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PORT OF SEATTLE

2017 FINANCIAL & PERFORMANCE REPORT

AS OF DECEMBER 31, 2017

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EXECUTIVE SUMMARY

Financial Summary

The Port's operating revenues for 2017 were $630.4M, which is $10.1M above budget and $31.9M higher than the 2016 actuals. Excluding Aeronautical revenues, which are based on cost recovery, other operating revenues were $367.9M, $22.5M above budget and $13.7M higher than the 2016 actuals due mainly to higher revenues from Public Parking, Airport Dining and Retail, Ground Transportation, Non-Aero Commercial Properties, Cruise and an unanticipated lump sum payment from Des Moines Creek Business Park (DMCBP) Phase II for pre-paid frontage fees. Total operating expenses were $371.3M, $13.3M below budget from savings in payroll, mainly due to vacancies and hiring delays, and outside services due to delays in Terminal expense projects, Sustainable Airport Master Plan (SAMP) projects, Airport Community Ecology (ACE) Fund and Energy & Sustainability Fund spending. Operating income before depreciation was $259.1M, $23.5M above budget but $14.1M lower than 2016. The Port-wide capital spending for 2017 was $324.5M which is $283.2M below budget.

Operating Summary

At the Airport, the enplanement growth for 2017 was 2.7% and landed weight was 4.2%. The enplanement growth rates for domestic and international passengers were 2.3% and 5.9%, respectively. Total cargo metric tons were 16.2% above the 2016 actuals. For the Maritime division, Grain volumes were 17% higher than expected, and for the first time in 2017, the number of cruise passengers exceeded the million passenger mark. For the Economic Development division, the overall occupancy of buildings managed by Portfolio Management was at 98% for 2017, above the 95% target for 2017. The occupancy level at Shilshole Bay Marina was at 94.8%, slightly higher than the 2016 occupancy level of 94.6%. Fishermen's Terminal occupancy level was at 81.9%, lower than the 84.7% occupancy level recorded in 2016.

Key Business Events

The Port Commission approved an Energy and Sustainability motion outlining the Port's commitment to protect public health and the environment, and to reduce its carbon footprint throughout the region. In line with its environmental and sustainability goals, the Port became the first U.S. port to set a 10-year goal to transition away from fossil fuels to aviation biofuels. The Port and City of SeaTac executed a 10-year Interlocal Agreement, which establishes a mutual and cooperative system to recognize respective jurisdictional authorities. The Port also awarded new custodial contracts to increase opportunities for small and disadvantaged businesses. Aeromexico started air service to Mexico City in November. In December, the Port Commission voted to purchase the Salmon Bay Marina which supports the Century Agenda goal to double the number of jobs in the region related to fishing and maritime industry. The Port also welcomed Stephen Metruck as the new Executive Director.

Major Capital Projects

The Sustainable Airport Master Plan (SAMP) is progressing towards preferred alternative. The construction for the International Arrivals Facility (IAF) has begun, and 90% of the design has been completed. The overall South Satellite (SSAT) Interim Improvements project has been delayed due to scope change required by an adjacent project. The North Satellite Expansion project is underway, and phase 1 work has been finalized which includes completing underground utilities, replacing 400 Hz generators, installing rain harvest tanks, and replacing 30% of the new chilled water pipeline. Design reviews for the Terminal 5 Modernization was completed with tenant/ commercial team input on modifications to follow. The Port substantially completed or placed into closeout 27 projects, including Bag Claim Wall Panels, Central Terminal WiFi Expansion, Air Cargo 4 Fence, Variable Frequency Drive Motor Replacement.

I. PORTWIDE FINANCIAL & PERFORMANCE REPORT 12/31/17

PORTWIDE FINANCIAL SUMMARY

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2016 $	Incr (Decr) Change from 2016 %
Aeronautical Revenues	244,235	262,451	274,799	(12,348)	-4.5%	18,216	7.5%
Other Operating Revenues	354,232	367,917	345,446	22,471	6.5%	13,685	3.9%
Total Operating Revenues	598,467	630,368	620,245	10,123	1.6%	31,901	5.3%
Total Operating Expenses	325,285	371,317	384,660	13,343	3.5%	46,032	14.2%
NOI before Depreciation	273,182	259,051	235,585	23,466	10.0%	(14,131)	-5.2%
Depreciation	164,336	165,021	166,300	1,279	0.8%	685	0.4%
NOI after Depreciation	108,846	94,030	69,285	24,744	35.7%	(14,817)	-13.6%

MAJOR OPERATING REVENUES SUMMARY

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Budget Variance	Change from 2016
Aeronautical Revenues	244,235	262,451	274,799	(12,348)	18,216
Public Parking	69,540	75,106	73,568	1,538	5,566
Rental Cars - Operations	37,082	35,051	37,815	(2,764)	(2,031)
Rental Cars - Operating CFC	12,122	10,641	12,931	(2,290)	(1,481)
Airport Dining and Retail	55,196	54,611	51,348	3,264	(584)
Employee Parking	9,329	9,617	8,482	1,134	288
Ground Transportation	12,803	15,684	14,417	1,267	2,881
Non-Aero Commercial Properties	9,992	18,042	12,141	5,901	8,050
Airport Utilities	7,233	7,018	7,118	(101)	(215)
Fishing & Commercial Vessels	2,927	2,854	3,052	(198)	(73)
Maritime Operations	6,181	6,443	6,069	374	262
Recreational Boating	10,255	11,086	11,081	5	831
Cruise	15,422	17,596	16,502	1,093	2,174
Grain	5,382	5,427	4,508	919	45
Maritime Industrial	6,306	6,799	6,605	193	493
Marina Office & Retail	3,949	3,988	4,012	(24)	39
Central Harbor Management	7,827	8,634	8,055	579	807
Conference & Event Centers	8,022	9,133	7,943	1,190	1,111
NWSA Distributable Revenue	61,584	54,925	46,708	8,217	(6,659)
Other	13,080	15,263	13,089	2,174	2,183
Total Operating Revenues (w/o Aero)	**354,232**	**367,917**	**345,446**	**22,471**	**13,685**
TOTAL	**598,467**	**630,368**	**620,245**	**10,123**	**31,901**

I. PORTWIDE FINANCIAL & PERFORMANCE REPORT 12/31/17

MAJOR OPERATING EXPENSES SUMMARY

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2016 $	%
Salaries & Benefits	102,873	112,837	125,263	12,426	9.9%	9,964	9.7%
Wages & Benefits	99,917	108,041	112,647	4,606	4.1%	8,124	8.1%
Payroll to Capital Projects	21,744	25,708	27,327	1,618	5.9%	3,965	18.2%
Equipment Expense	7,106	11,118	7,438	(3,679)	-49.5%	4,012	56.5%
Supplies & Stock	8,792	10,238	8,040	(2,199)	-27.3%	1,447	16.5%
Outside Services	70,116	83,603	101,106	17,503	17.3%	13,487	19.2%
Utilities	21,123	23,529	21,752	(1,777)	-8.2%	2,406	11.4%
Travel & Other Employee Expenses	4,200	4,767	6,203	1,436	23.1%	567	13.5%
Promotional Expenses	1,178	1,408	1,997	589	29.5%	230	19.5%
Other Expenses	25,118	34,818	24,419	(10,399)	-42.6%	9,700	38.6%
Charges to Capital Projects	(36,880)	(44,750)	(51,532)	(6,781)	13.2%	(7,870)	21.3%
TOTAL	325,285	371,317	384,660	13,343	3.5%	46,032	14.2%

The 2017 actuals are $46.0M higher than the 2016 actuals primarily due to the following:

- Payroll - $18.1M higher mainly due to the addition of FTEs for Full Employee Screening, Construction Support, Maintenance, Rental Car Facility Busing, and other growing business needs and support services.
- Outside Services - $13.5M higher largely due to more consultant expenses, more capital and expense projects, and some capital to expense write-offs.
- Other Expenses - $9.7M higher due to environmental liability expenses ($3.3M), DMCBP Phase II Frontage Fees ($3.6M) and Third Party Management fee ($1.1M), the last two are more than offset by higher revenues.

TOTAL OPERATING AND NON-OPERATING REVENUES AND EXPENSES

($ in 000's)	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	%
Revenues					
1. Operating Revenues	598,467	630,368	620,245	10,123	1.6%
2. Tax Levy	71,678	71,702	72,000	(298)	-0.4%
3. PFCs	85,570	88,389	89,087	(698)	-0.8%
4. CFCs	24,715	25,790	26,300	(511)	-1.9%
5. Fuel Hydrant	6,992	7,000	7,024	(24)	-0.3%
6. Non-Capital Grants & Donations	6,284	7,647	8,595	(947)	-11.0%
7. Capital Contributions	18,108	29,983	15,000	14,983	99.9%
8. Interest Income	8,448	12,174	10,822	1,351	12.5%
Total	**820,262**	**873,053**	**849,073**	**23,979**	**2.8%**
Expenses					
1. O&M Expense	325,285	371,317	384,660	13,343	3.5%
2. Depreciation	164,336	165,021	166,300	1,279	0.8%
3. Revenue Bond Interest Expense	105,567	97,748	122,026	24,278	19.9%
4. GO Bond Interest Expense	9,765	13,891	17,714	3,823	21.6%
5. PFC Bond Interest Expense	5,251	4,931	4,985	55	1.1%
6. Public Expense	8,560	4,588	2,488	(2,100)	-84.4%
7. Non-Op Environmental Expense	280	4,464	5,441	977	18.0%
8. Other Non-Op Rev/Expense	12,087	12,732	(257)	(12,990)	5050.8%
Total	**631,131**	**674,693**	**703,357**	**28,665**	**4.1%**
Special Item	147,700	-	-	-	0.0%
Increase In Net Position	**41,431**	**198,360**	**145,716**	**52,644**	**36.1%**

Major Budget Variance Explanations:

- Capital Contributions: $15.0M above budget mainly due to contribution from NCL for the Pier 66 Cruise Terminal Improvement.
- Interest Income: $1.4M higher than budget mainly due to higher funds balance.
- Revenue Bond Interest Expense: $24.3M favorable to budget mainly due to savings from revenue bond re-financing.
- Other Non-Op Expense: $13.0M higher than budget mainly due to earlier assets retirement resulted from new project constructions at the airport.

I. PORTWIDE FINANCIAL & PERFORMANCE REPORT 12/31/17

KEY PERFORMANCE METRICS

	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance Chg.	%	Incr (Decr) Change from 2016 Chg.	%
Enplanements (in 000's)	22,796	23,416	23,929	(513)	-2.1%	620	2.7%
Landed Weight (lbs. in 000's)	27,276	28,431	27,726	705	2.5%	1,155	4.2%
Passenger CPE (in $)	10.10	10.45	10.88	0.43	4.0%	0.35	3.5%
Grain Volume (metric tons in 000's)	4,389	4,363	3,720	643	17.3%	(26)	-0.6%
Cruise Passenger (in 000's)	984	1,072	1,039	32	3.1%	88	9.0%
Shilshole Bay Marina Occupancy	94.6%	94.8%	95.4%	-0.6%	-0.6%	0.2%	0.2%
Fishermen's Terminal Occupancy	84.7%	81.9%	84.3%	-2.4%	-2.8%	-2.8%	-3.3%

CAPITAL SPENDING RESULTS

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Budget Variance $	%
Aviation	153,889	294,497	554,717	260,220	46.9%
Maritime	5,744	20,489	34,518	14,029	40.6%
Economic Development	4,731	3,739	6,304	2,565	40.7%
Central Services & Other (note 1)	5,097	5,798	12,147	6,349	52.3%
TOTAL	169,461	324,523	607,686	283,163	46.6%

Note:
(1) "Other" includes Street Vacation projects and Storm Water Utility (SWU) capital projects.

PORTWIDE INVESTMENT PORTFOLIO

During the fourth quarter of 2017, the investment portfolio earned 1.51% versus the benchmark’s (the Bank of America Merrill Lynch 1-3 Year US Treasury & Agency Index) 1.90%. Over the last twelve months the portfolio and the benchmark have earned 1.42% and 1.52%, respectively. Since the Port became its own Treasurer in 2002, the life-to-date earnings of the Port’s portfolio and the benchmark are 2.50% and 1.79%, respectively.

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

FINANCIAL SUMMARY

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2016 $	Incr (Decr) Change from 2016 %
Operating Revenues:							
Gross Aeronautical Revenues	247,811	266,027	278,375	(12,348)	-4.4%	18,216	7.4%
SLOA III Incentive Straight Line Adj (1	(3,576)	(3,576)	(3,576)	(0)	0.0%	(0)	0.0%
Aeronautical Revenues	244,235	262,451	274,799	(12,348)	-4.5%	18,216	7.5%
Non-Aeronautical Revenues	221,021	236,803	226,645	10,157	4.5%	15,781	7.1%
Total Operating Revenues	**465,256**	**499,254**	**501,444**	**(2,191)**	**-0.4%**	**33,997**	**7.3%**
Total Operating Expense	261,226	297,449	302,711	5,262	1.7%	36,223	13.9%
Net Operating Income	**204,030**	**201,804**	**198,733**	**3,071**	**1.5%**	**(2,226)**	**-1.1%**
Capital Expenditures	**153,887**	**294,497**	**554,717**	**260,220**	**46.9%**	**140,610**	**91.4%**

(1) Annual non-cash amortization of $17.9M lease incentive credited in 2013.

Division Summary 2017 Actuals vs 2017 Budget

- Net Operating Income for 2017 is $3.1M higher than budget (1.5% favorable)
  - Operating Revenue is $2.2M lower than budget (0.4% unfavorable) – primarily due to lower Aeronautical revenue ($12.3M) due to lower aero costs and higher revenue sharing, partially offset by higher Non-Aero revenue ($10.2M) driven by strong performance in Airport Dining & Retail, Clubs & Lounges, Parking, and Ground Transportation, as well as a one-time lump sum payment of $5.4M in Commercial Properties.
  - Operating Expenses are $5.3M lower than budget (1.7% favorable) – primarily due to lower charges from Corporate and other divisions ($13.3M savings), partially offset by higher than anticipated Airport expenses ($8.1M) due to significant unplanned expenditures for higher than anticipated snow removal costs, environmental liability expense, and capital to expense write-offs, as well as a one-time lump sum amortization expense ($3.6M) associated with the lump sum payment received in Commercial Properties this year.

Division Summary 2017 Actuals vs 2016 Actuals

- 2017 Net Operating Income is $2.2M lower than prior year (1.1% lower NOI)
  - 2017 Operating Revenue is $34.0M higher than prior year (7.3% higher) – due to strong growth in both Aeronautical revenue ($18.2M) and Non-Aero revenue ($15.8M). The increase in Aero rate based revenue is primarily due to cost recovery on higher operating expenses to support increased airline activity, partially offset by higher revenue sharing in 2017. The growth in Non-Aero revenue is driven by higher passenger volumes with strong performance in Parking, Airport Dining & Retail, Clubs & Lounges, and Ground Transportation, as well as a 2017 one-time lump sum payment of $5.4M in Commercial Properties.
  - 2017 Operating Expenses are $36.2M higher than prior year (13.9% higher) – due to higher Airport expenses ($30.5M) for planned incremental spending to address operational impacts of increased passenger volumes, as well as significant unplanned expenditures in 2017 for snow removal costs, environmental liability expense, capital to expense write-offs, and a one-time lump sum amortization expense ($3.6M) associated with the lump sum payment received in Commercial Properties this year. In addition, charges from Corporate departments and other divisions were ($5.7M) higher in 2017.

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

A. BUSINESS EVENTS

- Passenger growth slowed in 2017, still up 2.7% over the prior year. International passenger volumes grew by 5.9% in 2017.
- New air service:
  - Aeromexico started service to Mexico City in November 2017
  - Air France announced new service to Paris, France beginning March 25, 2018
- Cargo metric tons up 16% in 2017, compared to prior year.
- Customer Service: achieved Airport Service Quality (ASQ) targets for 2017
- Airport dining and retail program awarded lease group 3 in June 2017 and awarded lease group 4 in February 2018.
- Sustainable Airport Master Plan - progressing towards preferred alternative.
- Capital program: proceeding with construction on major projects: IAF, NSAT, Baggage Optimization, Concourse D Hardstand Terminal and Alternative Utility Facility.
- Inter-local agreement executed with City of SeaTac.
- Airline lease agreement (SLOA) negotiations continued into early 2018, with agreement on key terms reached in February 2018.

B. KEY PERFORMANCE METRICS

	2016	2017	% Change
Enplaned Passengers (000's)			
Domestic	20,385	20,862	2.3%
International	2,411	2,554	5.9%
Total	22,796	23,416	2.7%
Operations	412,170	416,124	1.0%
Landed Weight (In Millions of lbs.)			
Cargo	1,888	2,323	23.0%
All other	25,387	26,107	2.8%
Total	27,276	28,431	4.2%
Cargo - Metric Tons			
Domestic freight	194,754	242,470	24.5%
International freight	114,350	123,735	8.2%
Mail	57,326	59,651	4.1%
Total	366,430	425,856	16.2%

Passenger Activity

Airline	Change 2016-17	Market Share
Alaska+Virgin	-0.1%	49.6%
Delta	10.3%	22.2%
Southwest	-9.5%	6.7%
United	5.4%	6.4%
American	-0.8%	5.9%

2017 Cargo – Metric Tons:

- Strong growth in cargo volume from existing domestic and international carriers.
- 2017 reflects first full year of activity for new air services that commenced mid-2016:
  - New Domestic Freight services - Prime Air/Amazon and DHL
  - New International Freight services - AeroLogic and AirBridge.

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

Key Performance Measures

	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Vairance $	%	Incr (Decr) Change from 2016 $	%
Key Performance Metrics							
Cost per Enplanement (CPE)	10.10	10.45	10.88	0.43	4.0%	0.35	3.4%
Non-Aeronautical NOI (in 000's)	128,833	133,108	118,521	14,587	12.3%	4,275	3.3%
Other Performance Metrics							
O&M Cost per Enplanement	11.46	12.70	12.65	(0.05)	-0.4%	1.24	10.9%
Non-Aero Revenue per Enplanement	9.70	10.11	9.47	0.64	6.8%	0.42	4.3%
Debt per Enplanement (in $)	104	114	110	(4)	-3.5%	10	9.4%
Debt Service Coverage (After Rev Sharing)	1.53	1.57	1.50	0.08	5.1%	0.04	2.9%
Days cash on hand (10 months = 304 days)	416	381	304	77	25.4%	(35)	-8.4%
Aeronautical Revenue Sharing ($ in 000's)	(37,395)	(42,313)	(33,093)	(9,219)	-27.9%	4,917	13.2%
Activity (in 000's)							
Enplanements	22,796	23,416	23,929	(513)	-2.1%	619	2.7%

Notes:

- Reduction in CPE reflects lower airline costs due to higher revenue sharing (driven by increased non-airline revenues), and increased enplaned passengers.
- Improved debt service coverage compared to budget reflects increased cash flow from growth in enplanements.

C. OPERATING RESULTS

Division Summary

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2016 $	Incr (Decr) Change from 2016 %
Operating Revenues:							
Gross Aeronautical Revenues (1)	247,811	266,027	278,375	(12,348)	-4.4%	18,216	7.4%
SLOA III Incentive Straight Line Adj (2)	(3,576)	(3,576)	(3,576)	(0)	0.0%	(0)	0.0%
Aeronautical Revenues (1)	244,235	262,451	274,799	(12,348)	-4.5%	18,216	7.5%
Non-Aeronautical Revenues	221,021	236,803	226,645	10,157	4.5%	15,781	7.1%
Total Operating Revenues	**465,256**	**499,254**	**501,444**	**(2,191)**	**-0.4%**	**33,997**	**7.3%**
Operating Expenses:							
Payroll	101,879	114,463	119,886	5,423	4.5%	12,585	12.4%
Outside Services	37,863	41,055	45,279	4,224	9.3%	3,192	8.4%
Utilities	14,690	16,374	15,187	(1,187)	-7.8%	1,684	11.5%
Other Airport Expenses	20,655	28,292	18,004	(10,289)	-57.1%	7,637	37.0%
Total Airport Direct Charges	**175,087**	**200,184**	**198,355**	**(1,829)**	**-0.9%**	**25,098**	**14.3%**
Environmental Remediation Liability	4,463	7,147	3,775	(3,372)	-89.3%	2,684	60.1%
Capital to Expense	129	2,856	-	(2,856)	N/A	2,727	2114.7%
Total Exceptions	**4,592**	**10,003**	**3,775**	**(6,228)**	**-165.0%**	**5,411**	**117.8%**
Total Airport Expenses	**179,679**	**210,187**	**202,130**	**(8,056)**	**-4.0%**	**30,508**	**17.0%**
Police Costs	18,183	17,652	19,173	1,521	7.9%	(531)	-2.9%
Capital Development	9,319	14,701	22,378	7,677	34.3%	5,382	57.8%
Other Central Services	50,099	51,004	54,673	3,669	6.7%	905	1.8%
Maritime/Economic Development	3,946	3,904	4,356	452	10.4%	(41)	-1.1%
Total Charges from Other Divisions	**81,547**	**87,262**	**100,581**	**13,318**	**13.2%**	**5,715**	**7.0%**
Total Operating Expense	**261,226**	**297,449**	**302,711**	**5,262**	**1.7%**	**36,223**	**13.9%**
Net Operating Income	**204,030**	**201,804**	**198,733**	**3,071**	**1.5%**	**(2,226)**	**-1.1%**
CFC Surplus	(4,899)	(2,750)	(5,561)	2,812	50.6%	2,149	43.9%
Net Non-Operating Items in / out from ADF (3)	2,160	3,481	3,691	210	5.7%	1,321	61.2%
SLOA III Incentive Straight Line Adj	3,576	3,576	3,576	(0)	0.0%	0	0.0%
Debt Service	(133,982)	(131,060)	(133,876)	2,817	2.1%	2,922	2.2%
Adjusted Net Cash Flow	**70,885**	**75,052**	**66,562**	**8,489**	**12.8%**	**4,167**	**5.9%**

(1) Aero revenues are net of revenue sharing.
(2) For Accounting purposes, the 2013 reduction in the airline revenue requirement of $17.9 million was treated as a lease incentive and is being amortized over five years.
(3) Per SLOA III definition of Net Revenues.

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

<u>Operating Expenses</u> – 2017 Actuals compared to 2017 Budget:

Total Operating Expenses are lower than the 2017 Budget by $5.3 million due to the net of the following:

- Aviation Direct Operating Expenses are higher than budget by $1.8 million due to the following:

Positive Variance of $9.6M			Negative Variance of $11.5M		
Payroll		$5.4M	Utilities		$1.2M
Vacancies & hiring delays	4.1M		Other Aviation Expenses		$10.3M
New labor agreement impacts	(0.8M)		DMCBP Phase II pre-paid frontage exp	3.6M	
Snow-related incremental labor costs	(0.3M)		Litigated & Non-litigated Damages	1.5M	
YE pension adjustment	2.4M		Clubs & Lounges op exp (revenue growth)	0.4M	
Outside Services (savings & work deferred to future year)		$4.2M	Snow removal - supplies expense	0.6M	
SAMP related projects - slower spending	3.9M		Furniture & Equipment acquisition	2.3M	
Airport Signage Master Plan	0.5M		Worker's Comp	1.1M	
Contracted Snow Removal costs	(0.5M)		All other Aviation Expenses	0.8M	
Electric cart service (light rail shuttle)	(0.3M)				
Curbside Assistance (Rental Car)	(0.2M)				
All other Outside Services	0.8M				

- Operating Expenses <u>Exceptions</u> are higher than budget by $6.2 million due to the following:

Positive Variance - none	Negative Variance of $6.2M		
	Environmental Remediation Liability		$3.4M
	IAF soils	3.1M	
	NSAT soils	0.9M	
	NSAT asbestos	0.7M	
	RMM projects deferred to future years	(1.3M)	
	Capital to Expense		$2.9M
	Obsolete exit lane equipment	1.9M	
	SSAT - HVAC equipment	0.7M	
	Cellphone lot - temporary traffic signal	0.1M	
	All other Capital to Expense items	0.2M	

- Operating Expense charges from Central Services and other divisions are lower than budget by $13.3 million due to the following:

Positive Variance of $13.3M			Negative Variance - none
Police savings		$1.5M	
Capital Development savings		$7.7M	
Aviation PMG (projects delayed/deferred)	6.1M		
PCS	0.5M		
Engineering	1.1M		
Other Central Services savings		$3.7M	
Human Resources	0.8M		
Accounting & Financial Reporting	0.7M		
ICT	0.6M		
Executive	0.5M		
Office of Strategic Initiatives	0.5M		
All other Central Services departments	0.6M		
Maritime & EDD Divisions		$0.5M	

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

<u>Operating Expenses</u> – 2017 Actuals compared to 2016 Actuals:

Total Operating Expenses increased in 2017 by $36.2 million due to the net of the following:

- <u>Aviation Direct</u> Operating Expenses increased in 2017 by $25.1 million due to the following:

Increase of $25.1M			Decrease - no material amount
Payroll - incremental staff (growth driven)		$12.6M	
Outside Services		$3.2M	
SAMP related spending	1.1M		
NERA grant spending (FAA pilot program)	0.6M		
Airport Signage Master Plan	0.4M		
All other Outside Services	1.1M		
Utilities		$1.7M	
Other Aviation expenses		$7.6M	
DMCBP Phase II pre-paid frontage fee exp	3.6M		
Furniture & Equipment acquisition	2.3M		
Worker's Comp	1.2M		
All other Aviation expenses	0.5M		

- Operating Expense <u>Exceptions</u> increased in 2017 by $5.4 million due to the following:

Increase of $5.4M			Decrease - no material amount
Environmental Remediation Liability		$2.7M	
IAF soils	3.5M		
NSAT soils	1.9M		
NSAT asbestos	1.3M		
Lora Lake (lake parcel) increase in 2016	(4.1M)		
All other RMM adjustments	0.1M		
Capital to Expense		$2.7M	
Obsolete exit lane equipment	1.9M		
SSAT - HVAC equipment	0.7M		
All other Capital to Expense items	0.1M		

- Operating Expense charges from Corporate and other divisions increased by $5.7 million in 2017 due to the following:

Increase of $6.3M			Decrease of $0.5M	
Capital Development		$5.4M	Police	$0.5M
Aviation PMG	4.1M			
PCS	0.5M			
Engineering	0.7M			
All other CDD	0.1M			
Other Central Services		$0.9M		

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

Aeronautical Business Unit Summary

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2016 $	Incr (Decr) Change from 2016 %
Revenues:							
Movement Area	94,725	108,638	109,845	(1,206)	-1.1%	13,913	14.7%
Apron Area	14,028	16,771	15,957	814	5.1%	2,743	19.6%
Terminal Rents	155,852	155,431	163,565	(8,134)	-5.0%	(421)	-0.3%
Federal Inspection Services (FIS)	11,227	16,951	12,437	4,514	36.3%	5,724	51.0%
Total Rate Base Revenues	**275,832**	**297,791**	**301,803**	**(4,012)**	**-1.3%**	**21,958**	**8.0%**
Commercial Area	9,379	10,574	9,665	909	9.4%	1,195	12.7%
Subtotal before Revenue Sharing	**285,211**	**308,365**	**311,468**	**(3,103)**	**-1.0%**	**23,154**	**8.1%**
Revenue Sharing	(37,395)	(42,313)	(33,093)	(9,219)	-27.9%	(4,917)	13.2%
Other Prior Year Revenues	(5)	(26)	-	(26)	N/A	(20)	384.0%
Gross Aeronautical Revenues	**247,811**	**266,027**	**278,375**	**(12,348)**	**-4.4%**	**18,216**	**7.4%**
Total Airport Direct Charges	122,573	138,964	139,445	481	0.3%	16,391	13.4%
Total Exceptions	4,315	8,193	2,519	(5,674)	-225.3%	3,878	89.9%
Total Charges from Other Divisions	42,149	46,597	52,421	5,824	11.1%	4,448	10.6%
Total Aeronautical Expenses	**169,037**	**193,755**	**194,385**	**630**	**0.3%**	**24,717**	**14.6%**
Net Operating Income	**78,774**	**72,272**	**83,990**	**(11,718)**	**-14.0%**	**(6,501)**	**-8.3%**
Debt Service [1]	**(89,997)**	**(86,564)**	**(88,740)**	**2,176**	**2.5%**	3,433	3.8%
Net Cash Flow	**(11,224)**	**(14,292)**	**(4,750)**	**(9,542)**	**-200.9%**	**(3,068)**	**-27.3%**

NOTE: (1) Debt service is forecasted/budgeted on an annual basis only. Thus, quarterly data is not available.

Airline Rate Base Cost Drivers

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) 'Change from 2016 $	Incr (Decr) 'Change from 2016 %
O&M [1]	165,427	190,523	190,645	(123)	-0.1%	25,096	15.2%
Debt Service Gross	118,641	113,832	117,336	(3,504)	-3.0%	(4,809)	-4.1%
Debt Service PFC Offset	(32,831)	(33,057)	(33,099)	42	-0.1%	(226)	0.7%
Amortization	28,215	29,654	29,637	18	0.1%	1,439	5.1%
Space Vacancy	(2,638)	(2,264)	(1,486)	(778)	52.4%	374	-14.2%
TSA Operating Grant and Other	(982)	(897)	(1,230)	334	-27.1%	85	-8.7%
Rate Base Revenues	**275,832**	**297,791**	**301,803**	**(4,012)**	**-1.3%**	**21,958**	**8.0%**
Commercial area	9,379	10,574	9,665	909	9.4%	1,195	12.7%
Total Aero Revenues	**285,211**	**308,365**	**311,468**	**(3,103)**	**-1.0%**	**23,154**	**8.1%**

O&M, Debt Service Gross, and Amortization do not include commercial area costs or the international incentive expenses

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

Aeronautical – Budget Variance

- Aeronautical net operating income is $11.7M lower than budget.
  - Aeronautical revenue is $12.3M lower than budget:
    - Lower than budgeted rate base revenue ($4.0M) due to lower debt service payments due to increased application of capitalized interest, savings from variable rate bond interest, and higher debt service exclusions.
    - Higher revenue sharing ($9.2M) due to strong non-aero businesses performance and lower debt service payments.
  - Aeronautical operating expenses are $0.6M lower than budget:
    - Airport Direct Charges - $0.5M lower than budget despite significant unplanned expenditures for snow removal costs, installation of additional kiosks for FIS processing, partially offset by savings due to SAMP costs deferred to future years and payroll savings due to vacancies & hiring delays.
    - Exceptions:
      - Capital to Expense - $2.1M higher than budget primarily due to Aero share of expense charge from obsolete exit lane equipment ($1.5M) and SSAT HVAC ($0.5M),
      - Environmental Remediation Expense - $3.6M higher than budget primarily due to higher than expected soil contaminants related to IAF ($3.0M) project.
    - Charges from other divisions - $5.8M lower than budget primarily due to delays in planned terminal building projects.

Aeronautical – Year over Year Changes

- Aeronautical net operating income is $6.5M lower than 2016.
  - Aeronautical revenues are $18.2 higher year over year – higher rate based revenues are offset by higher revenue sharing:
    - Higher rate based revenue ($22.0M) primarily due to higher operating expenses to support increased airline activity.
    - Higher revenue sharing ($4.9M) – due to increase in non-aero revenues driven by higher passenger volumes.
  - Aeronautical operating expenses in 2017 are $24.7M higher than 2016:
    - Airport Direct Charges - $16.4M higher than prior year primarily due to targeted spending to support increased airline activity and operational impacts of capital projects.
    - Exceptions - $3.9M higher than prior year primarily due to remediation of regulated materials for the IAF and NSAT projects ($6.7M), partially offset by the prior year increase in ERL reserve for Lora Lake (Lake parcel - $4.1M).
    - Charges from other divisions - $4.4M higher than 2016.

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

Non-Aero Business Unit Summary

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2016 $	Incr (Decr) Change from 2016 %
Non-Aero Revenues							
Rental Cars - Operations	37,082	35,051	37,815	(2,764)	-7.3%	(2,031)	-5.5%
Rental Cars - Operating CFC	12,122	10,641	12,931	(2,290)	-17.7%	(1,481)	-12.2%
Public Parking	69,540	75,106	73,568	1,538	2.1%	5,566	8.0%
Ground Transportation	12,803	15,684	14,417	1,267	8.8%	2,881	22.5%
Airport Dining & Retail & Leased Space	56,348	58,980	55,635	3,345	6.0%	2,633	4.7%
Commercial Properties	9,992	18,042	12,141	5,901	48.6%	8,050	80.6%
Utilities	7,233	7,018	7,118	(101)	-1.4%	(215)	-3.0%
Employee Parking	9,329	9,617	8,482	1,134	13.4%	288	3.1%
Clubs and Lounges	3,028	5,041	2,729	2,311	84.7%	2,013	66.5%
Other	3,545	1,624	1,807	(184)	-10.2%	(1,921)	-54.2%
Total Non-Aero Revenues	**221,021**	**236,803**	**226,645**	**10,157**	**4.5%**	**15,781**	**7.1%**
Total Non-Aero Expenses	**92,189**	**103,695**	**108,124**	**4,429**	**4.1%**	**11,506**	**12.5%**
Net Operating Income	**128,833**	**133,108**	**118,521**	**14,587**	12.3%	**4,275**	3.3%
Less: CFC (Surplus) / Deficit (1)	**(4,899)**	**(2,750)**	**(5,561)**	**2,812**	50.6%	2,149	43.9%
Adjusted Non-Aero NOI	**123,934**	**130,358**	**112,960**	**17,398**	15.4%	**6,425**	**5.2%**
Debt Service (1)	**(43,984)**	**(44,495)**	**(45,136)**	**641**	**1.4%**	**(511)**	**-1.2%**
Net Cash Flow	**79,949**	**85,863**	**67,824**	**18,039**	**26.6%**	**5,914**	**7.4%**

Note: (1) CFC excess and Debt service are forecasted/budgeted on an annual basis only. Thus, quarterly data is not available.

Non-Aero – Budget Variance

- Non-Aeronautical net operating income is $14.6M higher than budget.
  - Non-Aeronautical revenues are $10.2M higher than budget:
    - Commercial Properties revenue favorable ($5.9M) primarily due to one-time lump sum payment of $5.4M for prepaid frontage fee reimbursement.
    - Strong performance continues in Airport Dining and Retail ($3.3M), Clubs & Lounges ($2.3M), Public Parking ($1.5M), and Ground Transportation ($1.3M).
    - Rental Car continues to be challenged by other transportation alternatives.
  - Non-Aeronautical operating expenses are $4.4M lower than budget:
    - Airport Direct Charges - $2.3M higher than budget primarily due to amortization of prepaid frontage fees associated with one-time lump sum payment received in 2017 from DMCBP Phase II ($3.6M). Other unplanned spending incurred includes higher operating expenses associated with expanded hours for airport Clubs & Lounges, electric cart shuttle service to airport light rail station, rental car curbside service reinstated this year, and increased honey buckets deployed throughout Landside locations to increase customer service. This unplanned spending was partially offset by savings in Payroll and Outside Services which includes delayed spending on SAMP-related projects.
    - Exceptions - $0.5M higher than budget due to Non-Aero share of Terminal Building Capital to Expense write-offs, partially offset by savings in Environmental Remediation Liability expense due to planned RMM projects deferred to future years.
    - Charges from other divisions - $7.5M in savings from Shared Services departments.

Non-Aero Year over Year Changes

- Non-Aeronautical net operating income is $4.3M higher than 2016.
  - Non-Aeronautical revenues in 2017 are $15.8M higher than 2016
    - Commercial Properties revenue increased $8.0M primarily due to one-time lump sum payment ($5.4M) received in 2017 for prepaid frontage fee reimbursement. Remainder of revenue growth came from newly developed properties ($1.3M), In-flight Kitchen revenue ($0.8M), and NERA 3 grant reimbursement for FAA pilot program ($0.5M).
    - Public Parking revenue $5.6M higher than prior year primarily due to tariff rate increase in April 2017, partially offset by City of SeaTac parking tax increase in same year.
    - Strong performance in 2017 drove incremental revenue from Airport Dining & Retail ($2.6M), Clubs & Lounges ($2.0M), and Ground Transportation ($2.9M).
    - Rental Car continues to be challenged by other transportation alternatives.
  - Non-Aeronautical operating expenses in 2017 are $11.5M higher than 2016:
    - Airport Direct Charges - $8.7M higher than prior year due to 2017 amortization of prepaid frontage fees associated with one-time lump sum payment received from DMCBP Phase II ($3.6M). Other increases due to higher payroll costs, NERA 3 grant spending (FAA pilot program), and other expenses related to increased passenger volumes.
    - Exceptions - $0.8M higher ERL costs and $0.7M higher Capital to Expense charges in 2017 due to Non-Aero share of Terminal Building Capital to Expense write-offs.
    - Charges from other divisions - $1.3M higher than 2016.

D. CAPITAL RESULTS

$ in 000's **Description**	**2017 Actual**	**2017 Budget**	**Budget Variance $**	**%**
International Arrivals Fac-IAF (1)	100,198	202,598	102,400	50.5%
Concourse D Hardstand Holdroom (2)	7,149	22,163	15,014	67.7%
Add'l Baggage Makeup Space IAF (3)	1,938	13,475	11,537	85.6%
Checked Bag Recap/Optimization (4)	14,444	24,256	9,812	40.5%
Alternate Utility Facility (5)	14,635	23,998	9,364	39.0%
NS NSAT Renov NSTS Lobbies (6)	57,149	64,285	7,136	11.1%
N. Terminals Utilities Upgrade (7)	1,218	7,996	6,779	84.8%
Additional STS Cars (8)	-	6,525	6,525	100.0%
GSE Electrical Chrg Stations (9)	635	5,390	4,755	88.2%
Service Tunnel Renewal/Replace (10)	3,359	8,000	4,641	58.0%
Concourse B Roof Replacement (11)	1,716	5,995	4,279	71.4%
Fuel System Modifications (12)	7,456	11,600	4,144	35.7%
SSAT Infrastructure HVAC (13)	613	4,748	4,134	87.1%
Concessions Infrastructure	2,183	4,800	2,617	54.5%
Concourse B Gate Reconfigure	7,215	9,819	2,604	26.5%
All Other	74,589	139,069	64,480	46.4%
Total Spending	**294,497**	**554,717**	**260,220**	**46.9%**

(1) Early work packages delayed 3 months.
(2) Delays resulting from scope and design changes. Purchase of PLBs delayed due to procurement strategies and phasing constraints.
(3) Program delays, technical issues with chargers, and coordination among project team resulted in spending delays.
(4) Milestone-based contract deferred payments to later in the development cycle. Budget was developed before a vendor had been selected.
(5) Delays in spending on the design service directive. 2017 budget developed in early stages of the project.
(6) Major construction contract was cancelled as a result of roof site conditions.
(7) Clear Bag Reconciliation project was cancelled; TSA Search Room was delayed due to irregular bid; and Security Zone Tracking Enhancements project was delayed due to contract execution issues with CPO.

III. MARITIME DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

FINANCIAL SUMMARY

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2016 $	%
Revenues:							
Operating Revenue	50,810	54,183	51,830	2,354	5%	3,374	7%
Security Grants	0	0	0	0	NA	0	NA
Total Revenues	**50,810**	**54,183**	**51,830**	**2,354**	**5%**	**3,374**	**7%**
Total Operating Expenses	**40,268**	**42,164**	**46,502**	**4,339**	**9%**	**1,896**	**5%**
Net Operating Income	**10,542**	**12,020**	**5,327**	**6,692**	**126%**	**1,477**	**14%**
Capital Expenditures	**5,746**	**20,489**	**34,518**	**14,029**	**41%**	**14,743**	**257%**

- Total Maritime Revenues were $2,354K favorable to budget driven by $919K at the Grain terminal from higher than budgeted volumes and $1,093K in Cruise from 32K more passengers than expected. Increase from 2016 driven by Cruise, Recreational Boating, and Portfolio Management.
- Total Operating Expenses were $4,339K favorable to budget primarily due to lower maintenance, timing of cruise related outside services, EDD tenant improvements, and allocated central services. Expenses increased $1,896K from 2016.
- Net Operating Income before Depreciation was $6,692K favorable to budget and $1,477K higher than 2016.
- Capital Expense ended 2017 at $20.5M, 59% of the $34.5M approved annual budget.

Net Operating Income before Depreciation by Business

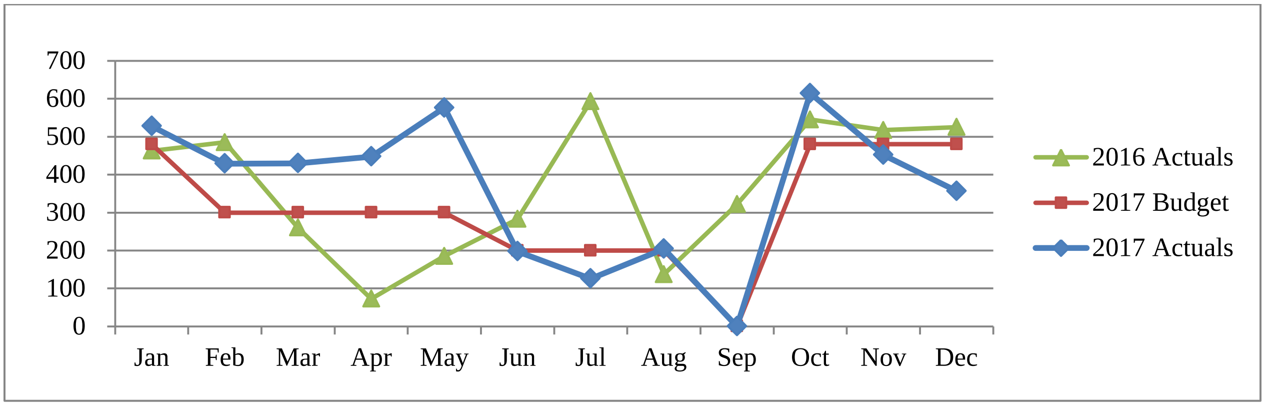
$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) 2017 Bud Var $	%	Incr (Decr) Change from 2016 $	%
Fishing & Operations	(3,149)	(1,451)	(2,334)	883	38%	1,698	54%
Recreational Boating	1,016	1,305	642	663	103%	289	28%
Cruise	8,326	8,599	5,718	2,881	50%	273	3%
Bulk	4,215	4,030	2,934	1,095	37%	(185)	-4%
Maritime Portfolio	249	167	(1,150)	1,317	NA	(83)	-33%
All Other	(115)	(630)	(483)	(147)	NA	(515)	NA
Total Maritime	**10,542**	**12,020**	**5,327**	**6,692**	**126%**	**1,477**	**14%**

A. BUSINESS EVENTS

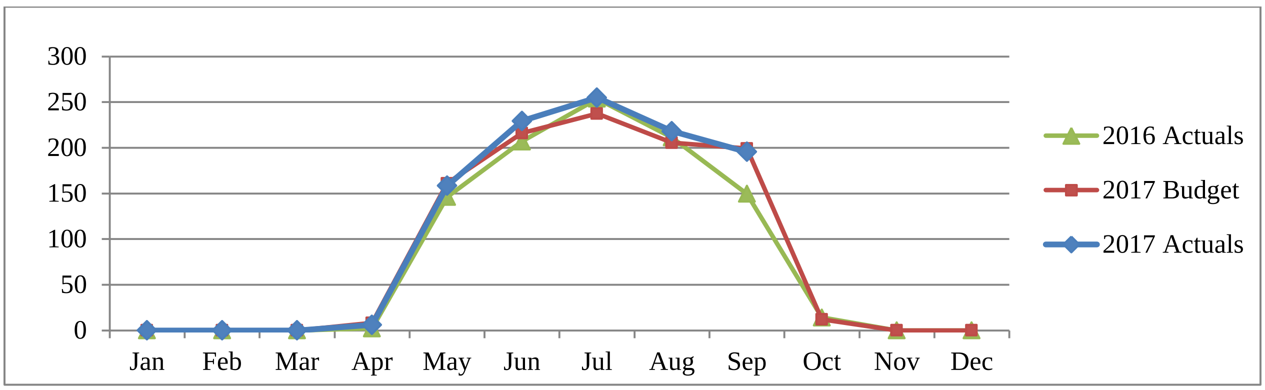
- **Cruise** – Broke the million passenger mark for the first time in 2017. Grand reopening of Pier 66 Cruise Terminal with NCL. Successful launch of Port Valet Service.
- **Grain** – Volumes 17% higher than expected.
- **Fishing & Commercial Operations -** Continued to advance work on FT redevelopment. USCGC Munro held its commissioning Ceremony at T91. Event was well attended by high ranking officers and senators.
- **Recreational Boating -** New liveaboard authorization agreement finalized with Shilshole Liveaboard Association. Vessel Management System selected and contract signed.
- **MD Portfolio Management:** Negotiated long-term ground lease for Duke's restaurant at Shilshole Bay Marina. Maintained 97% occupancy.
- **Marine Maintenance -** Leading the organization in small business utilization with 38.92% of goods, services, and small works conducted by small businesses.
- **Storm Water Utility** – Exceeded assessment goal by 11% and achieved 88% of rehabilitation goal.

B. KEY INDICATORS

Grain Volume – Metric Tons in 000's



Cruise Passengers in 000's



C. OPERATING RESULTS

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2016 $	%
Operating Revenue	50,810	54,183	51,830	2,354	5%	3,374	7%
Security Grants	0	0	0	0	NA	0	NA
Total Revenues	**50,810**	**54,183**	**51,830**	**2,354**	**5%**	**3,374**	**7%**
Maritime Expenses (excl Maint)	10,722	11,548	12,791	1,243	10%	825	8%
Maintenance Expenses	9,900	10,420	11,439	1,019	9%	520	5%
P69 Facilities Expenses	299	301	343	42	12%	2	1%
Other ED Expenses	3,488	3,871	4,262	391	9%	383	11%
Environmental & Sustainability	1,358	1,125	1,701	576	34%	(233)	-17%
Police Expenses	3,921	3,756	3,867	111	3%	(165)	-4%
Captial Development Expenses	1,010	748	1,177	429	36%	(263)	-26%
Other Central Service Expenses	9,454	10,007	10,924	917	8%	553	6%
Envir Remed Liability	115	389	0	(389)	NA	273	237%
Total Expenses	**40,268**	**42,164**	**46,502**	**4,339**	**9%**	**1,896**	**5%**
NOI Before Depreciation	**10,542**	**12,020**	**5,327**	**6,692**	**126%**	**1,478**	**14%**
Depreciation	17,351	17,410	16,672	(737)	-4%	59	0%
NOI After Depreciation	**(6,809)**	**(5,390)**	**(11,345)**	**5,955**	**52%**	**1,419**	**21%**

Maritime Division Revenues were $2,354 K favorable to budget. Key variances are as follows:

- **Fishing & Operations – favorable $176K**
  - **Maritime Ops -** favorable $374K.
  - **Fishing & Commercial -** unfavorable ($198K) driven by fishing vessels at FT.

- **Cruise Operations – favorable $1,094K**
  - **Dockage -** favorable $228K from 32K more passengers than budget.
  - **Space Rental** is favorable $632K from 32K more passengers than budget.
  - **Utility Revenue** is favorable $108K.

- **Recreational Boating – favorable $5K**
  - Shilshole Bay Marina ($73K) unfavorable due to berthage & moorage ($125K) and parking revenue ($15K), offset by utility revenues $32K and guest moorage $53K.
  - Bell Harbor Marina $73K favorable with higher guest moorage than budgeted.
  - Harbor Island Marina $5K favorable.

- **Bulk – favorable $919K**
  - Grain terminal loaded 4,362,603 metric tons in 2017 which is 17% higher than budget of 3,720,000.

- **Maritime Portfolio Management –favorable $169K**
  - **FT Office & Retail -** $96K favorable to budget with $43K in higher space rental, $22K from higher food & beverage revenue, and $11K from utility sales revenues.
  - **MIC Office & Retail – (**$128K) unfavorable to budget due to loss of C-3 Worldwide revenue.
  - **SBM Office & Retail -** $7K favorable to budget.
  - **Maritime Industrial** – $193K favorable to budget due to higher revenue from WA DOT lease at T-106 and new yard leases at T-115 & T-108 Uplands.

III. MARITIME DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

Total Maritime Division Expenses were $4,339K favorable to budget. Key variances are as follows:

- **Maritime Expenses (excluding Maintenance and including Environmental Remediation Liability)** were $855K favorable to budget. Major variances were as follows:
  - **Salaries & Benefits** were $292K favorable due to open positions in Fishing & Operations and Cruise, partially offset by Recreational Boating.
  - **General Expenses** were ($230K) unfavorable primarily from $371K of environmental booked in general expenses and budgeted in remediation liability.
  - **Travel & Other Employee Expenses (**$9K) unfavorable.
  - **Outside Services** were $349K favorable driven by timing of Smith Cove Cruise Terminal baggage claim resurface.
  - **Equipment Expense** was $351K favorable driven by delays in cruise "Best in Class" initiatives and CTA allowance.
  - **Promotional** were $227K favorable due to timing of Destination Awareness and Best in Class promotional spending.
- **Maintenance Expenses** were $1,019K favorable to budget from project delays and timing of billings.
- **Other Economic Development Expenses** were $391K favorable to budget.
- **Environment & Sustainability Expenses** were $576K favorable to budget.
- **Capital Development Expenses** were $429K favorable to budget.
- **Other Central Service Expenses** were $917K favorable to budget due primarily to open FTEs.

<u>Change from 2016 YTD Actual</u>

- **Net Operating Income (NOI) before Depreciation for 2017 increased by $1,478K -** Revenue grew 7% while expenses grew 5%.
- **Revenues increased by $3,374K -** Revenue from Cruise increased $2,174K primarily from additional customers and higher tariff rates, Recreational Boating increased $840K from rate increases, and Maritime Portfolio Management increased $531K from yard leases at T-115 & T-108 along with extension of WDOT lease at T-106.
- **Expenses, direct and allocated, increased by $1,896K -** Variance driven by growth in Maritime related expenses of $825K primarily from the Cruise Port Valet program, $602K in increased maintenance costs with a mix of more work and higher rates, along with increases in Other Central services such as Public Affairs, Accounting, HR, IT, and Accounting. Finance, Central Procurement, and Environmental & Sustainability decreased from job vacancies along with Police & Capital Development which decreased due to changes in capital and allocation mix.

D. CAPITAL SPENDING RESULTS

$ in 000's	2017 Actual	2017 Budget	Budget Variance $	Budget Variance %
Cruise Terminal Tenant Improv	13,545	15,228	1,683	11%
P91 South End Fender	153	3,347	3,194	95%
FT Net Shed 3,4,5 &6 Roof Rpl	1,711	2,837	1,126	40%
Small Projects	1,392	2,685	1,293	48%
Contingency Renewal & Replace.	0	2,000	2,000	100%
SBM Restrms/Service Bldgs Rep	663	1,694	1,031	61%
Maritime Fleet Replacement	584	1,586	1,002	63%
T91 Building C-173 Roof Overl	969	1,321	352	27%
T91 P91W Slope Stabilization	152	650	498	78%
FT Re Development Phase I	640	580	(60)	90%
T91 Camel Replacements	30	0	(30)	100%
All Other	650	2,590	1,940	75%
Total Maritime	20,489	34,518	14,029	41%

Comments on Key Projects

For 2017, Maritime spent 59% of the annual approved budget.

Projects with significant changes in spending were:

- **Cruise Terminal Tenant Improvement:** Gangway design and fabrication delayed until 2018.
- **P91 South End Fender**: Work to begin in Jan 2018 due to advertisement delay and permitting issues.
- **Small Projects: S**everal projects started in 2017 have the bulk of their spending in 2018.
- **Shilshole Bay Marina Restroom and Services Building Replacement**: Construction start date delayed to summer 2018.
- **Maritime Fleet Replacement**: Variance due to timing of vehicle orders and deliveries.

IV. ECONOMIC DEVELOPMENT DIVISION FINANCIAL & PERFORMANCE REPORT 12/31/17

FINANCIAL SUMMARY

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2016 $	%
Revenues:							
Operating Revenue	15,903	17,791	16,030	1,761	11%	1,888	12%
Total Revenues	**15,903**	**17,791**	**16,030**	**1,761**	**11%**	**1,888**	**12%**
Total Operating Expenses	**21,135**	**25,397**	**29,069**	**3,672**	**13%**	**4,262**	**20%**
Net Operating Income	**(5,232)**	**(7,606)**	**(13,039)**	**5,433**	**42%**	**(2,374)**	**-45%**
Capital Expenditures	**4,757**	**3,739**	**6,304**	**2,565**	**41%**	**(1,018)**	**-21%**

- Total Economic Development Division (EDD) revenues were $1,761K or about 11% favorable to budget primarily due to higher occupancy at T-102 Harbor Marina Corporate Center and T-91 Uplands, and greater than expected activity at the Bell Harbor International Conference Center and Bell Street Garage.
- Total Operating Expenses were $3,672K or 13% favorable to budget due to lower spending than budgeted across all groups except for Maintenance.
- Net Operating Income for 2017 was $5,433K favorable to budget and $2,374K below 2016 Actual.
- Capital spending for full year 2017 was $3.7 million or 59% of the approved budget of $6.3 million.

A. BUSINESS EVENTS

Portfolio Management

- Overall occupancy of buildings managed by Portfolio Management was at 98% at the end of 2017, above the 95% target for 2017. Portfolio Management's occupancy is above the average of 96% for the comparable office markets and near the average of 99% for comparable industrial markets.[1]
- Developing Pier 66 interior modernization investment plan.
- Worked with Victoria Clipper to evaluate space needs related to their plans to bring larger vessel to Seattle.

Tourism

- Designed a stunning booth for the World Trade Market held in London.
- Instigated, designed, and operated Two Nation Vacation familiarization tours.
- Initiated the Airport Tourism "Spotlight" program.
- Conducted a London Sales mission to discuss UK co-op marketing programs.

Pier 69 Facilities:

- P69 Solar Project was approved by Commission.
- 45% of spending was directed to small business enterprises.

Real Estate Development

- Completed Salmon Bay Marina acquisition.
- Began design work for the Fishermen's Terminal redevelopment.

[1] Market averages are calculated based on Costar building occupancies reported for:
Office: Class B & C office space in Ballard/U District, Queen Anne/Magnolia, Belltown/Denny Regrade, Pioneer Square/Waterfront, and South Seattle.
Industrial: Georgetown/Duwamish North, SoDo, and West Seattle

- Finalized long-term ground lease with Trammell Crow at Des Moines Creek North development.
- Development at NERA 2 and 3 sites is underway by Panattoni.
- Finalized lease with City of Seattle for Tent City 5 at Tsubota property.

Small Business

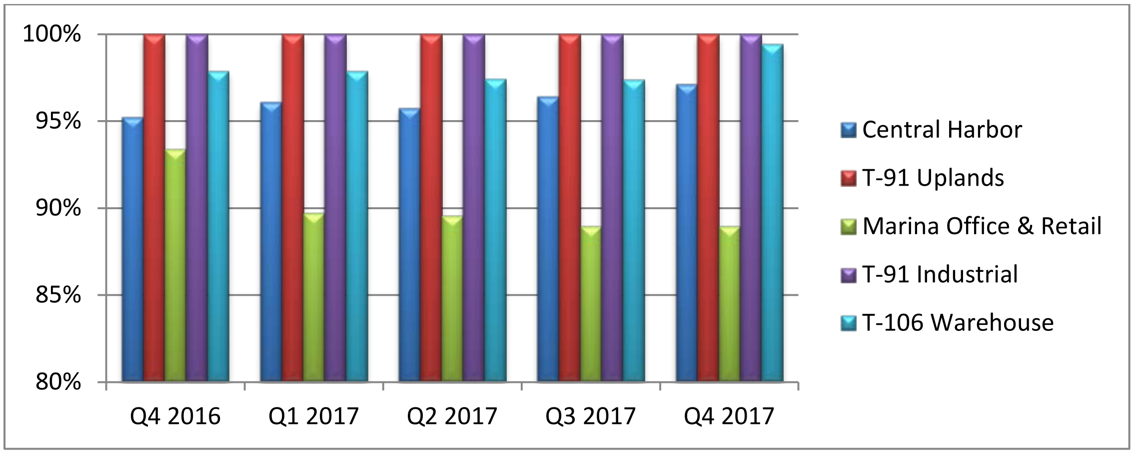
- Facilitated community engagement, best practice assessment and policy development which resulted in the first reading of a new Diversity in Contracting policy, for Commission consideration. (passed 1/9/18).
- Lead public sector partners to form the "Center for Public Sector Contracting" business and contracting resource initiative.
- Worked with consultants and industry stakeholders to complete the Food Manufacturing (incubator) needs assessment and initiate the strategic business plan for the Maritime Innovation Center.
- 29 approved applications in 2017/2018 EDD Partnership Grants.

Workforce Development

- Co-convened two community engagement sessions in partnership with King County Executive's Race and Equity team.
- Attended the Duwamish Valley Community Workshop convened by Environmental & Public Affairs and participated in roundtable discussions on workforce development.
- Participated in Food Service and Hospitality convening to identify possible opportunities to connect social enterprises.

B. KEY INDICATORS

Building Occupancy by Location:



Net Operating Income before Depreciation by Business

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) 2017 Bud Var $	Fav (UnFav) 2017 Bud Var %	Incr (Decr) Change from 2016 $	Incr (Decr) Change from 2016 %
Portfolio Management	(3,925)	(5,236)	(7,551)	2,316	31%	(1,310)	-33%
Conference & Event Centers	538	762	(848)	1,609	190%	224	-42%
Tourism	(1,117)	(1,265)	(1,312)	47	4%	(148)	-13%
Workforce Development	(517)	(1,113)	(2,269)	1,156	51%	(596)	-115%
Small Business	(2)	(2)	(100)	98	98%	1	NA
EDD Grants	(20)	(751)	(960)	209	22%	(731)	NA
Env Grants/Remed Liab/ERC	(188)	(1)	0	(1)		187	-99%
Total Econ Dev	**(5,232)**	**(7,606)**	**(13,039)**	**5,433**	**42%**	**(2,374)**	**-45%**

C. OPERATING RESULTS

$ in 000's	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2016 $	Incr (Decr) Change from 2016 %
Central Harbor Properties	7,881	8,658	8,088	571	7%	777	10%
Conf & Events Centers	8,022	9,133	7,943	1,190	15%	1,111	14%
Total Revenue	**15,903**	**17,791**	**16,030**	**1,761**	**11%**	**1,888**	**12%**
Central Harbor Properties	3,526	3,879	4,220	341	8%	353	10%
Conf & Event Centers	6,932	7,639	7,935	296	4%	707	10%
P69 Facilities Expenses	180	206	234	29	12%	26	14%
Small Business	21	64	161	96	60%	43	204%
Workforce Development	522	850	1,999	1,148	57%	329	63%
Tourism	1,093	1,234	1,285	51	4%	141	13%
RE Dev & Planning	595	214	303	89	29%	(381)	-64%
EDD Grants	20	751	960	209	22%	731	3703%
EconDev Expenses Other	628	773	1,354	581	43%	145	23%
Maintenance Expenses	2,787	3,666	3,592	(74)	-2%	879	32%
Maritime Expenses (Excl Maint)	31	52	64	11	18%	21	66%
Environmental & Sustainability	62	260	451	191	42%	198	323%
CDD Expenses	250	387	439	52	12%	137	55%
Police Expenses	157	51	173	122	70%	(106)	-67%
Central Services	4,331	5,370	5,899	529	9%	1,039	24%
Envir Remed Liability	0	0	0	(0)	NA	0	NA
Total Expense	**21,135**	**25,397**	**29,069**	**3,672**	**13%**	**4,262**	**20%**
NOI Before Depreciation	**(5,232)**	**(7,606)**	**(13,039)**	**5,433**	**42%**	**(2,374)**	**45%**
Depreciation	3,682	3,863	3,854	(9)	0%	181	5%
NOI After Depreciation	**(8,914)**	**(11,469)**	**(16,893)**	**5,424**	**32%**	**(2,555)**	**29%**

Total Economic Development Division Revenue was $1,761K favorable to budget. Key variances:

- **Central Harbor Properties** were $571K favorable mainly due to higher than anticipated parking revenue at the Bell Street Garage $64K, and higher occupancy at T-102 Marina Corporate Center $183K, Terminal 91 Uplands $168K, Tsubota $75K, and WTC West $18K.
- **Conference & Event Centers** were $1,190K favorable due to higher event activity at Bell Harbor International Conference Center (BHICC), with an especially strong December, despite the ongoing construction of the P-66 Cruise Terminal expansion project and Alaskan Way street construction.

Total Economic Development Expenses were $3,672K favorable to budget. Key variances:

- **Portfolio Management -** was $341K favorable mainly due to lower than anticipated spending for tenant improvements and broker fees at T-102 & WTC West and lower staff charges for property managers.
- **Conference & Event Centers -** were $296K favorable mainly due to timing of expenditures for WTC Seattle Interior Refresh project.
- **Workforce Development -** was $1,148K favorable mainly due to lower than planned spending for Workforce Development programs.
- **EDD Grants -** were $209K favorable primarily due to grant funds either underspent or unspent by the recipients.
- **Economic Development Other -** was favorable $581K mainly due to lower than budgeted spending of EDD Opportunity Funds.
- **Environmental -** expenses were $191K favorable due to lower spending than planned on outside services $158K.
- **Police -** expenses were $122K favorable.

- **Central Services -** costs, direct and allocated, were favorable $529K primarily due to lower than anticipated direct charges and allocations from Public Affairs $130K, Finance $111K, Information Technologies $106K, Accounting $76K, Office of Strategic Initiatives $40K, and Human Resources $34K.
- All other variances net to a favorable variance of $255K.

NOI before Depreciation was $5,433K favorable to budget.

- Depreciation was ($9K) or 0% unfavorable to budget.

NOI after Depreciation was $5,424K favorable to budget.

Change from 2016 YTD Actual

Net Operating Income before Depreciation decreased by ($2,374K) between 2017 and 2016 as a result of higher revenue $1,888K and higher expenses ($4,262K).

Revenues increased by $1,888K due to higher revenue from Conference & Events Center $1,111K and higher revenue for Portfolio Management $777K.

Expenses increased by $4,262K primarily due to increases of $707K from Conference & Events Center mainly because of greater revenue. EDD Grants increased $731K. Maintenance expenses increased $879K. Central Services expenses increased $1,039K.

CONTRIBUTIONS TO OTHER DIVISIONS

	2016	2017		Fav (UnFav) Budget Variance		Incr (Decr) Change from 2016	
$ in 000's	Actual	Actual	Budget	$	%	$	%
Revenues:							
Maritime Industrial	6,306	6,799	6,605	193	3%	493	8%
Marina Office & Retail	3,949	3,988	4,012	(24)	-1%	39	1%
Total Revenues to Other Divisions	10,255	10,787	10,618	169	2%	531	5%
Expenses to Other Divisions							
Maritime Portfolio Mgmt	10,006	10,620	11,768	1,148	10%	614	6%
NOI Before Depreciation	249	167	(1,150)	(1,317)	115%	(82)	-33%

D. CAPITAL SPENDING RESULTS

$ in 000's	2017 Actual	2017 Budget	Budget Variance $	Budget Variance %
T102 Bldg Roof HVAC Replacemt	1,598	1,610	12	1%
Small Projects	220	909	689	76%
P66 Elevator 2,3,4 Upgrades	396	705	309	44%
BHICC Interior Modernization	134	580	446	77%
BHICC Fit & Finish Improvement	443	500	57	11%
P69 Solar Panel System	13	300	287	96%
P69 Lobby	3	215	212	99%
All Others	932	1,485	553	37%
Total Economic Development	3,739	6,304	2,565	41%

Comments on Key Projects:

For 2017, Economic Development spent 59% of the annual approved capital budget.

Projects with significant changes in spending were:

- **P69 Solar Panel System** –Overall project cost reduced from $1,370K to $515K.
- **BHICC Interior Modernization** – Start of design is later and process is taking longer than anticipated.
- **P69 Lobby** – On hold pending further direction from Economic Development Division.
- **P66 Elevator 2, 3, 4 Upgrades** – Construction slow to start due to tenant considerations.

V. CENTRAL SERVICES FINANCIAL & PERFORMANCE REPORT 12/31/17

A. BUSINESS EVENTS

- The Port appointed Stephen Metruck as Executive Director.
- The Port Commission took action on Climate Change and Sustainability.
- The Port became the first U.S. port with 10-year goal to transition to sustainable aviation fuels.
- The Port and City of SeaTac approved Interlocal Agreement as partnership for mutual success.
- The Port welcomed Air France announcement of nonstop service to Paris.
- The Port continued working with TSA on Enhanced Accessible Screening Program (EAPS) to improve passenger throughput, as well as the threat created by long public dwell times in the airports unsecured common areas.
- The Port awarded unique custodial contracts to increase performance and small business opportunities at Sea-Tac Airport.
- Executed events and tours to help build community awareness and support for the Port including near-Port communities and throughout King County.
- Conducted outreach and signage program to support Alaskan Way/Pier 66 transportation construction project.
- The Port awarded more than $85,000 to Airport Communities for Environmental Projects.
- Continued working with stakeholders on Fishing Fleet Modernization priority and tourism.
- Prepared, negotiated and implemented collective bargaining agreements and provided consultation on administration of collective bargaining agreements to Port divisions and oversight committees.
- Received the “Certificate of Achievement for Excellence in Financial Reporting” from the Government Finance Officers Association (GFOA) of the United States and Canada for the twelfth consecutive year.
- Received the 2017 Distinguished Budget Presentation Award from the Government Finance Officers Association (GFOA) of the United States and Canada for the tenth consecutive year.
- Filed the Port’s Statutory Budget with King County Council and Assessor as required by law; and released the final 2018 Budget document to the public.
- The Port Commission authorized the issuance and sale of intermediate lien revenue and refunding bonds in one or more series in the aggregate principal amount of not to exceed $800 million.
- Issued General Obligation Bonds of $127,345,000 to reimburse the Port’s 2016 contribution to the Alaskan Way Viaduct Replacement Project.
- Discussed comprehensive data analytics strategy for WMBE program focusing on division level goal setting and tracking, department spending reports, and roles and responsibilities going forward.
- Increased the telecommunications capacity for Airport Operations and Tenants.
- Supported implementation of new revenue control system at the Airport to minimize revenue loss.
- Upgraded the Human Capital Management (HCM) system.
- Baggage Optimization Phase 1 construction continues. 20% completion by end of 2017 goal achieved.
- Began construction of the Service Tunnel at the south end and on the 3rd floor of parking garage installing reinforcing dowels and widening the gap between the tunnel and the garage.
- Terminal Security Enhancements Phase I Windows – 90% design complete.
- North Satellite – Construction well underway - completed Phase 1 basement & foundations, underground utilities including the Temporary Chiller, FAA approved Crane 7460, mobilized crane and began setting steel, replaced 400 Hz generators etc.
- Completed several infrastructure upgrades to improve security and performance.
- The Port substantially completed or placed into closeout 27 projects, including Bag Claim Wall Panels, Central Terminal WiFi Expansion, Air Cargo 4 Fence, Variable Frequency Drive Motor Replacement.

B. KEY PERFORMANCE METRICS

Key Performance Indicators/Measures	YTD 2017	YTD 2016/Notes
A. Century Agenda Strategies		
1. Small Business Participation – Annual / Small Works (port-wide)	76.9%	72.7%
2. Small Business Participation – Annual / Major Construction (port-wide) including Mega projects	29.9%	17.25%
3. Small Business Participation – Annual / Goods & Services (port-wide)	24.6%	23.7%
4. Small Business Participation – Service Agreements (port-wide) - Annual (including Legal department Service Agreements)	49.3%	42.1%
B. High Performance Organization - Customer Satisfaction		
1. Respond to Public Disclosure Requests	519	438, increased by 81
2. Information and Communication Technology System Availability	99.8%	99.8%
3. Service Desk % First Call Resolution	39%	40%
4. Customer Survey for Police Service Excellent or Very Good	83%	92%
5. Oversee Implementation and Administration of CBAs agreements	147	113
6. Number of Jobs Openings	590	408, increased by 182
7. Percent of annual audit work plan completed each year	82%	74%
8. Request of information and guidelines for integrity & business conduct	263	252
C. High Performance Organization - Talent Development & Safety		
1. MIS and Clarity Training	24 classes, 166 attendees	16 classes, 115 attendees
2. Employee Development Class Attendees/Structured Learning	7,084	388, increased by 6,696 due to 3 new classes in 2017
3. Required Safety Training	95%	91%
4. Occupational Injury Rate	4.26	3.61
5. Total Lost work day case rate	1.60	1.22
D. Financial Performance		
1. Corporate costs as a % of Total Operating Expenses	31.6%	34.2%
2. Clean independent CPA audits involving AFR	yes	yes
3. Timely process disbursement payment requests	4 days	3 days
4. Keep receivables collections 85% current (within 30 days)	95%	96%
5. Investment Portfolio Yield	1.51%	1.28%
6. Litigation and Claim Reserves (in $ thousand)	$928	$1,895

C. OPERATING RESULTS

$ in 000's	Notes	2016 Actual	2017 Actual	2017 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2016 $	Incr (Decr) Change from 2016 %
Total Revenues		**1,186**	**68**	**367**	**(299)**	**-81.4%**	**(1,118)**	**-94.2%**
Executive		2,185	1,287	1,944	657	33.8%	(898)	-41.1%
Commission		1,569	1,685	1,830	145	7.9%	116	7.4%
Legal		3,365	3,741	3,288	(453)	-13.8%	376	11.2%
Public Affairs		6,033	7,112	7,847	735	9.4%	1,079	17.9%
Human Resources		7,001	8,418	9,035	618	6.8%	1,417	20.2%
Labor Relations		1,268	1,678	1,313	(365)	-27.8%	410	32.3%
Internal Audit		1,455	1,603	1,770	167	9.4%	148	10.2%
Office of Strategic Initiatives		8,356	5,743	6,264	521	8.3%	(2,614)	-31.3%
Security and Preparedness		1,420	1,754	2,065	310	15.0%	335	23.6%
Contingency		369	381	250	(131)	-52.4%	12	3.3%
Finance								
Accounting & Financial Reporting Services		6,550	6,751	7,763	1,013	13.0%	201	3.1%
Information & Communication Technology		20,158	21,633	22,420	787	3.5%	1,475	7.3%
Finance & Budget		4,810	4,998	5,873	875	14.9%	188	3.9%
Finance & Budget		1,647	1,871	2,181	309	14.2%	224	13.6%
Aviation Finance & Budget		1,950	1,897	2,184	287	13.1%	(53)	-2.7%
Maritime Finance & Budget		1,212	1,229	1,508	279	18.5%	17	1.4%
Business Intelligence		1,004	1,211	1,458	247	17.0%	207	20.6%
Risk Services		3,202	3,077	3,470	393	11.3%	(125)	-3.9%
Sub-Total		35,725	37,670	40,985	3,315	8.1%	1,945	5.4%
Core Support Services		**68,745**	**71,071**	**76,591**	**5,519**	**7.2%**	**2,326**	**3.4%**
Police		23,045	22,095	23,884	1,789	7.5%	(950)	-4.1%
Total Before Cap Dev & Environment		**91,790**	**93,166**	**100,475**	**7,309**	**7.3%**	**1,376**	**1.5%**
Capital Development								
Engineering		4,493	5,284	7,092	1,808	25.5%	791	17.6%
Port Construction Services		3,488	3,709	4,079	370	9.1%	221	6.3%
Aviation PMG		2,823	6,942	13,005	6,063	46.6%	4,119	145.9%
Seaport PMG		999	1,007	912	(95)	-10.4%	9	0.9%
Capital Development Admin		416	428	447	19	4.3%	12	2.9%
Sub-Total		12,218	17,370	25,535	8,165	32.0%	5,152	42.2%
Environment & Sustainability								
Aviation Environmental Program Group		3,745	3,779	6,301	2,522	40.0%	34	0.9%
Maritime Environmental & Planning		2,098	2,157	2,385	228	9.6%	59	2.8%
Noise Programs		722	670	723	53	7.4%	(52)	-7.2%
Environment & Sustainability Admin		148	368	2,523	2,154	85.4%	221	149.7%
Sub-Total		6,712	6,975	11,932	4,958	41.5%	262	3.9%
Total Expenses		**111,172**	**117,511**	**137,942**	**20,431**	**14.8%**	**6,339**	**5.7%**

Central Services revenues were $299K unfavorable compared to budget due to lower revenues.

Central Services expenses for the year-ended 2017 were $117.5M, $20.4M or 14.8% favorable compared to budget and $6.3M or 5.7% higher than the same period a year ago. The $20.4M favorable variance is due to vacant positions throughout the year, delayed hiring, delayed projects and cost savings realized in most departments. The $6.3M increase from prior year is primarily due to higher Payroll and Outside Services Costs.

All Central Services departments had a favorable variance except for:

- **Legal** – unfavorable variance of $453K is due to unanticipated Legal Expenses.
- **Labor Relations** – unfavorable variance of $365K is due to unanticipated Legal Expenses.

- **Contingency** – unfavorable variance of $131K is due to unbudgeted funds for the Radio Systems Consultant Services contract.

All other departments with a favorable variance are:

- **Executive** – favorable variance of $657K is due to savings in Payroll due to a vacant position throughout the year and savings in Travel & Other Employee Expenses.
- **Commission** – favorable variance of $145K is due to savings in Payroll due to vacant positions throughout the year, which are now filled.
- **Public Affairs** – favorable variance of 735K is due to savings in Payroll due to vacant positions throughout the year and savings primarily in Outside Services, Travel & Other Employee Expenses and General Expenses.
- **Human Resources** – favorable variance of $618K is due to savings in Payroll due to vacant positions throughout the year.
- **Internal Audit** – favorable variance of 167K is due to savings in Payroll due to two vacant positions and savings in Outside Services due to utilizing in house staff in lieu of consultants.
- **Office of Strategic Initiatives** – favorable variance of $521K is due primarily to savings in Payroll due to vacant positions throughout the year and other savings in Outside Services and Travel & Other Employee Expenses.
- **Security and Preparedness –** favorable variance of $310K is due to savings in Payroll due to a vacant position and savings in Outside Services and Travel & Other Employee Expenses.
- **Accounting and Financial Reporting** – favorable variance of $1.0M is due to savings in Payroll due to several vacant positions throughout the year and savings in Travel & Other Employee Expenses and in General Expenses due to Credit Card Rebates.
- **Information & Communication Technology** – favorable variance of $787K is due to savings in Payroll due to vacant positions throughout the year.
- **Finance & Budget** – favorable variance of $875K is due to savings in Payroll due to vacant positions and savings in Outside Services for the Economic Impact Study due to changes in the scope of work.
- **Business Intelligence** – favorable variance of $247K is due to savings in Payroll due to vacant positions and savings in Travel & Other Employee Expenses.
- **Risk Services** – favorable variance of $393K is due to savings in Payroll due to vacant positions which are now filled and lower property insurance renewal.
- **Police** – favorable variance of $1.8M is due to savings in Payroll due to vacant positions throughout the year and reallocating benefit costs based on employer contributions for DRS-eligible employees.
- **Capital Development** – favorable variance of $8.2M is due to savings in Payroll due to vacant positions throughout the year and savings in Outside Services due to delayed projects.
- **Environment & Sustainability –** favorable variance of $5.0M is primarily due to delayed spending on SAMP NEPA/SEPA Environmental Review, as well as ACE and Energy & Sustainability-funded programs.

2017 Actuals compared to Prior Year:

- **Executive –** decrease of $898K is due to lower Payroll Costs, Travel Expenses and Property Rentals.
- **Commission –** increase of $116K is due to higher Payroll Costs including two additional staff.
- **Legal** – increase of $376K is due to higher Payroll Costs and Legal Expenses.
- **Public Affairs** – increase of $1.1M is due to higher Payroll Costs including additional staff transferred into the department, and additional savings in Outside Services, and General Expenses.
- **Human Resources** – increase of $1.4M is due to higher Payroll Costs including additional staff, the Internship Program Manager and the full time equivalent of 16.4 High School Interns during the summer, and increase in Outside Services and Equipment Expenses.
- **Labor Relations** – increase of $410K is due to higher Payroll Costs and Legal Expenses.
- **Internal Audit** – increase of $148K is due to higher Payroll Costs and Outside Services.
- **Office of Strategic Initiatives -** decrease of $2.6M is due to lower Outside Services Costs due to delayed projects.
- **Security and Preparedness** – increase of $335K is primarily due to higher Payroll Costs including additional staff, Supplies & Stock and Outside Services.

- **Contingency** – increase of $12K is due to higher Outside Services Costs.
- **Accounting and Financial Reporting** – increase of $201K is due to higher Payroll Costs.
- **Information & Communication Technology –** increase of $1.5M is due to higher Payroll Costs including additional staff, Equipment Expense and Outside Services.
- **Finance & Budget** – increase of $188K is due to higher Payroll Costs, Outside Services, Travel Expenses and General Expenses.
- **Business Intelligence** – increase of $207K is due to higher Payroll Costs, Equipment Expense and Outside Services.
- **Risk Services** – decrease of $125K is due to lower Insurance Costs.
- **Police** – decrease of $950K is due to lower Payroll Costs and General Expenses.
- **Capital Development** – increase of $5.2M is due to higher Payroll Costs and Outside Services Costs.
- **Environment & Sustainability** – increase of $262K is due to higher Payroll Costs.

D. CAPITAL RESULTS

	2017	2017	Budget Variance	
$ in 000's	Actual	Budget	$	%
Infrastructure - Small Cap	966	1,581	615	38.9%
Services Tech - Small Cap	577	1,150	573	49.8%
Enterprise GIS - Small Cap	32	400	368	92.0%
Constr Doc Mgmt Sys Repl.	403	427	24	5.6%
Maximo Upgrade	186	371	185	49.9%
Project Cost Mgmt System	220	900	680	75.6%
Remote Data Business Continuity	171	480	309	64.4%
POS Website Redevelopment	717	796	79	9.9%
Supplier Database System	41	700	659	94.1%
Corporate Firewall	578	800	222	27.8%
Cap Dev Fleet Replacement	282	589	307	52.1%
Cap Dev Small Cap	168	340	172	50.6%
Other (note 1)	447	789	342	43.3%
TOTAL	4,788	9,323	4,535	48.6%

Note:

(1) "Other" includes remaining ICT projects, Central Services fleet replacement and small capital acquistion.