

Item No. 7c

Meeting Date: November 13, 2018

Draft Plan of Finance 2019-2023 and Tax Levy Briefing

November 13, 2018



Topics

- Draft Plan of Finance
- Capital Planning and Funding: Airport
- Capital Planning and Funding: Non-Airport
- Tax Levy Background and 2018 Update



DRAFT PLAN OF FINANCE 2019-2023

The Draft Plan of Finance

- Provided to the Commission to inform the budget process and capital investment decisions
- Developed based on a sustainable financial model
 - Carefully vetted business forecasting
 - Financial targets that allow the Port to withstand downside risk and maintain strong access to financial markets
 - Debt service coverage (revenue cash flow available to pay debt service)
 - Minimum operating fund balances

Airport and Non-Airport Capital Are Funded Separately

- Airport

- Relies on its own operating cash flow from airline cost recovery and non-aeronautical businesses
- Unique funding sources:
 - Airport grants
 - Passenger Facility Charge (PFC)
 - Customer Facility Charge (CFC)
- Cost Per Enplaned Passenger (CPE) is a critical affordability metric

- Non-Airport

- Includes Northwest Seaport Alliance (NWSA), Maritime and Economic Development
- Relies on a combination of
 - Operating cash flow
 - Tax levy after payment of other tax levy uses

Debt is an Important Funding Tool

- Types of Debt

- Operating cash flow can be used to support revenue bond debt
- Tax levy can be used to support General Obligation (G.O) bond debt

- Use of Debt

- Provides near-term funding capacity with long-term repayment
- Appropriate for long-term investments

- Debt Management

- Financial targets and metrics provide guard rails against over leverage
 - Debt service coverage targets for revenue bonds
 - Airport: 1.25x
 - Non-airport: 1.50x (under review)
 - Maximum tax levy leverage of 75%
 - Minimum operating fund balances – averaging 9 months of operating expense
 - Cost Per Enplanement (CPE)

CAPITAL PLANNING AND FUNDING AIRPORT

Airport Capital Funding

The Airport is self-funding and is prohibited from supporting the Port's non-Airport businesses due to FAA regulations

<u>Airport CIP</u>	<u>2019-2023</u> <u>(\$ million)</u>
International Arrivals Facility	\$ 539.1
North Satellite Terminal	419.5
Baggage Optimization	260.0
Other Existing Projects	863.9
Proposed New Projects	71.8
SAMP Planning/Design ⁽¹⁾	250.8
Capital Allowance	295.0
TOTAL	\$ 2,700.1
(1) Sustainable Airport Master Plan	

- The costs of aeronautical investments that support the airlines are recovered through airline fees – much of the Airport's \$2.7 billion CIP is aeronautical
- The costs of non-aeronautical investments like parking and dining and retail are paid from Airport operating cash flows
- The tax levy does not directly support the Airport, but does provide noise mitigation funding for the Highline School District (security enhancements for the City of SeaTac is a non-capital use of the tax levy)

Airport Capital Funding

	2019-2023 (\$ million)
Aviation Funding Sources	
Operating Cash Flow	\$ 457.0
Tax levy ⁽¹⁾	2.1
Grants	130.6
Passenger Facility Charge (PFC)	119.2
Customer Facility Charge (CFC)	11.6
Existing revenue bond proceeds	529.6
Future bond proceeds	1,497.1
TOTAL	\$ 2,747.3
Aviation CIP	2,700.1
Allocated Central Services CIP ⁽²⁾	47.2
Total Aviation Funded CIP	\$ 2,747.3
<small>(1) Highline Schools noise insulation.</small>	
<small>(2) Assumes funding with Operating Cash Flow only</small>	
<small>Note: totals may not add due to rounding</small>	

- Operating revenues generated at the Airport and revenue supported bonds pay 90% of Airport Capital cost
- Grants, PFCs and CFCs pay the rest
- A small amount of the tax levy is used to support the Highline schools and the City of SeaTac is not used directly by the Airport

Operating Cash Flow = Income after payment of revenue bond debt service. Includes certain non-operating cash flows.

CAPITAL PLANNING AND FUNDING NON-AIRPORT

Background

- Port's non-Airport businesses include
 - Maritime
 - Economic Development (EDD)
 - Port's share of the Northwest Seaport Alliance (NWSA)
- These businesses share funding from
 - Non-Airport cash flow (after payment of revenue bond debt service)
 - Available tax levy funds
 - Bonds paid from net cash flows and the tax levy

Non-Airport Capital Funding Plan

Non-Airport Funding Sources	2019-2023 (\$ million)
Operating Funds ⁽¹⁾	\$ 71.9
Operating Cash Flow	94.8
Grants	3.7
Tax levy (assumes recommended 3% annual increase) ⁽²⁾	85.7
Harbor Development Fund	65.9
Future revenue bond proceeds (2023)	75.2
Future G.O. bond proceeds	277.0
TOTAL	\$ 674.1
⁽¹⁾ Includes environmental settlement proceeds.	
⁽²⁾ 3% annual increase for five year forecast period (2019-2023)	
Note: totals may not add due to rounding	

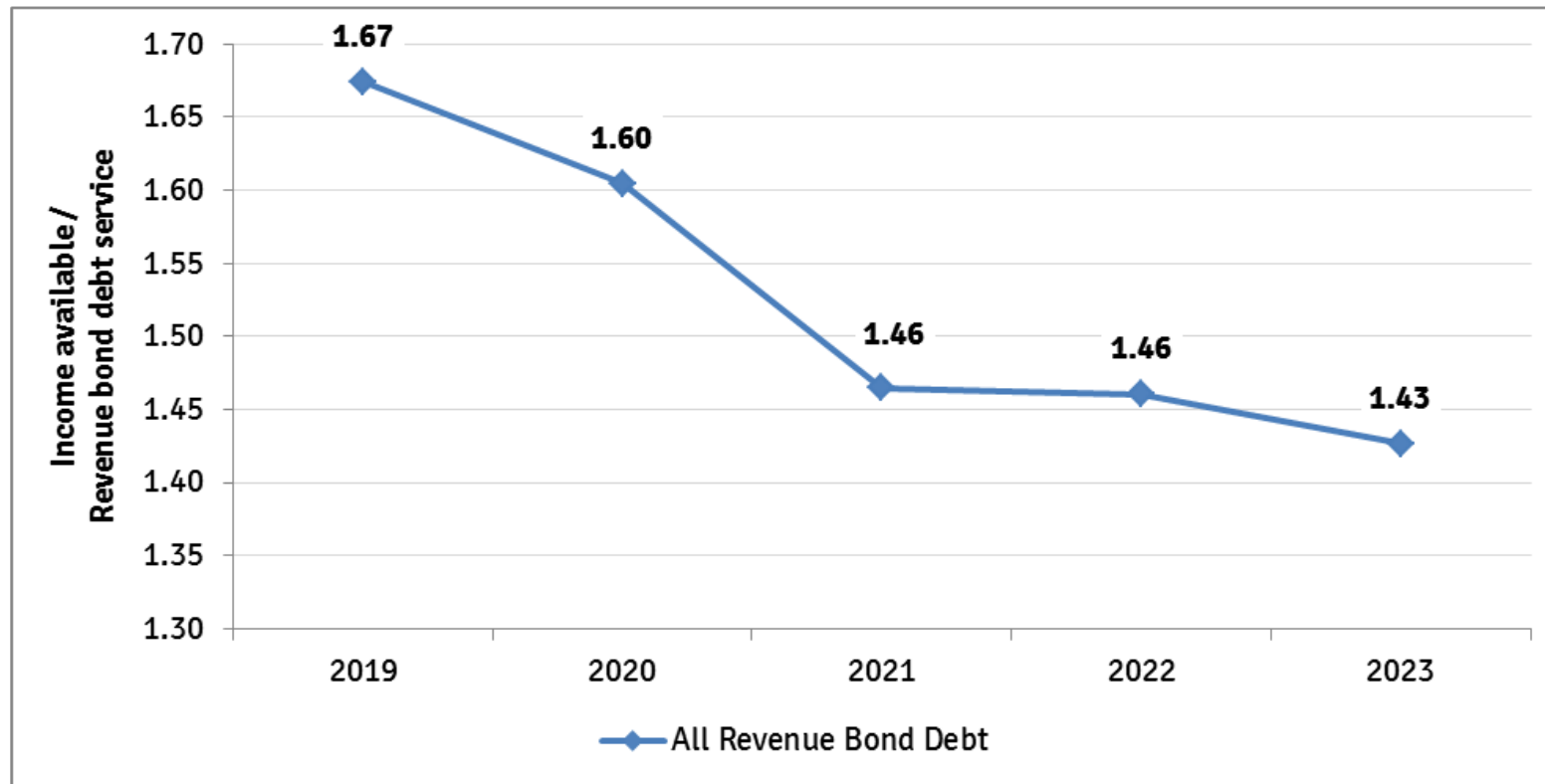
Operating Cash Flow = Income after payment of revenue bond debt service.
Includes certain non-operating cash flows.

Non-Airport Capital Improvement Plan (CIP)

	2019-2023 (\$ million)
Non-Airport CIP	
Maritime & EDD CIP	\$ 348.5
NWSA - 50% Share (North & South Harbor)	215.5
NWSA - Contingency & Port Projects ⁽¹⁾	57.7
Strategic Reserve	50.0
TOTAL	\$ 671.7
Allocated Central Services CIP ⁽²⁾	10.9
Total Non-Airport Funded CIP	\$ 682.7
Estimated Funding Shortfall	(8.5)
(1) Includes North Harbor channel deepening and other 100% Port legacy costs.	
(2) Assumes funding with Operating Funds/Cash Flow only.	
Note: totals may not add due to rounding	

Port-wide Revenue Bond Debt Service Coverage Forecast

- Represents net income divided by annual revenue bond debt service (principal and interest)
- Provides a measure of financial sustainability and is critical to investors and rating agencies
- Coverage is primarily driven by the Airport debt service coverage which is targeted at 1.25X



2019 Finance Initiatives

- Issue Revenue bonds as needed to fund a portion of the Airport CIP
- Monitor existing debt for opportunities to refund at lower costs
- Develop and support Public Private Partnership (P3) strategies for appropriate projects



TAX LEVY BACKGROUND AND 2018 UPDATE

Tax Levy

- Washington State ports are permitted to levy a tax on property within the port's district
- The levy amount must be approved by the Port Commission and is part of the annual budget process
- The Port may approve a levy amount up to the maximum allowable within statutory limits
 - The maximum levy for 2019 is \$104 million
 - The current levy is \$72 million

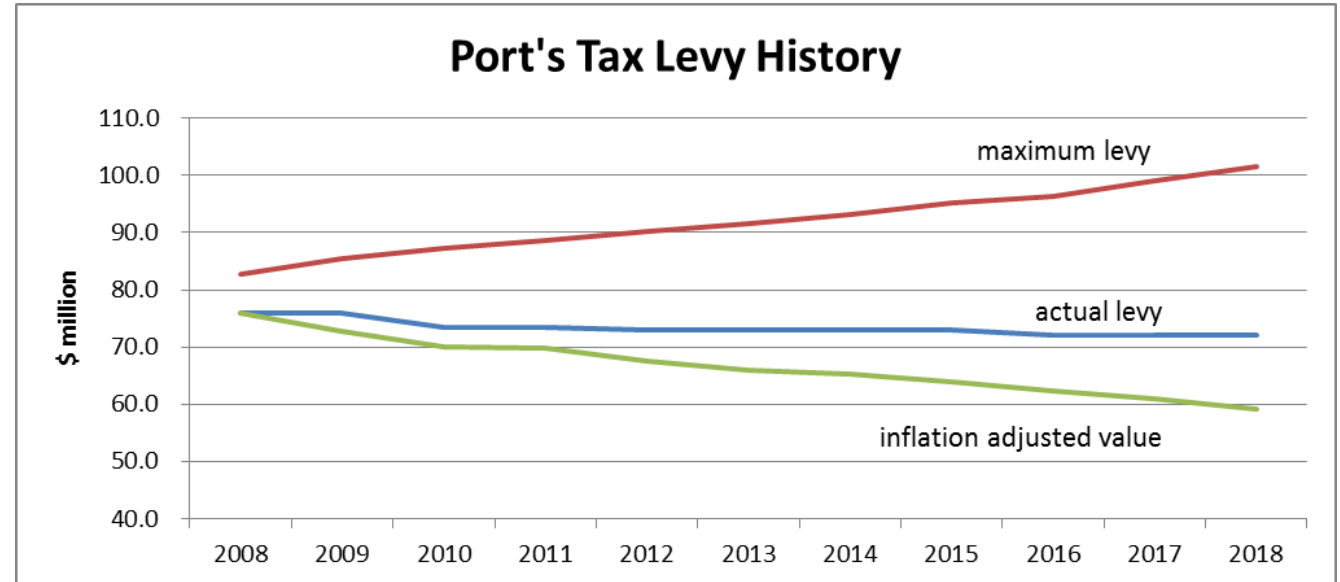
Tax levy uses

- Investments in maritime infrastructure
- Environmental sustainability
- Regional transportation mobility
- Community: workforce development, security, local grants



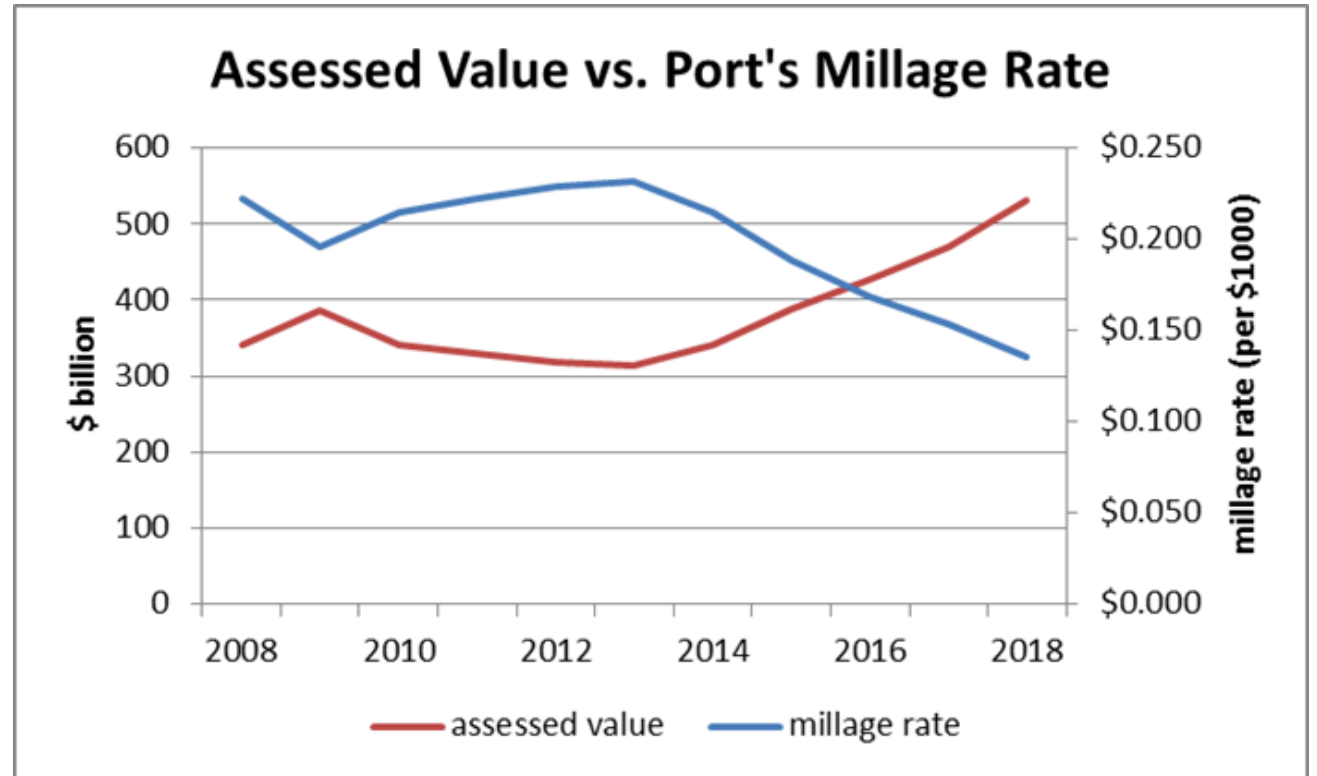
Tax Levy History Since 2008

- 2018 tax levy is \$72 million
 - Due to inflation, since 2008, the real dollar value of the tax levy is worth \$59 million
 - Previous levy decreases and inflation have reduced purchasing power since 2008 by \$100 million
 - Local inflation in 2017 was 3% and has averaged 2% over the past 10 years



King County Homeowners

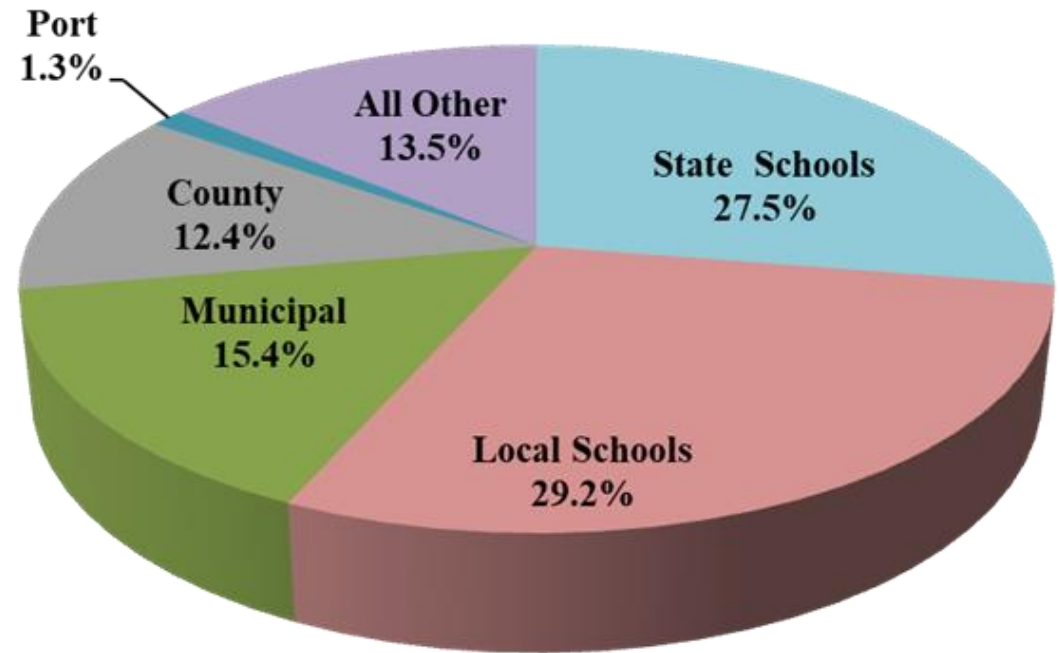
- Homeowners pay based on the value of their property
- 2018 tax was 13.5 cents per \$1000 of assessed value
- The median homeowner* paid an estimated \$69 to the Port in 2018



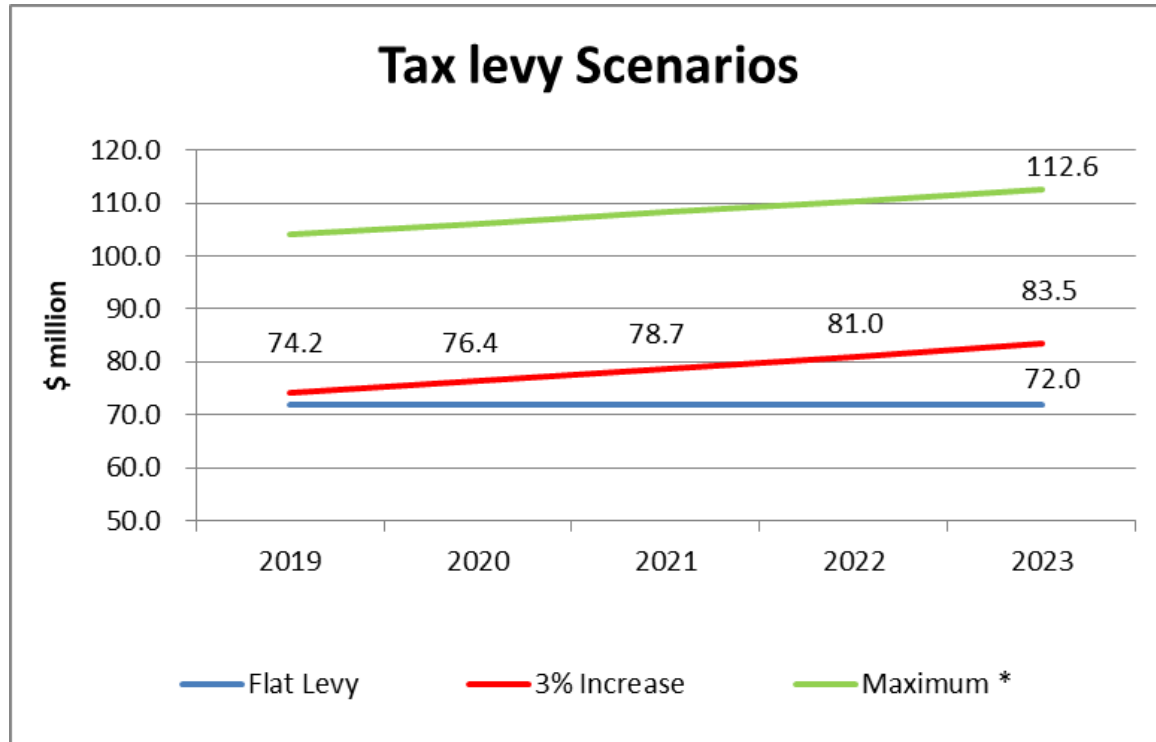
* Per King County, median residence assessment for 2018 is \$509,000

Overall Taxpayer Impact - 2018

- In 2018, the median homeowner paid \$5,925 in total property tax with **\$69 going to the Port**
- Of the \$5.6 billion of property taxes paid in King County, just over 1% goes to the Port



Port Taxpayer Impact



* Projected based on historical increases to maximum levy amount

	Levy Amount (\$ M)	Millage Rate (per \$1000)	Median Taxpayer Cost
2018 (1)	72.0	\$0.1352	\$ 68.82
2019 (2)			
flat levy	72.0	\$0.1196	\$ 68.17
3% increase	74.2	\$0.1232	\$ 70.21

(1) per King County, the median home value was \$509,000

(2) based on (1), median home value in 2019 is estimated to be \$570,000

- 3% increase to the tax levy amount will add \$1.39 to the median home owner's tax in 2019 compared to 2018.
- If there is no change to King County assessed value, that tax payer would pay an estimated \$79 (a \$10 increase) in 2023.

2018 Tax Levy Update

(\$ million)

SOURCES OF TAX LEVY FUNDS

2018 Beginning Levy Fund Balance	
Annual Tax Levy	
Environmental Grants & Other Reimbursements	
Investment Income	
Total Sources	

2018	
\$	81.1
	72.0
	6.1
	1.4
\$	160.7

USES OF TAX LEVY FUNDS

G.O. bond debt service (Existing)	
Environmental Remediation Expense	
Community Programs	
Transportation and Infrastructure Fund Deposit	
Non-Airport Capital Investments	
Total Uses	

\$	43.4
	5.0
	6.5
	30.0
	29.4
\$	114.4

Projected Ending 2018 Levy Fund Balance

\$	46.3
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- Estimate \$46 million of levy available for future funding
- In addition to the tax levy Commission established
 - Harbor Development fund for T-5 redevelopment – \$66 million available
 - Transportation Infrastructure fund paid for \$6 million in regional mobility efforts in 2018
 - \$30 million of funding for SR 509 Gateway MOU added

2019-2023 Tax Levy Uses – Non Capital Investments

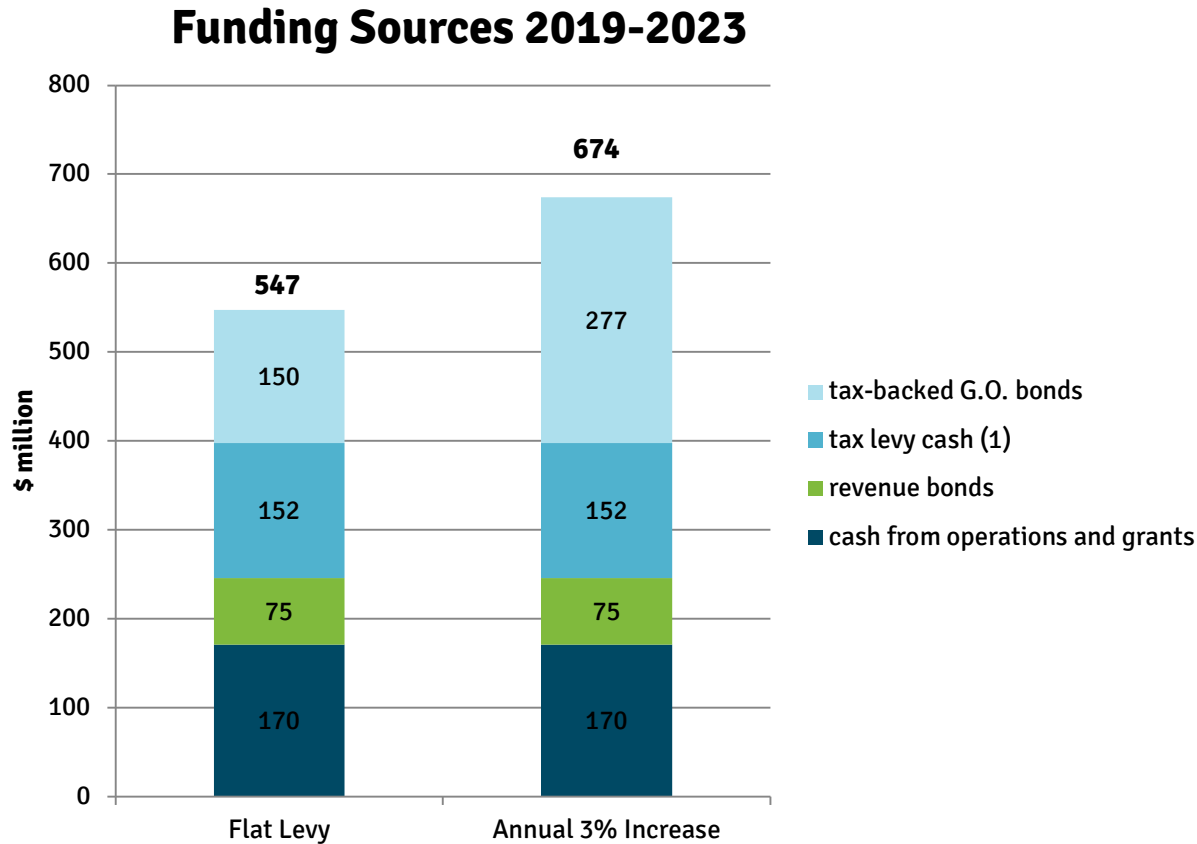
(\$ million)	2019-2023
G.O. bond debt service (Existing)	\$ 200.5
G.O. bond debt service (New)	78.7
Non-Airport Environmental Expense	75.9
Economic Development Programs	14.0
Environmental Grants (ACE) and Energy and Sustainability	1.5
Highline Schools NOISE Projects	2.1
City of SeaTac Security Enhancements	7.0
Local Community Advertising Program (Spotlight)	1.8
TOTAL NON-CAPITAL TAX LEVY USES	\$ 381.5

- G.O. Bond Debt Service - \$279M
- Environmental Remediation and Improvements
- Port Community Programs
 - Workforce development
 - Highline schools noise mitigation (capital)
 - City of Seatac safety
 - Economic Development grants

In addition, the Port expects to support \$30 million of regional transportation projects from the Transportation & Infrastructure Fund (funded with tax levy dollars)

Levy dollars above this total are available for new capital investments

Tax Levy Options – Staff Recommends a 3% Annual Increase to the Tax Levy Amount



(1) Includes the Harbor Development Fund

- A flat \$72 million tax levy over the next five years does not provide sufficient funding for the recommended CIP
- By increasing the amount of the tax levy each year for the next five years, the Port can add capacity and keep up with King County consumer inflation
- Total funding capacity increases \$127 million
 - Additional capacity all from G.O. bonds

ADDITIONAL INFORMATION

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Port's Taxing Authority

Port taxing limitations: Port is limited by the most restrictive – currently the 1% limit

- **1% limit**

- The maximum levy is increased each year by the 1% limit factor
- Based on prior year's maximum
- Increased by the lessor of 1% or inflation plus an addition for new construction
- The maximum levy for 2019 is estimated to be ~\$104.2 million

- **45 cent limit**

- The amount of the tax levy in any given year is limited to 45 cents per \$1000 of assessed value
 - Port 2019 rate is estimated to be 12.3 cents based on a \$74.2 million levy
- For 2019, this limit is ~\$270.9 million
- Excludes the amount needed to pay G.O. bond debt service of \$43.4 million

2018 Levy Status

SOURCES AND USES OF TAX LEVY

SOURCES (\$ million)

2018 Beginning Fund Balance
Annual Tax Levy
Environmental Grants & Other Reimbursements
Investment Income
Total Sources

<i>2018 Budget</i>	<i>2018 Est./Act</i>	<i>Budget Variance</i>
\$ 69.5	\$ 81.1	\$ 11.7
72.0	72.0	-
2.6	6.1	3.5
-	1.4	1.4
\$ 144.1	\$ 160.7	\$ 16.6

USES (\$ million)

G.O. bond debt service (Existing)
Environmental Remediation Expense
Capital Expenditures - Maritime
Capital Expenditures - EDD
NWSA North Harbor Spending
Transfer to Transportation and Infrastructure Fund
Airport Community Ecology (ACE) Fund
Energy and Sustainability Policy Directives
Workforce Development
Economic Development Partnership Program
Tourism Grants
Local Community Advertising Program
City of SeaTac Security Enhancements
Highline Schools NOISE Projects
Total Uses

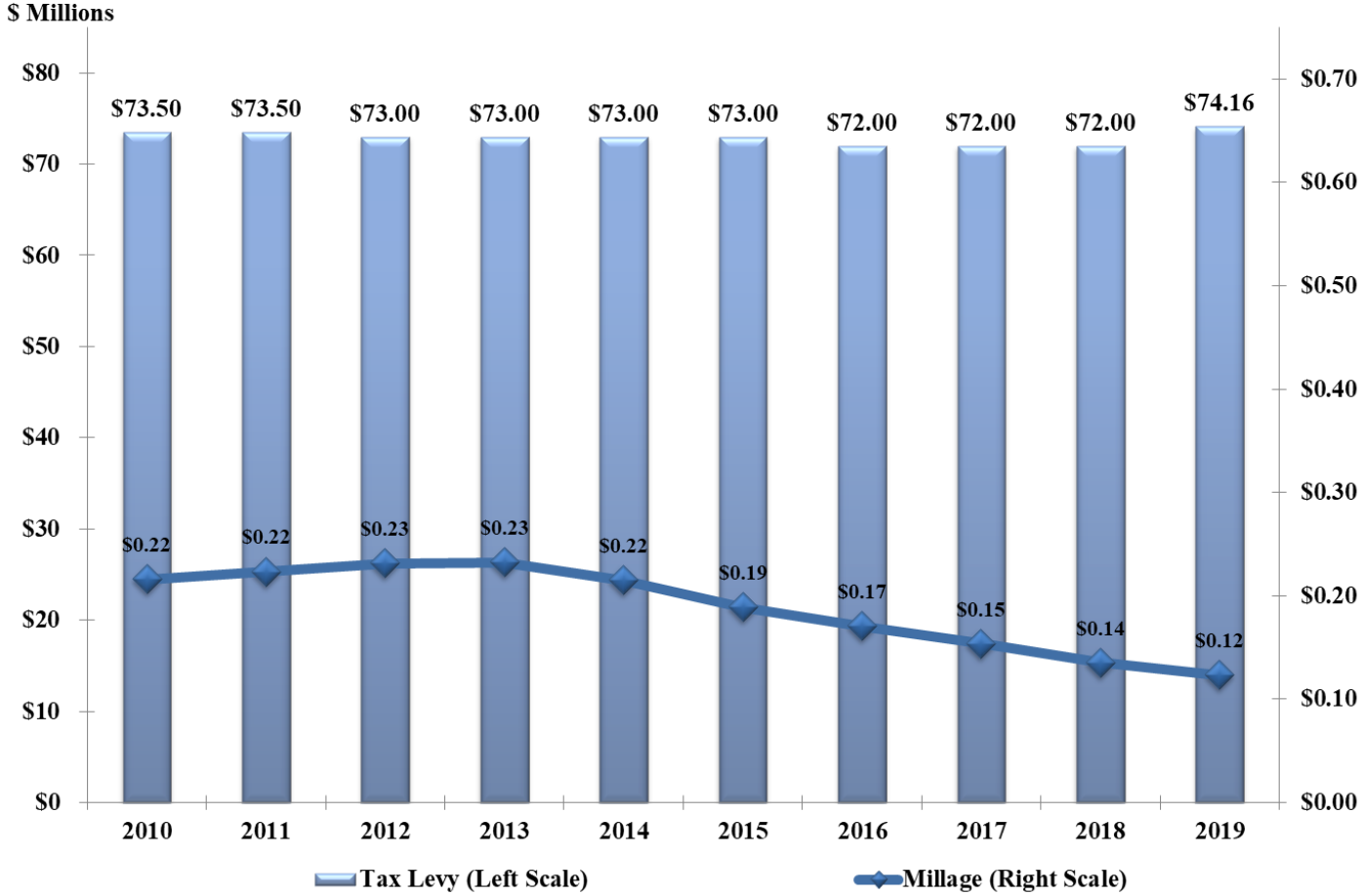
\$ 43.4	\$ 43.4	\$ (0.0)
5.8	5.0	0.8
28.0	22.8	5.2
4.9	1.9	3.0
8.4	4.8	3.6
-	30.0	(30.0)
0.4	0.3	0.1
0.2	0.3	(0.1)
1.6	0.7	0.9
1.0	1.0	0.0
-	0.2	(0.2)
0.5	0.3	0.1
1.4	1.4	-
-	2.4	(2.4)
\$ 95.6	\$ 114.4	\$ (18.8)

Estimated Ending Tax Levy Fund Balance

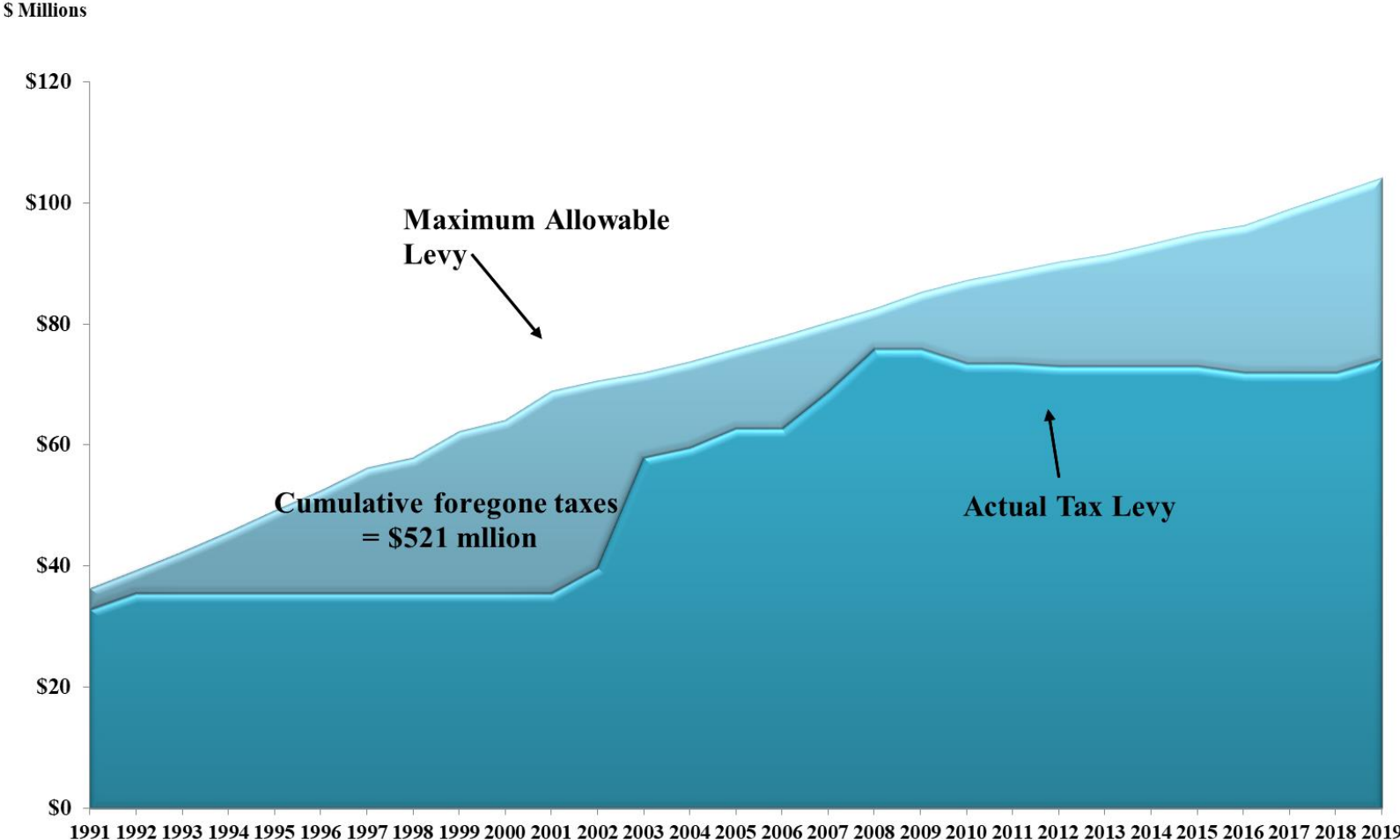
\$ 48.5	\$ 46.3
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Totals may not add due to rounding

2010-2019 Tax Levy & Millage Rate



Actual vs. Maximum Allowable Levy



Transportation and Infrastructure Fund (TIF)

TIF (\$ million)

Beginning Balance	\$ 66.4	\$ 36.3
Transportation Investments	30.1	36.7
Ending Balance	\$ 36.3	\$ (0.4)

<u>Transportation Investments (\$ thousand)</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2019-2023</u>	<u>Post 2023</u>
Seattle Heavy Haul Network	\$ 1,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 9,000	\$ 11,000
Fast Corridor II	250	345	730			1,325	-
N Argo Express Access - Pub Ex	229	-				229	-
East Marginal Way Phase 2	265					265	-
Safe and Swift	10,000	5,000				15,000	-
Highway 509 Contribution	-				4,286	4,286	25,714
TOTAL	\$11,744	\$ 7,345	\$ 2,730	\$ 2,000	\$ 6,286	\$ 30,105	\$ 36,714

Tax Levy Cash Flows Available for Capital

Tax Levy Cash Flow Available for Capital

\$ Million

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>TOTAL</u>
Tax Levy Collections	\$ 74.2	\$ 76.4	\$ 78.7	\$ 81.0	\$ 83.5	\$ 393.7
Environmental Insurance/Grant Receipts	2.1	5.0	15.0	-	5.0	27.1
Total Levy Receipts	\$ 76.2	\$ 81.4	\$ 93.7	\$ 81.0	\$ 88.5	\$ 420.8
G.O Bond Debt Service	\$ 43.4	\$ 57.1	\$ 59.0	\$ 59.8	\$ 59.8	\$ 279.2
Environmental Remediation Expense	6.9	7.1	12.6	16.5	32.8	75.9
Economic Development Programs	2.7	2.7	2.8	2.9	2.9	14.0
Environmental Grants (ACE) and Energy and Sustainability	0.8	0.5	0.3	-	-	1.5
Highline Schools NOISE Projects	1.1	1.0	-	-	-	2.1
City of SeaTac Security Enhancements	1.4	1.4	1.4	1.4	1.4	7.0
Local Community Advertising Program (Spotlight)	0.4	0.4	0.4	0.4	0.4	1.8
Total Non-Capital Tax Levy Uses	\$ 56.6	\$ 70.2	\$ 76.4	\$ 81.0	\$ 97.4	\$ 381.5
Tax Levy Cash Flow Available for Capital	\$ 19.6	\$ 11.2	\$ 17.3	\$ 0.1	\$ (8.9)	\$ 39.3

There is a projected beginning fund balance \$46.3 million that is also available for capital funding

Non-Airport Operating Cash Flow Available for Capital

Cash Flow From Operations Available for Capital

\$ Million

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>TOTAL</u>
Income from NWSA	\$ 48.2	\$ 44.0	\$ 52.9	\$ 58.2	\$ 59.2	\$ 262.6
Maritime net income	9.7	7.4	8.6	13.9	15.3	55.0
EDD net income	(11.1)	(11.7)	(11.2)	(11.5)	(11.7)	(57.3)
Revenue bond debt service and adjustments ⁽¹⁾	(32.3)	(33.5)	(34.5)	(34.3)	(30.3)	(164.9)
TOTAL	\$ 14.6	\$ 6.2	\$ 15.9	\$ 26.2	\$ 32.5	\$ 95.4

(1) Adjustments include certain non-operating revenues and expenses and reimbursements for tax levy funded EDD expenses

Current Credit Ratings

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
General Obligation Bonds	Aaa	AAA	AA-
First Lien Revenue Bonds	Aa2	AA-	AA
Intermediate Lien Revenue Bonds	A1	A+	AA-
Subordinate Lien Revenue Bonds	A2	A+	AA-
Passenger Facility Charge Revenue Bonds	A1	A+	A+
Fuel Hydrant Special Facility Bonds	A1	A	

Noted Credit Strengths:

- Diverse asset and revenue base
- Airport's market position and enplanement levels
- Solid coverage and liquidity levels
- Conservative debt structure
- Strong governance and management
- Long-range strategic and sustainability plans
- Vibrant and resilient area economy

IDD Levy - Background

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

IDD Levy - Implementation

- Port may implement a second round based on a new formula
 - Maximum of \$1.7 billion over a period of up to 20 years
 - Average amount = \$85 million (for 20 years)
 - Maximum annual amount = \$271 million (45 cents for 6 years)
 - Port can establish a smaller IDD or collect a lesser amount, but cannot bank the unused capacity
- Process to implement
 - Publish notice by April 1 to begin collecting the next year
 - If within 90 days a petition of 8% of voters (voting in the most recent gubernatorial election) opposes, the Port must hold a special election to approve the levy

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

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