

Item No.:
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Port of Seattle 2016 Preliminary Budget Second Reading & Final Passage

November 24, 2015



Port of Seattle®

Outline

- 2016 Budget Process Recap
- 2016 Budget Highlights
- 2016 Key Budget Drivers
- Changes made since the first budget reading
- Proposed 2016 Operating Budget
- Proposed 2016 Comprehensive Op & Non-Op Budget
- Proposed 2016 FTEs Summary
- Proposed 2016-2020 Capital Budget
- Proposed 2016 Sources and Uses of Funds
- Proposed 2016 Tax Levy
- Remaining 2016 Budget Schedule

2016 Budget Process

May 12	2016 Business Plan and Budget Process Briefing
May 26	2016 Aviation Division Business Plan Discussion
Jul. 9	2016 Maritime Division Business Plans Discussion
Sept. 8	2016 Economic Development Division Business Plan Discussion
Sept. 8	2016 Key Budget Assumptions Briefing
Sept. 22	2016 Corporate Budget Briefing
Oct. 13	2016 Operating Division Budgets Briefing
Oct. 20	Preliminary Budget Document to the Commission
Oct. 22	Preliminary Budget released to the Public
Oct. 27	Preliminary Tax Levy and Draft Plan of Finance Briefing
Nov. 10	First Reading & Public Hearing of the Preliminary Budget
Nov. 24	Second Reading & Final Passage of the Preliminary Budget
Dec. 3	File Statutory Budget with King County
Dec. 11	Release the Final Budget and Draft Plan of Finance

A long and challenging budget process this year due to re-org and the new NWSA.

2016 Budget Highlights

- Operating revenues are budgeted at \$584.6M, \$32.8M or 5.9% higher than 2015 budget
- Operating expenses are budgeted at \$336.0M, \$3.1M or 0.9% increase from 2015 budget (largely due to transfer of some expenses to the NWSA)
- Net Operating Income is budgeted at \$248.6M, \$29.7M or 13.6% above 2015 budget
- The 2016 capital budget is \$408.4M and the 5-year capital spending plan is \$2.2 billion
- The proposed tax levy for 2016 is \$72.0M, \$1.0M reduction from 2015.

The 2016 budget reflects strong growth and continued investments for the region.

2016 Key Budget Drivers - Aviation

- Finalizing the Airport Master Plan (SAMP), initiating environmental review, and planning for new projects
- Increasing janitorial services due to strong passenger growth
- Land development to generate additional revenue
- 5 year capital spending of \$2 billion, including NorthSTAR Program, International Arrivals Facility, Baggage Recapitalization/Optimization, Runway 16C/34C Reconstruction, and the new South Satellite Project

The 2016 key initiatives support strong growth at the Airport and continued investments for the region.

2016 Key Budget Drivers – Maritime & EDD

- Additional funding for Real Estate Strategic Plan, Opportunity Fund, and Small Business development
- Expanded Workforce Development initiatives, including Airport Career Pathways, Core Plus, and Small Business Generator program
- Increased Tourism funding
- New Storm Water Utility operational model and infrastructure assessment
- 5 year capital spending of \$136 million including expansion of the P66 Cruise Terminal, new restrooms at Shilshole Bay Marina, and \$34 million of renewal and replacement projects at Fishermen's Terminal

The 2016 key initiatives reflect continued support for the community and investments for the region.

2016 Workforce Development Budget

\$'s Thousands

Office of Social Responsibility

	<u>2015 Budget</u>	<u>2016 Budget</u>	<u>'16-'15 Change</u>
New Requests			
1. Comprehensive Career Pathways - Strategic Investments	0	1,025	1,025
1a. Airport Career Pathways Mapping & Strategy	0	75	75
1b. Airport Career Pathways Implementation (Year 1)	0	100	100
1c. Maritime Workforce Development Initial Strategy	0	150	150
1d. Core Plus (High School to Industry/Post Secondary Transition)	0	200	200
1e. Trades Regional Partnership	0	350	350
1f. Manufacturing Industry/Truck Driving	0	150	150
2. Port Jobs Six Month Contract Extension	100	50	(50)
Continuing			
Workforce Development Airport Sector	410	450	40
Workforce Development Construction Sector	200	260	60
Total	710	1,785	1,075

Developing capable employees for key industries.

2016 Key Budget Drivers - Corporate

High Performance Organization/Operational Excellence

- Purchasing optimization initiative
- Increased resources for LEAN/CPI program
- Talent Management initiative, implementation of new ePerformance System
- Expanded Strategic communications and outreach

The 2016 budget includes key initiatives for high performance organization and operational excellence.

Changes from the First Budget Reading

- Updated the budget to reflect the 6 month extension of the Port Jobs contract for the Apprenticeship Opportunity Program (\$100K).
- Revised funding of Workforce Development initiatives to the Tax Levy, resulting in lower cost allocations to other divisions.
- Reduced the tax levy from \$73.0M to \$72.0M for 2016.

Reduce tax levy to \$72M per Commission direction.

2016 Operating Budget

(\$ in '000s)	2014 Actual	2015 Budget	2015 Forecast	2016 Budget	Budget Change \$	%
Operating Revenues						
Aeronautical	228,864	242,352	232,534	261,019	18,667	7.7%
SLOA III Incentive Adj.	-3,576	-3,576	-3,576	-3,576	0	0.0%
Non-Aeronautical	180,791	188,465	194,832	208,321	19,855	10.5%
Aviation	406,079	427,242	423,790	465,764	38,522	9.0%
Maritime	43,790	47,264	44,864	49,314	2,050	4.3%
Economic Development	16,267	16,108	17,029	13,745	-2,363	-14.7%
Licensed NWSA Assets	68,413	60,812	66,712	0	-60,812	-100.0%
NWSA Distributable Revenue	0	0	0	51,829	51,829	N/A
Other	389	340	3,159	3,926	3,586	1056.0%
Total	534,938	551,766	555,554	584,578	32,812	5.9%
Operating Expenses						
Aviation	230,704	248,141	239,564	268,216	20,075	8.1%
Maritime	31,854	36,683	34,661	42,261	5,577	15.2%
Economic Development	23,546	21,188	20,078	23,309	2,120	10.0%
Licensed NWSA Assets	22,840	26,562	27,262	121	-26,441	-99.5%
Other	389	340	2,040	2,103	1,764	519.4%
Total	309,334	332,914	323,605	336,010	3,096	0.9%
Net Operating Income	225,605	218,852	231,949	248,568	29,716	13.6%

NOI in the proposed 2016 budget is \$29.7M or 13.6% higher than 2015 budget.

2016 Comprehensive Budget Summary

(\$ in '000s)	2014	2015	2016	Budget Change		Explanations
	Actual	Budget	Budget	\$	%	
Revenues						
1. Aeronautical Revenues	228,864	242,352	261,019	18,667	7.7%	Cost recovery under SLOA III.
2. SLOA III Incentive	(3,576)	(3,576)	(3,576)	()	0.0%	
3. Other Operating Revenues	309,650	312,989	327,135	14,145	4.5%	Mainly due to higher revenues from the Airport.
4. Tax Levy	72,801	73,000	72,000	(1,000)	-1.4%	Reduced to \$72M per the Commission's direction.
5. PFCs	69,803	73,752	84,650	10,898	14.8%	Higher enplanements in 2016.
6. CFC Non-Op Revenue for Debt Service	19,889	23,614	24,963	1,349	5.7%	Driven by increased debt service on 2009B bond.
7. Fuel Hydrant	6,935	7,202	7,098	(104)	-1.4%	
8. Non-Capital Grants and Donations	10,158	6,263	3,566	(2,697)	-43.1%	Lower grants for Clean Truck Program in 2016.
9. Capital Contributions	16,746	40,949	23,406	(17,543)	-42.8%	Lower due to the \$25M 16C LOI will be fully claimed in 2015.
10. Interest Income	11,202	7,094	8,537	1,443	20.3%	
Total	742,473	783,639	808,799	25,160	3.2%	
Expenses						
1. O&M Expense	309,334	332,914	336,010	3,096	0.9%	New initiatives and average pay increase.
2. Depreciation	166,337	162,082	162,451	370	0.2%	
3. Revenue Bond Interest Expense	108,910	133,468	121,423	(12,045)	-9.0%	2015 revenue bond interest expense budgeted conservatively.
4. GO Bond Interest Expense	9,475	14,706	14,726	20	0.1%	
5. PFC Bond Interest Expense	5,906	5,633	5,302	(331)	-5.9%	
6. Non-Op Environmental Expense	9,142	5,600	5,000	(600)	-10.7%	
7. Public Expense	6,854	9,572	8,898	(674)	-7.0%	Driven by final year of Clean Truck Program.
8. Other Non-Op Rev/Expense	(2,110)	3,657	3,319	(338)	-9.2%	
Subtotal	613,849	667,632	657,130	(10,502)	-1.6%	
9. Special Item	-	-	147,700	147,700	n/a	Second installment for AWV contribution.
Total	613,849	667,632	804,830	137,198	20.5%	
Change In Net Assets	128,624	116,007	3,969	(112,039)	-96.6%	

2016 budget includes a \$147.7M second installment for AWV contribution.

FTEs Summary

	Aviation	Seaport	Real Estate	Corp&CD	Total
2015 Budget	877.0	59.7	166.0	750.7	1,853.4
A. Reorganization					-
External Transfers To NWSA	-	(19.0)	-	(1.0)	(20.0)
Internal Transfers	(2.0)	144.5	(135.5)	(7.0)	-
Subtotal	875.0	185.2	30.5	742.7	1,833.4
Adjusted Organizational Structure	Aviation	Maritime	EDD	Corp&CD	Total
	875.0	185.2	30.5	742.7	1,833.4
B. Mid Year Changes in 2015					
1 Mid Year Approvals	16.0	4.5	1.0	6.2	27.7
2 Eliminated FTE's	(10.2)	(6.1)	(1.0)	(2.0)	(19.3)
Subtotal	5.8	(1.6)	-	4.2	8.4
C. 2016 Changes					
1 Eliminated FTE's	(2.0)	(1.0)	-	(11.0)	(14.0)
2 New FTE's	14.0	1.0	3.3	9.5	28.8
Subtotal	12.0	-	3.3	(1.5)	14.8
2016 Budget*	892.8	183.6	33.8	745.4	1,856.6

*Note: The 2016 proposed budget includes one new FTE for Stormwater Utility.

Moderate FTEs growth driven mainly by the strong traffic growth at the Airport.

Capital Budget Summary

Capital Budget Summary by Division

\$'s in 000's	2016	2017	2018	2019	2020	2016-20
Aviation	360,064	456,890	453,575	416,085	363,074	2,049,688
Maritime	27,480	21,112	24,621	24,637	13,796	111,646
Economic Dev.	12,458	3,650	2,285	2,104	4,104	24,601
Corporate	8,443	8,686	8,707	8,307	8,230	42,373
Total	408,445	490,338	489,188	451,133	389,204	2,228,308

The Port continues to invest in the region with a 5-year capital plan of \$2.2 billion.

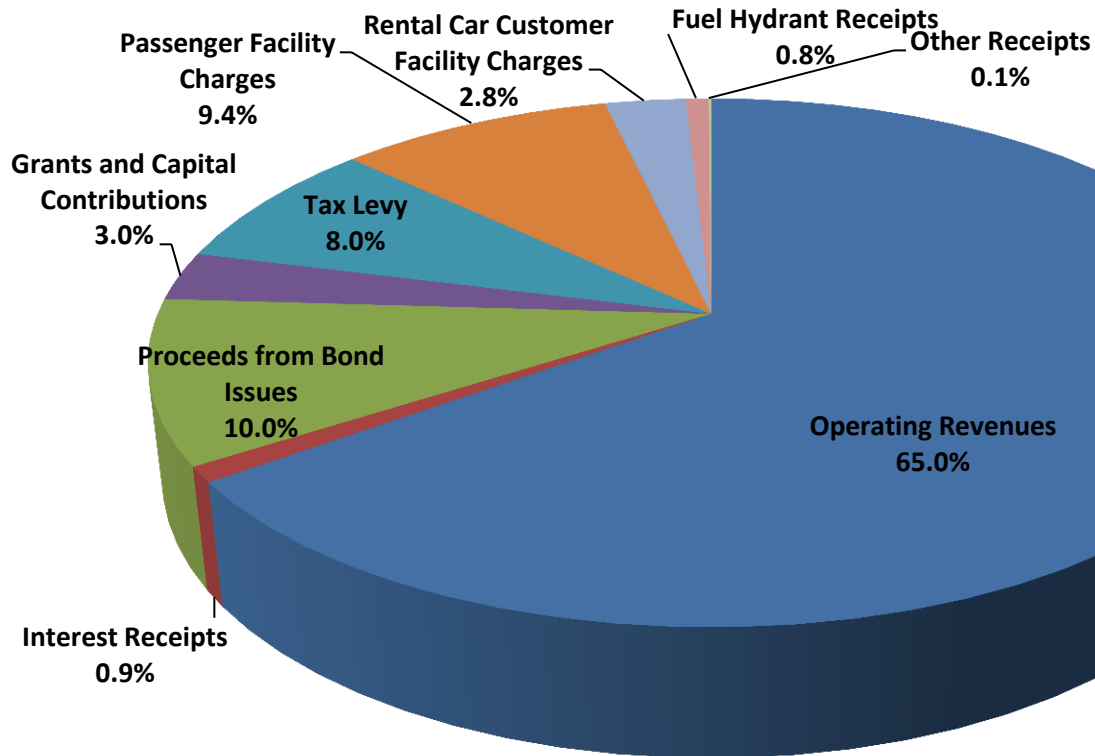
Capital Budget Summary

Capital Budget Summary by Category

\$'s in 000's	2016	2017	2018	2019	2020	2016-20
Commission Authorized/Underway	319,638	382,542	396,504	334,148	182,714	1,615,546
Pending 2015/2016 Authorization	28,017	17,669	8,030	250	-	53,966
Pending Future Authorization	4,956	13,148	24,358	28,343	18,880	89,685
Small Capital Projects	15,062	13,753	11,997	11,662	12,650	65,124
Total	367,673	427,112	440,889	374,403	214,244	1,824,321
Allowance CIPs and Other*	40,772	63,226	48,299	76,730	174,960	403,987
Total	408,445	490,338	489,188	451,133	389,204	2,228,308

* Allowance CIPs represent undesignated future spending for future new projects and potential budget increases for existing projects in Aviation division.

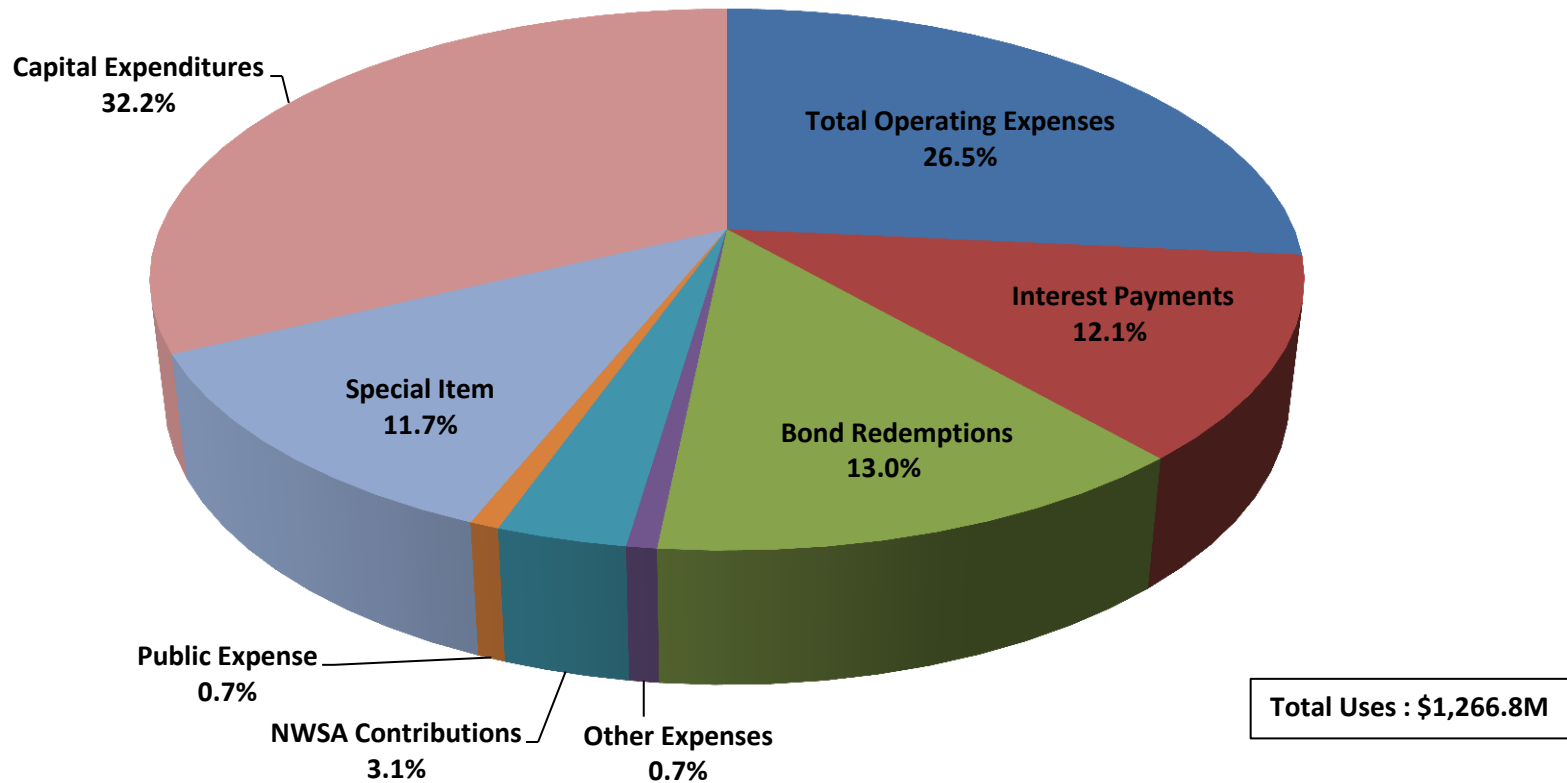
Sources of Funds



Total Sources : \$899.6M

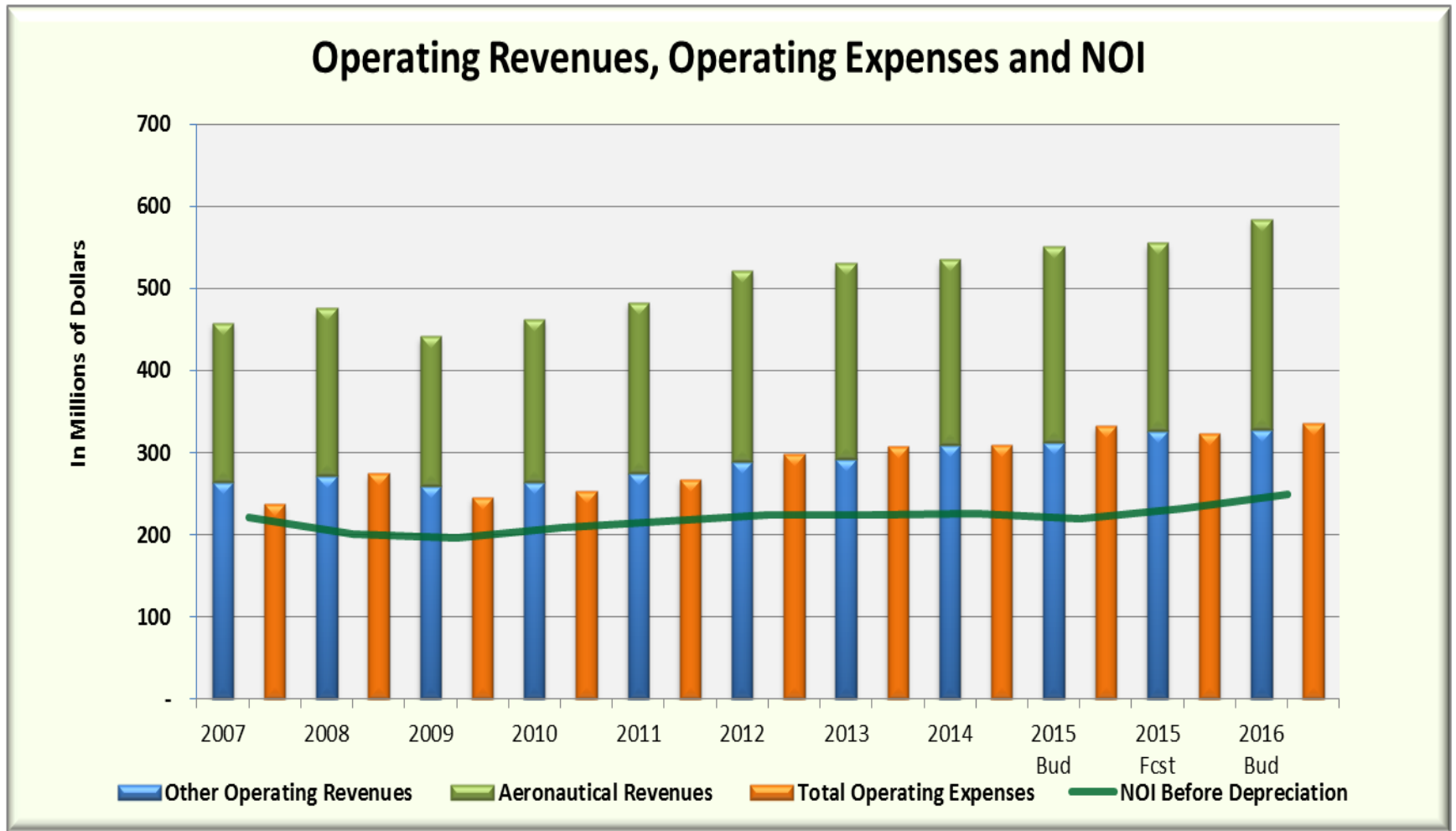
Tax Levy is 8.0% of the \$900 million total sources of funds in 2016 budget.

Uses of Funds



The Port continues to invest in capital projects and infrastructure for the region.

Net Operating Income Comparison



A record high of \$248.6M Net Operating Income in the 2016 budget.

2016 Tax Levy

- **Tax Levy Amount:**
 - Levy amount established by the Commission each year as part of the budget process
 - The maximum allowable levy for 2016 is estimated to be \$96.4 million
 - The levy for 2016 is proposed to be \$72.0 million
 - Projected rate change (from \$0.1891 to \$0.1704)

Tax levy was flat at \$73M for 4 years and proposed to lower it to \$72M for 2016.

2016 Tax Levy

- **Proposed 2016 Tax Levy Uses:**
 - General Obligation (G.O.) Bonds Debt Service
 - Legacy Environmental Remediation
 - Highline School NOISE Mitigation
 - Pier 66 Redevelopment for cruise growth
 - Capital projects in support of the fishing industry
 - Additional Deposit to the Transportation & Infrastructure Fund for Regional Transportation & Freight Mobility projects - \$21.3 million
 - Heavy Haul Corridor projects
 - Other regional transportation initiatives (FAST II, E. Marginal Way, Argo Access)
 - Workforce Development funding - \$1.5 million in 2016

Tax levy uses include strategic initiatives

2016 Tax Levy Sources & Uses

2016 Tax Levy Sources & Uses (\$ mil.)	
Sources	2016 Budget
Beginning Balance	57.7
Annual Levy	72.0
Tsubota Sale	8.0
Total	137.7
Uses	
G.O. Debt Service - existing	34.5
G.O. Debt Service - SR99 Tunnel	3.6
Environmental Remediation	7.0
Transportation & Infrastructure Contribution	21.3
Workforce Development	1.5
Highline Schools Noise Mitigation	-
Approved CIP - P66 Cruise	12.0
Proposed CIP - Fishing Industry	4.0
Total	83.9
Ending Fund Balance	53.8

Tax levy is reduced to \$72 million in 2016

Remaining Budget Schedule

- Statutory Budget Filed with King County Dec. 3, 2015
- Release the Final Budget Document Dec. 11, 2015

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