

Port of Seattle 2019 Budget First Reading & Public Hearing

Commission Meeting
November 13, 2018



Outline

- 2019 Budget Process Recap
- 2019 Key Business Activity Forecasts and Key Initiatives
- 2019 Operating Budget
- 2019 Comprehensive Operating & Non-Operating Budget
- 2019-2023 Capital Plan
- 2019 Staffing Summary
- 5 Year Financial Forecast
- 2019 Sources and Uses of Funds
- 2019 Proposed Tax Levy
- Remaining 2019 Budget Schedule

2019 Budget Process

May 22	2019 Budget Process and Development Briefing to the Commission
Jun. 26	2019 Aviation Business Plan and Budget Development Briefing to the Commission
Jul. 10	2019 Maritime Business Plan and Budget Development Briefing to the Commission
Jul. 24	2019 EDD Business Plan and Budget Development Briefing to the Commission
Jul. 24	2019 Maritime and EDD CIP and Capital Funding Pre-Budget Commission Study Session
Sept. 4	Memo to Commission Regarding Key Budget Assumptions for 2019
Sept. 24	2019 Maritime and Economic Development CIP and Capital Funding Budget Study Session
Sept. 25	2019 Central Services Operating Budget Briefing
Oct. 10	2019 Central Services Capital Budget Briefing
Oct. 10	2019 Aviation and Maritime Division Budgets Briefing
Oct. 23	2019 EDD Operating Budget Briefing
Oct. 23	2019 Preliminary Budget Document to the Commission
Oct. 25	2019 Preliminary Budget Document released to the public
Nov. 7	Special Budget Session on Maritime and EDD Capital Budgets
Nov. 13	Tax Levy & Draft Plan of Finance Commission Briefing
Nov. 13	First Reading & Public Hearing of the 2019 Preliminary Budget
Nov. 27	Second Reading & Final Passage of the 2019 Preliminary Budget
Dec. 3	File the 2019 Statutory Budget with King County
Dec. 14	Release the 2019 Final Budget and Draft Plan of Finance

Commission engaged in the budget process

2019 Business Activity Forecasts

Aviation Division:

- Forecast 3.0% growth in enplaned passenger for 2019 (from the 2018 year-end forecast, which is expected to be 5.1% higher than 2018)
- Enplaned passengers up 46% since 2013 (6.5% annual compounded rate)
- Major capital projects underway at Sea-Tac will improve the customer experience, reduce congestion, and add capacity to accommodate future growth

Maritime Division:

- 11.1% growth in cruise passengers to a record 1.2 million in 2019
- 13.7% reduction in grain volumes in 2019 due to the current trade climate and tariffs
- Fishing and Commercial Operations occupancy rate average of 86%, same as 2018

Economic Development Division:

- Commercial Properties target 95% occupancy rate at the end of 2019

2019 budget supports growth in Port businesses

2019 Key Initiatives

Serve regional demand and maintain our global gateway.



- Serve regional demand for air service at Sea-Tac
- Support the airport capital improvement program



- Continue to improve safety & security
- Continue to improve customer service



- Support Cruise passenger growth
- Advance real estate development projects



- Build capabilities through process improvement
- Strengthen the Port's Centers of Expertise

Serving increased demand is a key budget driver

2019 Key Initiatives

Create equitable opportunities throughout the region and invest in healthy communities and environment.



- Diversity in Contracting and WMBE
- Equity Program
- Priority Hire
- Expand stakeholder engagement



- Workforce development
- Continue internship program and expand career connected learning
- Supporting Fair Works Center at the Airport



- EPA Grant for work with near-Port communities
- Energy and Sustainability grants
- Sustainable Aviation Fuels



- Promote economic development for the region
- Expand tourism opportunities

Budget resources support community priorities

2019 Budget Highlights

- Operating revenues are budgeted at \$753.3M, \$82.8M or 12.3% higher than 2018 budget, and \$67.7M or 9.9% above 2018 forecast
- Operating expenses are budgeted at \$453.7M, \$30.8M or 7.3% increase from 2018 budget, and \$34.3M or 8.2% above 2018 forecast
- Net Operating Income is budgeted at \$299.5M, \$51.9M or 21.0% above 2018 budget, and \$33.4M or 12.5% above 2018 forecast
- The 2019 capital budget is \$1.0 billion and the 5-year capital spending plan is over \$3.1 billion
- The proposed tax levy for 2019 is \$74.2M

The 2019 budget reflects the Port's growth and continued investments for the region

Changes after the Preliminary Budget Published

- Aviation Division
 - Aeronautical revenues (cost recovery) decreased by \$1,459K primarily due to delay in hiring for Phase 2 Employee Screening.
 - Non-aeronautical revenues increased by \$2,535K due to:
 - \$2,470K higher Rental Car revenue based on improved YTD 2018 performance trends
 - \$484K increase in ADR & Terminal Lease Space business due to Pest Management reimbursement revenue.
 - \$379K reduction in cost recovery for Ground Transportation due to less cost allocation
 - \$40K reduction in Utilities due to less cost allocation
 - Operating expenses lower by \$1,160K due to:
 - \$1,450K due to hiring delay for implementation of Phase 2 Employee Screening
 - \$162K reduction due to removal of a duplicate Firefighter position discovered during budget review
 - \$200K incremental increase in Air Service incentive for newly announced routes and anticipated additional new route
 - \$241K increase in solid waste surcharge.
 - \$9K net increase in B&O tax due to higher revenues

Additional refinements made to the budget

Changes after the Preliminary Budget Published

- Economic Development Division
 - Added \$200K for Fair Works Center
 - Added back \$50K for Visit Seattle in the Tourism Program
 - Made a few minor adjustments to the Tourism budget for a \$8.5K net increase
- Maritime Division & Central Services
 - Phasing in Cruise rate increase over 3 years resulted in \$2.3M revenue reduction in 2019
 - Added \$25K for Maritime Tree Inventory
- Maritime & EDD CIP
 - Included \$281.4M and \$67.1M five-year CIP for Maritime and EDD, respectively, based on the recommendation from the Executive Director

Additional refinements made to the budget

2019 Operating Budget for Aviation

(\$ in '000s)	2017	2018	2018	2019	Budget Change		Budget vs Forecast	
	Actual	Budget	Forecast	Budget	\$	%	\$	%
Operating Revenues								
Aeronautical - Net	264,114	301,082	303,769	365,604	64,522	21.4%	61,835	20.4%
Non-Aeronautical	236,803	244,786	251,309	259,537	14,751	6.0%	8,228	3.3%
TOTAL	500,916	545,867	555,078	625,140	79,273	14.5%	70,062	12.6%
Operating Expenses	299,114	334,856	336,131	366,105	31,249	9.3%	29,974	8.9%
Net Operating Income	201,802	211,011	218,947	259,036	48,024	22.8%	40,089	18.3%

Growth driving expenses and revenues

2019 Operating Budget for Non-Aviation

(\$ in '000s)	2017	2018	2018	2019	Budget Change		Budget vs Forecast	
	Actual	Budget	Forecast	Budget	\$	%	\$	%
Operating Revenues								
Maritime	54,183	55,053	56,420	59,729	4,677	8.5%	3,310	5.9%
EDD	17,791	18,522	19,489	19,725	1,203	6.5%	236	1.2%
NWSA Distributable Revenue	54,925	46,647	50,147	43,911	-2,736	-5.9%	-6,236	-12.4%
Stormwater Utility - Maritime	3,891	4,208	4,208	4,564	357	8.5%	357	8.5%
Central Services & Others	324	182	250	185	3	1.8%	-65	-25.9%
Total	131,114	124,612	130,514	128,115	3,503	2.8%	-2,399	-1.8%
Operating Expenses								
Maritime	42,164	49,578	47,420	50,822	1,243	2.5%	3,401	7.2%
EDD	25,397	28,751	27,840	31,114	2,363	8.2%	3,274	11.8%
Joint Venture/POS	2,974	4,442	4,442	501	-3,941	-88.7%	-3,941	-88.7%
Stormwater Utility - Maritime	3,033	4,476	4,476	3,933	-543	-12.1%	-543	-12.1%
Central Services	299	782	619	1,249	468	59.8%	630	101.8%
Total	73,868	88,029	84,797	87,619	-410	-0.5%	2,822	3.3%
Net Operating Income	57,246	36,583	45,716	40,496	3,913	10.7%	-5,221	-11.4%

Higher NOI versus 2018 Budget

Community Programs Summary

Program (in \$000)	2016 Actual	2017 Actual	2018 Budget	2018 Forecast	2019 Budget	Tax Levy	Airport Dev. Fund	General Fund	2019 Budget
Workforce Development	1,483	1,784	2,917	2,067	2,920	1,612	910	398	2,920
Tourism	1,093	1,235	1,460	1,460	1,521	200		1,321	1,521
Economic Development Partnership Grants	20	751	960	960	960	960			960
WMBE & Small Business	356	628	1,509	1,300	1,327	75	928	324	1,327
Fair Works Center	0	0	0	0	200	200			200
Equity Program	0	0	55	0	351		287	64	351
Diversity in Contracting	0	0	128	100	418		333	85	418
High School Internship Program	0	484	634	634	634		516	118	634
Airport Community Ecology (ACE) Fund	0	0	400	239	500	500			500
Energy & Sustainability (E&S) Fund	0	36	200	130	250	250			250
Energy & Sustainability Program	0	54	255	120	250		199	51	250
Community Relief to City of SeaTac	0	0	1,400	1,400	1,400	1,400			1,400
Port and Local Community Advertising	0	0	0	354	354	354	(354)		354
TOTAL	2,952	4,971	9,917	8,764	11,085	5,551	2,819	2,361	11,085

Change from Prior Year

68.4% 99.5% 76.3% 11.8%

- Adding budget resources for a new Fair Work Center.
- Equity Program: Creating a new department and a new Director position
- Diversity in Contracting: Adding 3 new FTEs for Diversity in Contracting in Central Procurement Office

Adding new FTEs and resources to advance community programs

2019 Operating Budget - Port wide

(\$ in '000s)	2017	2018	2018	2019	Budget Change		Budget vs Forecast	
	Actual	Budget	Forecast	Budget	\$	%	\$	%
Operating Revenues	632,031	670,479	685,592	753,255	82,776	12.3%	67,663	9.9%
Operating Expenses	372,982	422,885	419,417	453,724	30,839	7.3%	34,307	8.2%
Net Operating Income	259,049	247,594	266,175	299,531	51,937	21.0%	33,356	12.5%

A record \$753M of operating revenues for 2019

2019 Comprehensive Budget

(\$ in 000s)	2017 Actual	2018 Budget	2018 Forecast	2019 Budget	Budget Change \$	%	Explanations
Revenues							
1. Aeronautical Revenues (Net)	264,114	301,082	303,769	365,604	64,522	21.4%	Cost recovery under SLOA IV.
2. Other Operating Revenues	367,917	369,398	381,823	387,651	18,254	4.9%	Higher revenue from the Airport, Maritime & EDD businesses.
3. Tax Levy	71,702	72,000	72,000	74,160	2,160	3.0%	Increased by 3% in 2019.
4. PFCs	88,389	91,787	93,095	95,185	3,398	3.7%	Higher enplanement forecast for 2019.
5. CFCs	25,790	22,161	22,161	23,482	1,321	6.0%	Increase due to more for debt service cost.
6. Fuel Hydrant	7,000	7,023	7,023	7,022	(2)	0.0%	Essentially the same as 2018.
7. Non-Capital Grants and Donations	6,705	5,504	3,000	2,655	(2,849)	-51.8%	Less state grant in 2019.
8. Capital Contributions	30,112	41,379	41,379	49,345	7,966	19.3%	More TSA grant for the Checked Baggage Screen Project.
9. Interest Income	12,174	15,713	25,670	30,903	15,190	96.7%	Slight increase in rates and higher cash balances.
Total	873,902	926,047	949,920	1,036,007	109,961	11.9%	
Expenses							
1. O&M Expense	372,982	422,885	419,417	453,724	30,839	7.3%	New budget initiatives and average pay increase.
2. Depreciation	165,021	163,309	163,309	168,676	5,367	3.3%	More new assets come into service in 2019.
3. Revenue Bond Interest Expense	97,748	122,544	105,000	129,429	6,886	5.6%	More bond issuance assumed in 2019 increased interest expense.
4. GO Bond Interest Expense	13,891	13,501	13,501	12,689	(812)	-6.0%	Decreased debt service on GO bonds through amortization.
5. PFC Bond Interest Expense	4,931	4,437	4,437	3,606	(831)	-18.7%	Decreased debt service on PFC bonds through amortization.
6. Non-Op Environmental Expense	4,464	2,250	40,147	5,000	2,750	122.2%	Revise costs estimates for ERL balance and superfund sites.
7. Public Expense	4,588	10,794	11,200	21,009	10,215	94.6%	Safe & Swift, Seattle Heavy Haul, Vanderlande Screening Lanes.
8. Other Non-Op Rev/Expense	10,441	473	1,200	1,415	942	199.4%	
Total	674,066	740,193	758,212	795,549	55,356	7.5%	
Revenues over Expenses	199,836	185,854	191,709	240,459	54,605	29.4%	

A strong financial position for the Port in 2019

Capital Plan Summary

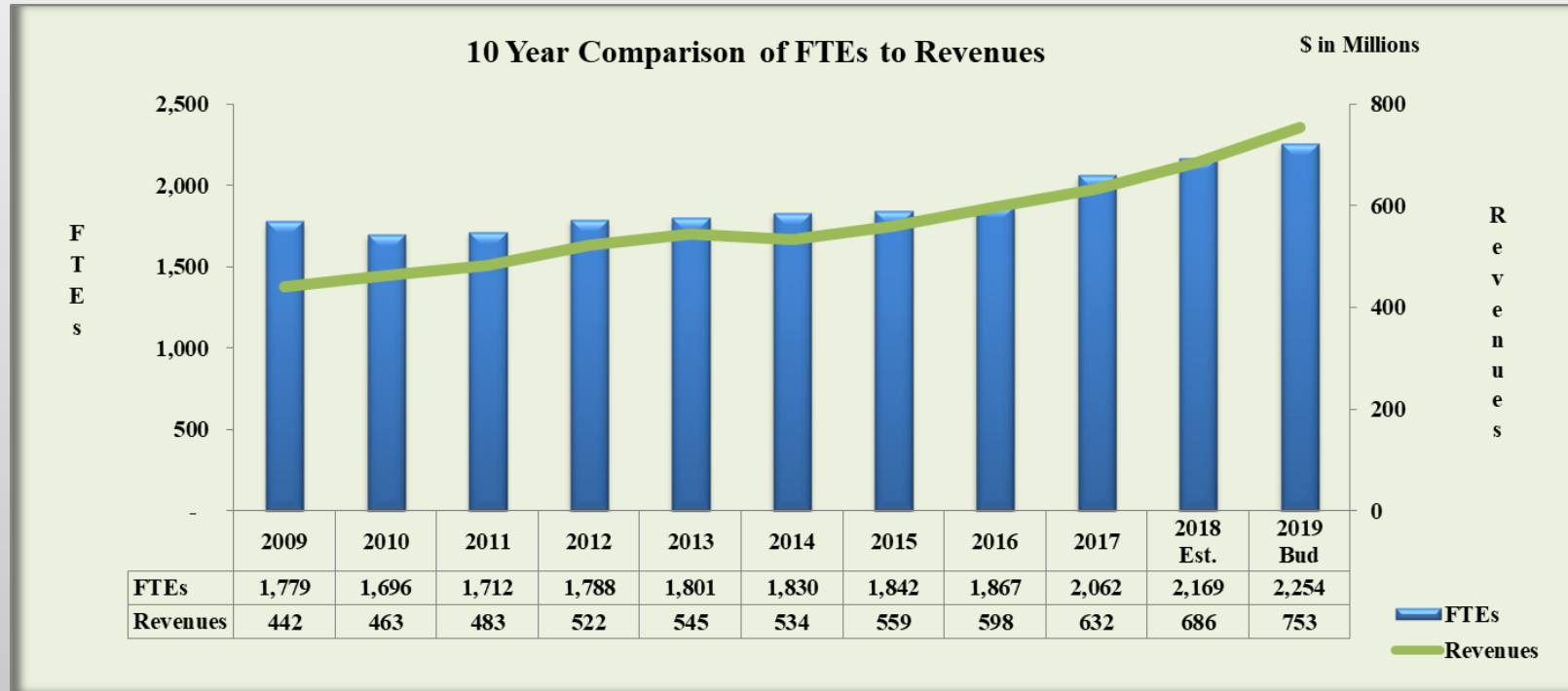
Capital Plan Summary by Division

\$ in 000's	2018 Fcst	2019	2020	2021	2022	2023	2019-2023
Aviation	574,425	935,454	576,576	515,061	394,108	278,868	2,700,067
Maritime	28,638	33,455	70,415	149,853	12,713	14,936	281,372
Economic Development	3,777	8,221	29,796	21,350	3,960	3,830	67,157
Stormwater Utility	1,913	1,800	2,550	2,319	2,150	2,150	10,969
Central Services and Other	11,848	22,507	10,917	11,872	11,740	33,813	90,849
Total	620,601	1,001,437	690,254	700,455	424,671	333,597	3,150,414

- Capital projects have been prioritized by staff.
- The capital plan does not include Port share of the NWSA capital spending between 2019 and 2023.

The Port continues to invest in the region with a 5-year capital plan of over \$3 billion

10 Year Comparison of FTEs to Revenues



- The annual compounded growth rate is 2.4% for FTEs compared to 5.5% for operating revenues from 2009 to 2019.

Business growth and revenues outgrew FTEs for the past 10 years

FTE Summary

	Aviation	Maritime	Econ Dev.	Central Services	Total
2018 Approved FTE's	1,040.4	171.0	36.0	907.1	2,154.5
Mid Year Approval	8.0	-	1.0	12.0	21.0
Eliminated	-	-	(2.0)	(1.5)	(3.5)
Net Transfers	3.0	1.0	-	(4.0)	-
Adjusted 2018 FTE's (note 1)	1,051.4	172.0	35.0	913.6	2,172.0
2019 Budget					
Eliminated	-	(1.0)	-	(0.8)	(1.8)
Transfer	-	(1.0)	-	1.0	-
New FTE's (note 2)	54.4	3.0	1.0	25.5	83.9
Total 2019 Changes	54.4	1.0	1.0	25.8	82.1
Proposed 2019 FTE's	1,105.8	173.0	36.0	939.4	2,254.1

Notes:

- 1) Includes 1.0 FTE for Stormwater Utility in Maritime Division.
- 2) Includes 1.0 new FTE for Stormwater Utility in Maritime Division.

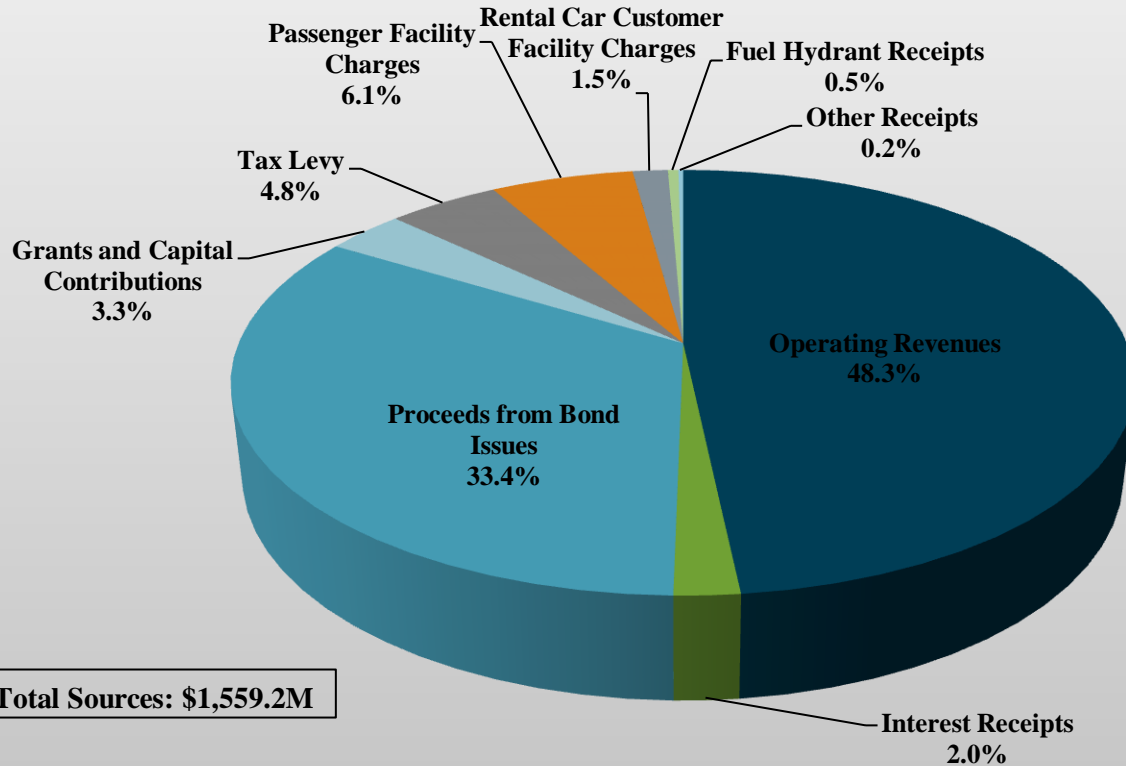
FTEs driven by Commission priorities and growth initiatives

5 Year Financial Forecast

(\$ in 000's)	Budget 2018	Forecast 2018	Budget 2019	Forecast				Compound Growth 2019 - 2023
				2020	2021	2022	2023	
OPERATING BUDGET								
Aeronautical Revenue - Net	301,082	303,769	365,604	422,642	486,338	516,584	545,373	10.5%
Portwide Non-Aeronautical Revenue	322,751	331,676	343,741	349,093	361,253	371,575	382,284	2.7%
NWSA Distributable Revenue	46,647	50,147	43,911	39,084	42,732	48,016	51,037	3.8%
Total Operating Revenues	670,479	685,592	753,255	810,818	890,323	936,176	978,694	6.8%
Total Operating Expenses	422,885	419,417	453,724	459,515	486,048	507,162	528,740	3.9%
Net Operating Income Before Depreciation	247,594	266,175	299,531	351,304	404,275	429,014	449,955	10.7%

Steady growth in Net Operating Income projected

Sources of Funds

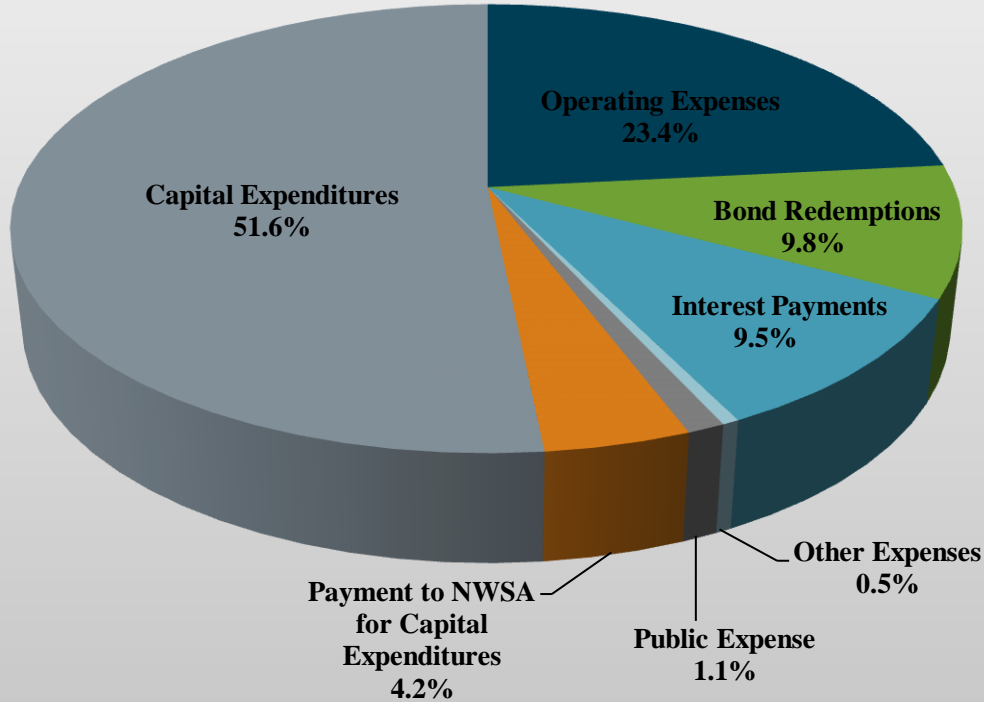


Total Sources: \$1,559.2M

- 82% of funding sources come from bond proceeds and operating income.
- The tax levy makes up less than 5% of the funding sources in 2019.

The Port has diversified funding sources

Uses of Funds

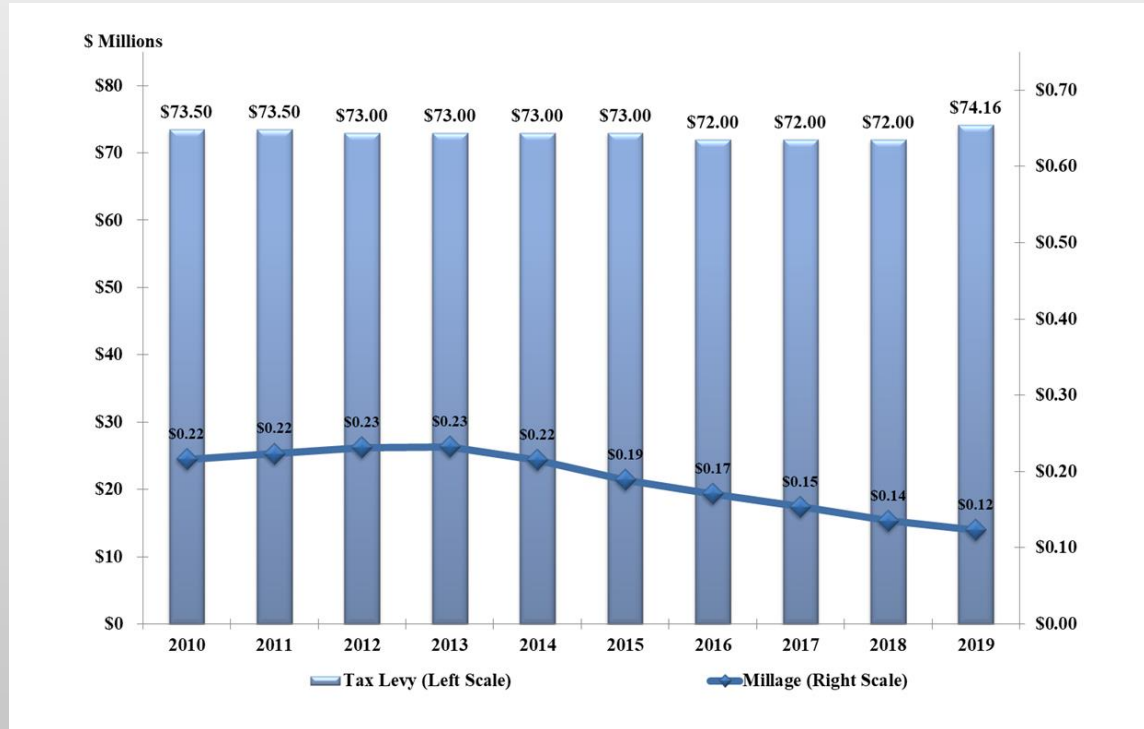


- Plan to spend more than half of our funds on capital projects in 2019.
- Operating expenses are less than a quarter of total expenditures in 2019.

Total Uses: \$1,941.8M

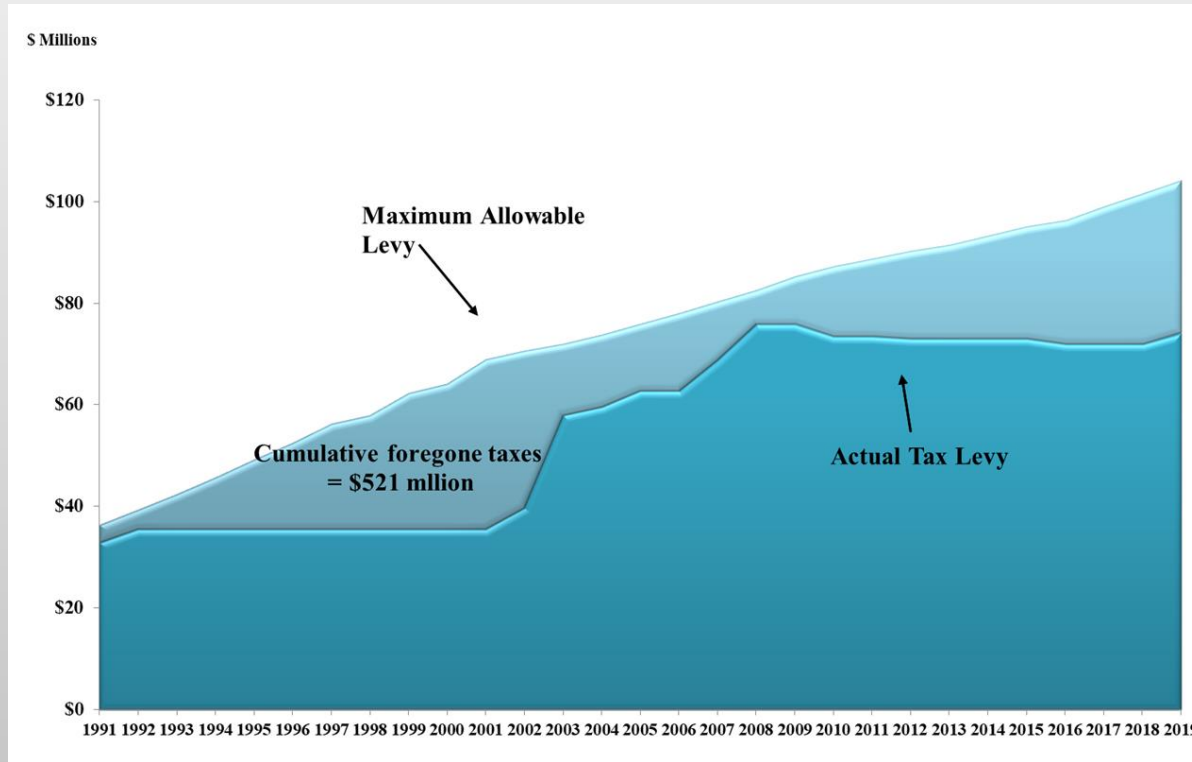
Capital spending comprises more than half of Port expenditures

2010-2019 Tax Levy & Millage Rate



The Port has gradually reduced the tax levy amount from 2010 to 2018

Actual vs. Maximum Allowable Levy



The Port has forgone \$521M in tax revenue since 1991

Remaining Budget Schedule

- Second Budget Reading Nov. 27, 2018
- File Statutory Budget with King County Dec. 3, 2018
- Release the 2019 Final Budget Document Dec. 14, 2018

Statutory budget to be filed with the County on December 3

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