plan
- The Port should foster a culture of partnership and collaboration in pursuing public and private funding partnerships for investments that reap shared benefits to all its partners, and that no single entity can achieve independently.

Adopted August 4, 2009

Assumptions for Preliminary Discussion

- Preliminary information – for discussion only
 - Information is based on Seaport and Real Estate updates in June 2009
 - All information will be updated as part of the budget process
- Airport information not included
 - Airport is separately funded and self-sufficient
 - Exception is the Highline School noise mitigation which is levy funded

Approach

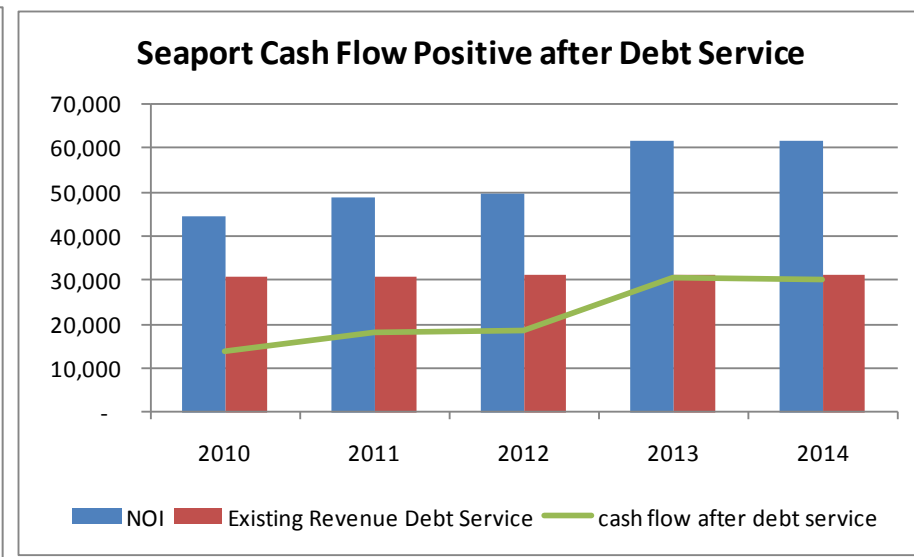
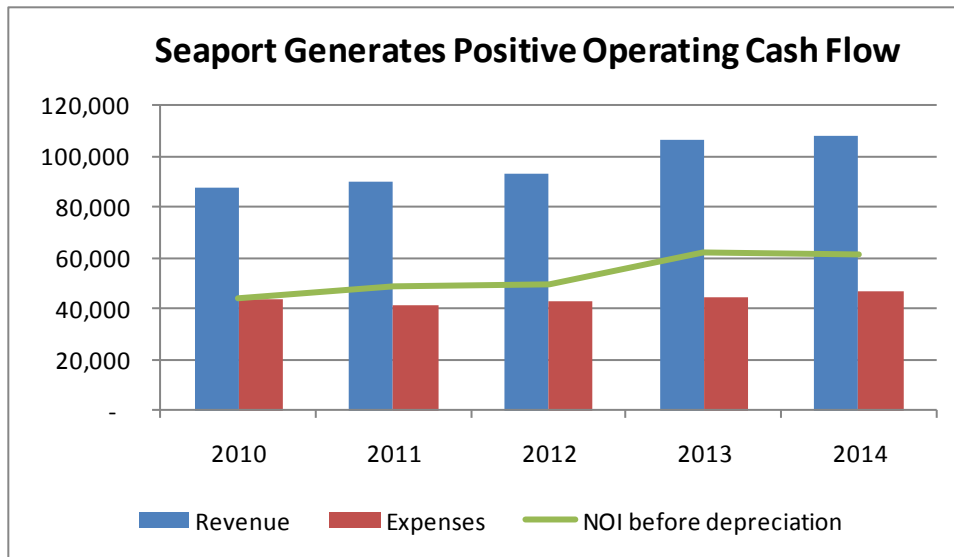
- Seaport and Real Estate had been a combined operating division
 - Separated in 2008 for operations and reporting
 - Have continued to be combined for funding purposes
- This discussion considers the implications of separate funding for Seaport and Real Estate
 - Ability to generate funds from operating revenue
 - Tax levy support

	Seaport	Real Estate
Positive cash flow	Yes	No
Self-supported CIP	Yes	No
Tax Levy support needed	No ⁽¹⁾	Yes

(1) Assumes deferral of some capital projects

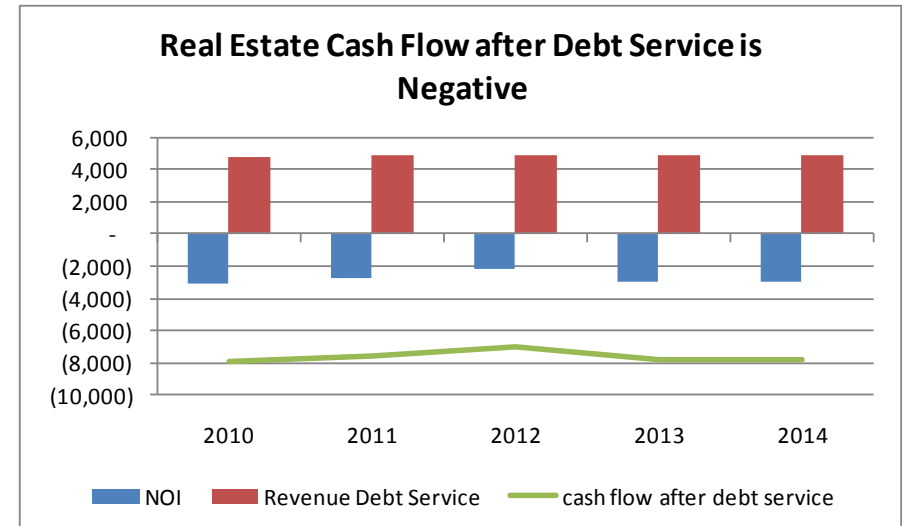
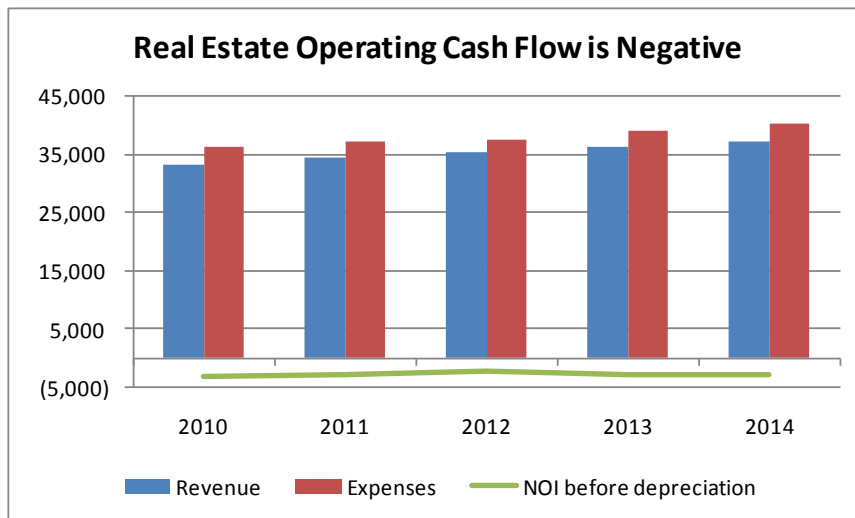
Seaport Cash Flow - Positive

- Seaport generates positive operating cash flow (NOI before depreciation)
- Seaport's cash flow is also positive after payment of revenue bond debt service



Real Estate Cash Flow - Negative

- Real Estate operating expenses exceed revenues – negative operating cash flow (NOI before depreciation)
- Revenue bond debt service further reduces cash flow
 - Real Estate Revenue Bond debt totals \$59 million

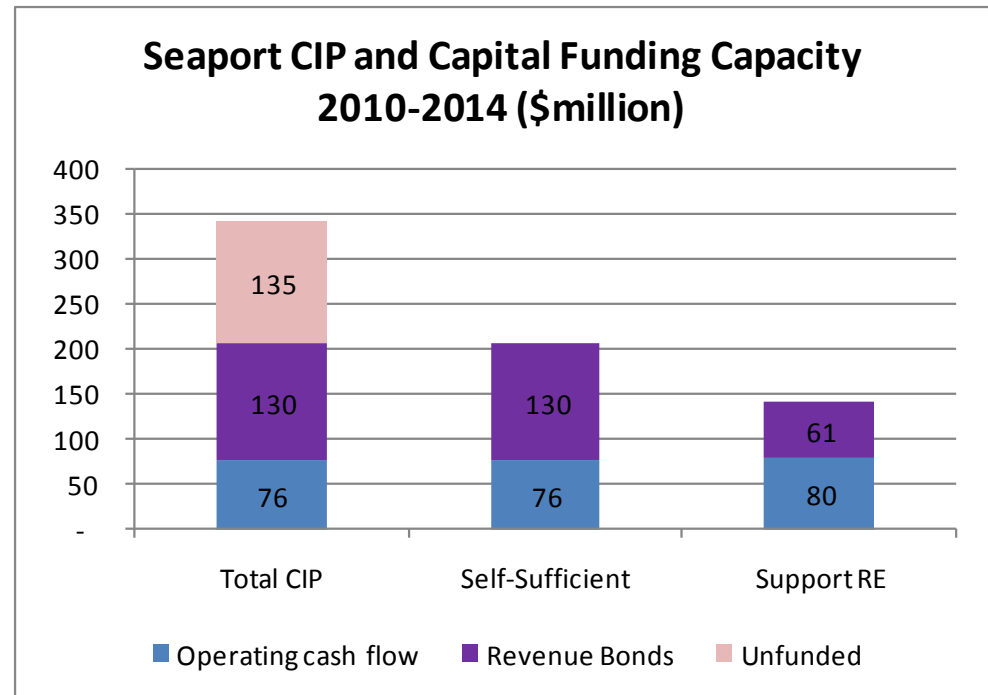


Solving the Real Estate cash flow deficit

- There are three options for managing the negative cash flow
 - 1. Continue to use Seaport positive cash flow to pay Real Estate operating deficit and debt service
 - Alternatively
 - 2. Use the tax levy to pay for the Real Estate deficit
 - 3. Retool Real Estate to improve cash flow
 - Real Estate is already working toward improved profitability where possible
 - Assets can be sold or leased and proceeds used to pay down Real Estate debt
- These options can be combined
 - For analysis, options 1 & 2 are considered separately

Option #1: Seaport Support of RE reduces Seaport Capital Funding Capacity

- Seaport's cash flow without supporting RE can support a \$206 million CIP
 - Requires deferral of \$135 million of the total \$341 million CIP
- Seaport's ability to fund its CIP decreases further if it supports RE
 - Seaport will likely need tax levy support for some capital projects
 - Or defer an additional \$65 million of capital spending until post 2014



- Seaport CIP includes Committed and Business Plan Prospective projects
 - 5-yr total is \$341 million
 - Of which, \$135 million needs to be deferred

Option #2: Tax Levy Supports Real Estate

- Policy Question – Should the tax levy be used to fund the Real Estate operating deficit (including direct expenses and allocated overhead)
 - Legally levy can be used for this purpose, but Port policy has excluded most operating expenses
 - Alternative is to continue tax levy support of Seaport
 - Allows Seaport to support Real Estate
- Capital Projects – historically the tax levy has funded a variety of capital projects for Seaport and Real Estate
 - Under Option #2, Real Estate projects would be levy funded
 - No Real Estate cash flow for funding projects
 - No Seaport support
 - Under Option #2, Seaport would no longer receive levy funding for capital projects

Other Tax Levy Uses

- For budget planning purposes, staff is assuming that the tax levy will continue to fund the following
 - Existing G.O. bond debt service
 - Public expense projects
 - FAST corridor
 - Eastside corridor
 - Highline School noise mitigation
 - Seaport and Real Estate environmental expenses
 - Seaport and Real Estate portion of PortJobs

Preliminary Levy Scenario

•Possible levy scenario based on preliminary information

- Levy is maintained at 2009 levy until 2013
- No new G.O. debt

•Assumptions

- Port participation in waterfront tunnel has not been included in the calculations
- Environmental cash flows are based on current reserved amounts

9/9/2009 Update	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>LEVY USES</u>					
G.O. DS	40,426	40,438	40,442	40,444	40,442
<u>Other uses</u>					
Sea Pub Exp FAST/mobility	21,644	1,509			
AV Pub Exp - Highline Noise	9,075	7,650	650	4,880	
Environmental Reserve cash flow	5,466	2,630	1,407	500	264
PortJobs	46	46	46	46	46
Subtotal Other	36,231	11,835	2,103	5,426	310
<u>Real Estate Support</u>					
RE Capital	44,307	26,575	21,686	20,200	10,756
RE Operating Subsidy	3,119	2,790	2,130	2,951	2,930
Subtotal RE Support	47,426	29,365	23,816	23,151	13,686
Total Uses	124,083	81,638	66,361	69,021	54,438
<u>LEVY SOURCES</u>					
Available Balance	48,000	(184)	(5,923)	3,615	(406)
Annual levy	75,899	75,899	75,899	65,000	55,000
Total Sources	123,899	75,715	69,976	68,615	54,594
Projected Ending Fund Balance	(184)	(5,923)	3,615	(406)	156