ITEM NO: 7a Supp 1

DATE OF
MEETING October 23, 2012

2013 Budget Follow-up
Airport Fund Balance

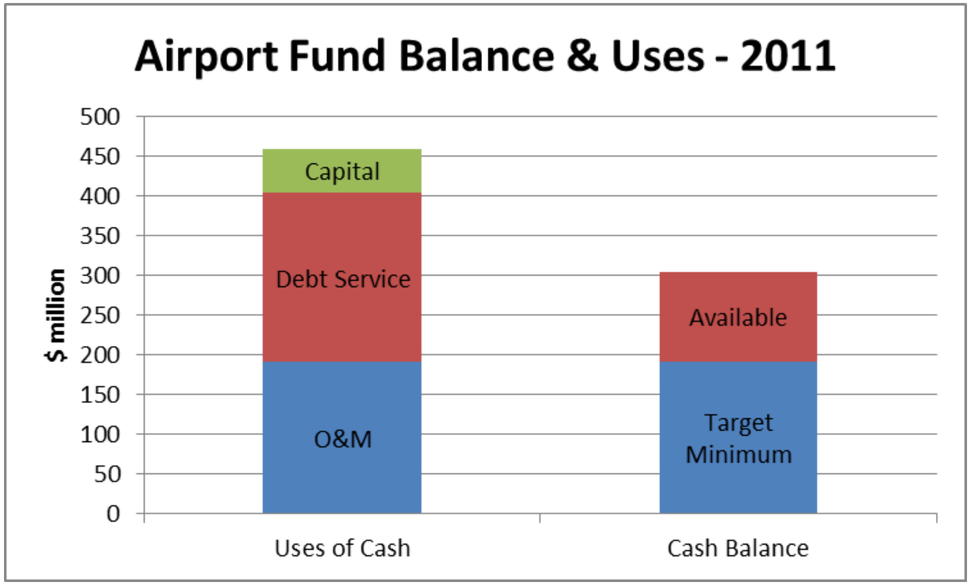
October 23, 2012

Port of Seattle

Fund Balance Based on Business Management

- Amount of minimum balance is driven by prudent business and financial management - Balance achieving business goals with maintaining flexibility
- Port has always maintained minimum fund balances to provide liquidity for business operations
  – Pay on-going operating and maintenance expenses
  – Pay debt service
  – Pay cash funded capital projects (excludes debt funded)

2011 target balance equaled
5 months of cash uses



Port of Seattle

Cash is a Risk Management Tool

- Occasional extraordinary uses of cash
  - February 2001 earthquake
    - Port self-insured for earthquakes
    - Timing gap for recoveries
  - Financial crisis 2008-2009
    - Cash funded rental car facility project with a $20 million “loan” from the ADF
    - Port’s commercial paper program unavailable as normal source of liquidity
    - Provided cash to meet a debt service reserve requirement when the surety provider went bankrupt

History of 10 month target

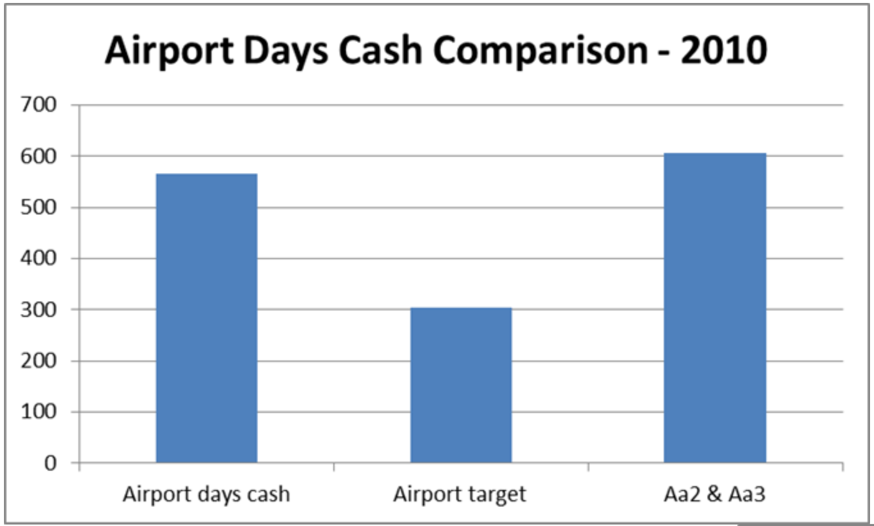
- Prior to 2003, Port targeted $20 million balance
  - Port charged the airlines 1.35x debt service
  - Full airport residual model meant airlines, not airport, absorbed enplanement risk even for non-aeronautical businesses
- 2005 negotiated new airline agreement
  - Reduced airline costs & Reduced Airport's financial margins
    - 1.0x debt service charge
    - Use PFCs & CFCs to pay Revenue Bond debt service
  - Allows for more cash funded, less debt funded capital
  - Shifted non-aeronautical risk and opportunity to airport

History of 10 month target

- Developed Intermediate Lien to support these changes
  - Rating Agencies and Investors have placed greater emphasis on liquidity following 9/11 and the 2008 financial crisis
  - Ratings based on increasing cash-on-hand in exchange for lower debt service coverage
  - Overall target of 9 months O&M
    - 10 months for the Airport – larger allocation to Airport based on Airport driver for shift from cash flow to cash-on-hand/liquidity
    - 6 months for the Seaport & Real Estate
- 2012 Bond Issue Moody's noted factors that could cause a downgrade
  - First noted was a reduction in liquidity position

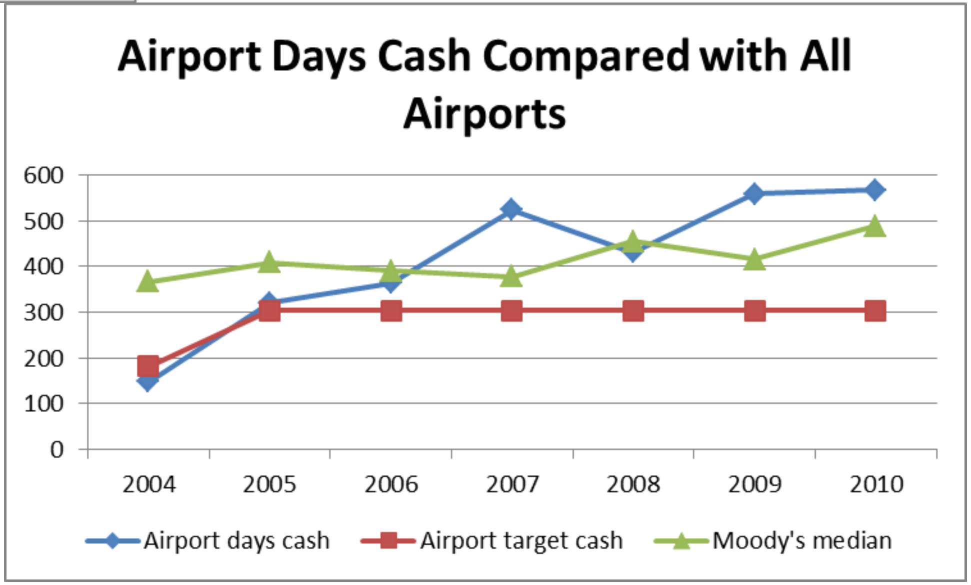
Port of Seattle

Moody's Airport Median Comparison



Airport's actual days cash and target days cash are below similarly rated airports
- target is similar to lowest ratings

Historically, compared to all investment grade airports (Baa3-Aa2) the Airport's target cash is low



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