Port Financial Update

Commission Retreat, June 4, 2020

Overview

- COVID-19 has significantly disrupted major Port business segments:
  - Airline and non-aeronautical activity at SEA
  - Cruise business
- NWSA is also at risk due to economic impacts on trade flows
- Initial financial planning and analysis have focused on 2020 impacts and responses
- Planning horizon is now being extended to 2021 amidst significant uncertainty

April Federal Reserve Minutes Highlight Uncertainty and Risks

In addition to weighing heavily on economic activity in the near term, the economic effects of the pandemic created an extraordinary amount of uncertainty and considerable risks to economic activity in the medium term.

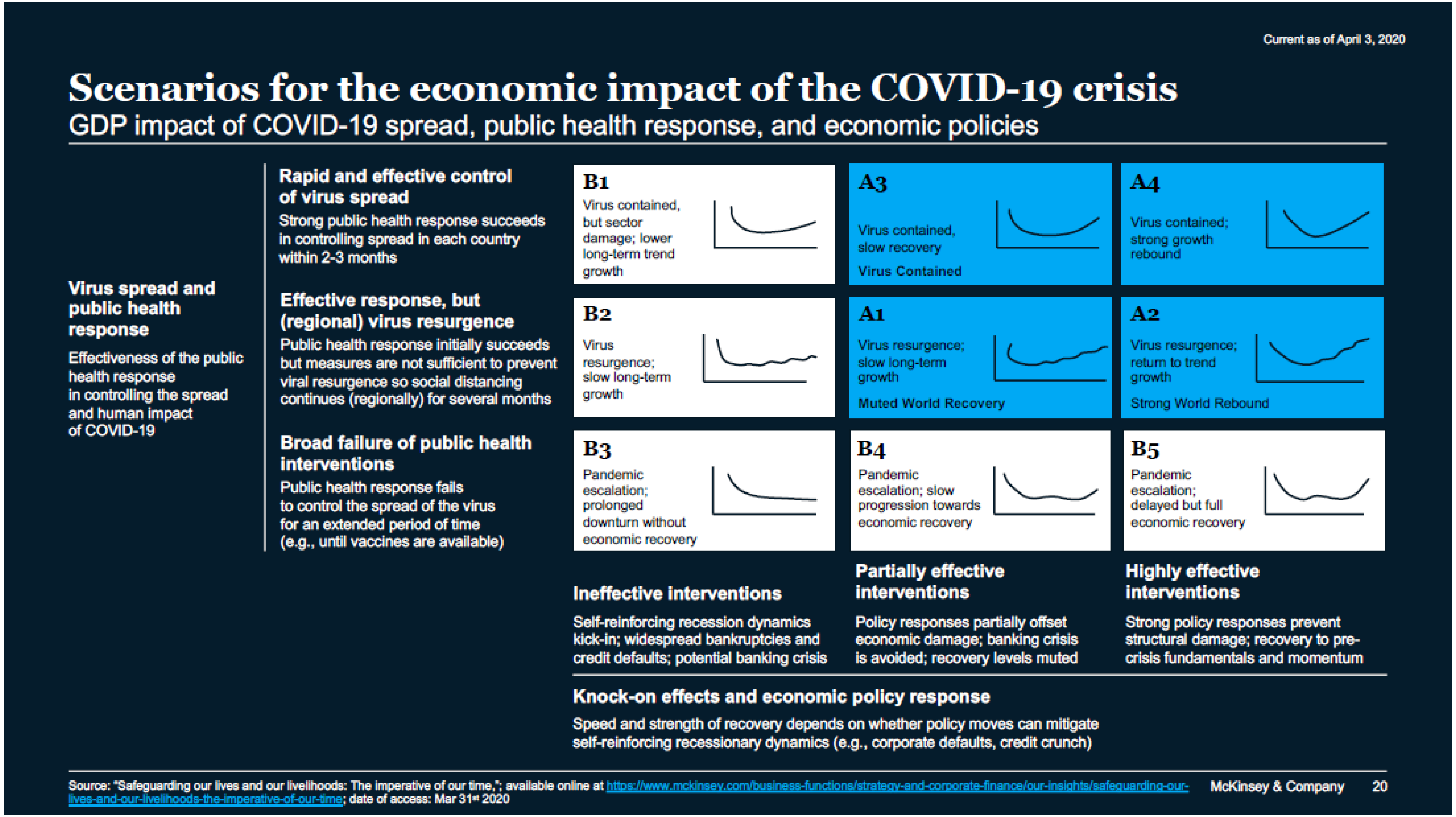
One area of particular concern is what should happen in the event that coronavirus infections should surge later in the year. The minutes noted that the "more pessimistic" outlook for a rebound was probably as likely as the baseline forecast for improvement.

In this scenario, a second wave of the coronavirus outbreak, with another round of strict restrictions on social interactions and business operations, was assumed to begin around year-end, inducing a decrease in real GDP, a jump in the unemployment rate, and renewed downward pressure on inflation next year.

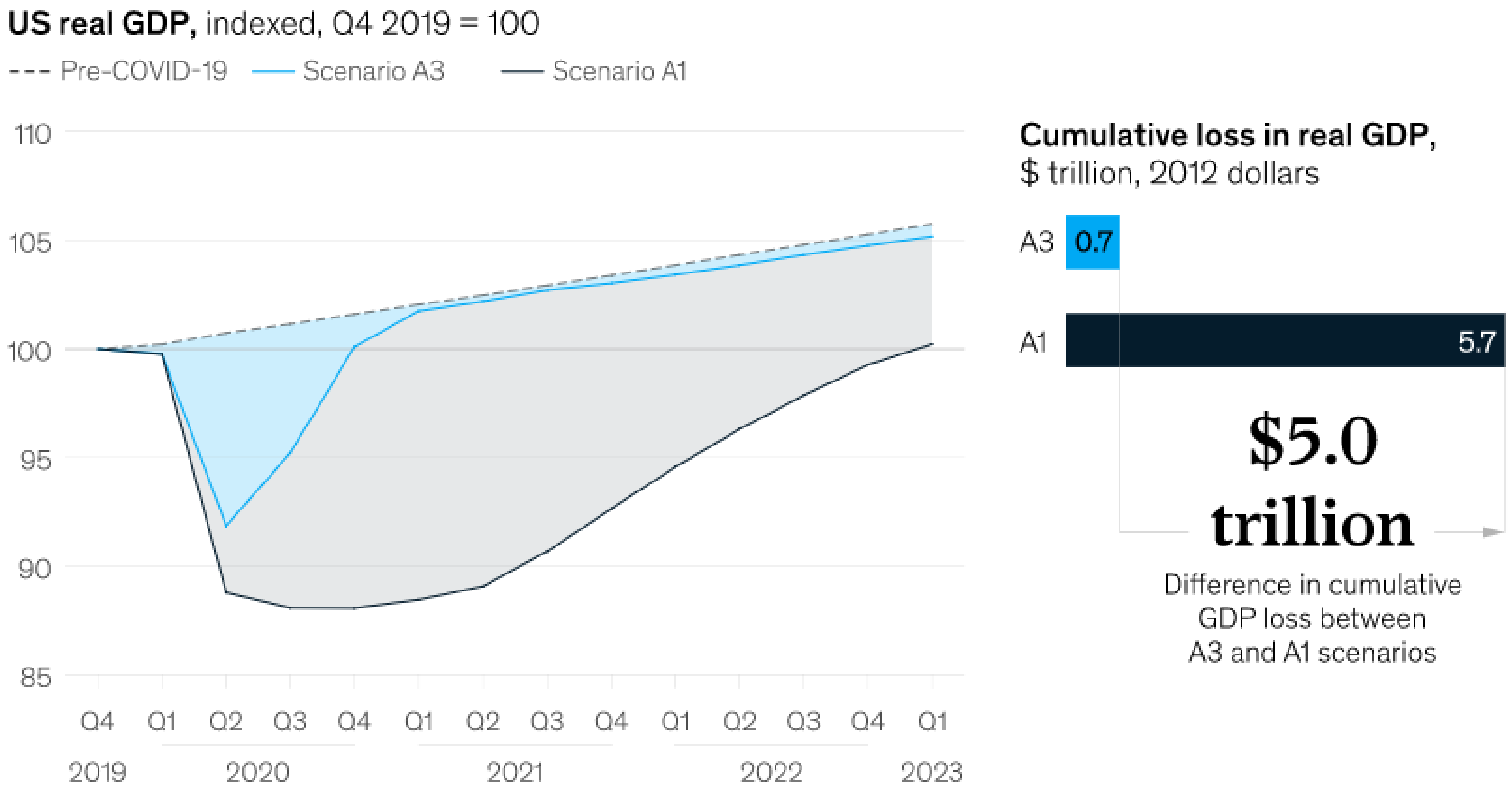
“Make no mistake, we have a long way to go. This virus will be with us for a long time.”

- World Health Organization, April 2020

Range of Recovery Scenarios (McKinsey)



The difference between outcomes is material.



Source: McKinsey analysis in partnership with Oxford Economics

McKinsey & Company

Assessment of Port Businesses Based on Primary Risk Impacts

	Virus	Economy	
Aeronautical businesses	Significant	Moderate	Aeronautical cost recovery provides some long-term protection to Port revenues; Airlines average 9-11 months liquidity to manage economic downturn; significant downsizing expected along with potential bankruptcies
Non-aeronautical businesses	Significant	High	Small businesses are particularly vulnerable
Cargo	Limited	High	Underlying competitive risks remain
Cruise	Significant	Moderate	Historically recession resistant
Conference Center	High	Moderate	Low margin business with variable cost structure
Other	Varies	Moderate	Varies depending on type of business

Planning Scenarios

- Staff has prepared three scenarios with ranges of potential outcomes. All are reasonably possible

Aviation

- Baseline – assumes enplanement recovery begins later this year, 2021 still weak but significantly better than 2020
- Scenario 2 – assumes that gradual enplanement recovery begins in early 2021
- Scenario 3 – assumes enplanement weakness well into 2021, then a gradual recovery begins

Non-Aviation

- Scenarios vary full-year reductions in revenues versus 2020 budget forecasts
- There are other scenarios that could be better or worse; these provide a reasonable range to inform decisions
- Scenarios include assumptions about Airport traffic, cruise activity, NWSA performance, stresses on other non-Airport businesses

Key Financial Metrics

- Long standing policies designed to provide resilience in the face of temporary adverse conditions:
  - Minimum Target Operating Fund Balances
    - Airport Development Fund – 10 months of O&M expense
    - General Fund – 6 months of O&M expense
  - Revenue Bond Debt Service Coverage (annual net income/debt service)
    - Airport – 1.25x
    - Non-Airport Businesses – 1.8 x
  - Tax Levy has no specific minimum balance
- Port-wide debt service coverage requirement is also included in bond covenants and is evaluated by credit rating agencies

Pre-Covid Financial Metrics Scorecard

	2019 Year End	2019 Target	Result
Ending Airport Fund Balance	$307M	$314M	Met
Airport Coverage	1.68x	1.25x	Exceeded
Ending Non-Airport Fund Balance	$156M	$45M	Exceeded; 3.5x
Non-Airport Coverage	1.33x	1.8x	Not met

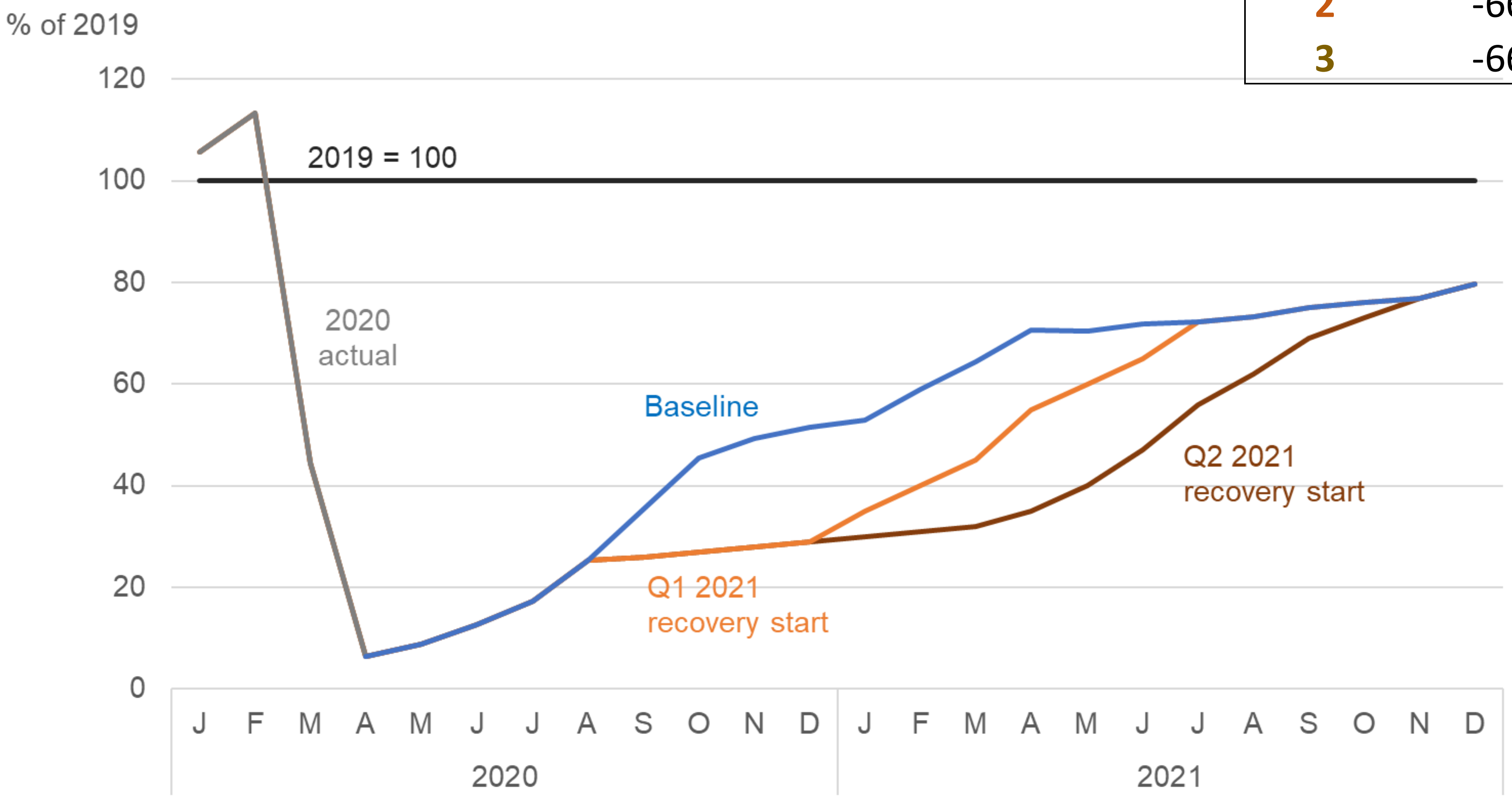
- Airport coverage supported overall Port-wide coverage
- Non-airport fund balance provides liquidity for debt service despite low coverage

Aviation Division

Projected Enplanement Scenarios

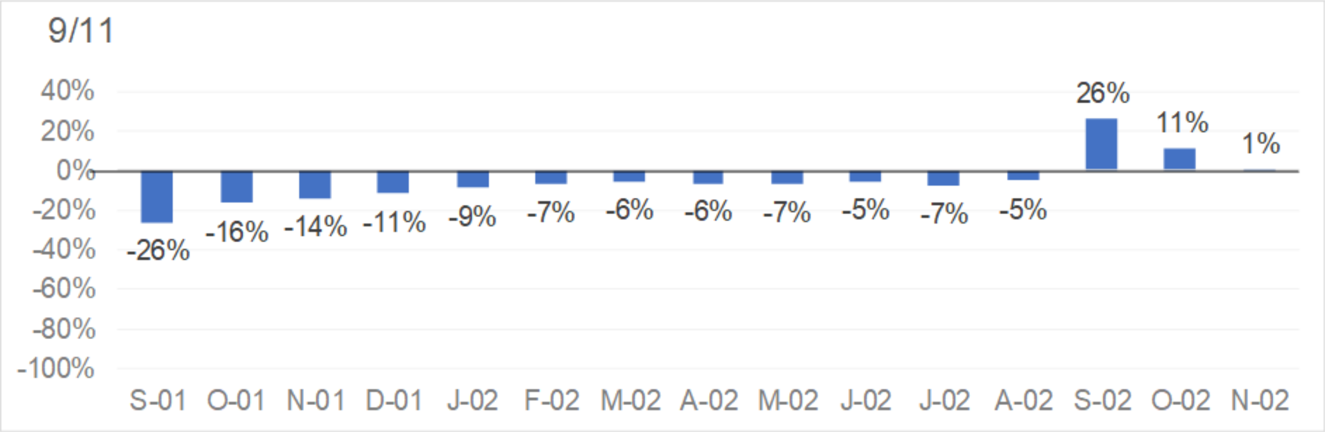
Monthly Comparison to 2019 Levels

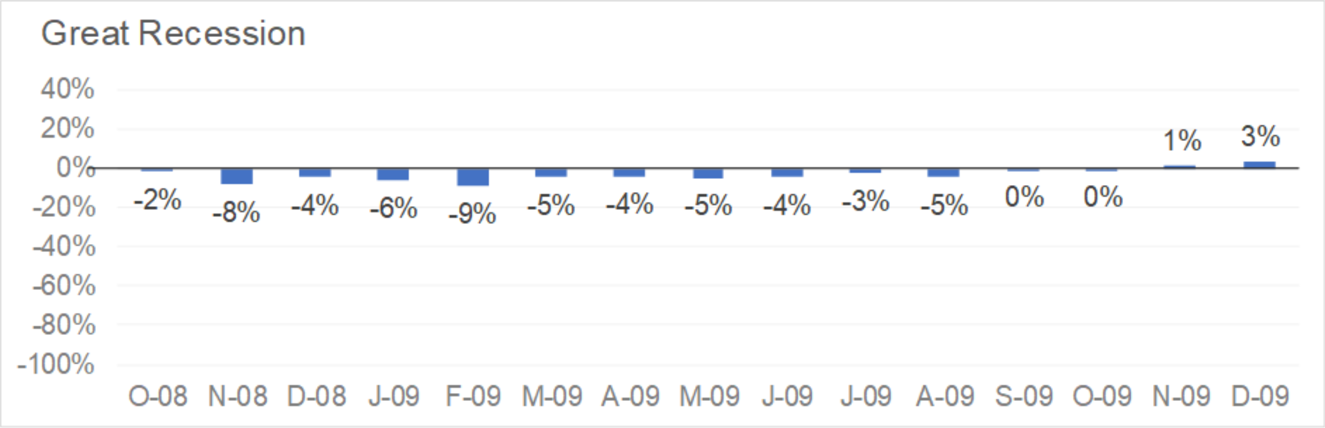
Compared to 2019		
Scenario	2020	2021
Baseline	-61%	-30%
2	-66%	-36%
3	-66%	-46%

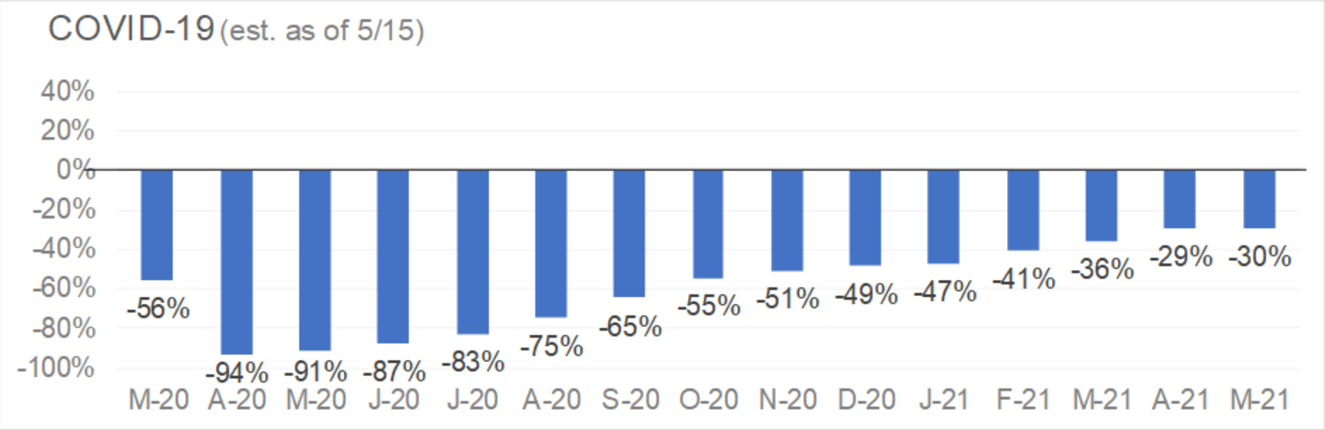


Current Passenger Decline much greater than 9/11/2001 and 2008/9 Great Recession

- 4-year recovery after 9/11
- 3-year recovery after 2008 Great Recession
- Recovery after Covid-19 uncertain, but likely 3-5 years
- Airlines have indicated they will emerge smaller from Covid-19







Airport Financial Objectives for 2020-21

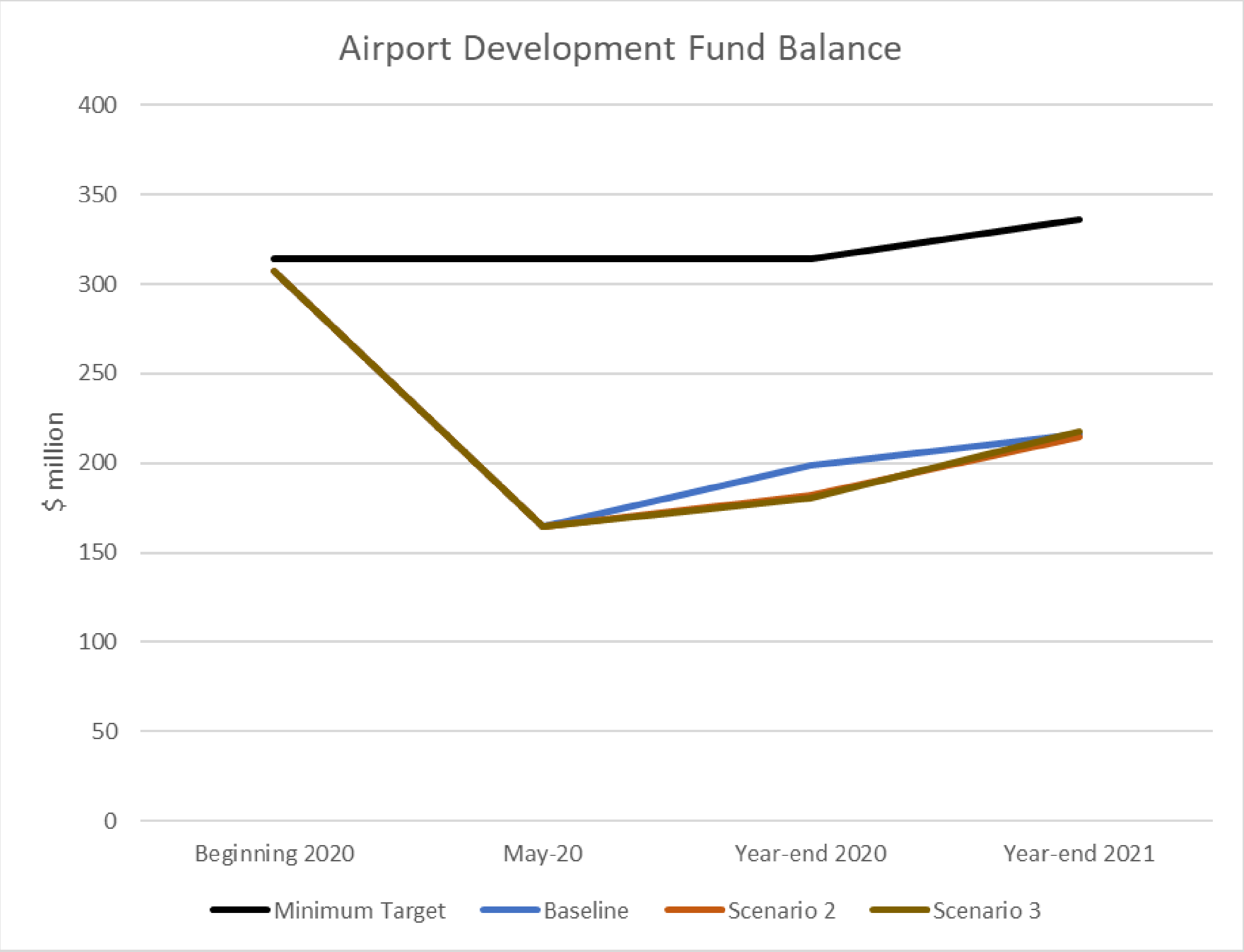
- Cash flow – maintain debt service coverage > 1.25x to avoid debt service surcharge to airlines
- Liquidity – Rebuild ADF target balance of 10 months of O&M (likely need more going forward)
- Minimize airline annual deficit for 2020 (airlines seek zero)
- Moderate growth of airline costs in 2021 (airlines seek flat rates)
- Support non-airline tenants and customers
- Optimize TSA, FEMA and CARES Act grant reimbursements
- CPE likely <u>not</u> an important consideration during recovery

Summary of Financial Scenarios

in $000s	2020 Budget	BASE case 2020	BASE case 2021	Scenario 2 2020	Scenario 2 2021	Scenario 3 2020	Scenario 3 2021
Aero revenues	401,340	318,312	424,268	319,747	425,259	321,976	429,323
Aero debt service coverage				14,179	19,097	13,904	46,503
Non aero revenues	283,167	113,650	187,010	100,873	171,902	100,873	149,370
Total operating revenues	684,507	431,962	611,278	434,800	616,258	436,754	625,196
Operating expense	377,306	348,826	339,555	348,826	339,555	348,826	339,555
Net operating income	307,201	83,136	271,723	85,973	276,703	87,927	285,641
CARES grant non-operating	-	173,133	19,000	173,133	19,000	173,133	19,000
Net operating income after CARES	307,201	256,269	290,723	259,107	295,703	261,061	304,641
Airline surplus/(deficit) at year end		(44,869)		(65,415)		(66,935)	
Debt service coverage		1.29	1.27	1.25	1.25	1.25	1.25
CPE	$ 13.23	$ 28.63	$ 21.74	$ 35.37	$ 25.10	$ 35.57	$ 32.23

- CARES grant critical for maintaining debt service coverage, moderating airline costs and airline deficit in 2020
- Non-aeronautical revenues decline 60% in base case, tracking closely the reduction in passengers
- Assumes 2021 O&M budget is 10% lower than 2020 approved budget (modeling assumption)
- 2021 Aero revenues increase due to increasing capital costs (primarily debt service).
    - Scenarios 2 and 3 require charging airlines for debt service coverage in rate base to achieve 1.25x

Airport Will Not Meet Minimum Fund Balance



- Include $192 million CARES grant

Months of O&M		
Scenario	2020	2021
Target	10.0	10.0
Baseline	6.4	7.7
2	5.9	7.7
3	5.8	7.8

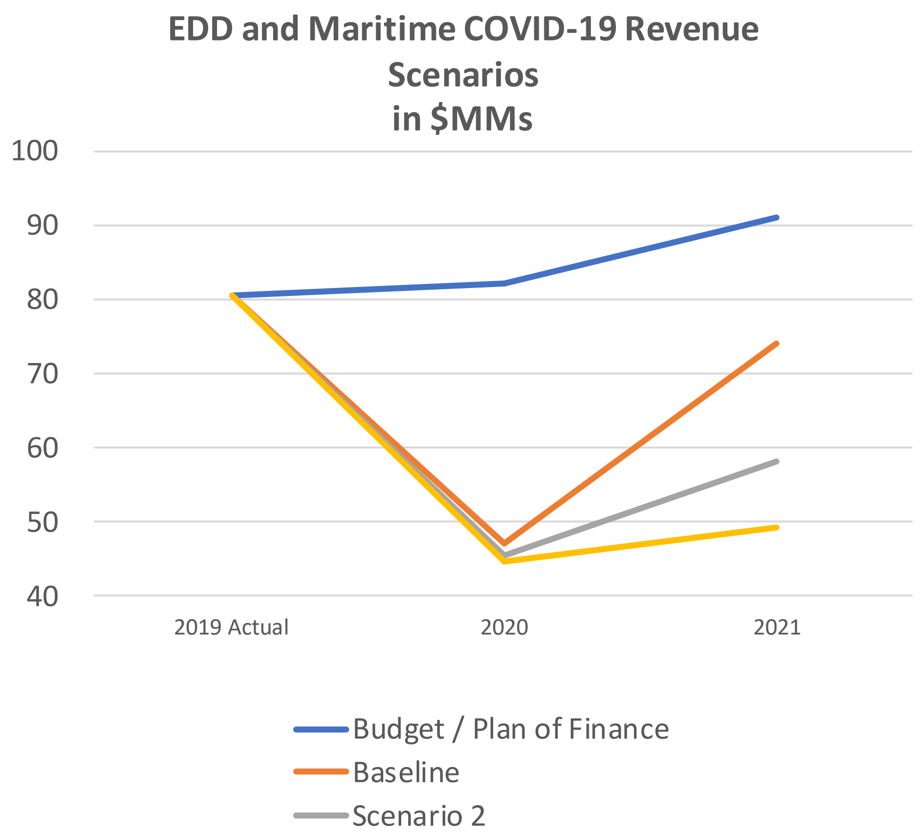
Months of O&M + Debt Serv.		
Scenario	2020	2021
Budget	6.0	
Baseline	3.8	4.1
2	3.4	4.1
3	3.4	4.2

Issues and Concerns

- Airlines seeking zero net year-end deficit for 2020
  - Requires using 100% CARES grant in 2020 and reducing costs ~$45 million in 2020
- Projecting significant increase in airline payments for 2021 under all scenarios, while airlines push for flat rates
  - Increasing debt service for such projects as IAF and NSAT
  - Lower PFCs increases debt service to be recovered in airline rate base
  - With lower activity, this means higher rates
- Risk of customers not able to repay deferred 2020 rent/fees
- Risk of bankruptcy could impact cash flow
  - Hertz filed for bankruptcy on May 22
  - Alaska and Delta considered lower risk
- Need to revisit capital plan and funding plan for 2021 – 2025
- 2021 budget must support safe environment for passengers and workers
  - Cost of implementing FlyHealthy@SEA - TBD

Non-Aviation

COVID-19 Impact to Maritime and EDD Businesses



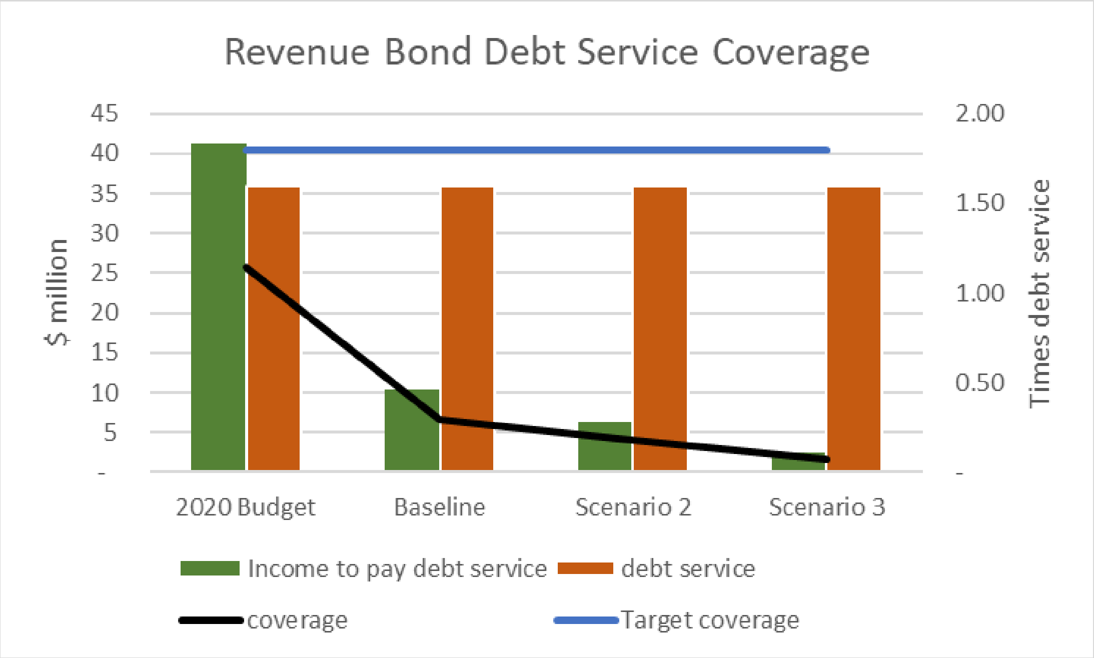
- **Cruise-**
  - Force Majeure clause exercised at the Pier 66 cruise terminal in 2020.
  - Incremental cost savings from lower passenger volumes likely offset by additional COVID-19 related investments
  - No passengers forecasted in 2020. Passenger forecasts for 2021 are the following:
    1. **Baseline** = 75% of previously forecasted
    2. **Scenario 2** = 25% of previously forecasted
    3. **Scenario 3** = No passengers
- **Marinas** –
  - No rate increase 2021
- **Conference & Event Centers** – Based on feedback from Columbia Hospitality with Port margins 15-20%
- **Commercial Property Leasing Portfolio –** Based on CoStar projections. Expected reductions of 8%-10% in 2020 phasing down over 4 years
- **Parking** – About 1/3 of revenue is fixed.

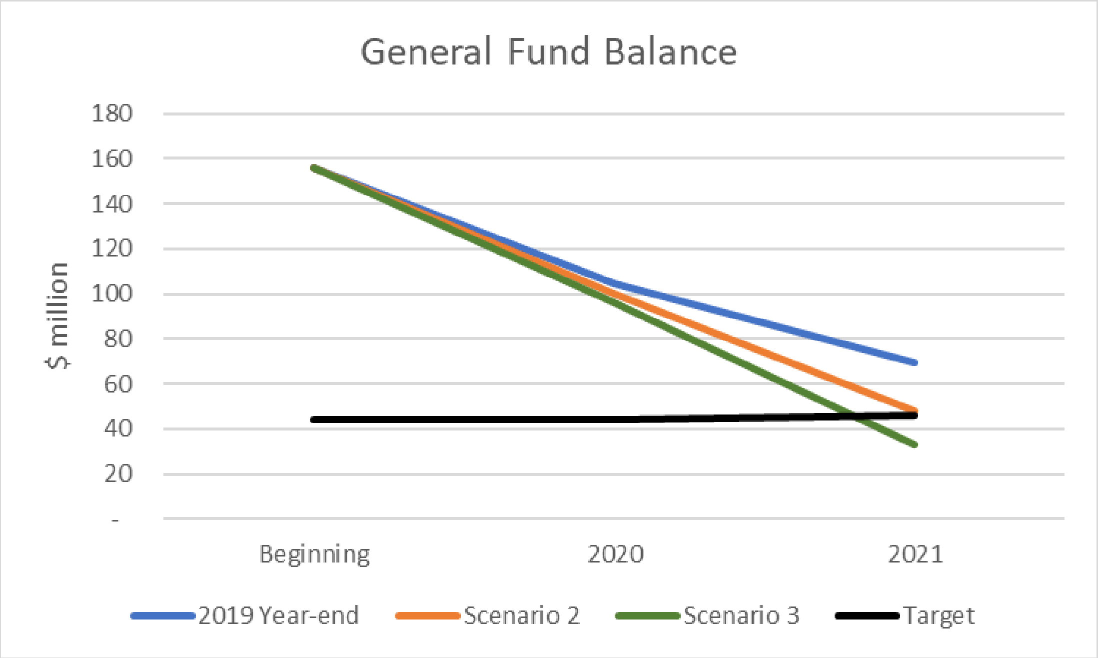
Key metrics driving revenue reductions	**Baseline**		**Scenario 2**		**Scenario 3**	
Year	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
Cruise Passengers (vs 2020 budget/Plan of Finance)	0.0%	75.0%	0.0%	25.0%	0.0%	0.0%
Conference Centers (vs 2020 budget/Plan of Finance)	25.0%	65.0%	15.0%	50.0%	10.0%	35.0%
Commercial Prop. (Vacancy Rate/bad debt increase)	7.7%	6.0%	8.7%	7.0%	9.7%	8.0%
Parking traffic at Bell Harbor Garage	60.0%	90.0%	40.0%	60.0%	25.0%	40.0%

NWSA

- NWSA is the largest source of income for non-Airport businesses
- Approximately 70% of NWSA revenue is derived from fixed payments such as minimum annual guarantees
- NWSA recently provided an updated scenario for 2020 – this is included in the Baseline
- Pos staff added the following scenarios for 2021:
  - Baseline - 2021 revenues are flat relative to 2020
  - Scenario 2 – revenues are 10% lower than the Baseline
  - Scenario 3 – revenues are 20% lower than the Baseline

Non-Aviation Capital Funding is at Risk

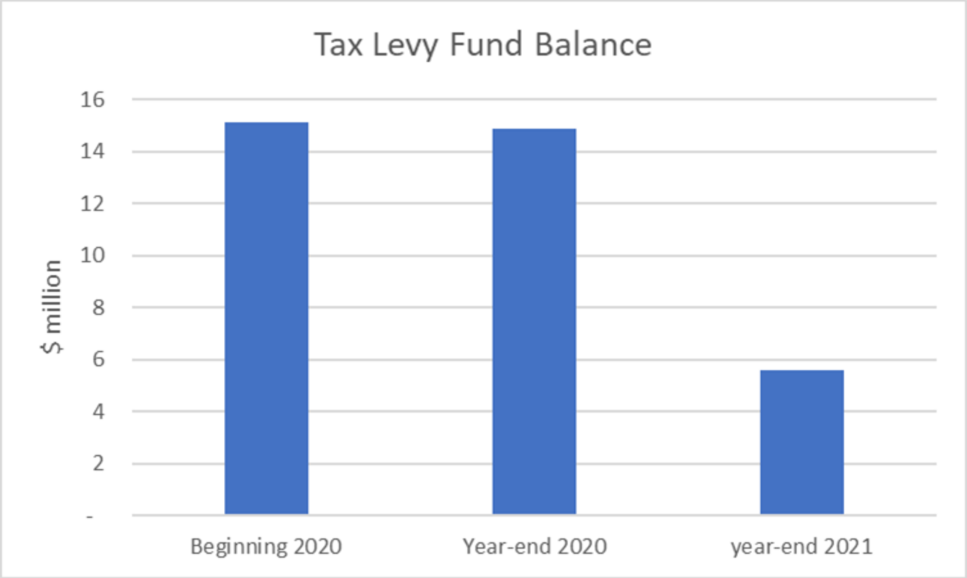




- General Fund cash above minimum target is a CIP funding source in the Plan of Finance
- Debt service not covered by operating cash will draw down the General Fund balance
- General Fund Balance may be at or below its minimum by 2022
- No ability to add new revenue bond debt to fund capital investments until coverage is above 1.8 times, reducing capital funding capacity

Tax Levy

- There is no minimum target balance
- Estimated Maximum levy in 2021 is $108.7 million (42% increase)



- Tax levy pays G.O. bond debt service
- Plan of Finance estimated an additional $200 million of G.O. bonds to fund non-Airport capital investments
- $150 million of that will be now be in the form of a bank line of credit to provide liquidity
- Use of that line of credit for operations or Airport support will reduce G.O. bond funding for capital
- Plan of Finance assumed full use of the Tax Levy over the next five years

Tax Levy Uses 2020-2024 (Pre-Pandemic)

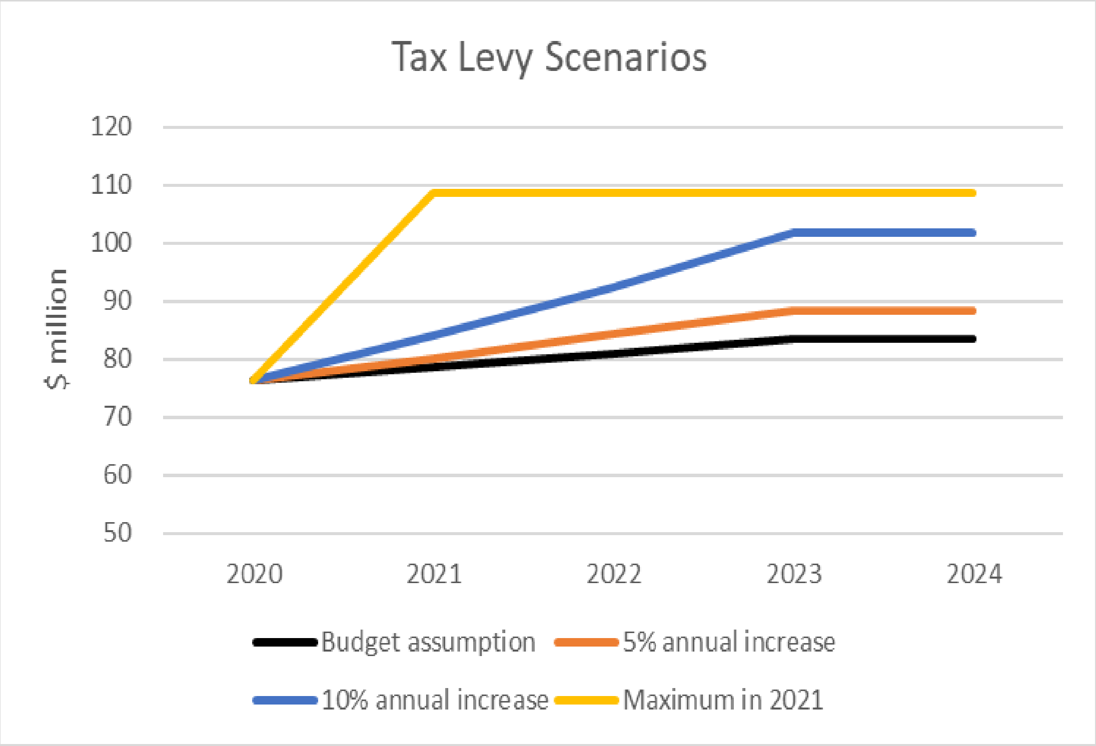
Tax levy Sources and Uses ($ mil)
Updated for Year-end 2019 results

Sources	
Beginning balance	15.1
Annual levy	403.0
Environmental Recoveries	33.3
Total Sources	451.5
Uses	
G.O. Bond debt service (1)	242.1
Capital Spending - Non-Airport Investments (2)	56.7
Environmental Remediation	88.4
NWSA Membership Contribution (net)	16.0
Community Support (3)	48.2
Total Uses	451.5
Ending fund balance	(0.0)

(1) Includes $200 million of new G.O. bonds.
(2) An addition $200 million of capital investments would be funded with G.O. bond proceeds
(3) Includes capital investment in Highline School noise mitigation

- 2020 levy is $76.4 million
- Assumes a 3% per year tax levy increase in 2021-2023
- Assumes $200 million of additional capital is funded with new G.O. bonds

Increasing the Tax Levy Provides Additional Funding Capacity



	Funding Provided	
$ million	Cash Only (1)	Cash & Bonds (2)
Budget	113	256
5% annual increase	128	320
10% annual increase	166	450
Maximum one-time (42% increase)	221	630

(1) Assumes no bonds and no new debt service
(2) Bonds provide funding, but increase debt service and reduce cash available to fund capital

NOTE: Scenarios are based on the Budget as of year-end and do not reflect changes due to COVID-19

Issues and Concerns

- Likely inability to pay non-Airport debt service from revenues; cash balances will be drawn down to pay debt service
- Inability to issue revenue bonds and draw down of General fund cash will have a significant impact on the ability to fund the CIP
- Risk that bankruptcy of one or more major tenants will reduce or delay payments
- Weak economy could further erode the NWSA's competitive position
- Economic or other concerns could put tenant's exercise of T-5 Phase II option at risk
- A slow cruise recovery will impact Maritime revenues and potentially delay the need for a new terminal at T46 (Port pays approximately $2 million a year net to NWSA)
- Use of non-Airport resources to support other needs will further reduce CIP funding

Tools to Manage the Next Planning Phase

- Reduce operating expenses
- Reduce/delay capital investments
- Increase tariffs and fees
- Increase tax levy
- Utilize Non-Aviation resources to support the Airport (but not the reverse)
- Strategic use of new bank facility

Additional Information

Non-Airport Businesses

$ million	Budget	Baseline		Scenario 2		Scenario 3	
	2020	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
NWSA Distributed Income (1)	40.04	34.10	34.10	30.69	30.69	27.28	27.28
Maritime	62.94	36.57	57.50	36.47	43.88	36.36	37.01
Economic Development	19.11	10.52	16.70	9.16	14.35	8.38	12.17
Total Revenue	122.08	81.19	108.29	76.32	88.92	72.02	76.46
	-	-	-	-	-	-	-
Operating Expense (2)	(88.50)	(78.27)	(85.67)	(77.44)	(84.15)	(77.02)	(82.63)
	-	-	-	-	-	-	-
Net Operating Income before depreciation	33.59	2.91	22.62	(1.12)	4.77	(4.99)	(6.18)
NWSA cash adjustment (3)	7.70	7.54	10.55	7.54	10.55	7.54	10.55
Debt Service	(35.97)	(35.97)	(37.15)	(35.97)	(37.15)	(35.97)	(37.15)
Debt Service Coverage	1.15	0.29	0.89	0.18	0.41	0.07	0.12
Cash flow	5.32	(25.52)	(3.98)	(29.55)	(21.83)	(33.43)	(32.78)

(1) net of depreciation and net of the Port's approx. $2 million T46 payment

(2) includes unallocated expenses

(3) depreciation expense added back to coverage calculation