

2016-2020 Draft Plan of Finance and Tax Levy Discussion

October 27, 2015

Topics

- Introduction & Recommendations
- Non-Airport Funding
 - Baseline CIP
 - Consolidated Funding Approach
 - Funding Resource – Income from Businesses
 - Funding Resource – Tax levy
- Draft Plan of Finance
 - Funding Plans
 - Finance Activity
- Additional Information

Introduction

- Like most Washington State ports, the Port of Seattle levies a tax levy on property owners within it's district
- The levy is available for general port purposes
- Port's current tax levy is \$73 million
 - 19 cents per \$1000 of assessed value
 - Same dollar amount since 2012
 - Below maximum statutory levy of \$95 million in 2015
- Levy has been used to fund:
 - Environmental remediation
 - Regional freight mobility projects
 - Job-generating infrastructure investments
 - Economic development initiatives
- Staff is recommending a flat levy for 2016

Recommending a \$73 million levy for 2016, well below the maximum statutory amount.

Introduction

- As part of the annual budget process, staff provides information on
 - Funding for the five-year capital improvement plan (CIP)
 - Tax levy
 - To establish the *uses* of the tax levy, and
 - To establish the *amount* of the tax levy
- Most non-Airport costs can be paid either from operating income (General Fund) or from the tax levy based on Commission guidelines
 - The recent reorganization provides an opportunity to revisit the use of the tax levy
 - This year's presentation will begin with Non-Airport funding and combine information on the tax levy and Plan of Finance
- Airport is separately funded due to regulatory restrictions

Presentation focuses on funding of non-Airport businesses

Recommendations

- Today's presentation will provide information on a capital funding approach focused on non-Airport business operations
- Key recommendations include:
 1. All non-Airport businesses share funding resources
 2. Modify use of the tax levy – funding for designated projects and initiatives vs. specific divisions:
 - Use for capital projects and specific strategic initiatives that meet criteria approved by the Commission
 - Pay general operating expenses from operating revenues, not tax levy

The presentation will provide background on these recommendations

Non-Airport CIP Funding

- Northwest Seaport Alliance (NWSA)
- Maritime
- Economic Development (EDD)

2016-2020 Baseline CIP is \$202 million

- Baseline CIP includes
 - Port's share of NWSA baseline CIP
 - Maritime and EDD CIPs presented on October 13, 2015
 - Non-Airport allocation of corporate CIP – primarily information technology investments

\$ million	2016	2016-2020
Maritime	27	112
EDD	12	25
Corporate – allocated share	1	7
NWSA – Port share	<u>13</u>	<u>59</u>
Total	55	202

The combined non-Airport CIP totals \$202 million over the next five years

Recommendation #1 – Consolidate Funding

- Reorganization of the Port provides an opportunity to revisit Non-Airport funding
- Former approach was to segment funding by division
- Recommended approach is to consolidate into a single fund with guidelines for funding allocation – more efficient, less complicated

Former Businesses	Current Businesses
Seaport – self funded, but during a period of modest capital investment	NWSA – relies on capital contributions from homeports per Charter
Real Estate (RE) – negative income, operations and capital supported by tax levy	Maritime – modest net income insufficient to fully fund its CIP
	EDD – negative income, will need financial support

Consolidation of funding promotes consistent priorities

Non-Airport Capital Funding Resources from Business Operations

- Net income from businesses (after the payment of debt service)
 - NWSA – largest contributor to net income
 - Maritime – modest net income
 - EDD – negative net income
- Existing available cash is in excess of:
 - Minimum fund balance (6 months Maritime and EDD O&M) and
 - Deposit to NWSA working capital and reserve
- Net Income first pays revenue bond debt service
- Funding from additional revenue bonds may be available if 1.50x debt service coverage target is achieved
- Other potential resources – grants, private capital, property sale proceeds

Capital funding is available from net income and existing cash balances

Funding Resources from Business Operations

- Business operations are forecast to provide \$82 million of capital funding
- An additional \$95 million is available from existing cash and \$10 million from TIGER grant.
- **Total funding derived from business operations 2016-2020 is \$187 million**

	\$ million	<u>2016</u>	<u>2016-2020</u>
Net Income from Business Operations			
Maritime		7	44
EDD		(9)	(38)
NWSA (1)		52	264
Total		50	270
Less Revenue Bond Debt Service		(38)	(188)
Net Available for Capital Funding		12	82
Plus Available Cash		95	95
Plus TIGER Grant		-	10
Total Funding from Business Operations		107	187
Baseline CIP		(55)	(202)
Funding Surplus/(deficit)		52	(15)

(1) net of certain Port of Seattle operating expenses associated with the NWSA

Funding from business operations is sufficient to fund much of the baseline CIP

Potential Additional Funding Needs

- Additional NWSA projects – estimated total Port share of \$237 million

- Redevelopment of T-5
- Channel dredging
- Redevelopment of T-4

	2016	2016-2020
North Harbor	24	181
South Harbor	<u>16</u>	<u>56</u>
Total new NWSA	40	237
Baseline CIP	<u>55</u>	<u>202</u>
Total CIP with new	95	439

- Does not include unanticipated future projects or new opportunities requiring investment

Baseline CIP does not include T-4 and T-5 redevelopment

Funding For Additional CIP

- Funding from Business operations are insufficient to fund the baseline CIP and the additional NWSA redevelopment of T-4 & T-5
- Port's careful use of tax levy resources creates capacity to fund these additional projects
 - Port has capacity to use a combination of cash and G.O. bonds

	2016-2020
Funding from business operations	187
Total CIP (including T-4 & T-5)	<u>439</u>
Funding surplus/(deficit)	(252)
Available funding from tax levy	137
Additional G.O. bonds	<u>115</u>
Funding surplus/(deficit)	0

Tax levy and G.O. bonds can provide full funding for new NWSA projects

Recommendation #2 Modify Use of Tax Levy – for Designated Projects & Strategic Initiatives

- Tax levy is a flexible funding source
 - Can be used for any Port purpose except payment of revenue bond debt service
 - First used to pay General Obligation (G.O.) bonds
 - **Remaining “net” levy available to fund capital investments and strategic initiatives based on Commission policy**

Current Policy Uses	Recommended	Rationale
Legacy environmental remediation	No change	Public benefit
Regional mobility projects	No change	Public benefit
Operating expenses – RE and PortJobs	Fund from operating revenues	Expenses can be funded from operations and allow levy to be used for capital initiatives
Capital projects – RE only	Fund projects that meet certain criteria, regardless of division	

Recommendation focuses the levy on Commission driven priorities

Tax Levy Assumptions

- Levy funds from:
 - Levy amount of \$73 million per year
 - Sale of Tsubota site for approximately \$8 million (originally tax levy funded) in 2016
- Continued funding for:
 - 2016 G.O bond issuance to fund a portion of the final payment for the SR 99 Tunnel project
 - Funding for other regional mobility initiatives including the Heavy Haul corridor plan with the City
 - Legacy environmental remediation
 - Highline School Noise Mitigation
- Additional uses:
 - Pier 66 redevelopment for cruise growth
 - Other capital projects based on criteria

Available levy cash can be used for key capital initiatives

Former Levy Uses for Capital

- Prior to 2010, the Port used the tax levy to support major investments in several businesses:
 - Container Shipping: Between 1994 and 2006 G.O. bonds provided significant funding for expansions at Terminals 5 and 18 and improvements at Terminals 30 and 46
 - Cruise: Tax levy was used to develop the central waterfront including the cruise facilities at P-66 and T-30
 - Fishing: Tax levy was used to support improvements at T-91 in support of large fishing vessels and at Fishermen's Terminal
- Beginning 2010, Tax levy was used:
 - To fund Real Estate Division capital (including Fishermen's Terminal)
 - No tax funding for the Seaport – no major investments, capital funded from operations

Prior to 2010, the levy was used to fund key capital projects

Proposed Criteria for Levy Funding

	Operating Cash	Tax Levy
Asset Renewal & Replacement	Positive net income	Economic benefit
Strategic Initiatives	Short payback/ Self funding	No or long payback
Location	South Harbor	North Harbor

- Criteria developed to support Century Agenda
- Projects would be eligible for levy funding based on recommended criteria

Capital Investments That Meet Criteria	2016-2020 (\$mil.)
P-66 Redevelopment for Cruise Growth	14
Fishermen's Terminal Improvements	32
Other projects supporting fishing	<u>4</u>
Total recommended for levy funding	50
See Slide 38 for a complete list of projects recommended for tax levy funding.	

Several baseline CIP projects meet the criteria for levy funding

Tax Levy Recommendations

- Maintain \$73 million levy for 2016
- Prioritize funding across Port based on recommended guidelines
- Use tax levy to fund specific projects based on criteria:
 - P-66 redevelopment to accommodate cruise growth
 - Propose levy funding for:
 - Fishermen’s Terminal Improvements
 - Other projects that support the fishing industry
- Monitor new initiatives that may require funding, including NWSA redevelopment projects
- Monitor funding needs for environmental remediation
- Preserve tax levy and G.O. bond capacity for additional funding needs

The Tax Levy is a strategic resource for capital funding

Proposed Tax Levy Sources & Uses

- Uses are based on Baseline CIP only
- Positive ending fund balances can be preserved to support additional projects, including NWSA redevelopment
 - Provide cash and/or support additional G.O. bonds

2016 Tax Levy Sources & Uses (\$ mil.)		
Sources	<u>2016 Proposed</u>	<u>2016-2020</u>
Beginning Balance	58	58
Annual Levy	73	365
Tsubota Sale	8	8
Total	139	431
Uses		
G.O. Debt Service - existing	35	169
G.O. Debt Service - SR99 Tunnel	4	32
Environmental Remediation	7	43
Regional Mobility	2	10
Highline Schools Noise Mitigation	-	3
Approved CIP - P66 Cruise	12	14
Proposed CIP - Fishing Industry	4	37
Total	63	308
Ending Fund Balance	76	123

Levy fund balance is available for future capital initiatives

Total CIP Funding Tax Levy Sources & Uses

- To fully fund the total CIP including additional NWSA projects additional levy cash and G.O. bonds are needed

2016 Tax Levy Sources & Uses (\$ mil.) - Total CIP		
Sources	2016 Proposed	2016-2020
Beginning Balance	58	58
Annual Levy	73	365
Tsubota Sale	8	8
Additional B.O. bond proceeds	-	115
Total	139	546
Uses		
G.O. Debt Service - existing	35	169
G.O. Debt Service - SR99 Tunnel	4	32
G.O. debt Service - additional CIP	-	36
Environmental Remediation	7	43
Regional Mobility	2	10
Highline Schools Noise Mitigation	-	3
Approved CIP - P66 Cruise	12	14
Proposed CIP - Fishing Industry	4	37
Additional CIP - NWSA	24	202
Total	87	546
Ending Fund Balance	52	(0)

Additional projects are fully funded

2016-2020 Draft Plan of Finance

Funding Assumptions

- Tax levy is available to fund non-Airport CIP based on funding guidelines
- Financial policies are maintained
 - Revenue Bond debt service coverage
 - 1.50x for non-Airport
 - 1.25x for Airport
 - Minimum fund balances are maintained
 - Non-Airport provides funding for NWSA operating reserve

Non-Airport Funding – Baseline CIP

- Net Income after payment of existing revenue bond debt service
- Available operating cash
 - After minimum fund balance, and
 - After deposit to NWSA minimum operating reserve
- TIGER grant
- Tax levy based on recommended funding guidelines
- There is minimal capacity for additional revenue bonds during this funding period

Plan of Finance based on funding recommendations described in this presentation

Non-Airport Baseline CIP Funding 2016-2020

	<u>2016-2020</u> <u>(\$million)</u>
Non-Aviation Funding Sources	
Net income	82.0
Operating funds	95.2
Grants	10.1
Tax levy Recommended (1)	36.5
Tax levy Authorized (2)	13.5
Future revenue bond proceeds	-
TOTAL	237.3
Non-Aviation CIP	195.1
Allocated Corporate CIP	7.2
Total Non-Aviation CIP	202.3
Additional Available Capacity	35.0
(1) Related to Maritime CIP associated with Fishing Industry	
(2) Pier 66 redevelopment	

Funding plan can be re-evaluated if additional NWSA projects proceed

Baseline CIP is fully funded and there is capacity of \$35 million for future projects

Total CIP Funding 2016-2020

	<u>2016-2020</u> <u>(\$million)</u>
Non-Aviation Funding Sources	
Net income	82.0
Operating funds	95.2
Grants	10.1
Tax levy Recommended (1)	36.5
Tax levy Authorized (2)	13.5
Tax levy Additional CIP	87.0
Future G.O. bond proceeds	115.0
TOTAL	439.3
Non-Aviation CIP	195.1
Allocated Corporate CIP	7.2
Additional CIP	237.0
Total Non-Aviation CIP	439.3
(1) Related to Maritime CIP associated with Fishing Industry	
(2) Pier 66 redevelopment	

Funding plan includes NWSA projects

Use of additional G.O. bonds and tax levy provide full funding

Airport Funding Sources

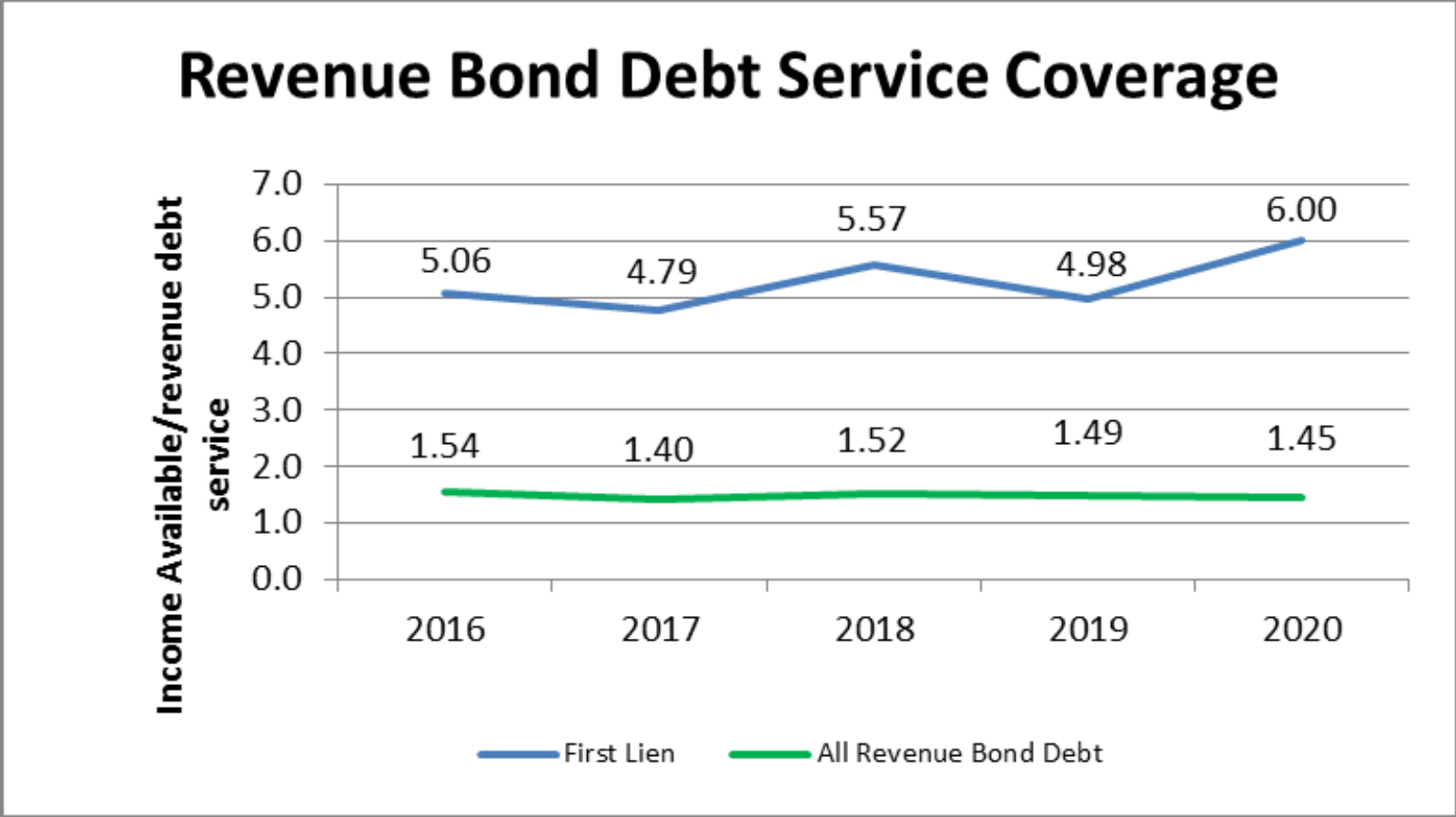
- The Draft Plan of Finance includes funding from:
 - Net operating income (after payment of revenue bond debt service)
 - Operating fund balances (above minimum requirement)
 - Existing and future revenue bond proceeds
 - Passenger Facility Charges
 - Grants
 - Tax levy

Aviation Capital Funding 2016-2020

	<u>2016-2020</u> <u>(\$million)</u>
Aviation Funding Sources	
Net income	295.5
Tax levy ⁽¹⁾	3.5
Grants	150.0
Passenger Facility Charge	245.0
Existing revenue bond proceeds	142.1
Future bond proceeds	1,248.7
TOTAL	2,084.8
Aviation CIP	2,049.7
Allocated Corporate CIP ⁽²⁾	35.2
Total Aviation Funded CIP	2,084.8
(1) Highline Schools noise insulation	
(2) Assumes funding with Net Income only.	

Future bonds will fund \$1.2 billion of the CIP

Revenue Bond Debt Service Coverage 2016-2020 Port-Wide Forecast



By managing to financial targets coverage is forecast to remain strong

2015 Finance Activity - Results

- ✓ G.O. bonds to fund \$120 million for the Port's 2105 contribution to the SR99 project and refund bonds for present value saving of \$11 million
- ✓ Airport bond issue to fund project spending and refund bonds for \$42 million present value savings
- ✓ Evaluated options for extending and/or replacing letters of credit (LOCs) expiring in 2015/2016
 - Note: Request for replacement LOC for a portion of the Port's commercial paper program scheduled for November

Successful completing of 2015 work plan

2016 Planned Finance Activity

- G.O. bonds to fund a portion of the final SR99 Tunnel payment
 - Transportation and Infrastructure Fund cash (\$62 million) can fund a portion or be used for other needs
- Monitor existing bonds for refunding for debt service savings
- Extend or Replace LOCs that support variable rate debt
- Select a new bond underwriting team
- Monitor Airport funding needs – next new money issue expected in 2017

2016 includes several on-going debt management projects

ADDITIONAL INFORMATION FOR BACKGROUND ONLY

2015 Tax Levy, Estimated Actuals vs. Budget

Significant Variances

Beginning balance higher due to spending delays

King Co. rail corridor payment received early

G.O bond issue resulted in lower debt service

Some environmental remediation spending delays

T&I deposit lower due to lack of Snohomish Co. payment for rail corridor

2015 Tax Levy Sources & Uses (\$ mil.)		
Sources	2015 Budget	2015 Forecast
Beginning Balance	25.1	40.8
Annual Levy	73.0	73.0
Grants/reimbursements	1.4	0.8
Rail Corridor sales	6.1	14.3
Interest earnings	-	0.3
Total	105.6	129.1
Uses		
G.O. Debt Service	32.9	29.8
Environmental Remediation	10.4	7.4
Regional Mobility	3.1	4.5
T & I Fund Deposit	20.0	15.0
PortJobs	0.3	0.3
Highline Schools Noise Mitigation	2.4	-
Real Estate Capital	7.0	7.2
Real Estate Operating	6.6	5.7
P-66 Cruise Redevelopment	-	1.5
Total	82.7	71.4
Ending Fund Balance	22.8	57.7

Numbers may not add due to rounding

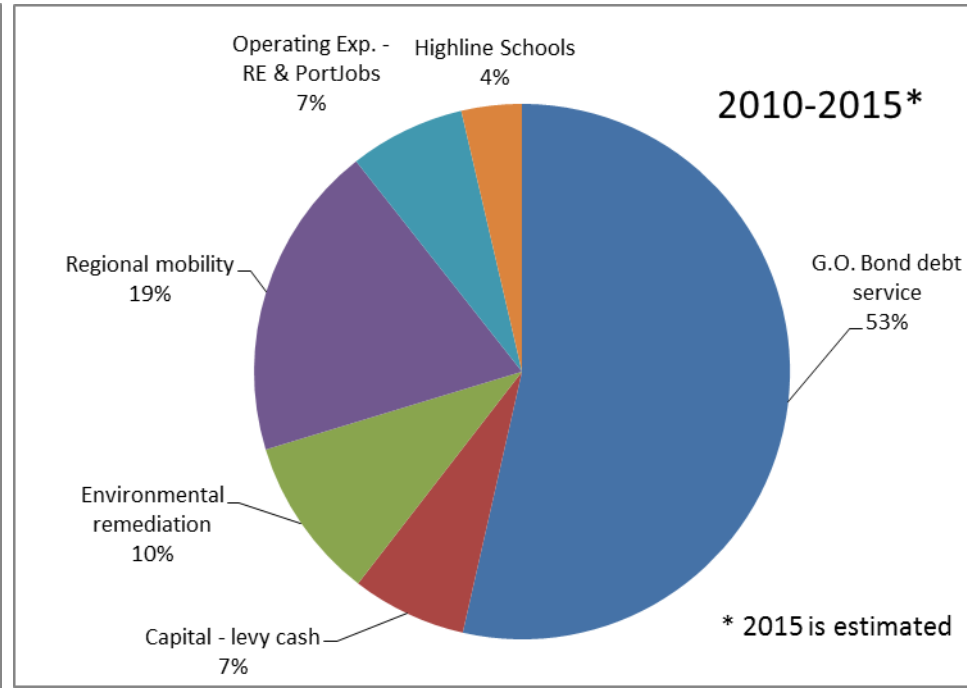
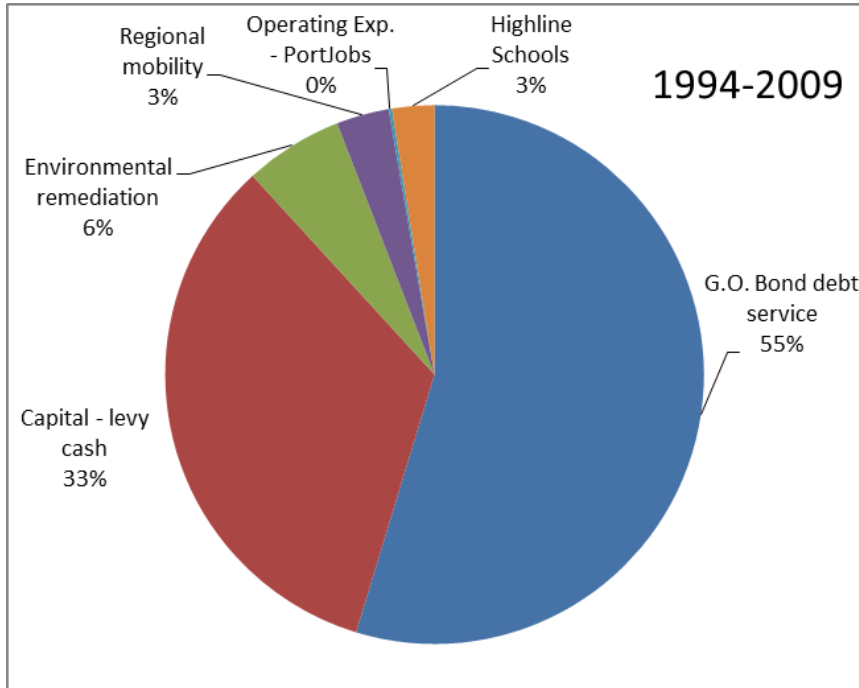
Ending levy fund balance is projected to be \$57.7 million

Port's Taxing Authority

- Washington State port districts have authority to levy a tax on the value of property within the port district (coterminous with King County)
- The Port is subject to two limitations on the amount of tax it may levy
 - 45 cent limit
 - 1% limit
 - The more restrictive 1% applies to the Port
- In 2015, the Port assessed a levy of \$73 million
- The maximum levy the Port could have assessed based on the 1% limit was \$95 million in 2015 and \$96 million in 2016
 - King County assessed value in 2015 was \$388 billion
 - Preliminary 2016 assessed value is \$421 billion (an 8% increase)
- The Port can levy up to the statutory maximum

The Port can tax up to \$96 million in 2016

Changes in Tax Levy Uses



- Less levy is now used to fund capital projects
- G.O. bond debt service pays for projects funded between 1994 and 2009

- Other uses have grown including:
- Regional mobility
- Environmental remediation
- Operating expenses (Real Estate)

Recent levy use has invested in regional mobility and environmental remediation

Tax Levy Uses – G.O. Bonds

- The levy can be pledged to pay general obligation bonds (G.O. bonds)
 - Port currently has \$322 million G.O. bond debt outstanding
 - By 12/31/2015, the Port will have \$306 million outstanding
 - State statute limits the amount of G.O. bonds
 - Non-voted – limit on the amount of G.O. debt that does not require voter approval
 - 0.25% of assessed value
 - Provides an additional \$746 million bonding authority
 - Voted – limit on the total amount of G.O. debt even with voter approval
 - 0.75% of assessed value
 - Provides an additional \$2,848 million bonding authority
 - Port policy – limit G.O. bond debt so that debt service does not exceed 75% of the annual tax levy

Port's policy limit on G.O. bonds is more restrictive than statute

Transportation & Infrastructure Fund

- Commission established in 2010
- Purpose was to set aside funds for Port contributions to regional transportation projects
 - SR99 Tunnel (\$120 million contributed in 2015 funded with LTGO bonds; remaining \$148 million due in 2016)
 - South Park Bridge (payments in 2014 & 2015)
- Funds are restricted by policy, not law

Transportation & Infrastructure Fund Forecast (\$ million)	2015	2016
Beginning balance	49.3	62.5
Deposit from tax levy fund	15.0	0
Interest earnings	0.3	0
SR 99 Tunnel Project cash payment	0	(62.5)
South Park Bridge payment	<u>(2.1)</u>	<u>0</u>
Ending balance	62.5	0

The T&I balance is available to fund the final SR99 payment

IDD Levy - Background

- Port can levy property tax within an Industrial Development District (IDD)
 - In addition to regular property tax
 - A port can form multiple districts
 - Coextensive with port district, or
 - Smaller area within the Port district
 - The Port already has two Industrial Development Districts
- Port can implement the levy twice - Port of Seattle implemented first round in 1963
- Purpose is to provide for harbor improvements or industrial development of marginal lands
 - Broadly defined
 - Includes areas of poor planning or declining tax receipts

The IDD levy provides a potential additional funding source

IDD Levy - Implementation

- Port may implement a second round based on a new formula
 - Maximum of \$1.14 billion over a period of up to 20 years
 - Average amount = \$57 million (13.6 cents for 20 years)
 - Maximum annual amount = \$189 million (45 cents for 6 years)
 - Port can establish a smaller IDD or collect a lesser amount
- Process to implement
 - Publish notice by April 1 to begin collecting the next year
 - If within 90 days a petition of 8% of voters (voting in the most recent gubernatorial election) opposes, the Port must hold a special election to approve the levy

Implementation may require voter approval

IDD Levy Information: “Marginal lands” are defined to include property subject to the following (RCW 53.25.030) conditions:

- 1. An economic dislocation, deterioration, or disuse resulting from faulty planning.
- 2. The subdividing and sale of lots of irregular form and shape and inadequate size for proper usefulness and development.
- 3. The laying out of lots in disregard of the contours and other physical characteristics of the ground and surrounding conditions.
- 4. The existence of inadequate streets, open spaces and utilities.
- 5. The existence of lots or other areas which are subject to being submerged by water.
- 6. By a prevalence of depreciated values, impaired investments, and social and economic maladjustment to such an extent that the capacity to pay taxes is reduced and tax receipts are inadequate for the cost of public services rendered.
- 7. In some parts of marginal lands, a growing or total lack of proper utilization of areas, resulting in a stagnant and unproductive condition of land potentially useful and valuable for contributing to the public health, safety and welfare.
- 8. In other parts of marginal lands, a loss of population and reduction of proper utilization of the area, resulting in its further deterioration and added costs to the taxpayer for the creation of new public facilities and services elsewhere.
- 9. Property of an assessed valuation of insufficient amount to permit the establishment of a local improvement district for the construction and installation of streets, walks, sewers, water and other utilities.
- 10. Lands within an industrial area which are not devoted to industrial use but which are necessary to industrial development within the industrial area.

Projects Recommended for Levy Funding (\$'000)

CIP Number	Project Description	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>TOTAL</u>
C800307	MIC West & Central Piers Resur		70	638			708
C800592	Cruise Terminal Tenant Improv	12,000	1,500	-			13,500
C800439	T91 Substation Upgrades	1,073	26	-			1,099
C800137	FT C15 HVAC Improvements	30					30
C800344	FT C-2 (Nordby) Roof & HVAC	54	-				54
C800527	FT Net Shed 9 Roof Replacement	21	-				21
C800005	FT Paving/Storm Upgrades	800	50	-	-		850
C800191	FT C14 (Downie) Roof & HVAC	105	1,015	72	-		1,192
C800526	FT Net Shed 3,4,5 &6 Roof Rpl	105	2,515	91	-		2,711
C800750	C15 Building Tunnel Improvmt	700	-				700
C800675	P91 South End Fender	950	1,127				2,077
C800821	T91 P91W Slope Stabilization	120	404				524
C800525	FT Strategic Plan		1,000	5,000	4,000		10,000
C800528	FT W Wall N Fender Replacement		10	190	2,750		2,950
C800529	FT W Wall N Sht Pile Crsn Prtn		10	190	2,575		2,775
C800530	FT S Wall Wt End Improvements		174	970	530		1,674
C800531	FT Dock 3 Fixed Pier Improvmt	10	190	800	2,000		3,000
C800532	FT Dock 4 Fixed Pier Corr Prot	10	190	1,000	2,300		3,500
C800533	FT W Wall S Sht Pile Cor Protn				10	190	200
C800534	FT S Wall Cl Fndr Rp & Cor Prt				10	190	200
C800567	FT Net Shed 10 Roof Overlay						-
C800568	FT Net Shed 11 Roof Overlay						-
C800569	FT Net Shed Electrical System			70	2,168		2,238
TOTAL		15,978	8,281	9,021	16,343	380	50,003

NWSA – Funding Resources to Port

- Port recognizes as revenue half of the NWSA net income after depreciation (non-cash expense)
- Port receives cash payments from NWSA based on cash flow from operations (depreciation is added back)
- Port estimates approximately \$220,000 per year in Port expenses, but associated with the NWSA

<u>\$ million</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>TOTAL</u>
NWSA Net Income - POS share	51.8	47.1	47.3	55.7	54.9	256.8
NWSA depreciation - POS share	0.3	1.0	2.0	2.0	2.6	7.8
POS expense for NWSA management	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(1.1)
NWSA Funding Available to POS	51.9	47.9	49.1	57.4	57.3	263.6

NWSA provides significant net income to the Port

Current Bond Ratings

	RATING AGENCY		
	Fitch	Moody's	S&P
General obligation bonds	AAA	Aa1	AAA
First lien revenue bonds	AA	Aa2	AA-
Intermediate lien revenue bonds	A+	A1	A+
Subordinate lien revenue bonds	A	A2	A+
Passenger Facility Charge revenue bonds	A	A1	A+
Fuel Hydrant Special Facility bonds		A2	A-

Noted Credit Strengths:

- Diverse asset and revenue base
- Airport's market position and enplanement levels
- Solid coverage and liquidity levels
- Conservative debt structure
- Pro-active Port Commission and deep and experienced staff
- Vibrant and resilient area economy

A solid capital funding plan is critical to investors and supports the Port's strong ratings