

ITEM NO. 7a Supp 3

DATE OF
MEETING October 23, 2012

Preliminary Tax Levy Funding Plan Discussion

October 23, 2012



Topics

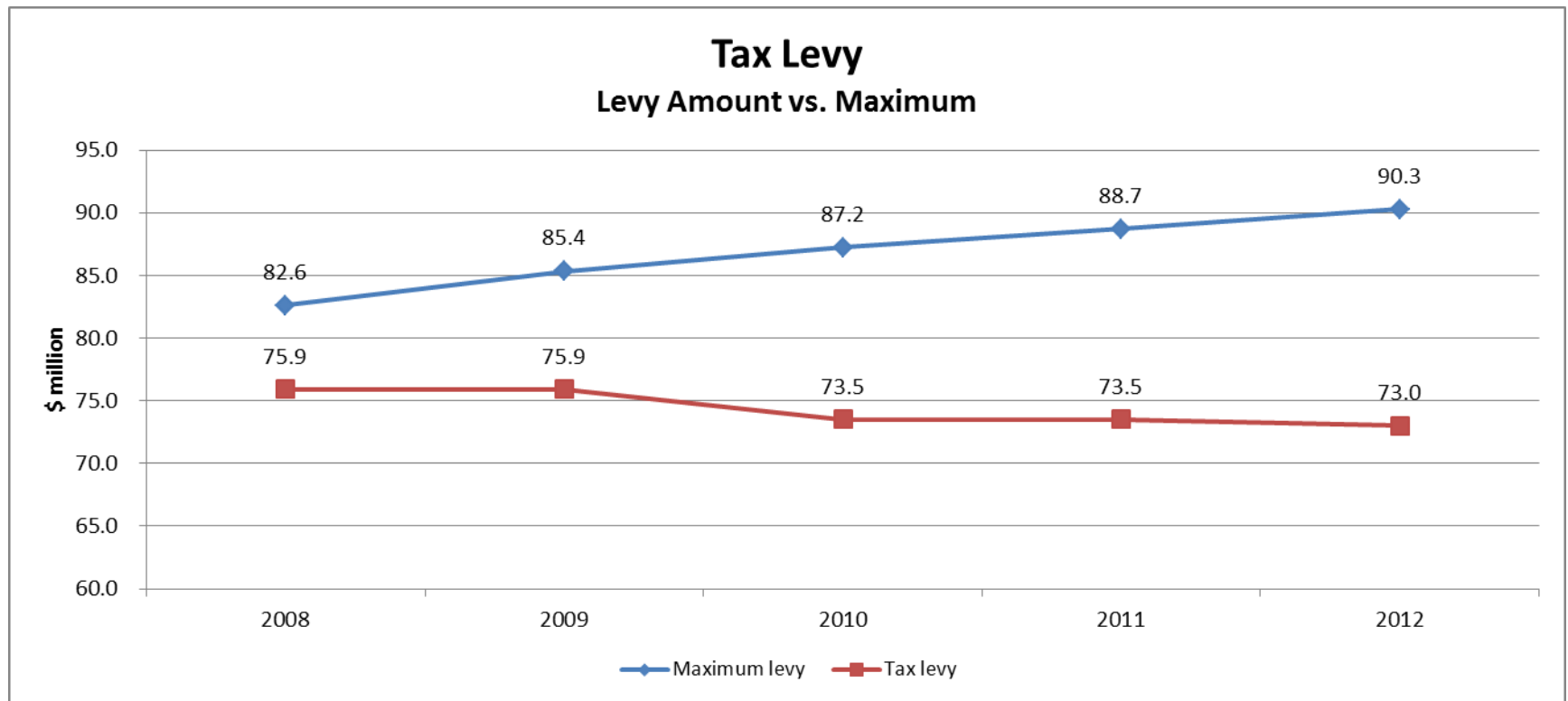
- Tax Levy Overview and background
- 2012 Tax Levy update
- Tax Levy 10-year funding uses
- Tax Levy scenarios and discussion

Tax Levy Overview

- Tax Levy Amount
 - Levy amount established by the Commission each year as part of the budget process
 - Statutory limitations on annual collection
 - Port may set Levy at any amount up to the statutory maximum
 - Maximum increases each year by the lesser of inflation or 1% plus a factor for new construction
 - 10-yr average of 2.5% (range of 1.6%-3.3%)
- Tax levy may legally be used for general Port purposes, actual use has been guided by Commission policy
- Payment of General Obligation bond debt service
 - Port policy – debt service is no more than 75% of annual levy
 - Currently at 55%

Annual Levy vs. Statutory Max

- Annual levy is well below statutory maximum
- Preliminary 2013 maximum levy estimate is \$91.4 million



2012 Tax Levy, Estimate/Actual vs. Budget

Significant Variances

- Receipt unanticipated environmental grants
 - Approx. \$1 million this year netted against spending
- Lower environmental expenditures
- Receipt of unbudgeted rail corridor payment from Sound Transit
- Lower Real Estate capital spending due to project deferrals

\$'000	<u>Budget</u> <u>2012</u>	<u>Est./Act.</u> <u>2012</u>
<u>LEVY SOURCES</u>		
Beginning Tax Levy Fund Balance	41,618	39,281
Eastside Rail Corridor Partners Reimbursements	5,000	18,746
Tax Levy Fund Investment Earnings		552
Annual levy	73,000	73,000
Total Sources:	119,618	131,579
<u>LEVY USES</u>		
<u>General Obligation (G.O.) Bonds Debt Service (DS)</u>		
G.O. Bonds DS - existing debt	40,353	40,353
<u>Other uses</u>		
Roads and Transportation Projects	3,954	3,728
Seaport Capital - Argo Roadway Element		192
Aviation School, and Highline & other Schools NOISE Insulation	650	650
Environmental Remediation Liabilities, Seaport & Real Estate - prelim.	15,889	6,656
Funding of Transportation & Infrastructure Fund	23,000	23,000
PortJobs	126	126
Subtotal Other	43,619	34,352
<u>Real Estate Support</u>		
RE Capital Total ⁽²⁾	14,524	4,213
RE Operating Subsidy	4,922	4,211
Subtotal RE Support	19,446	8,424
Total Uses:	103,417	83,129
Projected Ending Tax Levy Fund Balance	16,200	48,451

Notes:

(1) Includes project cash flows for environmental projects already or expected to be expensed and liabilities booked

(2) Includes Committed and Business Plan Prospective projects

2013- 2022 Uses of the Tax Levy

- General Obligation bond debt service, existing and new
- Contribution to the Alaskan Way Tunnel and South Park Bridge
- Funding of Seaport/Real Estate legacy environmental remediation costs (non-operating):
 - Includes Lower Duwamish/East Waterway
 - Costs are net of payments by potentially liable parties; excludes potential recoveries from grants, insurance or litigation
- Substantial completion of FAST Corridor initiative & Highline Schools noise mitigation program
- Partial funding of Seaport Argo Road Element project and Corporate capital allocations to Real Estate
- PortJobs – including Apprenticeship and Transportation Programs
- Real Estate Capital Improvement Plan
- Real Estate support for net income deficit

Estimated Tax Levy Uses 2013-2022

\$ million

- Baseline Uses previously identified
- Reflects current estimated spending
- Assuming an annual levy of \$73 million, these estimates result in a deficit of \$121 million in 2022

Existing G.O. Debt Service	339.5
Alaskan Way Tunnel	281.0
South Park Bridge	2.5
Argo Yard	1.7
FAST Corridor	5.4
Highline Noise Mitigation	10.6
PortJobs (and related programs)	2.1
Environmental Remediation	169.8
Real Estate CIP	153.5
Corporate CIP - RE allocation	5.1
RE support for operating deficit	86.2
TOTAL	1,057.5

Alaskan Way Tunnel

- Port has agreed to provide up to \$300 million to fund the replacement of the Alaskan Way Viaduct with a tunnel
 - \$19 million has already been paid
 - \$31 million has been set aside in the transportation and infrastructure fund
 - Additional funds may be side aside
 - Increases funding gap, but reduces debt

	2012 Budget	Available cash only
Contributed	19	19
Additional cash	55	31
Bond Proceeds	<u>226</u>	<u>250</u>
TOTAL	300	300

Transportation & Infrastructure (T&I) Fund

- Funds set aside for specific projects identified by the Commission
- Current projected uses:
 - South Park Bridge - \$5 million
 - \$2.5 million end of 2012
 - \$2.5 million 2013
 - Alaskan Way Tunnel - \$31 million (of \$281 million total) in 2016
- Current fund balance is \$36 million

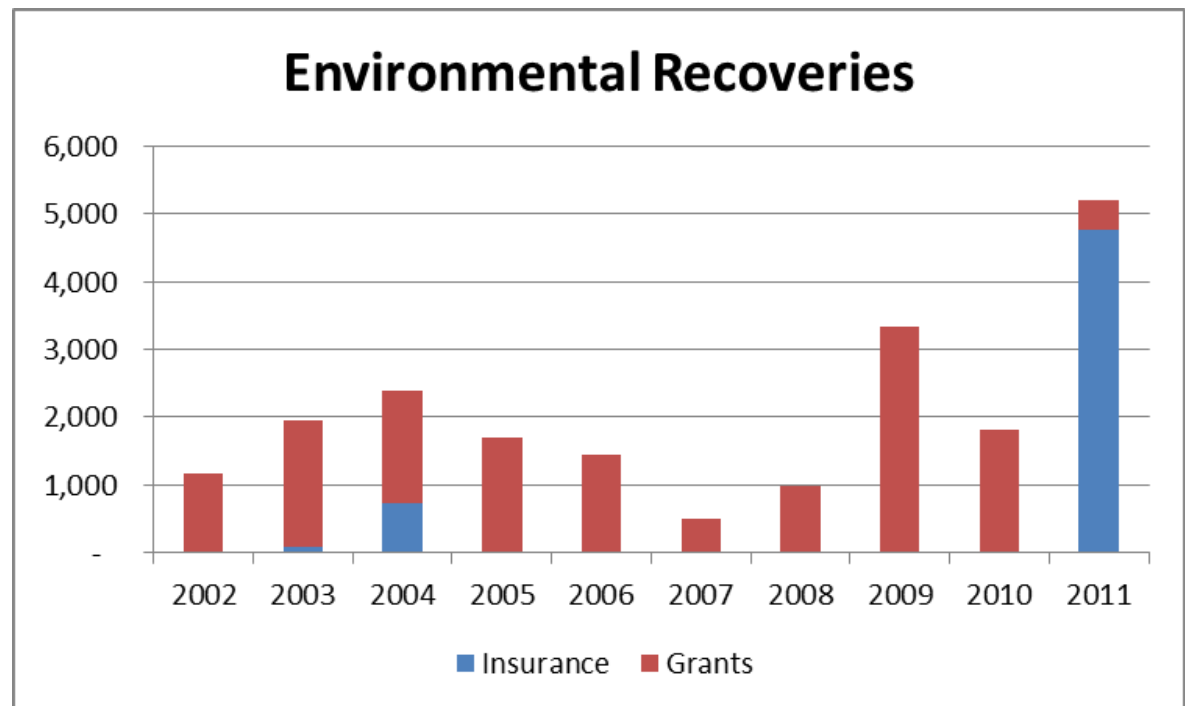
Other Potential Funding Needs

The following are not included in the baseline assumptions:

- Environmental Remediation Costs
 - Costs of key projects are estimates
 - Other potential liabilities are not included
- Changes to the Seaport business could result in a need for Seaport tax levy funding
 - Competition could reduce revenues
 - Unanticipated capital upgrades, renewal or property acquisitions
 - Customer support e.g. storm water mitigation
- Century Agenda goals could require funding beyond operating divisions' resources
- Sodo traffic mitigation

Upside Potential

- Surplus levy balance due to lower or delayed spending – average \$24 million 2002-2011
- Potential property sales
- Continue past level of environmental recoveries – average \$2 million per year 2002-2011



Levy Options

- 2013 Tax Levy
- Levy assumption for future years
- Additional deposits to T&I Fund to increase cash for the Alaskan Way tunnel

	1. Current Projections	2. #1 plus extra T&I deposit	3. #2 plus upside potential	4. #3 plus extra costs
Tunnel funding	\$31 mil. cash & \$250 mil. debt	\$55 mil. cash & 226 mil. debt	\$55 mil. cash & 226 mil. debt	\$55 mil. cash & 226 mil. debt
\$73 mil. Flat Levy funding gap 2022	(121) mil.	(132) mil.	(81) mil.	(151) mil.
Annual increase to close gap	2.8%	3.0%	1.9%	3.4%
2013 Levy (\$mil)	75.0	75.2	74.4	75.5
If delay increase to 2014	3.4%	3.7%	2.3%	4.1%

Staff Recommendation

- 2013 Tax Levy – **3% increase to \$75.2 million**
- Assumption for future – **3% increase** (1.9%–3.4% based on actual experience)
- Additional deposits to T&I Fund – **add \$24 million** for tunnel funding

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Discussion & Next Steps

- Draft Plan of Finance assumes that the tax levy is sufficient to fund all currently projected uses
- Other potential options could be employed:
 - Reduce, delay or eliminate some expenditures
 - Increase Real Estate NOI to reduce operating subsidy
 - Consider additional asset sales
- Staff can provide additional scenarios if desired
- Commission to provide guidance