Item No. 9b attach
Meeting Date: September 11, 2018

PORT OF SEATTLE

2018 FINANCIAL & PERFORMANCE REPORT

AS OF JUNE 30, 2018

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EXECUTIVE SUMMARY

Financial Summary

The Port's operating revenues for the second quarter of 2018 were $330.5M, which is $12.7M above budget and $28.4M higher than the same period in 2017. Excluding Aeronautical revenues, which are based on cost recovery, other operating revenues were $182.9M, $9.9M above budget and $8.6M higher than the 2017 actuals mainly due higher revenues from Public Parking, Rental Cars, ADR & Terminal Leased Space, Ground Transportation, Employee Parking, Recreational Boating, Maritime Portfolio Management, Central Harbor Management, and Conference & Event Centers. Total operating expenses were $191.6M, $17.3M below budget mainly due to vacancies, hiring delays, and outside services. Operating income before depreciation was $138.9M, $30.1M above budget and $10.9M higher than the 2017 actuals. The Portwide capital spending is forecasted to be $652.6M for 2018.

Operating Summary

At the Airport, the total enplanement growth for the second quarter of 2018 was 6.1% compared to the same period in 2017. This number is comprised of enplanement growth rate of 6.3% for domestic passengers and 5.1% for international passengers. The total landed weight for the second quarter of 2018 was 7.7% higher than the same period last year. Total cargo metric tons were 5.3% above the second quarter 2017. For the Maritime division, the occupancy rate at Shilshole Bay Marina increased to 96.3% compared to 94.0% in 2017. The number of cruise passengers is 403K for the second quarter of 2018 slightly higher compared to 394K for the same period in 2017. For the Economic Development division, building occupancy for Central Harbor and T-91 uplands are lower compared to the same period in 2017 while the building occupancy for Marina Office and Retail, T-91 Industrial and T-106 Warehouse remained the same as the second quarter of 2017.

Key Business Events

The Port welcomed the largest cruise ship on the West Coast this season, Norwegian Cruise Line (NCL) Bliss, in May. The U.S. Army Corps of Engineers approved the Seattle Harbor Deepening Project making it eligible for congressional authorization. The Commission authorized the Port Valet program allowing cruise passengers to obtain their airline boarding passes and check-in their luggage prior to leaving the cruise ship; this provides cruise passengers with an opportunity to spend time in Seattle before flying home. The Port finalized a license with Ecco Wireless providing a new Wi-Fi network to Shilshole Bay Marina customers. The Commission approved $200,000 in grants to fund 26 tourism-related projects across Washington State. This matching funds program, currently in its third year, will provide up to $10,000 in matching funds to local communities, destination marketing organizations, ports, chambers of commerce, tribal organizations and non-profits to promote their destinations. The Port launched the Spotlight Advertising Program application process at Sea-Tac International Airport in June and its new website with emphasis on providing infrastructure for organizational content updates and engaging customers. The Port successfully hosted the Clipper Around the World at Bell Harbor Marina in June.

Major Capital Projects

The Port's capital spending is expected to be $223M less than originally budgeted due to delayed spending in several projects including the International Arrivals Facility (IAF), Automated Security Lane, North Satellite (NSAT) Expansion, and restroom and paving at Shilshole Bay. Construction started at Des Moines Creek North property in SeaTac. Notice to proceed with on-site construction activities issued for the following contracts: South 160th Street Ground Transportation Building Renovation Project, Wi-Fi Enhancement Gina Marie Lindsey Hall, Baggage Claim, Bagwell and STS Stations Project, and T46 Dock Rehabilitation and Improvement Project. Construction Project Closeouts were issued for C4 UPS Systems Improvements and the SR 518 Interchange and Des Moines Memorial Drive – Emergency Contract for repair of a failed slope. Physical Completion issued for Concourse A, B, D and South Satellite WiFi Enhancement, Terminal 91 Pier 91 Berth G Finder System Replacement, WiFi Enhancements Concourse C and Central Terminal and Concourse B 400Hz Gate Improvements.

I. PORTWIDE FINANCIAL & PERFORMANCE REPORT 06/30/18

PORTWIDE FINANCIAL SUMMARY

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Aeronautical Revenues	117,765	127,780	147,570	144,761	2,809	1.9%	19,791	15.5%
Airport Non-Aero Revenues	100,336	112,761	118,864	113,264	5,601	4.9%	6,104	5.4%
Other Port Operating Revenues	61,322	61,548	64,054	59,748	4,306	7.2%	2,506	4.1%
Total Operating Revenues	**279,422**	**302,088**	**330,489**	**317,773**	**12,716**	**4.0%**	**28,400**	**9.4%**
Total Operating Expenses	147,874	174,104	191,577	208,920	17,343	8.3%	17,473	10.0%
NOI before Depreciation	**131,549**	**127,984**	**138,912**	**108,853**	**30,059**	**27.6%**	**10,927**	**8.5%**
Depreciation	82,277	81,860	81,949	81,614	(335)	-0.4%	89	0.1%
NOI after Depreciation	**49,271**	**46,124**	**56,963**	**27,238**	**29,724**	**109.1%**	**10,838**	**23.5%**

NON-AIRPORT FINANCIAL SUMMARY

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
NWSA Distributable Revenue	28,990	27,283	25,844	23,323	2,521	10.8%	(1,439)	-5.3%
Maritime Revenues	22,027	24,525	26,257	25,023	1,234	4.9%	1,732	7.1%
EDD Revenues	8,338	7,727	9,765	9,242	524	5.7%	2,038	26.4%
SWU & Other	1,968	2,012	2,187	2,160	27	1.3%	175	8.7%
Total Operating Revenues	**61,322**	**61,548**	**64,054**	**59,748**	**4,306**	**7.2%**	**2,506**	**4.1%**
Total Operating Expenses	29,057	33,783	38,141	43,868	5,727	13.1%	4,358	12.9%
NOI before Depreciation	**32,265**	**27,765**	**25,913**	**15,880**	**10,032**	**63.2%**	**(1,852)**	**-6.7%**
Depreciation	21,046	20,272	19,988	20,176	187	0.9%	(283)	-1.4%
NOI after Depreciation	**11,219**	**7,493**	**5,925**	**(4,295)**	**10,220**	**-237.9%**	**(1,569)**	**-20.9%**

MAJOR OPERATING REVENUES SUMMARY

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Aeronautical Revenues	117,765	127,780	147,570	144,761	2,809	1.9%	19,791	15.5%
Public Parking	34,166	36,958	39,402	38,080	1,322	3.5%	2,444	6.6%
Rental Cars - Operations	15,271	14,514	14,922	14,579	343	2.4%	408	2.8%
Rental Cars - Operating CFC	3,872	3,284	5,497	5,434	63	1.2%	2,213	67.4%
ADR & Terminal Leased Space	26,617	28,420	30,179	28,017	2,162	7.7%	1,759	6.2%
Ground Transportation	5,668	7,633	8,885	8,060	825	10.2%	1,252	16.4%
Employee Parking	4,563	4,674	5,191	4,608	584	12.7%	517	11.1%
Airport Commercial Properties	4,286	10,708	7,593	7,082	511	7.2%	(3,115)	-29.1%
Airport Utilities	3,571	3,423	3,438	3,778	(340)	-9.0%	14	0.4%
Cruise	5,410	6,325	6,806	6,944	(139)	-2.0%	481	7.6%
Recreational Boating	5,083	5,438	6,125	5,839	286	4.9%	687	12.6%
Fishing & Operations	4,419	4,440	4,565	4,201	364	8.7%	125	2.8%
Grain	2,010	3,042	3,123	2,572	551	21.4%	81	2.7%
Maritime Portfolio Management	5,100	5,267	5,628	5,459	169	3.1%	361	6.9%
Central Harbor Management	3,393	4,161	4,557	4,448	109	2.4%	396	9.5%
Conference & Event Centers	4,518	3,545	5,188	4,776	412	8.6%	1,644	46.4%
NWSA Distributable Revenue	28,990	27,283	25,844	23,323	2,521	10.8%	(1,439)	-5.3%
Other	4,721	5,194	5,974	13,871	(7,898)	-56.9%	780	15.0%
Total Operating Revenues (w/o Aero)	**161,658**	**174,309**	**182,918**	**173,012**	**9,906**	**5.7%**	**8,610**	**4.9%**
TOTAL	**279,422**	**302,088**	**330,489**	**317,773**	**12,716**	**4.0%**	**28,400**	**9.4%**

I. PORTWIDE FINANCIAL & PERFORMANCE REPORT 06/30/18

MAJOR OPERATING EXPENSES SUMMARY

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Salaries & Benefits	51,795	56,338	62,772	66,506	3,734	5.6%	6,434	11.4%
Wages & Benefits	48,261	52,948	60,075	60,199	124	0.2%	7,127	13.5%
Payroll to Capital Projects	10,040	12,873	13,602	14,311	710	5.0%	728	5.7%
Equipment Expense	2,923	4,311	3,866	4,373	507	11.6%	(445)	-10.3%
Supplies & Stock	3,454	4,616	4,633	4,336	(297)	-6.9%	17	0.4%
Outside Services	25,663	32,969	38,460	53,117	14,657	27.6%	5,491	16.7%
Utilities	10,510	11,911	13,453	12,844	(608)	-4.7%	1,542	12.9%
Travel & Other Employee Expenses	1,879	2,338	2,303	3,482	1,179	33.9%	(35)	-1.5%
Promotional Expenses	362	460	964	1,198	234	19.5%	504	109.4%
Other Expenses	8,450	16,566	15,361	14,831	(530)	-3.6%	(1,205)	-7.3%
Charges to Capital Projects	(15,463)	(21,226)	(23,911)	(26,278)	(2,366)	9.0%	(2,685)	12.7%
TOTAL	147,874	174,104	191,577	208,920	17,343	8.3%	17,473	10.0%

KEY PERFORMANCE METRICS

	2017 YTD Actual	2018 YTD Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance Chg.	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 Chg.	Incr (Decr) Change from 2017 %
Enplanements (in 000's)	11,008	11,688	23,416	24,654	24,654	-	0.0%	1,238	5.3%
Landed Weight (lbs. in 000's)	13,441	14,475	28,431	29,203	29,203	-	0.0%	772	2.7%
Passenger CPE (in $)	n/a	n/a	10.52	11.52	11.35	(0.17)	-1.5%	1.00	9.5%
Grain Volume (metric tons in 000's	2,609	2,688	4,363	4,146	4,146	-	0.0%	(217)	-5.0%
Cruise Passenger (in 000's)	394	403	1,072	1,084	1,081	3	0.3%	12	1.1%
Shilshole Bay Marina Occupancy	94.0%	96.3%	94.9%	95.9%	95.9%	0.0%	0.0%	1.0%	1.1%
Fishermen's Terminal Occupancy	87.0%	87.0%	81.9%	86.0%	86.0%	0.0%	0.0%	4.1%	5.0%

CAPITAL SPENDING RESULTS

$ in 000's	2018 YTD Actual	2018 Forecast	2018 Budget	Budget Variance $	Budget Variance %
Aviation	224,817	593,941	796,200	202,259	25.4%
Maritime	21,702	32,800	46,749	13,949	29.8%
Economic Development	1,363	6,028	6,149	121	2.0%
Corporate & Other (note 1)	1,887	19,826	26,779	6,953	26.0%
TOTAL	**249,769**	**652,595**	**875,877**	**223,282**	**25.5%**

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

PORTWIDE INVESTMENT PORTFOLIO

During the second quarter of 2018, the investment portfolio earned 1.69% versus the benchmark's (the Bank of America Merrill Lynch 1-3 Year US Treasury & Agency Index) 2.53%. Over the last twelve months the portfolio and the benchmark have earned 1.56% and 2.05%, respectively. Since the Port became its own Treasurer in 2002, the life-to-date earnings of the Port's portfolio and the benchmark are 2.46% and 1.80%, respectively.

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

FINANCIAL SUMMARY

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2017 $	%
Operating Revenues:								
Gross Aeronautical Revenues	247,811	267,690	305,005	301,082	3,923	1.3%	37,315	13.9%
SLOA III Incentive Straight Line Adj (1)	(3,576)	(3,576)	-	-	-	0.0%	3,576	-100.0%
Aeronautical Revenues	244,235	264,114	305,005	301,082	3,923	1.3%	40,891	15.5%
Non-Aeronautical Revenues	221,021	236,803	250,728	244,786	5,942	2.4%	13,925	5.9%
Total Operating Revenues	**465,256**	**500,916**	**555,733**	**545,867**	**9,865**	**1.8%**	**54,816**	**10.9%**
Total Operating Expense	261,226	299,114	333,374	334,856	1,482	0.4%	34,259	11.5%
Net Operating Income	**204,030**	**201,802**	**222,359**	**211,011**	**11,348**	**5.4%**	**20,557**	**10.2%**
Capital Expenditures	**153,887**	**293,785**	**593,941**	**796,200**	**202,259**	**25.4%**	**300,156**	**102.2%**
Debt Service (2)	**133,982**	**131,060**	**138,177**	**136,075**	**(2,102)**	**-1.5%**	**7,117**	**5%**

(1) Annual non-cash amortization of $17.9M lease incentive related to the 5 year SLOA III agreement which ended in 2017.

(2) 2018 Budget debt service amount inadvertently understated by the $2.1M debt service exclusion adjustment which impacts Aero Rate Based Revenues only. Total 2018 Aeronautical debt service obligation is reflected in the 2018 Forecast column.

Division Summary 2018 Forecast vs. 2018 Budget

- Net Operating Income for 2018 is forecasted to be $11.3M higher than budget (5.4% favorable)
  - Operating Revenue is expected to be $9.9M higher than budget (1.8% favorable) – from higher Aeronautical revenue primarily due to the decrease in revenue sharing percentage (from 50% down to 40%) negotiated in the new airline lease agreement which was not known when the 2018 Budget was approved. Non-Aero revenue is currently forecasted at $5.9M higher than 2018 Budget (2.4% favorable).
  - Operating Expenses are expected to be $1.5M lower than budget (0.4% favorable) primarily due to lower charges from other divisions $6.6M (6.0% favorable) which includes some planned spending deferred to future years rather than actual cost savings, as well as payroll costs expected to be lower than budget due to vacancies and hiring delays.

Division Summary 2018 Forecast vs. 2017 Actuals

- Net Operating Income for 2018 is forecasted to be $20.6M higher than prior year (10.2% favorable)
  - Operating Revenue is expected to be $54.8M higher than prior year (10.9% favorable) – primarily due to higher Aeronautical revenue from higher rate based costs and lower revenue sharing. In addition, revenues will be higher this year due to the SLOA III incentive amortization which ended in 2017 ($3.6M). Non-Aero revenue is also expected to be $13.9M higher in 2018 from Landside business activities, which more than offset the ($5.4M) one-time lump sum frontage fee reimbursement received in Commercial Properties in 2017.
  - Operating Expenses are expected to be $34.3M higher than prior year (11.5% variance) – due to higher payroll related to increased staffing ($16.3M), higher outside services expense ($14.0M) primarily due to non-recurring expenses focused on addressing strategic initiatives throughout the airport, and higher charges from other divisions ($15.2M). These planned 2018 increases in expenses are partially offset by the one-time amortization for prepaid frontage fees in 2017 ($3.6M) and lower expected costs in Environmental Liability Expense ($3.9M), and Capital to Expense costs ($2.5M).

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

A. BUSINESS EVENTS

- **Activity**: Passenger growth through Q2 tracking slightly ahead of budget at 6.1%
- **Customer Service**: below target through Q2 - Airport Service Quality scores below 2017 in all 6 categories
- **Business**:
  - Airport dining and retail sales holding up better than anticipated with closure of Central Terminal due to kiosks and more “grab-and go” options.
  - Transportation Network Company transactions grew 36.6% in Q2, while taxis transactions declined 4.3%
- **Capital Program**: Completed Alternate Utility Facility and progressing with construction on North Satellite, International Arrivals Facility and Concourse D Hardstand Terminal.
- **Planning for future**: Sustainable Airport Master Plan – initiated environmental review in July

B. KEY PERFORMANCE METRICS

	YTD 2016	YTD 2017	YTD 2018	% Change from 2017
Total Passengers (000's)				
Domestic	19,249	19,666	20,897	6.3%
International	2,257	2,484	2,611	5.1%
Total	21,506	22,150	23,508	6.1%
Operations	197,152	199,610	210,722	5.6%
Landed Weight (In Millions of lbs.)				
Cargo	843	1,025	1,147	12.0%
All other	12,044	12,416	13,328	7.3%
Total	12,886	13,441	14,475	7.7%
Cargo - Metric Tons				
Domestic freight	83,079	111,015	122,259	10.1%
International freight	55,287	57,534	57,279	-0.4%
Mail	27,562	28,882	28,326	-1.9%
Total	165,928	197,431	207,864	5.3%

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

Key Performance Measures

	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Vairance $	%	Incr (Decr) Change from 2017 $	%
Key Performance Metrics								
Cost per Enplanement (CPE)	10.10	10.52	11.52	11.35	(0.17)	-1.5%	0.99	9.4%
Non-Aeronautical NOI (in 000's)	128,727	133,101	134,164	126,861	7,303	5.8%	1,063	0.8%
Other Performance Metrics								
O&M Cost per Enplanement	11.46	12.77	13.52	13.58	0.06	0.4%	0.75	5.9%
Non-Aero Revenue per Enplanement	9.70	10.11	10.17	9.93	0.24	2.4%	0.06	0.6%
Debt per Enplanement (in $)	104	114	116	116	-	0.0%	2	1.3%
Debt Service Coverage	1.53	1.57	1.60	1.51	0.09	5.8%	0.02	1.5%
Days cash on hand (10 months = 304 days)	416	379	307	304	3	1.0%	(72)	-19.0%
Aeronautical Revenue Sharing ($ in 000's)	(37,395)	(42,311)	(31,908)	(35,799)	3,891	10.9%	10,403	24.6%
Activity (in 000's)								
Enplanements	22,796	23,416	24,654	24,654	-	0.0%	1,238	5.3%

Key Performance Metrics – 2018 Forecast compared to 2018 Budget:

- Cost per Enplanement (CPE) Forecast:
  - CPE $0.17 unfavorable to budget - 2018 Budget assumed 50% Revenue Sharing. The 2018 Forecast reflects 40% Revenue Sharing as negotiated in the SLOA IV agreement, which was not known when the 2018 Budget was approved. Note: Adjusted CPE Budget is 11.63 based on 40% Revenue Sharing per SLOA IV agreement bringing the adjusted CPE to $0.11 favorable to budget.
  - CPE increase of $0.99 compared to prior year – due to increase in rate base costs and decrease in revenue sharing percentage under SLOA IV.
- Non-Aero NOI:
  - Non-Aero NOI 2018 Forecast expected to be $7.3M favorable to 2018 budget due to both higher revenues and deferred expenses.
  - Non-Aero NOI 2018 Forecast expected to be $1.1M higher than prior year due primarily to increased Ground Transportation activity, increased transactions in Public Parking, and stronger performance in Airport Dining and Retail.

C. OPERATING RESULTS

Division Summary – YTD

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Operating Revenues:								
Gross Aeronautical Revenues (1)	119,553	129,567	147,570	144,761	2,809	1.9%	18,003	13.9%
SLOA III Incentive Straight Line Adj (2)	(1,788)	(1,788)	-	-	-	N/A	1,788	100.0%
Aeronautical Revenues	117,765	127,780	147,570	144,761	2,809	1.9%	19,791	15.5%
Non-Aeronautical Revenues	100,336	112,761	118,864	113,264	5,601	4.9%	6,104	5.4%
Total Operating Revenues	**218,100**	**240,540**	**266,435**	**258,025**	**8,410**	**3.3%**	**25,894**	**10.8%**
Operating Expenses:								
Payroll	49,708	55,798	63,139	64,511	1,372	2.1%	7,341	13.2%
Outside Services	15,736	17,203	21,015	24,978	3,963	15.9%	3,812	22.2%
Utilities	7,358	8,389	9,589	9,072	(516)	-5.7%	1,200	14.3%
Other Airport Expenses	9,132	13,680	9,788	9,920	132	1.3%	(3,892)	-28.5%
Total Airport Direct Charges	**81,934**	**95,070**	**103,530**	**108,481**	**4,951**	**4.6%**	**8,460**	**8.9%**
Environmental Remediation Liability	33	2,714	4,484	2,980	(1,504)	-50.5%	1,770	65.2%
Capital to Expense	-	24	8	-	(8)	N/A	(16)	-66.8%
Total Exceptions	**33**	**2,738**	**4,492**	**2,980**	**(1,512)**	**-50.7%**	**1,753**	**64.0%**
Total Airport Expenses	**81,968**	**97,809**	**108,021**	**111,461**	**3,439**	**3.1%**	**10,212**	**10.4%**
Police Costs	8,943	9,146	10,659	11,070	411	3.7%	1,513	16.5%
Capital Development	3,358	6,486	6,072	11,422	5,351	46.8%	(415)	-6.4%
Other Central Services	22,723	25,000	26,714	28,414	1,700	6.0%	1,714	6.9%
Maritime/Economic Development	1,826	1,879	1,970	2,685	715	26.6%	91	4.8%
Total Charges from Other Divisions	**36,849**	**42,512**	**45,414**	**53,591**	**8,177**	**15.3%**	**2,902**	**6.8%**
Total Operating Expense	**118,817**	**140,321**	**153,436**	**165,052**	**11,617**	**7.0%**	**13,115**	**9.3%**
Net Operating Income	**99,283**	**100,219**	**112,999**	**92,972**	**20,026**	**21.5%**	**12,780**	**12.8%**

(1) Aero revenues are net of revenue sharing.
(2) Annual non-cash amortization of $17.9M lease incentive related to the SLOA III agreement for the 5 year period from 2013-2017.

<u>Operating Expenses</u> – 2018 YTD Actuals compared to 2018 YTD Budget:

Total Operating Expenses are lower than the YTD 2018 Budget by $11.6 million due to the net of the following:

- YTD Aviation Direct Operating Expenses are lower than budget by $5.0 million due to the following:

Positive Variance of $5.5M			**Negative Variance of $0.5M**		
Payroll - vacancies & hiring delays		$1.4M	Utilities		$0.5M
Outside Services (savings & work deferred to future year)		$4.0M	Increased Surface Water activity	0.7M	
NERA 3 grant (FAA pilot program)	0.9M		Lower Natural Gas activity	(0.2M)	
AV Maintenance temporary timing issues	0.7M				
Capital Program Mgmt delay in key planning projects	0.7M				
SAMP - Environmental assessment delayed	0.8M				
CBP reimbursable program not yet spent	0.3M				
Safety Management Programs still in early stages	0.2M				
All other Outside Services	0.4M				
Other Aviation Expenses		$0.1M			

<u>Operating Expenses</u> – 2018 YTD Actuals compared to 2018 YTD Budget - continued:

- YTD Operating Expenses <u>Exceptions</u> are higher than budget by $1.5 million due to the following:

Positive Variance - no material variance	Negative Variance of $1.5M		
	Environmental Remediation Liability		$1.5M
	<u>Soils:</u>		
	IAF (soils) estimate increase	1.5M	
	Taxiway Improvement Project	0.2M	
	<u>Asbestos:</u>		
	Obligating events not expected until 2019	(2.2M)	
	NSAT (asbestos) estimate increase	1.0M	
	IAF- SSAT Interior Corridor	0.5M	
	Terminal Security	0.2M	
	Other projects	0.3M	

- YTD Operating Expense charges from Central Services and other divisions are lower than budget by $8.1M million due to the following:

Positive Variance of $8.1M			Negative Variance - none
Other Central Services savings		$1.7M	
Police savings		$0.4M	
Maritime/Economic savings		$0.7M	
CDD savings		$5.3M	
Aviation PMG (projects delayed/deferred)	3.0M		
PCS	1.6M		
Engineering	0.8M		
Other CDD	(0.1M)		

<u>Operating Expenses</u> – 2018 YTD Actuals compared to 2017 YTD Actuals:

Total Operating Expenses are higher than YTD 2017 Actuals by $13.1 million due to the net of the following:

- YTD Aviation Direct Operating Expenses are higher than YTD 2017 Actuals by $8.4 million due to the following:

Increase of $12.3M		Decrease of $3.9M		
Payroll - increased staffing	$7.3M	Other Aviation Expenses		$3.9M
Outside Services	$3.8M	One-time amortization frontage fees	$3.7M	
Utilities	$1.2M	All other Aviation Expenses	$0.2M	

Operating Expenses – 2018 YTD Actuals compared to 2017 YTD Actuals - continued:

- YTD Operating Expenses Exceptions are higher than 2017 YTD Actuals by $1.8 million due to the following:

Increase of $1.8M			Decrease - no material amount
Environmental Remediation Liability		$1.8M	
Asbestos:			
IAF- SSAT Interior Corridor	0.5M		
SSAT Structural Improvements	0.8M		
Other projects	0.5M		

- YTD Operating Expense charges from Central Services and other divisions are higher than YTD 2017 Actuals by $2.9 million due to the following:

Increase of $3.3M		Decrease of $0.4M	
Other Central Services	$1.8M	CDD savings	$0.4M
Police Costs	$1.5M		

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

Division Summary – YE Forecast

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2017 $	%
Operating Revenues:								
Gross Aeronautical Revenues (1)	247,811	267,690	305,005	301,082	3,923	1.3%	37,315	13.9%
SLOA III Incentive Straight Line Adj (2)	(3,576)	(3,576)	-	-	-	0.0%	3,576	100.0%
Aeronautical Revenues	244,235	264,114	305,005	301,082	3,923		40,891	15.5%
Non-Aeronautical Revenues	221,021	236,803	250,728	244,786	5,942	2.4%	13,925	5.9%
Total Operating Revenues	**465,256**	**500,916**	**555,733**	**545,867**	**9,865**	**1.8%**	**54,816**	**10.9%**
Operating Expenses:								
Payroll	94,559	114,463	130,809	132,156	1,347	1.0%	16,346	14.3%
Outside Services	31,636	41,055	55,002	52,532	(2,469)	-4.7%	13,947	34.0%
Utilities	14,667	16,374	17,927	17,320	(607)	-3.5%	1,553	9.5%
Other Airport Expenses	21,934	28,292	21,940	19,776	(2,165)	-10.9%	(6,352)	-22.5%
Total Airport Direct Charges	**162,797**	**200,184**	**225,677**	**221,784**	**(3,893)**	**-1.8%**	**25,493**	**12.7%**
Environmental Remediation Liability	-	8,812	4,851	4,030	(821)	-20.4%	(3,961)	-44.9%
Capital to Expense	-	2,856	367	-	(367)	0.0%	(2,489)	-87.1%
Total Exceptions	**-**	**11,668**	**5,218**	**4,030**	**(1,188)**	**-29.5%**	**(6,450)**	**-55.3%**
Total Airport Expenses	**162,797**	**211,852**	**230,896**	**225,814**	**(5,082)**	**-2.3%**	**19,044**	**9.0%**
Police Costs	18,183	17,652	22,174	22,174	-	0.0%	4,522	25.6%
Capital Development	9,319	14,701	17,936	23,092	5,156	22.3%	3,235	22.0%
Other Central Services	58,617	51,004	57,032	58,265	1,233	2.1%	6,028	11.8%
Maritime/Economic Development	12,310	3,904	5,336	5,511	175	3.2%	1,431	36.7%
Total Charges from Other Divisions	**98,429**	**87,262**	**102,478**	**109,042**	**6,564**	**6.0%**	**15,216**	**17.4%**
Total Operating Expense	**261,226**	**299,114**	**333,374**	**334,856**	**1,482**	**0.4%**	**34,259**	**11.5%**
Net Operating Income	**204,030**	**201,802**	**222,359**	**211,011**	**11,348**	**5.4%**	**20,557**	**10.2%**
CFC Surplus	(4,899)	(2,750)	(6,637)	(7,142)	505	7.1%	(3,887)	-141.4%
Net Non-Operating Items in / out from ADF (3)	2,160	3,481	4,406	4,406	-	0.0%	925	26.6%
SLOA III Incentive Straight Line Adj	3,576	3,576	-	-	-	0.0%	(3,576)	-100.0%
Debt Service (4)	(133,982)	(131,060)	(138,177)	(136,075)	(2,102)	1.5%	(7,117)	-5.4%
Adjusted Net Cash Flow	**70,885**	**75,050**	**81,951**	**72,200**	**9,751**	**13.5%**	**6,901**	**9.2%**

(1) Aero revenues are net of revenue sharing.

(2) Annual non-cash amortization of $17.9M lease incentive related to the SLOA III agreement for the 5 year period from 2013-2017.

(3) Per SLOA III definition of Net Revenues.

(4) 2018 Budget debt service amount inadvertently understated by the $2.1M debt service exclusion adjustment which impacts Aero Rate Based Revenues only. Total 2018 Aeronautical debt service obligation is reflected in the 2018 Forecast column.

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

<u>Operating Expenses</u> – 2018 YE Forecast compared to 2018 YE Budget:

Total Operating Expenses are forecasted to be lower than the 2018 Budget by $1.5 million due to the net of the following:

- Aviation Direct Operating Expenses are forecasted to be higher than the 2018 Budget by $3.9 million due to the following:

Positive Variance of $1.3M		Negative Variance of $5.2M		
Payroll - vacancies & hiring delays	$1.3M	Outside Services		$2.5M
		Aviation Planning	1.3M	
		Taxi Operations (SP & curbside mgmt)	0.7M	
		Customer Service (new dept. expenses)	0.6M	
		UPM Pest Management	0.4M	
		All other Outside Services	(0.5M)	
		Utilities		$0.6M
		IWTP overflow event	0.4M	
		All other Utilities	0.2M	
		Other Aviation Expenses		$2.1M
		Increase in Envirnonmental Reserves	0.8M	
		Charges to capital lower than expected	0.4M	
		Construction Access Support	0.6M	
		Fire Fighters for 2nd Care Car	0.8M	
		Maintenance	0.5M	
		All other Aviation Expense	(1.0M)	

- Aviation Operating Expense <u>Exceptions</u> are higher than budget by $1.2 million due to the following:

Positive Variance - no material variance	Negative Variance of $1.2M		
	Environmental Remediation Liability		$0.8M
	Soils:		
	IAF (soils) estimate increase	1.5M	
	Taxiway Improvement Project	0.2M	
	Other soils related	(.2M)	
	Asbestos:		
	Obligating events not expected until 2019	(2.2M)	
	NSAT (asbestos) estimate increase	1.0M	
	IAF- SSAT Interior Corridor	0.5M	
	Capital to Expense - write-off Main Terminal/NSTAR		$0.4M

- Operating Expense charges from Central Services and other divisions are forecasted to be lower than budget by $6.6M million due to the following:

Positive Variance of $6.6M			Negative Variance - none
Other Central Services savings		$1.2M	
Maritime/Economic savings		$0.2M	
CDD savings		$5.2M	
Aviation PMG (projects delayed/deferred)	4.0M		
PCS	0.7M		
Engineering	0.6M		
Other CDD	(0.1M)		

Operating Expenses – 2018 YE Forecast compared to 2017 YE Actuals:

Total Operating Expenses are forecasted to be higher than 2017 Actuals by $34.25 million due to the net of the following:

- Aviation Direct Operating Expenses are forecasted to be higher than 2017 Actuals by $25.5 million due to the following:

Increase of $31.9M			**Decrease of $6.4M**		
Payroll - increased staffing		$16.3M	Other Aviation Expenses		$6.4M
Outside Services		$14.0M	One-time amortization frontage fees	3.6M	
Onsite Consultants - Airport Dining and Retail	4.0M		Litigated & Non-litigated damages	1.5M	
Personal Services - Non-Aero Commercial Properties	2.7M		All other Aviation Expenses	1.4M	
Personal Services - AV Facilities and Capital Program	4.0M				
Small Works Construction Services - Airfield Operations	1.2M				
Other Contracted Services - Baggage Systems	1.3M				
All other Outside Services increases	0.8M				
Utilities		$1.6M			

- Operating Expense Exceptions are forecasted to be lower than 2017 Actuals by $6.5M due to the following:

Increase - none	**Decrease of $6.5M**		
	Environmental Remediation Liability		$4.0M
	IAF soils	3.6M	
	All other ERL expense	0.4M	
	Capital to Expense		$2.5M
	Obsolete exit lane equipment	1.9M	
	SSAT - HVAC equipment	0.7M	
	Projected Main Terminal/Nstar write off	(0.4M)	
	All other Capital to Expense items	0.3M	

- Operating Expense charges from Central Services and other divisions are forecasted to be higher than 2017 Actuals by $15.2 million due to the following:

Increase of $15.2M		**Decrease - no material amount**
Police	$4.6M	
CDD	$3.2M	
Other Central Services	$6.0M	
Maritime/Economic Development divisions	$1.4M	

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

Aeronautical Business Unit Summary– YTD

	2016 YTD	2017 YTD	2018 Year-to-Date		Fav (UnFav) Budget Variance		Incr (Decr) Change from 2017	
$ in 000's	Actual	Actual	Actual	Budget	$	%	$	%
Revenues:								
Movement Area	45,551	50,849	59,656	59,421	235	0.4%	8,806	17.3%
Apron Area	6,088	7,636	8,209	7,654	555	7.2%	573	7.5%
Terminal Rents	75,640	78,051	83,956	84,140	(183)	-0.2%	5,906	7.6%
Federal Inspection Services (FIS)	5,174	6,708	6,641	6,470	171	2.6%	(67)	-1.0%
Total Rate Base Revenues	**132,453**	**143,243**	**158,462**	**157,684**	**778**	**0.5%**	**15,219**	**10.6%**
Commercial Area	4,479	4,959	5,072	4,976	97	1.9%	114	2.3%
Subtotal before Revenue Sharing	**136,932**	**148,202**	**163,534**	**162,660**	**874**	**0.5%**	**15,332**	**10.3%**
Revenue Sharing	(17,379)	(18,635)	(15,964)	(17,899)	1,935	10.8%	2,671	14.3%
Total Aeronautical Revenues	**119,553**	**129,567**	**147,570**	**144,761**	**2,809**	**1.9%**	**18,003**	**13.9%**
Total Aeronautical Expenses	**76,280**	**91,209**	**100,511**	**106,450**	**5,939**	**5.6%**	**9,302**	**10.2%**
Net Operating Income	**43,272**	**38,358**	**47,059**	**38,311**	**8,749**	**22.8%**	**8,701**	**22.7%**

Aeronautical – Q2 2018 Actuals vs. Q2 2018 Budget

- Net Operating Income for Q2 2018 is $8.7M higher than budget (22.8% favorable)
  - Operating Revenue is $2.8M higher than budget (1.9% favorable) primarily due to the decrease in revenue sharing percentage (from 50% down to 40%) negotiated in the new airline lease agreement which was not known when the 2018 Budget was approved.
  - Operating Expenses are $5.9M lower than budget (5.6% favorable) primarily due to timing delays in Outside Services spending and lower charges from other divisions.

Aeronautical – Q2 2018 Actual vs. Q2 2017 Actual

- Net Operating Income for Q2 2018 is $8.7M higher than Q2 2017 (22.7% favorable)
  - Operating Revenue is $18.0 M higher than Q2 2017 (13.9% favorable) due to higher rate based costs to support increased airline activity and lower revenue sharing due to reduction in revenue sharing percentage under new airline agreement.
  - Operating Expenses are $9.3M higher than Q2 2017 (10.2% variance) due to higher airport direct operating expenses to support increased airline activity and higher charges from other divisions.

Aeronautical Business Unit Summary – YE Forecast

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Revenues:								
Movement Area	94,725	108,638	125,275	125,422	(147)	-0.1%	16,637	15.3%
Apron Area	14,028	16,771	16,023	15,979	44	0.3%	(748)	-4.5%
Terminal Rents	155,852	155,431	171,260	171,854	(594)	-0.3%	15,830	10.2%
Federal Inspection Services (FIS)	11,227	18,612	14,143	13,413	730	5.4%	(4,469)	-24.0%
Total Rate Base Revenues	**275,832**	**299,452**	**326,701**	**326,668**	**33**	**0.0%**	**27,249**	**9.1%**
Commercial Area	9,379	10,574	10,212	10,212	-	0.0%	(362)	-3.4%
Subtotal before Revenue Sharing	**285,211**	**310,026**	**336,913**	**336,880**	**33**	**0.0%**	**26,887**	**8.7%**
Revenue Sharing	(37,395)	(42,311)	(31,908)	(35,799)	3,891	10.9%	10,403	24.6%
Other Prior Year Revenues	(5)	(26)	-	-	-	0.0%	**26**	**100.0%**
Total Aeronautical Revenues	**247,811**	**267,690**	**305,005**	**301,082**	**3,923**	**1.3%**	**37,315**	**13.9%**
Total Aeronautical Expenses	**168,932**	**195,414**	**216,810**	**216,931**	**121**	**0.1%**	**21,397**	**10.9%**
Net Operating Income	**78,879**	**72,276**	**88,195**	**84,151**	**4,044**	**4.8%**	**15,919**	**22.0%**
Debt Service (1)	(89,130)	(86,564)	(92,425)	(90,323)	(2,102)	-2.3%	(5,861)	-6.8%
Net Cash Flow	**(10,251)**	**(14,288)**	**(4,230)**	**(6,173)**	**1,943**	**31.5%**	**10,058**	**70.4%**

(1) 2018 Budget debt service amount inadvertently understated by the $2.1M debt service exclusion adjustment which impacts Aero Rate Based Revenues only. Total 2018 Aeronautical debt service obligation is reflected in the 2018 Forecast column.

Airline Rate Base Cost Drivers

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
O&M	165,427	192,188	210,685	210,433	252	0.1%	18,498	9.6%
Debt Service Gross	118,641	113,832	120,555	120,555	-	0.0%	6,723	5.9%
Debt Service PFC Offset	(32,831)	(33,057)	(33,015)	(33,015)	-	0.0%	42	-0.1%
Amortization	28,215	29,654	32,373	32,373	-	0.0%	2,719	9.2%
Space Vacancy	(2,638)	(2,264)	(2,638)	(2,650)	12	-0.4%	(374)	16.5%
TSA Operating Grant and Other	(982)	(901)	(1,259)	(1,028)	(231)	22.4%	(358)	39.8%
Rate Base Revenues	**275,832**	**299,452**	**326,701**	**326,668**	**33**	**0.0%**	**27,249**	**9.1%**
Commercial area	9,379	10,574	10,212	10,212	-	0.0%	(362)	-3.4%
Total Aero Revenues	**285,211**	**310,026**	**336,913**	**336,880**	**33**	**0.0%**	**26,887**	**8.7%**

Aeronautical – 2018 YE Forecast vs. 2018 YE Budget

- Aeronautical net operating income is forecasted to be $4.0M higher than budget (4.8% favorable).
  - Aeronautical revenues are forecasted to be $3.9M higher than budget (1.3% favorable) – primarily due to the decrease in revenue sharing percentage (from 50% down to 40%) negotiated in the new airline lease agreement which was not known when the 2018 Budget was approved.
  - Aeronautical operating expenses are forecasted to be closely aligned with the 2018 Budget.

II. AVIATION DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

Aeronautical – 2018 YE Forecast vs. 2017 YE Actuals

- Net Operating Income for 2018 is expected to be $15.9M higher than prior year (22.0% favorable)
  - Operating Revenue is expected to be $37.3M higher than prior year (13.9% favorable) due to higher rate based costs to support increased airline activity and lower revenue sharing due to reduction in revenue sharing percentage ($10.4M) under new airline agreement.
  - Operating Expenses are expected to be $21.4M higher than prior year (10.9% variance) due to higher airport direct operating expenses to support increased airline activity and higher charges from other divisions.

Non-Aero Business Unit Summary -- YTD

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Non-Aero Revenues								
Rental Cars - Operations	15,271	14,514	14,922	14,579	343	2.4%	408	2.8%
Rental Cars - Operating CFC	3,872	3,284	5,497	5,434	63	1.2%	2,213	67.4%
Public Parking	34,166	36,958	39,402	38,080	1,322	3.5%	2,444	6.6%
Ground Transportation	5,668	7,633	8,885	8,060	825	10.2%	1,252	16.4%
Airport Dining & Retail & Leased Space	27,118	28,420	30,179	28,017	2,162	7.7%	1,759	6.2%
Commercial Properties	4,286	10,708	7,593	7,082	511	7.2%	(3,115)	-29.1%
Utilities	3,571	3,423	3,438	3,778	(340)	-9.0%	14	0.4%
Employee Parking	4,563	4,674	5,191	4,608	584	12.7%	517	11.1%
Clubs and Lounges	1,378	2,173	2,773	2,694	79	2.9%	599	27.6%
Other	443	973	983	932	51	5.5%	10	1.1%
Total Non-Aero Revenues	**100,336**	**112,761**	**118,864**	**113,264**	**5,601**	**4.9%**	**6,104**	**5.4%**
Total Non-Aero Expenses	**42,537**	**49,111**	**52,925**	**58,602**	**5,677**	**9.7%**	**3,813**	**7.8%**
Net Operating Income	**57,799**	**63,649**	**65,940**	**54,662**	**11,278**	**20.6%**	**2,290**	**3.6%**

Non-Aeronautical – Q2 2018 Actuals vs. Q2 2018 Budget

- Net Operating Income for Q2 2018 is $11.3M higher than budget (20.6% favorable)
  - Operating Revenue is $5.6M higher than budget (4.9% favorable) primarily due to Airport Dining & Retail revenue stronger than expected in Q2 due to schedule delays in quick-serve restaurant units remaining open into Feb 2018 which were expected to close in late-2017. In addition, Employee Parking continues to experience strong demand driven growth.
  - Operating Expenses are $5.7M lower than budget (9.7% favorable) primarily due to slower than anticipated grant spending on NERA 3 FAA pilot program and schedule delays on ADR tenant buildout projects.

Non-Aeronautical – Q2 2018 Actual vs. Q2 2017 Actual

- Net Operating Income for Q2 2018 is $2.3M higher than Q2 2017 (3.6% favorable)
  - Operating Revenue is $6.1M higher than Q2 2017 (5.4% favorable) primarily due to the one-time lump sum frontage fee reimbursement ($5.4M) received in Commercial Properties in 2017, which is partially offset by higher Rental Car operating CFC revenue due to lower debt service costs, and higher Public Parking revenue due to higher rates in effect in Q1 compared to the prior year.
  - Operating Expenses is $3.8M higher than Q2 2017 (7.8% increase) primarily due to payroll staffing vacancies being filled and the Commissary Kitchen build payout to Ivar’s within the Airport Dining and Retail areas. Also, there has been increased activity in both staffing and non-payroll costs due to the growth in revenue in Clubs and Lounges.

Non-Aero Business Unit Summary - YE Forecast

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2017 $	%
Non-Aero Revenues								
Rental Cars - Operations	37,082	35,051	35,084	35,294	(210)	-0.6%	33	0.1%
Rental Cars - Operating CFC	12,122	10,641	14,653	15,563	(910)	-5.8%	4,012	37.7%
Public Parking	69,540	75,106	80,046	78,572	1,474	1.9%	4,940	6.6%
Ground Transportation	12,803	15,684	18,401	16,884	1,517	9.0%	2,717	17.3%
Airport Dining & Retail & Leased Space	58,405	58,980	61,980	59,087	2,893	4.9%	3,000	5.1%
Commercial Properties	9,992	18,042	15,236	14,706	529	3.6%	(2,807)	-15.6%
Utilities	7,233	7,018	7,317	7,556	(239)	-3.2%	300	4.3%
Employee Parking	9,329	9,617	10,214	9,457	757	8.0%	597	6.2%
Clubs and Lounges	3,028	5,041	5,830	5,630	200	3.6%	790	15.7%
Other	1,487	1,624	1,966	2,036	(70)	-3.4%	343	21.1%
Total Non-Aero Revenues	**221,021**	**236,803**	**250,728**	**244,786**	**5,942**	**2.4%**	**13,925**	**5.9%**
Total Non-Aero Expenses	**92,294**	**103,702**	**116,564**	**117,925**	**1,362**	**1.2%**	**12,861**	**12.4%**
Net Operating Income	**128,727**	**133,101**	**134,164**	**126,861**	**7,303**	**5.8%**	**1,063**	**0.8%**
Less: CFC (Surplus) / Deficit (1)	(4,899)	(2,750)	(6,182)	(7,142)	960	13.4%	(3,432)	-124.8%
Adjusted Non-Aero NOI	**123,828**	**130,351**	**127,982**	**119,719**	**8,263**	**6.9%**	**(2,369)**	**-1.8%**
Debt Service (1)	(43,984)	(44,495)	(45,752)	(45,752)	-	0.0%	(1,257)	-2.8%
Net Cash Flow	**79,844**	**85,856**	**82,230**	**73,967**	**8,263**	**11.2%**	**(3,625)**	**-4.2%**

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

Non-Aeronautical – 2018 Forecast vs. 2018 Budget

- Non-Aeronautical net operating income is forecasted to be $7.3M higher than budget (5.8% favorable).
  - Non-Aeronautical revenues are forecasted to be $5.9M higher than budget (2.4% favorable):
    - Airport Dining & Retail - favorable ($2.9M) forecast reflects strong performance in both Food and Beverage, Retail Sales despite transitions to new leases, and increased revenue from Advertising.
    - Commercial Properties - favorable $0.5M due to earlier than anticipated occupancy of DMCBP Phase II building.
    - Utilities – unfavorable ($0.2M) due to reduced tenant billings while garbage program undergoes process improvement planning.
  - Non-Aeronautical operating expenses are forecasted to be $1.3M lower than budget (1.2% favorable) – primarily due to lower than anticipated charges from other divisions due to AVPMG terminal project delays.

Non-Aeronautical – 2018 Forecast vs. 2017 Actuals

- Net Operating Income for 2018 is expected to be $1.1M higher than prior year (0.8% favorable)
  - Operating Revenue is expected to be $13.9M higher than prior year (5.9% favorable) primarily due to increased Landside business activity, which more than offsets the ($5.4M) one-time lump sum frontage fee reimbursement received in Commercial Properties in 2017.
  - Operating Expenses are expected to be $12.9M higher than prior year (12.4% variance) due to higher payroll costs related to increase in staffing, higher outside services expense primarily due to non-recurring expenses focused on addressing strategic initiatives throughout the airport, and higher charges from other divisions.

D. CAPITAL RESULTS

Capital Variance

$ in 000's Description	2018 YTD Actual	2018 Forecast	2018 Budget	Budget Variance $	 %
International Arrivals Facility (1)	75,176	215,298	324,221	108,923	33.6%
ASL Conversion at Checkpoints (2)	725	1,175	16,800	15,625	93.0%
NS NSAT Renov NSTS Lobbies (3)	58,656	131,716	140,738	9,022	6.4%
N. Terminals Utilities Upgrade (4)	213	413	8,200	7,787	95.0%
Add'l Baggage Makeup Space IAF (5)	1,234	10,520	15,998	5,478	34.2%
Terminal Security Enhancements (6)	189	2,189	5,925	3,736	63.1%
SSAT Infrastructure HVAC (7)	128	1,218	4,910	3,692	75.2%
2018 Taxiway Improvement Proj	8,988	37,378	36,250	(1,128)	-3.1%
Concourse D Hardstand Holdroom	15,159	28,433	27,986	(447)	-1.6%
Alternate Utility Facility	17,169	18,263	18,350	87	0.5%
Checked Bag Recap/Optimization	16,009	38,009	38,000	(9)	0.0%
All Other	31,171	109,330	158,822	49,492	31.2%
Total Spending	**224,817**	**593,941**	**796,200**	**202,259**	**25.4%**

(1) Delays in design-build progress, consultant billings/purchases for construction and project/construction management services.
(2) $8.7M of capital budget deemed to be public expense as the equipment will be transferred to TSA. 1 of 3 lanes has been installed; remaining lanes pushed out to Q4 2018 - Q2 2019.
(3) Actual projected billings as provided by contractor have been less than anticipated.
(4) Early works construction cancelled and combined with main construction phase due to better coordination with adjacent projects.
(5) Delays in construction due to changes in sequencing of work by contractor.
(6) Favorable bids for Phase I (shatter proof windows) will result in less spending in 2018.
(7) Bid bust has resulted in one year delay of project. Project was re-scoped and design is currently in progress.

III. MARITIME DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

FINANCIAL SUMMARY

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2017 $	%
Revenues:								
Operating Revenue	50,810	54,183	55,293	55,053	240	0%	1,109	2%
Total Revenues	**50,810**	**54,183**	**55,293**	**55,053**	**240**	**0%**	**1,109**	**2%**
Total Operating Expenses	**40,283**	**42,164**	**48,510**	**49,578**	**1,068**	**2%**	**6,347**	**15%**
Net Operating Income	**10,526**	**12,020**	**6,783**	**5,475**	**1,308**	**-24%**	**(5,237)**	**44%**
Capital Expenditures	**5,746**	**20,489**	**32,800**	**46,749**	**13,949**	**30%**	**12,311**	**60%**

Division Summary 2018 Forecast vs. 2018 Budget

- Operating Revenues are forecasted to be $240K above budget due to favorable moorage revenue, offset by earlier termination of lease at T106.
- Operating Expenses are forecasted to be $1,068K below budget primarily due to movement of tenant improvements at the Maritime Industrial Center to capital, underspend in Cruise consulting, and Central Services payroll.
- Net Operating Income forecasted to be $1,308K above budget.
- At the end of the second quarter, capital spending for full year 2018 is forecasted to be $32.8 million or 70% of the approved budget of $47.7 million.

Division Summary 2018 Forecast vs. 2017 Actuals

- Operating Revenues are expected to be $1,109K above 2017 primarily due to higher tariff rates.
- Operating Expenses are expected to be $6,347K greater than 2017 primarily increased wage rates, Cruise Port Valet, and acquisition of Salmon Bay Marina.
- Net Operating Income is forecasted to be $5,237K less than 2017.

Net Operating Income before Depreciation by Business

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2017 $	%
Fishing & Operations	(1,563)	(910)	(1,139)	(1,643)	504	31%	(230)	-25%
Recreational Boating	748	799	987	34	953	2840%	187	23%
Cruise	2,223	2,697	2,093	956	1,137	119%	(604)	-22%
Bulk	1,442	2,388	2,249	1,672	577	35%	(139)	-6%
Maritime Portfolio	450	121	391	(314)	705	224%	270	223%
All Other	(48)	(478)	(39)	(308)	269	87%	438	92%
Total Maritime	**3,252**	**4,618**	**4,541**	**396**	**4,145**	**1046%**	**(77)**	**-2%**

III. MARITIME DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

A. BUSINESS EVENTS

Cruise – Commissioners, Executive, Cruise, and Public Affairs staff participated in the successful inaugural event and first turnaround call of the Norwegian Bliss, May 30-June 02. The event garnered significant media attention.

Recreational Boating – Successfully hosted the Clipper Around the World at Bell Harbor Marina in June.

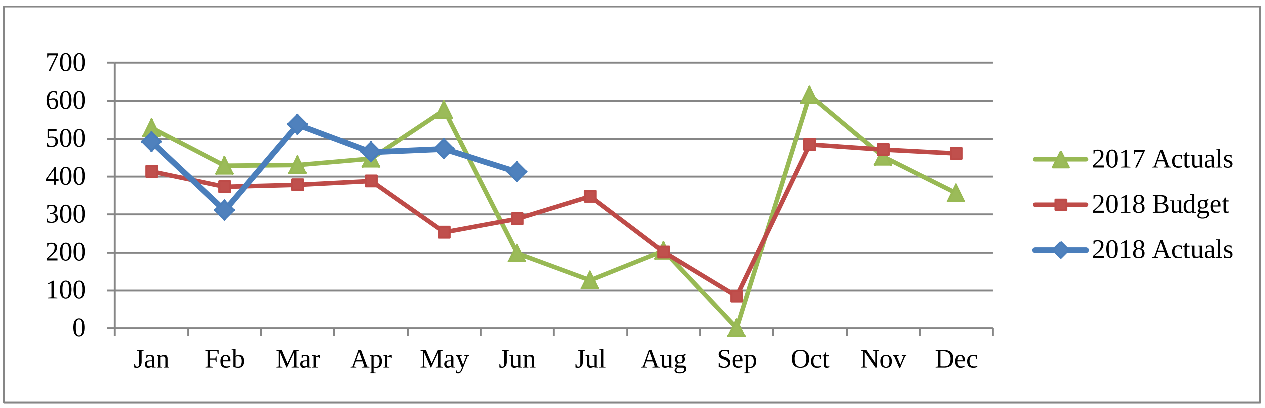
Fishing and Commercial Operations – Transitioned management of Salmon Bay Marina in June.

Maritime Portfolio Management –Finalized a license with Ecco Wireless that will bring a new Wi-Fi network to Shilshole Bay Marina with faster speeds and better coverage over the whole site for all customers.

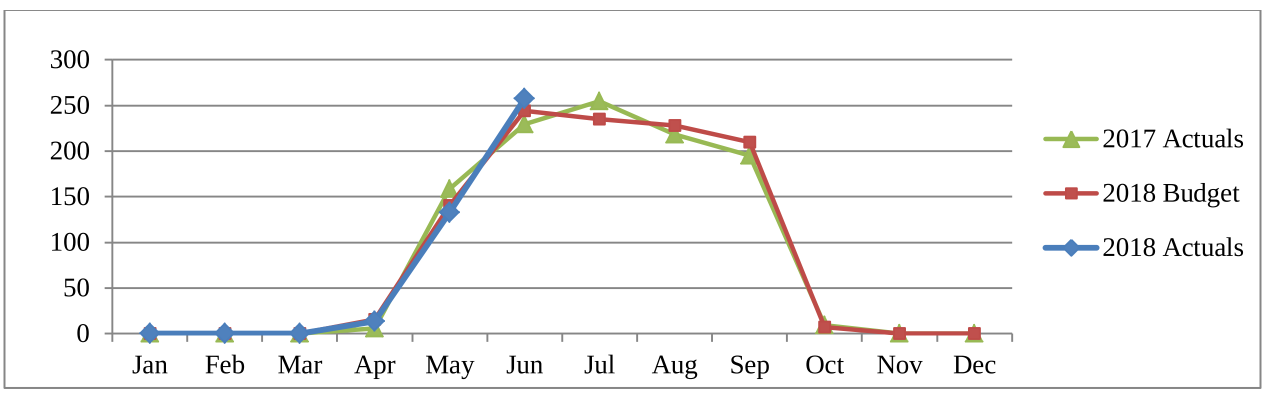
Stormwater Utility – Obtained permit from US Army Corp of Engineers to proceed with T18 Outfall Renewal and Replacement project. Tracking to exceed the 75% assessment target.

B. KEY PERFORMANCE METRICS

Grain Volume – Metric Tons in 000's



Cruise Passengers in 000's



C. OPERATING RESULTS

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Fishing & Operations	4,419	4,440	4,565	4,201	364	9%	125	3%
Recreational Boating	5,083	5,438	6,125	5,839	286	5%	687	13%
Cruise	5,410	6,325	6,806	6,944	(139)	-2%	481	8%
Bulk	2,010	3,042	3,123	2,572	551	21%	81	3%
Maritime Portfolio Management	5,100	5,267	5,628	5,459	169	3%	361	7%
Other	5	14	11	9	2	28%	(3)	-23%
Total Revenue	**22,027**	**24,525**	**26,257**	**25,023**	**1,234**	**5%**	**1,732**	**7%**
Expenses								
Fishing & Operations	2,206	2,305	2,461	2,399	(63)	-3%	156	7%
Rec Boating	1,524	1,852	1,989	2,285	297	13%	137	7%
Cruise	954	558	1,135	1,987	851	43%	577	103%
Other Maritime	373	585	266	655	388	59%	(318)	-54%
Maintenance Expenses	4,716	4,740	5,576	5,642	66	1%	836	18%
Portfolio Management	1,679	1,770	2,031	2,191	160	7%	261	15%
Other ED Expenses	166	353	320	460	141	31%	(33)	-9%
Total Maritime & EDD expenses	**11,617**	**12,162**	**13,778**	**15,618**	**1,840**	**12%**	**1,616**	**13%**
Enviromental & Sustainability	303	598	519	998	479	48%	(79)	-13%
CDD Expenses	522	419	437	630	193	31%	18	4%
Police Expenses	1,925	1,889	2,169	2,101	(68)	-3%	280	15%
Other Central Services	4,294	4,401	4,842	5,219	377	7%	441	10%
Aviation Division	66	67	70	61	(9)	-15%	2	3%
Total Central Services & Aviation	**7,109**	**7,374**	**8,037**	**9,009**	**972**	**11%**	**662**	**9%**
Envir Remed Liability	48	371	(99)	0	99	NA	(469)	-127%
Total Expense	**18,774**	**19,907**	**21,716**	**24,627**	**2,911**	**12%**	**1,809**	**9%**
NOI Before Depreciation	**3,252**	**4,618**	**4,541**	**396**	**4,145**	**1046%**	**(77)**	-2%
Depreciation	8,655	8,442	8,823	8,868	45	1%	381	5%
NOI After Depreciation	**(5,403)**	**(3,824)**	**(4,281)**	**(8,471)**	**4,190**	**-49%**	**(458)**	**12%**

2018 YTD Actuals vs. Budget

- Operating Revenues were $1,234K higher than budget from favorable occupancy rates in Recreational Boating and Fishing & Operations along with higher than expected grain volumes.

- Operating Expenses were $2,911K lower than budget:
  - Cruise $851K lower than budget due to timing and savings of Port Valet and consulting invoices.
  - Rec Boating $297K lower than budget due to open positions.
  - Other Maritime $388K lower than budget from Marketing open FTEs and Habitat expenses applied to non-operations and capital.
  - Portfolio Management $160K below budget from tenant improvements at Maritime Industrial Center.
  - Environment & Sustainability $479K lower than budget due to vacant positions and capital/expense mix.
  - Capital Development (CDD) $193K below budget due to fewer contractors than expected.
  - Other Central Services $377K lower than budget primarily due to lower charges from Public Affairs $123K, Human Resources $94K, and Exec $66K.
  - All other expenses net to $166K lower than budget.

- Net Operating Income was $4,145 above budget.

III. MARITIME DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

2018 YTD Actuals vs. 2017 YTD Actuals

- Operating Revenues were $1,732K higher than 2017 actual due to increased moorage rates, improved occupancy at Shilshole Bay Marina, and longer than anticipated occupancy by fishing vessels at Terminal 91.

- Operating Expenses were $1,809K higher than 2017 actual:
  - Cruise $577K greater than 2017 due to property rental at P66 and Consulting.
  - Marine Maintenance $836K greater than 2017 due to increased wages and mix of Maritime projects.
  - Portfolio Management $261K greater than 2017 due to higher utility expense.
  - Central Services $662K increase from 2017 related to Police allocation and general increases.
  - Environmental Remediation $469K below 2017.
  - All other Expenses net to $68K above 2017.

- Net Operating Income was $77K below 2017 actual.

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Fishing & Operations	9,108	9,297	8,748	8,388	360	4%	(550)	-6%
Recreational Boating	10,255	11,086	12,446	12,166	280	2%	1,361	12%
Cruise	15,422	17,596	18,150	18,150	0	0%	554	3%
Bulk	5,382	5,427	5,163	5,163	0	0%	(263)	-5%
Maritime Portfolio Management	10,255	10,787	10,769	11,169	(400)	-4%	(18)	0%
Other	388	(9)	17	17	0	0%	26	-297%
Total Revenue	**50,810**	**54,183**	**55,293**	**55,053**	**240**	**0%**	**1,109**	**2%**
Expenses								
Fishing & Operations	4,308	4,599	4,641	4,641	0	0%	42	1%
Rec Boating	3,164	3,813	4,595	4,595	0	0%	782	20%
Cruise	2,600	2,674	4,448	4,748	300	6%	1,774	66%
Other Maritime	666	462	1,399	1,399	0	0%	937	203%
Maintenance Expenses	9,900	10,420	11,261	11,261	0	0%	840	8%
Portfolio Management	3,367	3,507	3,550	3,750	200	5%	43	1%
Other ED Expenses	420	665	833	833	0	0%	168	25%
Total Maritime & EDD expenses	**24,425**	**26,140**	**30,726**	**31,226**	**500**	**2%**	**4,586**	**18%**
Enviromental & Sustainability	1,358	1,125	1,994	2,168	173	8%	869	77%
CDD Expenses	1,010	748	1,030	1,212	182	15%	282	38%
Police Expenses	3,921	3,756	4,209	4,209	0	0%	453	12%
Other Central Services	9,315	9,869	10,428	10,641	213	2%	559	6%
Aviation Division	139	138	123	123	0	0%	(15)	-11%
Total Central Services & Aviation	**15,743**	**15,635**	**17,784**	**18,352**	**568**	**3%**	**2,149**	**14%**
Envir Remed Liability	115	389	0	0	0	NA	(389)	-100%
Total Expense	**40,283**	**42,164**	**48,510**	**49,578**	**1,068**	**2%**	**6,347**	**15%**
NOI Before Depreciation	**10,526**	**12,020**	**6,783**	**5,475**	**1,308**	**24%**	**(5,237)**	-44%
Depreciation	17,351	17,410	17,868	17,868	0	0%	459	3%
NOI After Depreciation	**(6,824)**	**(5,390)**	**(11,086)**	**(12,394)**	**1,308**	**-11%**	**(5,696)**	**106%**

2018 Forecast vs. 2018 Budget

- Operating Revenues are forecasted to be $240K higher than budget:
  - Favorable revenue in Fishing and Rec. Boating, offset by earlier than expected termination of WSDOT lease at Terminal 106.
- Operating Expenses are forecasted to be $1,068K lower than budget:
  - Tenant improvements at the Maritime Industrial Center capitalized rather than expensed.

  - Delay in hiring and consulting cost in Cruise.
  - Favorable payroll savings from Central Services.
- Net Operating Income is forecasted to be $1.3M above budget.

2018 Forecast vs. 2017 Actuals

- Operating Revenues are forecasted to be $1.1M higher than 2017 actual:
  - Increased rates were offset by loss of net shed revenue.
- Operating Expenses are forecasted to be $6.3M higher than 2017 actual with increases seen in:
  - Cruise $1.8M due to Port Valet service and consulting.
  - Maintenance $.8M from increase of projects and higher wage rates.
  - Other Maritime $.9M from Habitat Initiatives.
  - Rec Boating $.8M due to new headcount in 2018 and open headcount in 2017.
  - Central Services $2.1M driven by increased projects and FTE in Environment & Sustainability along with Police.
- Net Operating Income is forecasted to be $5.2M below 2017 actual.

D. CAPITAL RESULTS

$ in 000's	2018 YTD Actual	2018 Forecast	2018 Budget	Budget Variance $	Budget Variance %
Salmon Bay Marina ACQ	15,703	15,728	15,804	76	0%
SBM Restrms/Service Bldgs Rep	131	1,553	7,162	5,609	78%
FT Re Development Phase I	813	1,363	2,700	1,337	50%
P91 South End Fender	1,981	2,055	2,202	147	7%
Maritime Fleet Replacement	238	2,158	2,158	0	0%
Contingency Renewal & Replace.	0	1,150	2,000	850	43%
SBM Paving	83	399	1,673	1,274	76%
Cruise Terminal Tenant Improv	323	1,531	1,531	0	0%
Salmon Bay Marina Uplands	13	13	1,505	1,492	99%
FT Docs 3,4,5 Fixed Pie	74	274	1,424	1,150	81%
Restoration	56	66	1,140	1,074	94%
All Other Projects	2,287	6,510	7,450	940	13%
Total Maritime	21,702	32,800	46,749	13,949	30%

Comments on Key Projects:
Through the 2nd quarter of 2018, Maritime spent 46% of the annual approved capital budget. Full year spending is estimated to be 70% of budget.

Projects with significant changes in spending were:

- **SBM Restrms/Service Bldgs Rep** – Construction Delay. Work schedule to begin Q3 2018.
- **FT Re Development Phase I** – Project Delay.
- **Contingency Renewal & Replace -** $850k used for Portwide Radio System Upgrade.
- **SBM Paving** – Construction Delay. Moved to Q2 2019.
- **FT Docs 3,4,5 Fixed Pie** – Design phase extended to Q3 2018.
- **Restoration** – Project delayed until 2020.

IV. ECONOMIC DEVELOPMENT DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

FINANCIAL SUMMARY

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Revenues:								
Operating Revenue	15,903	17,791	19,046	18,522	524	3%	1,255	7%
Total Revenues	**15,903**	**17,791**	**19,046**	**18,522**	**524**	**3%**	**1,255**	**7%**
Total Operating Expenses	**21,135**	**25,397**	**28,055**	**28,751**	**697**	**2%**	**2,657**	**10%**
Net Operating Income	**(5,232)**	**(7,606)**	**(9,008)**	**(10,229)**	**1,221**	**12%**	**(1,402)**	**-18%**
Capital Expenditures	**4,757**	**3,739**	**6,028**	**6,149**	**121**	**2%**	**2,289**	**61%**

Division Summary 2018 Forecast vs. 2018 Budget

- Operating Revenues are forecasted to be $524K above budget primarily due to higher than expected Conference and Event Center activity.
- Operating Expenses are forecasted to be $697K below budget primarily due to EDD Initiative programs.
- Net Operating Income forecasted to be $1,221K above budget.
- At the end of the second quarter, capital spending for full year 2018 is forecasted to be $6M or 98% of the approved budget of $6.1M.

Division Summary 2018 Forecast vs. 2017 Actuals

- Operating Revenues are expected to be $1,255K above 2017 primarily due to stronger sales at Bell Harbor Conference Center.
- Operating Expenses are expected to be $2,657K greater than 2017 primarily due to increased volumes at Conference and Event Centers $827K, EDD Initiatives $952K, Other Central Services $443K, and Economic Development Expenses other $442K.
- Net Operating Income is expected to be $1,402K less than 2017.

A. BUSINESS EVENTS

Portfolio Management

- Elevator modernization project for two passenger elevators and the service elevator at Pier 66 completed May 3, which was 3.5 weeks ahead of schedule
- Collaborating with NWSA on potential new Seattle facility for Customs and Border Protection. They would co-locate their two groups who currently are at T-102 and T-106. Preliminary estimates have been created and discussions about how to share the costs are underway between NWSA and POS.

Tourism

- Port Commissioners authorized the Executive Director to execute all related contract agreements for the 26 awardees of the 2018 Tourism Marketing Support Program.
- Launched the Spotlight Advertising Program application process at Sea-Tac Int’l Airport in June.

IV. ECONOMIC DEVELOPMENT DIVISION FINANCIAL & PERFORMANCE REPORT 06/30/18

Real Estate Development

- In April Trammell Crow started construction at Des Moines Creek North property in SeaTac.
- Salmon Bay Marina acquisition closed in June.
- Design work at FT suspended pending final CIP resolution.

Small Business

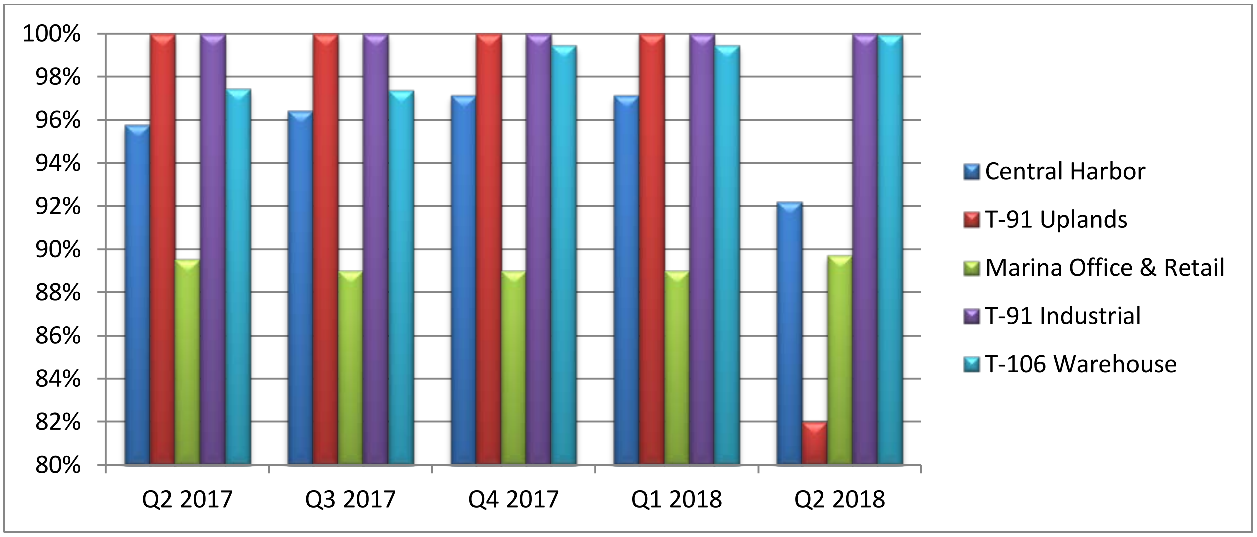
- Presented the Diversity in Contracting implementation plan to Commission on June 12th to address port wide goal setting, outreach, contracting, tracking, evaluation, and accountability.

Workforce Development

- Airport Career Pathways Convening - Discussion co-facilitated with airport employers convened by Airport Director Lance Lyttle to identify potential opportunities for developing career pathways training to drive opportunities for low-wage workers to increase skills and wages.

B. KEY PERFORMANCE METRICS

Building Occupancy by Location:



Net Operating Income before Depreciation by Business

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) 2018 Bud Var $	Fav (UnFav) 2018 Bud Var %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Portfolio Management	(1,514)	(2,539)	(2,062)	(2,144)	82	4%	477	19%
Conference & Event Centers	643	(483)	(17)	(608)	591	97%	466	96%
Tourism	(432)	(528)	(640)	(762)	122	16%	(112)	-21%
Workforce Development	(143)	(353)	(368)	(1,072)	705	66%	(14)	-4%
EDD Grants	(1)	(427)	(28)	(480)	452		399	NA
Env Grants/Remed Liab/ERC	(33)	(1)	0	0	0		1	-100%
Total Econ Dev	**(1,479)**	**(4,331)**	**(3,115)**	**(5,067)**	**1,951**	**39%**	**1,216**	**28%**

C. OPERATING RESULTS

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Revenue	3,818	4,182	4,577	4,465	112	3%	395	9%
Conf & Event Centers	4,518	3,545	5,188	4,776	412	9%	1,644	46%
Total Revenue	**8,337**	**7,727**	**9,765**	**9,242**	**524**	**6%**	**2,039**	**26%**
Expenses								
Portfolio Management	1,536	2,050	1,952	1,901	(51)	-3%	(98)	-5%
Conf & Event Centers	3,665	3,660	4,306	4,258	(48)	-1%	646	18%
P69 Facilities Expenses	81	96	114	171	57	33%	18	19%
RE Dev & Planning	211	120	74	107	32	30%	(46)	-38%
EconDev Expenses Other	321	383	473	584	111	19%	90	23%
Maintenance Expenses	1,248	1,483	1,996	1,528	(468)	-31%	513	35%
Maritime Expenses (Excl Maint)	14	25	76	161	85	53%	52	210%
Total EDD & Maritime Expenses	**7,076**	**7,817**	**8,992**	**8,710**	**(282)**	**-3%**	**1,175**	**15%**
Small Business	9	26	37	74	37	50%	10	39%
Workforce Development	150	228	228	941	713	76%	(1)	0%
Tourism	420	514	620	750	130	17%	106	21%
EDD Grants	0	427	28	480	452	94%	(399)	-93%
Total EDD Initiatives	**579**	**1,195**	**912**	**2,244**	**1,332**	**59%**	**(283)**	**-24%**
Environmental & Sustainability	9	130	121	188	67	36%	(8)	-7%
CDD Expenses	113	200	139	172	33	19%	(61)	-31%
Police Expenses	81	85	81	79	(2)	-3%	(3)	-4%
Other Central Services	1,907	2,576	2,576	2,852	276	10%	(0)	0%
Aviation Division	51	56	59	63	4	7%	3	6%
Total Central Services & Aviation	**2,161**	**3,046**	**2,976**	**3,354**	**378**	**11%**	**(70)**	**-2%**
Envir Remed Liability	0	0	0	0	0	NA	0	NA
Total Expense	**9,816**	**12,058**	**12,880**	**14,308**	**1,428**	**10%**	**823**	**7%**
NOI Before Depreciation	**(1,479)**	**(4,331)**	**(3,115)**	**(5,067)**	**1,951**	**-39%**	**1,216**	28%
Depreciation	1,881	1,860	1,999	2,084	84	4%	139	7%
NOI After Depreciation	**(3,360)**	**(6,191)**	**(5,114)**	**(7,150)**	**2,036**	**-28%**	**1,077**	**17%**

2018 YTD Actuals vs. Budget

- Operating Revenues were $524K higher than budget due to unplanned leases at T91 and higher volumes at the conference and event center.

- Operating Expenses were $1,428K lower than budget:
  - Workforce Development $713K lower than budget due to timing of spending for Construction Trades - Regional Partnership, K-12 Career Connected Learning, Maritime Initiative, and Airport Career Pathways implementation.
  - EconDev Other $111K lower than budget due to unspent Opportunity Fund.
  - EDD Grants $452K and Tourism $130K favorable to budget due to timing of invoices.
  - Maintenance cost unfavorable to budget by ($468K) due to unbudgeted HVAC repairs at Bell Street common areas and T91 work that should have been charged to Maritime.
  - Other Central Services $276K lower than budget primarily due to lower charges from Public Affairs $115K and Human Resources $50K.
  - All other expenses net to $214K lower than budget.

- Net Operating Income was $1,951K above budget.

2018 YTD Actuals vs. 2017 YTD Actuals

- Operating Revenues were $2,039K higher than 2017 actual due to stronger sales resulting from the completion of the Pier 66 Cruise Terminal Expansion Project that disrupted the availability of space for conference events.

- Operating Expenses were $823K higher than 2017 actual:
  - Conference and Event Center $646K greater than 2017 due to higher sales activity at Bell Harbor International Conference Center.
  - Maintenance Expenses $513K greater than 2017 due to Maintenance at P66 Common Area and Terminal 91 Uplands.
  - EDD Grants ($399K) lower than 2017 due to timing of payments.
  - All other Expenses net to $63K above 2017

- Net Operating Income was $1,216K above 2017 actual.

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Revenue	7,881	8,658	9,097	8,985	112	1%	439	5%
Conf & Event Centers	8,022	9,133	9,949	9,537	412	4%	816	9%
Total Revenue	**15,903**	**17,791**	**19,046**	**18,522**	**524**	**3%**	**1,255**	**7%**
Expenses								
Portfolio Management	3,084	3,879	3,778	3,778	0	0%	(101)	-3%
Conf & Event Centers	6,932	7,639	8,465	8,465	0	0%	827	11%
P69 Facilities Expenses	180	206	289	289	0	0%	84	41%
RE Dev & Planning	1,037	214	211	211	0	0%	(3)	-1%
EconDev Expenses Other	628	773	1,227	1,227	0	0%	454	59%
Maintenance Expenses	2,787	3,666	3,276	3,055	(221)	-7%	(390)	-11%
Maritime Expenses (Excl Maint)	31	52	344	344	0	0%	292	557%
Total EDD & Maritime Expenses	**14,679**	**16,429**	**17,591**	**17,370**	**(221)**	**-1%**	**1,163**	**7%**
Small Business	21	64	140	140	0	0%	76	118%
Workforce Development	522	850	1,292	1,992	700	35%	442	52%
Tourism	1,093	1,234	1,460	1,460	0	0%	225	18%
EDD Grants	20	751	960	960	0	0%	209	28%
Total EDD Initiatives	**1,656**	**2,900**	**3,852**	**4,552**	**700**	**15%**	**952**	**33%**
Environmental & Sustainability	62	260	363	398	35	9%	103	40%
CDD Expenses	250	387	264	329	65	20%	(123)	-32%
Police Expenses	157	51	156	158	2	1%	105	205%
Other Central Services	4,223	5,257	5,700	5,816	116	2%	443	8%
Aviation Division	107	113	127	127	0	0%	15	13%
Total Central Services & Aviation	**4,800**	**6,068**	**6,611**	**6,829**	**218**	**3%**	**542**	**9%**
Envir Remed Liability	0	0	0	0	0	NA	0	NA
Total Expense	**21,135**	**25,397**	**28,055**	**28,751**	**697**	**2%**	**2,657**	**10%**
NOI Before Depreciation	**(5,232)**	**(7,606)**	**(9,008)**	**(10,229)**	**1,221**	**-12%**	**(1,402)**	18%
Depreciation	3,682	3,863	4,156	4,156	0	0%	293	8%
NOI After Depreciation	**(8,914)**	**(11,469)**	**(13,164)**	**(14,385)**	**1,221**	**-8%**	**(1,695)**	**15%**

2018 Forecast vs. 2018 Budget

- Operating Revenues are forecasted to be $524K higher than budget:
  - Higher than expected occupancy at Terminal 102 Corporate Center and Terminal 91 Uplands.
  - Higher conference sales activity at Bell Harbor International Conference Center.
- Operating Expenses are forecasted to be $697K lower than budget:

  - Under-spent in Workforce Development Initiatives ($700K).
  - Unbudgeted HVAC repair at P66.
- Net Operating Income is forecasted to be $1,221K above budget.

2018 Forecast vs. 2017 Actuals

- Operating Revenues are forecasted to be $1.3 M higher than 2017 actual:
  - High occupancy at most properties, annual increases for existing leases, and higher lease rates for new leases.
  - Stronger sales activity at Bell Harbor Conference Center due to the completion of the P66 Cruise Terminal expansion project.
- Operating Expenses are forecasted to be $2.7M higher than 2017 actual:
  - Economic Development Initiatives $952K.
  - Conference & Events Centers: higher sales activity resulting in higher expense $827K.
  - Other Central Services $443K.
- Net Operating Income is forecasted to be $1.4M below 2017 actual.

D. CAPITAL RESULTS

$ in 000's	2018 YTD Actual	2018 Forecast	2018 Budget	Budget Variance $	Budget Variance %
P66 Elevator 2,3,4 Upgrades	956	1,229	1,175	(54)	-5%
RE: Contingency Renew.&Replace	0	1,000	1,000	0	0%
BHICC Interior Modernization	100	900	710	(190)	-27%
Small Projects	59	525	516	(9)	-2%
Tenant Improvements -Capital	23	897	532	(365)	-69%
P69 Solar Panel System	39	482	502	20	4%
T-102 Outdoor Lighting	19	209	437	228	52%
T91 Upland PreDevelopment	11	150	425	275	65%
CW Elevator Modernization	0	100	325	225	69%
All Other projects	156	536	527	(9)	-2%
Total Economic Development	1,363	6,028	6,149	121	2%

Comments on Key Projects:
Through the 2nd quarter of 2018, Economic Development spent 22% of the annual approved capital budget. Full year spending is estimated to be 98% of budget.

Projects with significant changes in spending were:

- **Tenant Improvements Capital** – Additional $365K Tenant Improvements originally budgeted as expense.
- **T-102 Outdoor Lighting** – Project cost refinement based on final design.
- **Central Waterfront Elevator Modernization**– Scope reduction and shift of work to 2019/2020.

V. CENTRAL SERVICES FINANCIAL & PERFORMANCE REPORT 06/30/18

FINANCIAL SUMMARY

$ in 000's	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2017 $	%
Total Operating Revenues	**1,330**	**68**	**182**	**182**	**-**	**0.0%**	**113**	**166.0%**
Core Central Support Services	69,196	71,071	78,720	80,367	1,647	2.0%	7,648	10.8%
Police	23,045	22,095	26,955	27,065	110	0.4%	4,860	22.0%
Capital Development	12,218	17,370	21,058	26,289	5,231	19.9%	3,688	21.2%
Environment & Sustainability	8,824	6,975	10,486	11,504	1,019	8.9%	3,511	50.3%
Total Operating Expenses	**113,284**	**117,511**	**137,218**	**145,225**	**8,008**	**5.5%**	**19,707**	**16.8%**

Division Summary 2018 Forecast vs. 2018 Budget

- Operating Revenues are forecasted to be $182K, on par with the budget for 2018.
- Operating Expenses are forecasted to be $8.0M favorable to budget mainly due to vacant positions, projects spending delay and lower Outside Services Costs.
- Capital spending is forecasted to be $17.7M, 72.6% of the 2018 budget.

Division Summary 2018 Forecast vs. 2017 Actuals

- Operating Revenues are expected to be $113K above 2017 mainly due to higher reimbursed revenue for Police.
- Operating Expenses are forecasted to be $19.7M higher than 2017 mainly due to higher payroll expenses and more expense projects.

A. BUSINESS EVENTS

- The Port Commission approved $200,000 in grants for 26 tourism-related projects across the state of Washington.
- Port of Seattle, City of SeaTac, and IAC Properties Brook Ground on an Industrial Site to create a 460,000 square foot industrial facility that will employ approximately 400 full time workers.
- The Port welcomed the inaugural flight of Thomas Cook Airlines nonstop service to Manchester.
- The Port Commission has appointed a panel of four experts to independently review costs and schedules associated with the new International Arrivals Facility (IAF) now under construction at Seattle-Tacoma International Airport.
- The Port welcomed the Norwegian Bliss, the newest ship in the Norwegian Cruise Line fleet. At over 168,000 gross tons and a capacity of 4,004, double occupancy, which is the largest cruise vessel on the west coast and was built especially for the Alaska cruise market. The Norwegian Bliss marked a major milestone for the Port of Seattle, which over the last 18 years has transformed into the largest and fastest growing cruise business on the west coast, while earning a reputation for progressive environmental protections.
- Seattle Harbor Deepening Project Received U.S. Army Corps of Engineers Leadership Approval.
- Sponsored the First Annual Safety Stand Down, which included 8 sessions and an online version for employees who could not attend.
- Issued Intermediate Lien Revenue Bonds of $555,564,000 to finance or refinance capital improvements to aviation facilities. Work included conducting Rating Agency meetings and due diligence meeting and negotiated sale.
- Replaced the Port of Seattle Website. The new site reflects the current organizational structure, focuses on engaging our customers, and provides infrastructure for organizational content updates.
- Added new functionality to the Sea-Tac Hardstand Equipment Management System, which is tightly integrated to the flight information system allowing for proactive updates as flight data is provided by airlines.

V. CENTRAL SERVICES FINANCIAL & PERFORMANCE REPORT 06/30/18

B. KEY PERFORMANCE METRICS

Key Performance Indicators/Measures	YTD 2018	YTD 2017/Notes
A. Century Agenda Strategies		
1. Small Business Participation – Annual / Small Works (port-wide)	68.3%	76.9%
2. Small Business Participation – Annual / Major Construction (port-wide) including Mega projects	12.44%	29.9%
3. Small Business Participation – Annual / Goods & Services (port-wide)	25.9%	24.6%
4. Small Business Participation – Service Agreements (port-wide) - Annual (including Legal department Service Agreements)	50.1%	49.3%
5. Minority/Women-Owned Business Participation in Capital Development Contracts	4.5%	N/A
B. High Performance Organization - Customer Satisfaction		
1. Respond to Public Disclosure Requests	305	264, increased by 41
2. Information and Communication Technology System Availability	99.2%	99.7%
3. Customer Survey for Police Service Excellent or Very Good	88%	83%
4. Oversee Implementation and Administration of CBAs agreements	79	99
5. Number of Jobs Openings	195	443, decreased by 248
6. Percent of annual audit work plan completed each year	100%	39%
7. Request of information and guidelines for integrity & business conduct	136	113
C. High Performance Organization - Talent Development & Safety		
1. MIS and Clarity Training	8 classes, 76 attendees	14 classes, 104 attendees
2. Employee Development Class Attendees/Structured Learning	772	1878, decreased by 1106
3. Required Safety Training	N/A	64%
4. Occupational Injury Rate	5.50	4.94
5. Days Away Severity Rate	32.02	N/A
D. Financial Performance		
1. Corporate costs as a % of Total Operating Expenses	31.6%	32.8%
2. Construction Soft Costs - Total Soft Costs (36 months avg.)	24%	28%
3. Clean independent CPA audits involving AFR	yes	yes
4. Timely process disbursement payment requests	4 days	3 days
5. Keep receivables collections 85% current (within 30 days)	88%	95%
6. Investment Portfolio Yield	1.69%	1.42%
7. Litigation and Claim Reserves (in $ thousand)	$348	$1,531

C. OPERATING RESULTS

Financial Summary (YTD)

$ in 000's	2016 YTD Actual	2017 YTD Actual	2018 Year-to-Date Actual	2018 Year-to-Date Budget	Fav (UnFav) Budget Variance $	Fav (UnFav) Budget Variance %	Incr (Decr) Change from 2017 $	Incr (Decr) Change from 2017 %
Total Operating Revenues	**75**	**82**	**81**	**56**	**25**	**45.0%**	**(1)**	**-1.2%**
Core Central Support Services	31,594	34,692	36,661	39,178	2,517	6.4%	1,969	5.7%
Police	11,312	11,378	13,188	13,511	323	2.4%	1,810	15.9%
Capital Development	4,747	7,763	7,733	13,075	5,342	40.9%	(30)	-0.4%
Environment & Sustainability	3,303	3,347	2,954	4,676	1,722	36.8%	(393)	-11.8%
Total Operating Expenses	**50,956**	**57,181**	**60,536**	**70,441**	**9,904**	**14.1%**	**3,356**	**5.9%**

2018 YTD Actuals vs. Budget

- Operating Revenues were $25K favorable to budget due to higher miscellaneous revenues.
- Operating Expenses were $9.9M favorable to budget due primarily to vacant positions, hiring delays, and lower Outside Services Costs.

2018 YTD Actuals vs. 2017 YTD Actuals

- Operating Revenues were basically on par with 2017 level.
- Operating Expenses were $3.4M higher than last year primarily due to higher Payroll and Outside Services Costs.

V. CENTRAL SERVICES FINANCIAL & PERFORMANCE REPORT 06/30/18

Financial Summary (Year-End Forecast)

$ in 000's	Notes	2016 Actual	2017 Actual	2018 Forecast	2018 Budget	Fav (UnFav) Budget Variance $	%	Incr (Decr) Change from 2017 $	%
Total Revenues		**1,330**	**68**	**182**	**182**	**-**	**0.0%**	**113**	**166.0%**
Executive		2,185	1,287	1,877	2,001	124	6.2%	590	45.8%
Commission		1,569	1,685	1,954	1,984	30	1.5%	269	16.0%
Legal		3,365	3,741	3,706	3,617	(89)	-2.5%	(35)	-0.9%
Public Affairs		6,033	7,112	7,993	8,308	315	3.8%	881	12.4%
Human Resources		7,001	8,418	9,566	9,689	123	1.3%	1,149	13.6%
Labor Relations		1,268	1,678	1,222	1,371	149	10.9%	(456)	-27.2%
Internal Audit		1,455	1,603	1,750	1,828	78	4.3%	147	9.2%
Accounting & Financial Reporting Services		6,550	6,751	7,929	8,148	218	2.7%	1,179	17.5%
Information & Communication Technology		20,158	21,633	23,483	23,308	(175)	-0.8%	1,850	8.5%
Finance & Budget		4,810	4,998	5,793	5,828	36	0.6%	795	15.9%
Maritime Finance		1,212	1,229	1,478	1,478	-	0.0%	249	20.2%
Seaport Finance		811	737	878	878	-	0.0%	142	19.2%
Environmental Finance		401	492	600	600	-	0.0%	107	21.8%
Finance & Budget		1,647	1,871	1,953	1,955	1	0.1%	82	4.4%
Aviation Finance & Budget		1,950	1,897	2,361	2,395	34	1.4%	464	24.5%
Business Intelligence		1,004	1,211	1,485	1,543	58	3.7%	274	22.7%
Risk Services		3,202	3,077	3,289	3,322	33	1.0%	212	6.9%
Office of Strategic Initiatives		1,393	1,882	1,981	2,265	284	12.5%	99	5.3%
Central Procurement Office		6,963	3,861	4,261	4,511	250	5.5%	401	10.4%
Security and Preparedness		1,420	1,754	2,329	2,394	65	2.7%	574	32.7%
Contingency		369	381	100	250	150	60.0%	(281)	-73.7%
Core Central Support Services		**69,196**	**71,071**	**78,720**	**80,367**	**1,647**	**2.0%**	**7,648**	**10.8%**
Police		23,045	22,095	26,955	27,065	110	0.4%	4,860	22.0%
Total Before Cap Dev & Environment		**92,241**	**93,166**	**105,674**	**107,432**	**1,757**	**1.6%**	**12,508**	**13.4%**
Capital Development									
Engineering		4,493	5,284	7,248	7,841	592	7.6%	1,964	37.2%
Port Construction Services		3,488	3,709	4,981	5,685	705	12.4%	1,271	34.3%
Aviation PMG		2,823	6,942	6,933	10,977	4,044	36.8%	(9)	-0.1%
Seaport PMG		999	1,007	1,288	1,178	(110)	-9.3%	281	27.9%
Capital Development Admin		416	428	607	607	-	0.0%	180	41.9%
Sub-Total		12,218	17,370	21,058	26,289	5,231	19.9%	3,688	21.2%
Environment & Sustainability									
Aviation Environmental		5,857	3,779	5,793	6,503	710	10.9%	2,014	53.3%
Maritime Environmental & Planning		2,098	2,157	2,796	3,046	250	8.2%	639	29.6%
Noise Programs		722	670	800	742	(58)	-7.8%	130	19.4%
Environment & Sustainability		148	368	1,096	1,214	118	9.7%	728	197.5%
Sub-Total		8,824	6,975	10,486	11,504	1,019	8.9%	3,511	50.3%
Total Expenses		**113,284**	**117,511**	**137,218**	**145,225**	**8,008**	**5.5%**	**19,707**	**16.8%**

2018 Forecast vs. 2018 Budget

- Operating Expenses are forecasted to be $8.0M under budget due primarily to:
  - **Executive –** favorable variance is due to the Executive Director's position being vacant for a month and a part time position remains unfilled; less travel and downgrading of a membership.
  - **Commission** – favorable variance is due to a vacant position which has been filled.

- **Legal** – unfavorable variance is due to Legal Expenses.
- **Public Affairs** – favorable variance is due to three vacant positions, lower Outside Services, Promotional Hosting and General Expenses.
- **Human Resources** – favorable variance is due to several vacant positions which will be somewhat offset by unbudgeted recruiting expenses for the Sr. Director position.
- **Labor Relations** – favorable variance is due to two vacant positions which one has been filled and credit received for a litigation reserve.
- **Internal Audit** – favorable variance is due to a vacant position which has been filled.
- **Accounting and Financial Reporting Services –** favorable variance is due to 3 vacant positions and credit card rebates. The savings in Salaries and Benefits have been used to cover retro-active pay for positions recently converted to Non-Exempt and to backfilled a vacant position with a temporary employee.
- **Information & Communication Technology** – unfavorable variance is due to unbudgeted pay increases associated with the recent job refresh.
- **Finance & Budget** – favorable variance is due to vacant positions.
- **Business Intelligence** – favorable variance is due to a vacant position.
- **Risk Services** – anticipates property insurance renewal and broker fees being lower.
- **Office of Strategic Initiative –** favorable variance is due to two vacant positions.
- **Central Procurement Office** – favorable variance is due to vacant positions.
- **Security and Preparedness** – favorable variance is due to a vacant position.
- **Contingency** – plans on spending less than what was anticipated at budget.
- **Police –** favorable variance is due to vacant positions and savings in Travel and Other Related Expenses.
- **Capital Development –** favorable variance in Outside Services is due to hiring fewer contractors than budgeted, delayed projects and change in design and scope of the South Satellite project**.**
- **Environment & Sustainability –** favorable variance is due to vacant positions and savings in Outside Services due to delayed in SAMP, Energy & Sustainability fund and Forterra Assessment Plan.

<u>2018 Forecast vs. 2017 Actuals</u>

- Operating Expenses are forecasted to be $19.7M higher than 2017 actuals mainly due to:
  - **Capital Development** – forecast $3.7M above 2017 mainly due to the following:
    - More project-related expense to support the operating divisions.
    - Office-moving expense/office rent in 2018.
  - **Police** – forecast $4.9M above 2017 due to the following:
    - Added 3 K-9 Handlers in mid-2017 (and the 2018 number reflects the full-year costs).
    - Lower payroll costs resulted from a number of vacant positions in 2017, including the vacant Police Chief/Deputy Chief positions for several months.
    - Adding 12 Police Officers requested by the airlines in 2018.
    - More overtime in the first quarter of 2018.
  - **Environment & Sustainability** – forecast $3.5M over 2017 due to the following:
    - SAMP Environmental Review expense is $1.7M for 2018 compared only $169K spent in 2017 (even though we budgeted for $2.3M for 2017).
    - ACE fund, Energy & Sustainability fund, and Forterra Assessment Plan total to be $600K for 2018 while we spent very little last year.
    - Added 3 new FTEs in the 2018 Environment & Sustainability budget.
    - Added $175K for Aviation Biofuel Partnership Fund Development Project in the 2018 budget.
    - Added $140K for terminals/facilities waste audits and reports for Maritime ENV in the 2018 budget.
    - Included $110K for emission inventory update and three ports Salish Sea water initiative in the 2018 budget.

D. CAPITAL RESULTS

$ in 000's	2018 YTD Actual	2018 Forecast	2018 Budget	Budget Variance $	%
Infrastructure - Small Cap	210	1,500	1,500	0	0.0%
Services Tech - Small Cap	110	1,150	1,150	0	0.0%
Project Cost Mgmt System	221	600	600	0	0.0%
Supplier Database System	137	487	450	(37)	-8.2%
Corporate Firewall	26	922	922	0	0.0%
PeopleSoft Financials Upgrade	566	1,866	3,100	1,234	39.8%
Radio System Upgrade	7	7,800	12,000	4,200	35.0%
Police Records Mgmt System	0	200	700	500	71.4%
CDD Fleet Replacement	172	1,040	1,210	170	14.0%
Corporate Fleet Replacement	45	1,180	1,180	0	0.0%
Other (note 1)	129	929	1,526	597	39.1%
TOTAL	**1,623**	**17,674**	**24,338**	**6,664**	**27.4%**

Note:
(1) "Other" includes remaining ICT projects and small capital projects/acquistions.