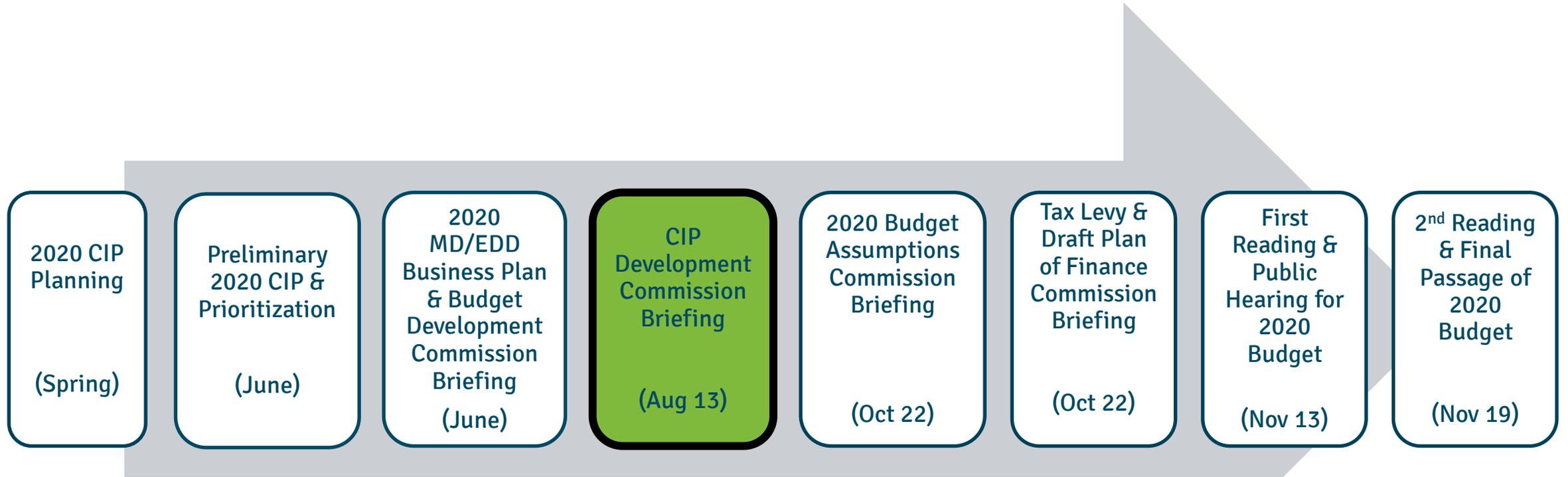


Maritime and Economic Development CIP and Funding Review and Analysis (Setting the Stage for 2020)

August 13, 2019

2020 CIP Development

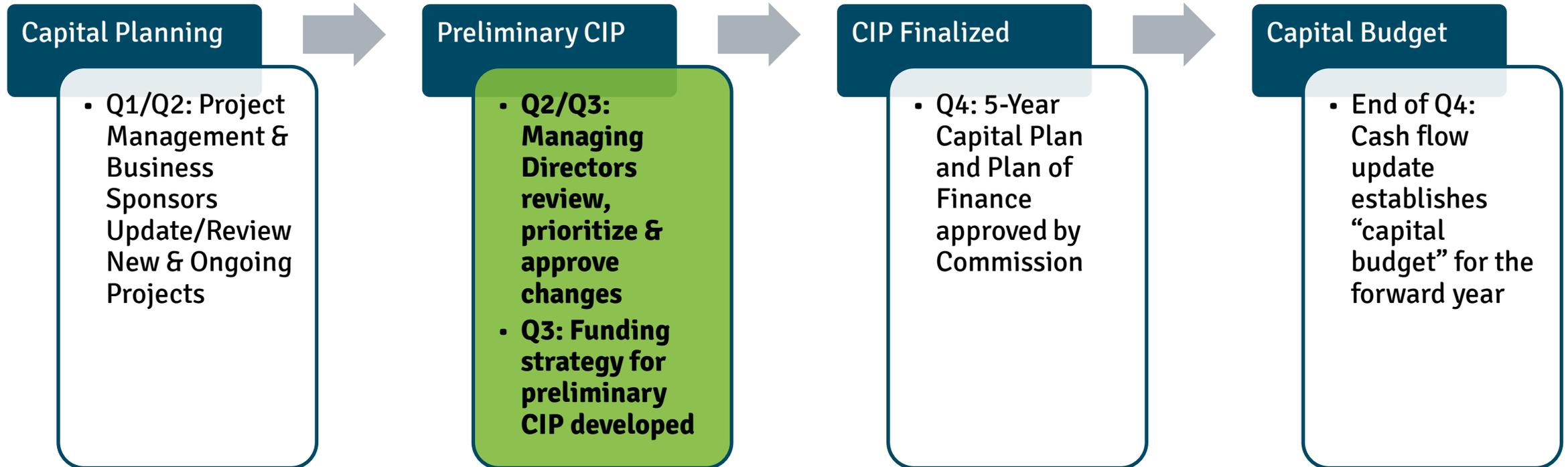


Overview

- Capital Planning Background
- Research & Lessons Learned
- Maritime and EDD 2019-2023 CIP Update
- Capital Funding 2019-2023
- Moving Forward

CAPITAL PLANNING BACKGROUND

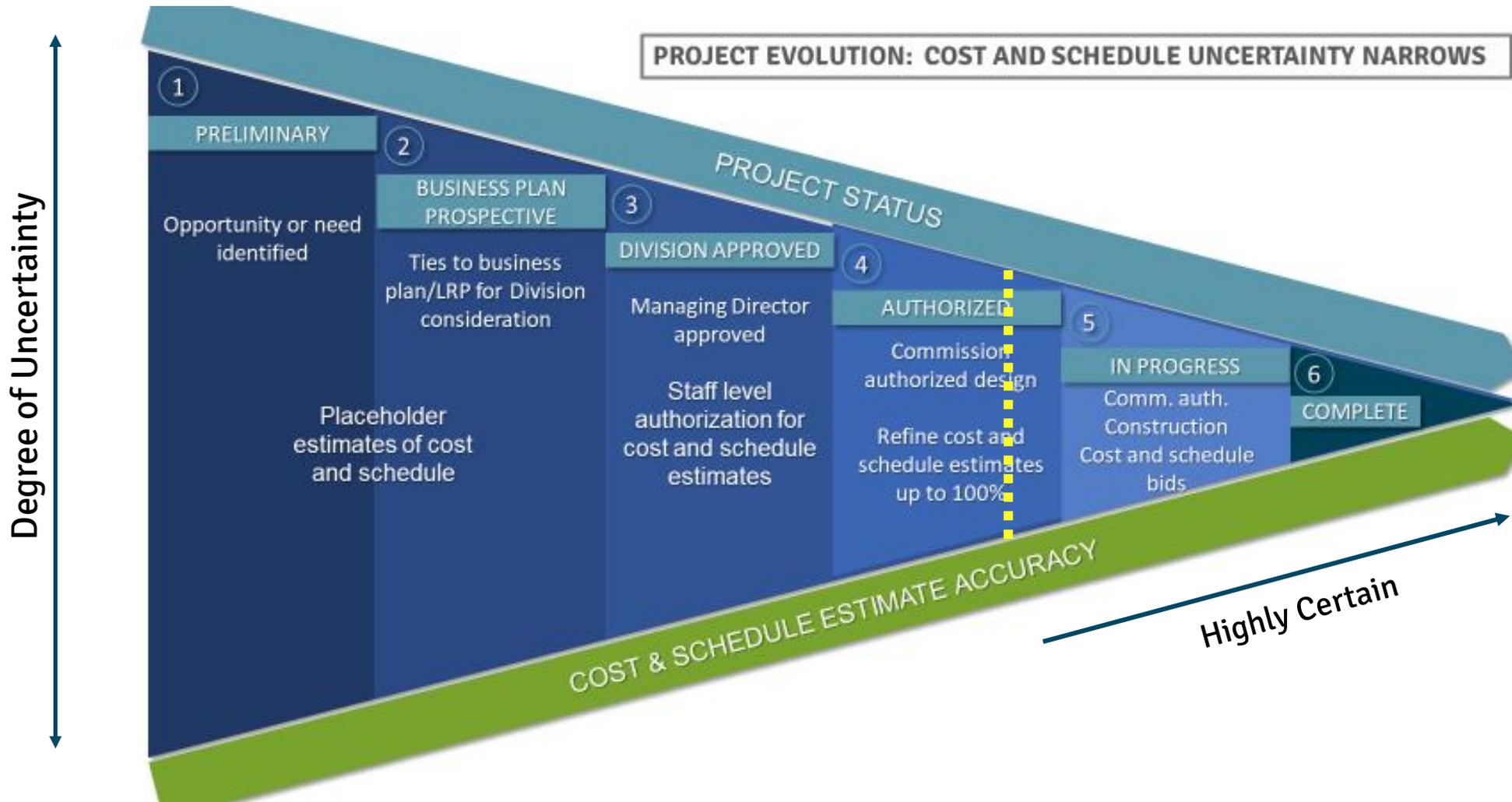
CIP Development Progress



CIP Includes Projects at Different Stages of Development

	Status Number *	Status Description *	Notes
	1	Preliminary	Placeholder, not included in CIP
	2	Business Plan Prospective	Included in CIP if funding is available
Committed (included in CIP)	3	Division Approved	Managing Director approves moving forward, staff level authorization for scoping and cost estimates
	4	Authorized	Commission authorized funding for design – begins scope, schedule and cost development up to 100%
	5	Construction	Commission authorized for construction, procurement of construction contract(s)
	6	Completed	Project completed and ready for booking to assets

* Port practice as described in the Budget Document



Factors that Impact Project Delivery

Establishing the Project

- Scope changes to improve NPV
- Evaluation of environmental options
- Cost estimation challenges for unique projects
- Leadership Availability for feedback/direction

Commission Oversight

- Staff – Commission coordination
- Importance of Transparency and Accountability: Briefing, Design and Construction Authorization

Procurement

- Central Procurement Office staff resources
- Incorporating Port values in procurement
- Rigorous process to comply with state law and best practices

Project delivery

- Prioritization of projects
- Working around facilities that continue to operate
- Unplanned and unforeseeable obstacles
- Scope changes

Community

- Permitting variability
- Addressing stakeholder concerns

RESEARCH & LESSONS LEARNED

Research

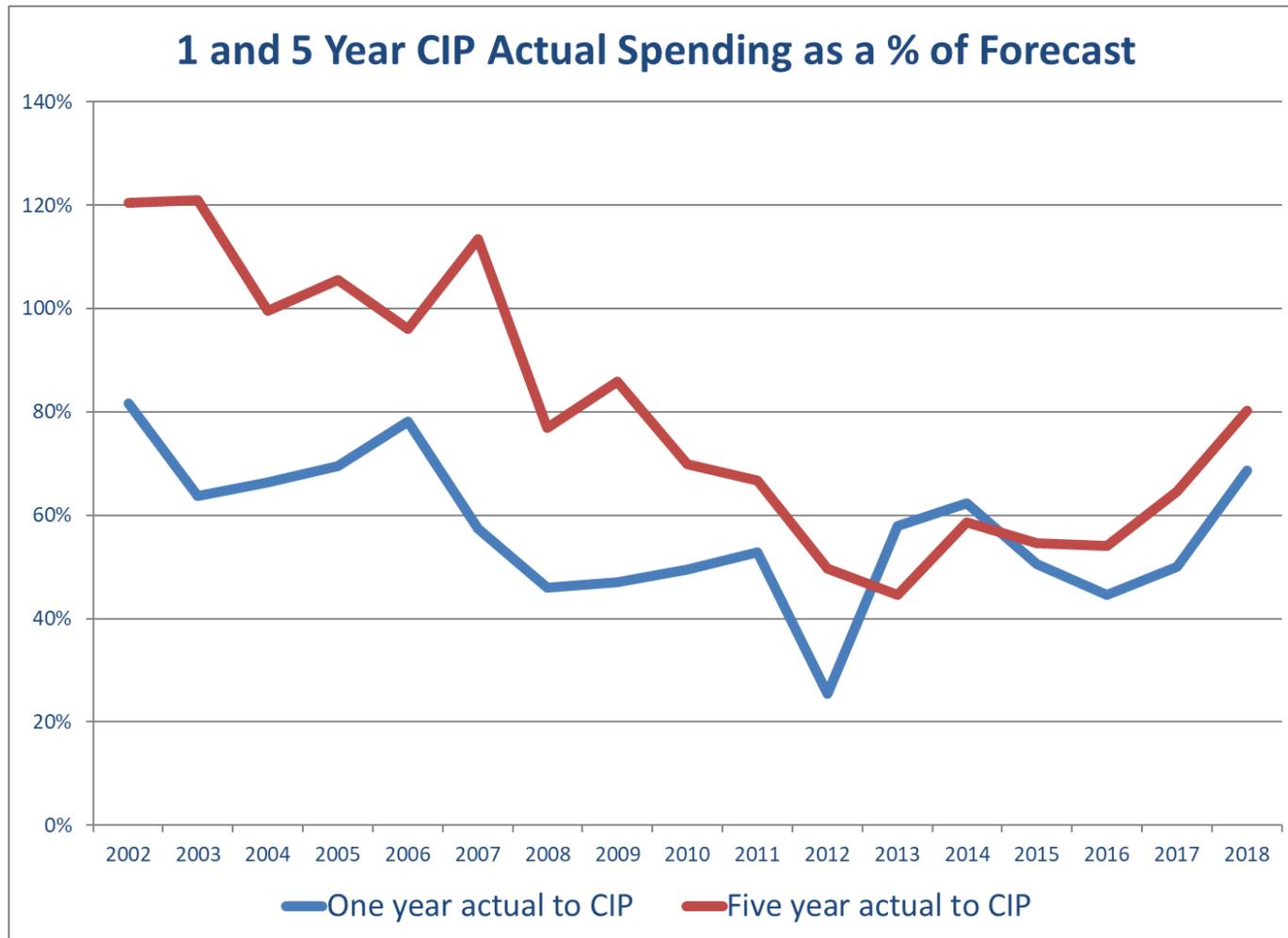
- Port history and trends
- Best practices and peer review take-aways

Data Research

- Staff reviewed Portwide* CIPs over twenty years
 - Five-year CIPs beginning with 1998-2002 and ending with 2014-2018
 - Reviewed actual spending vs. CIP
 - Annual basis – first year of the CIP
 - Five-year basis – all five years of the CIP

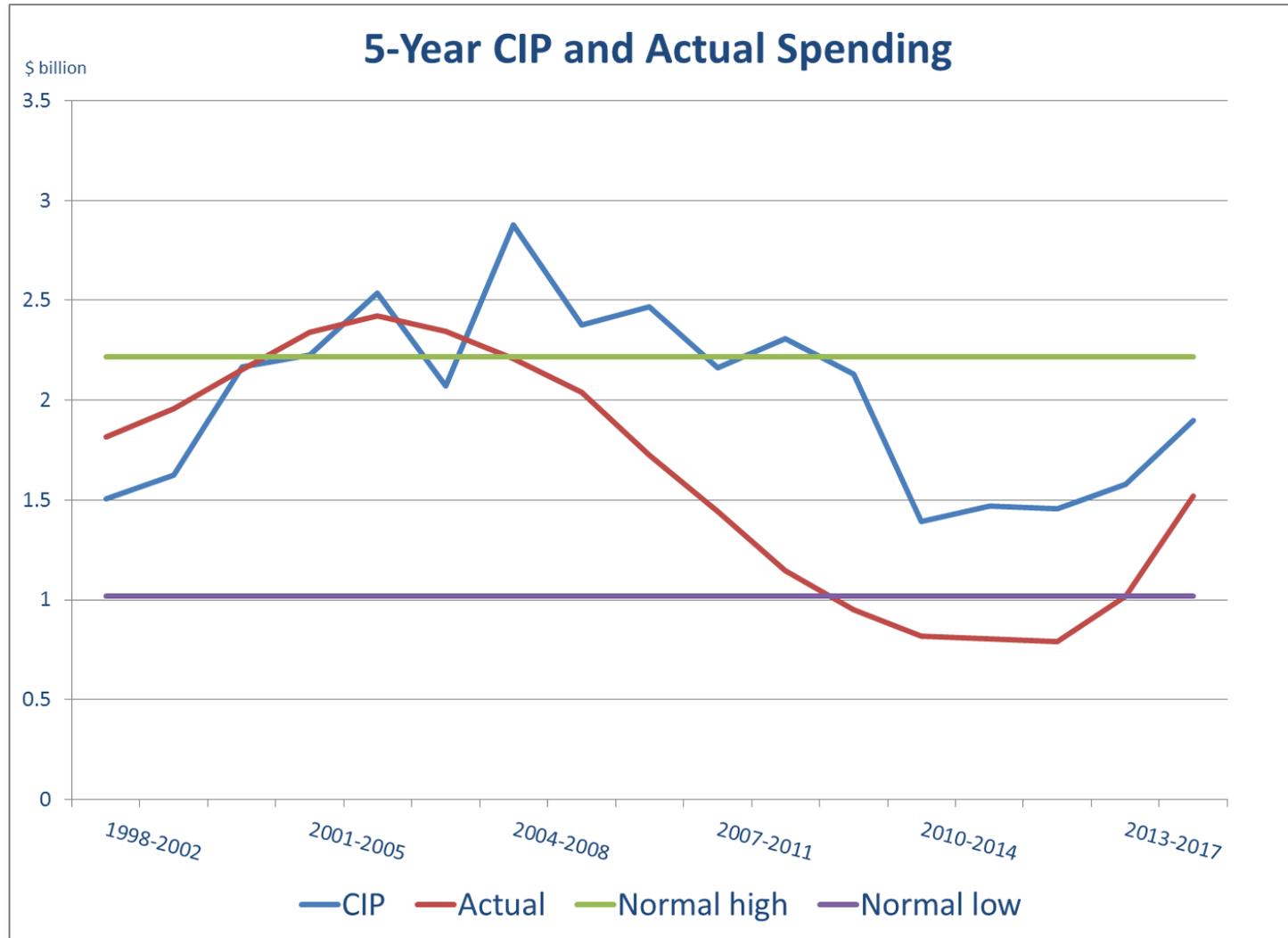
*Includes Aviation CIPs

Percentage of annual spending compared to forecast is lower than percentage of a five-year period spending to forecast



- One-year average 57%
- Five-year average 80%
- (By the beginning of the year, forecast annual spending accuracy increases to almost 70%)
- General decline in spending vs. forecast with recent improvement

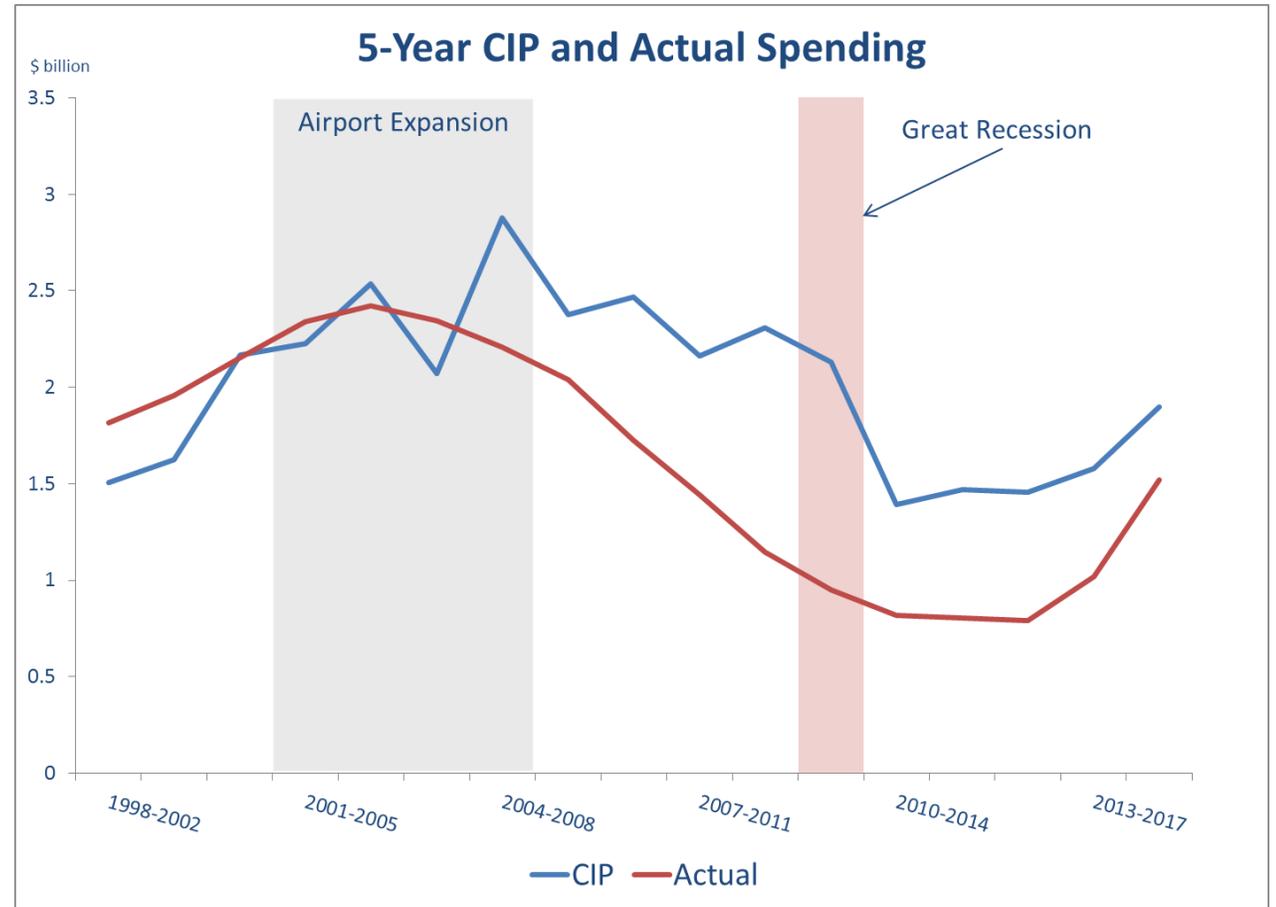
5-year CIP has wide variability and has peaks and valleys



- Actual five-year capital spending varies within a normal range of \$1.2 billion
- Normal range is the mean +/- one standard deviation

Interpreting the Data Trends

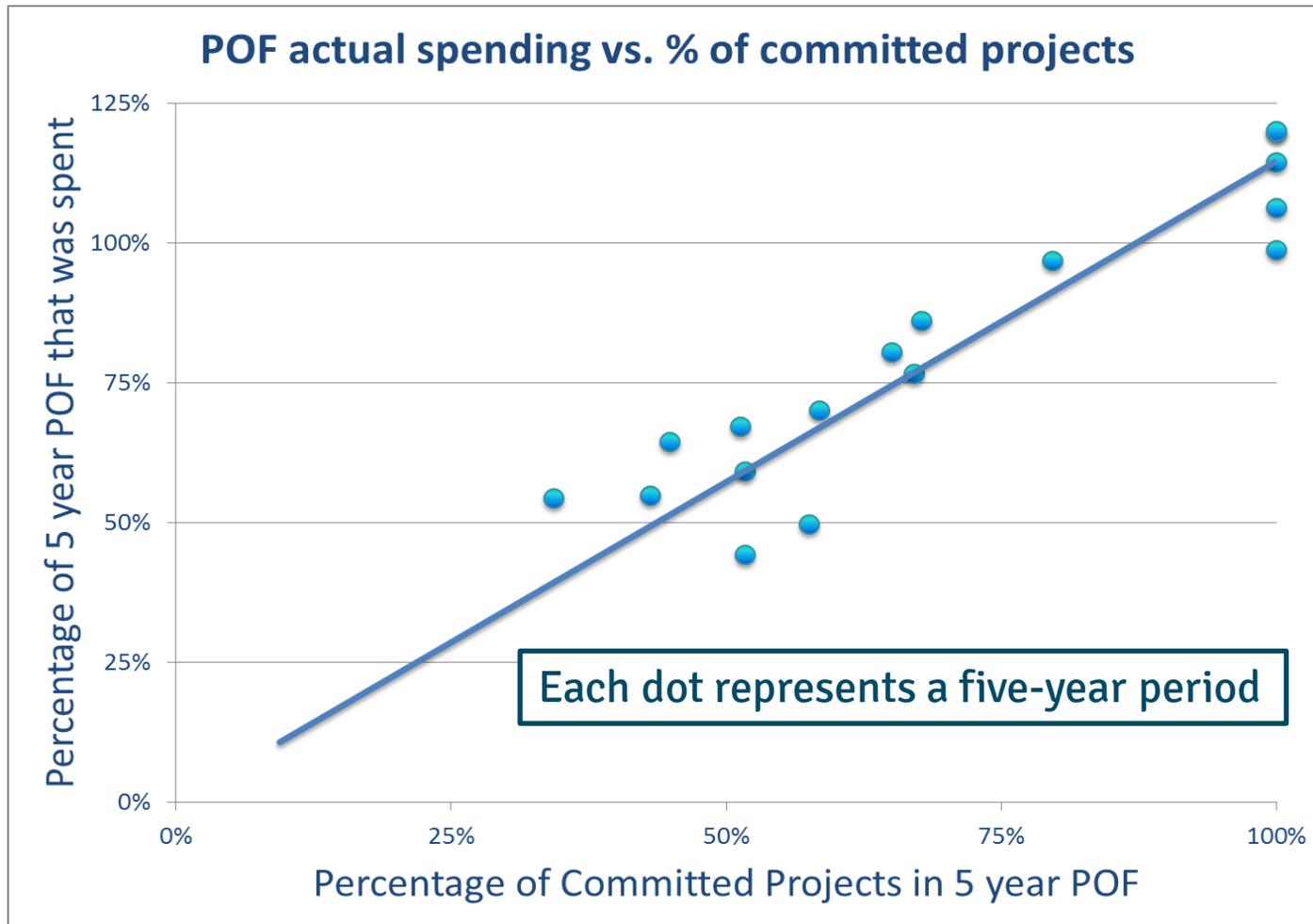
- **Capital cycle**
 - During early stages, project delivery timing is uncertain; lead time for scoping, design, permitting, bidding and approvals can be unpredictable
 - Once projects are under construction, spending is more predictable
- **Macroeconomic factors – Great Recession**
 - Postponement of some projects, but still included in CIP



CIP Spending Estimates

- A CIP is a point-in-time collection of all project spending (cash flow) estimates
 - Some estimates are well developed, others are placeholders
 - Committed projects have more developed cost estimates than Business Plan Prospective projects
- Data research compared each five-year CIP
 - Five-year CIP actual spending as a percentage of forecasted spending
 - Committed projects as a percentage of total CIP

Correlation: The More “Committed” Projects in a CIP, the More Accurate the CIP Forecast



- Another Data View: Project Status Affects Forecasting Accuracy
- A high percentage of “Business Plan Prospective” projects in a CIP, the more opportunity for course correction

Business Plan Prospective = status 2
Committed = status 3-5

Best Practices and Peer Outreach

- Review of best practices - recommend carrying contingencies and budget conservatively, but provided no specific guidelines
- Outreach to peer organizations
 - Including ports, airports and local agencies
 - All seek to balance flexibility for the unknown with realistic spending forecasts
 - No universal approach

Research: Helpful Insights from Other Governments

- Clear prioritization of projects
- Coordination between project managers and business units
- Realistic delivery expectations
- Smooth annual spending over over the five-year CIP
- Use of CIP Reserves can help with planning
- Focus on five-year CIP, de-emphasize annual spending
- High level focus on project delivery

Key Messages

- Capital Planning is dynamic and all agencies look for ways to improve forecasting accuracy
- Tools to help improve capital planning
 - Clear project prioritization
 - Understand schedule drivers
 - Close collaboration between operating divisions and project management
 - Use CIP reserve to smooth cash flows
 - Focus on five-year plan



MARITIME AND ECONOMIC DEVELOPMENT CIP PROGRESS – 2019-2023

SWOT Analysis

	Helpful	Harmful
Internal	STRENGTHS 	WEAKNESSES 
External	 OPPORTUNITIES	 THREATS



- Deep understanding and strong connection to maritime businesses.
- Strategic properties/facilities that can be updated/redeployed.
- Prudent Management of Tax Levy provides funding capacity
- Values driven, Environmental, Social and Governance (ESG) approach to investments.



- Port’s public service role adds time and cost.
- Challenging properties (brownfields, soils, fish window limitations, etc.)

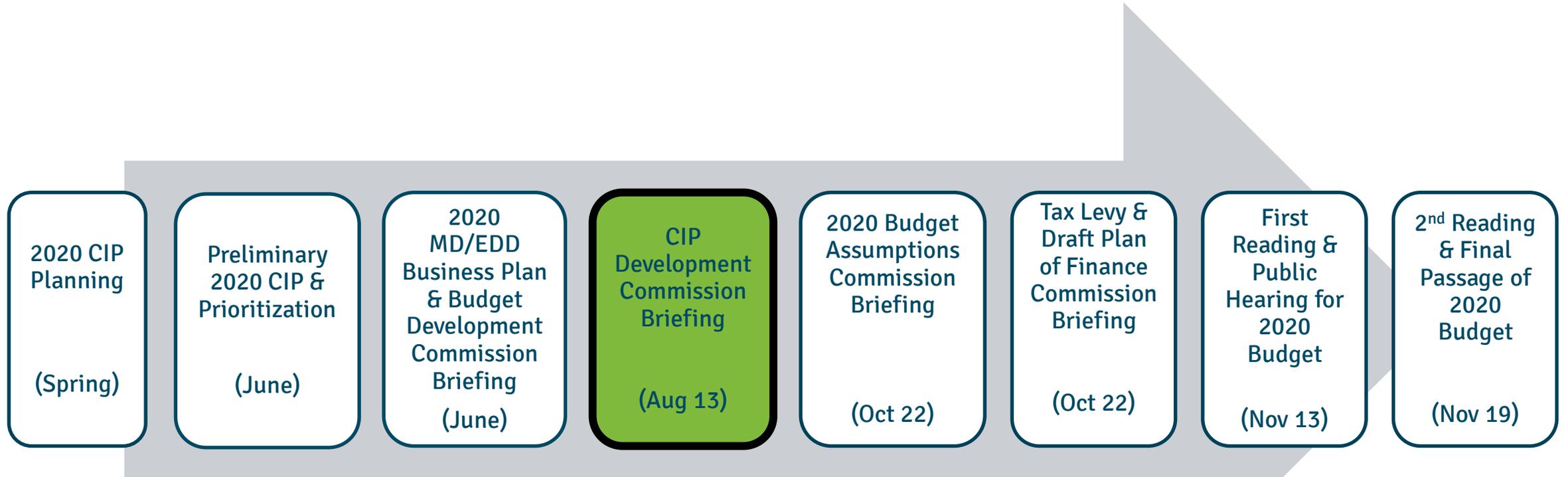


- Support Maritime jobs and businesses.
- Strong connections with other governments.
- Shape the future & modernize harbor and related facilities.
- State Focus on Maritime Innovation.
- Unique coexistence of tech and maritime sectors in King County.



- High construction costs. Shortage of trade labor.
- Gentrification, loss of industrial lands.
- Costs/challenges of getting stakeholders on board.

2020 CIP Development



2019-2023 CIP: Five Year Spending Forecast

MD/EDD 2019-23 CIP	2019-2023 Spending as of:	
	Nov 2018	Jun 2019
Approved Nov 2018 (\$s in millions)		
Authorized (partial/design)		
Fishermen's Terminal Gateway Building	23.0	23.5
Terminal 117 Restoration	17.9	19.7
Bell Harbor Conference Center Modernization	9.9	11.1
Fishermen's Terminal Docks 3, 4 & 5 Pier Improvements	6.1	3.1
Total Authorized¹	\$56.9	\$57.4
Pending Authorization		
New Cruise Facility (Assumes 50% Tenant Cost Share)	100.0	100.0
Terminal 91 Uplands Development	39.0	33.7
Terminal 91 Berth 6 & 8 Redevelopment	35.0	35.0
Waterfront Electrification/P66 Shore Power ²	30.0	17.0
Fishermen's Terminal Maritime Innovation Center	10.5	10.3
Salmon Bay Marina Docks D & E Replacement	5.9	9.1
Harbor Mooring Dolphins	3.6	4.5
Pier 66 HVAC Systems Upgrade	2.9	2.5
Total Pending Authorization¹	\$226.9	\$212.1
Projects Underway	8.2	14.0
Small Projects/Fleet/Technology/Tenant Improvements	16.5	10.0
Contingency	25.0	19.0
Total (\$ millions)	\$333.5	\$312.6

¹Project status as of Nov 2018, some projects have since been authorized (in part or full).

²Project has been split into two parts:

1) Pier 66 Shore Power: \$17M

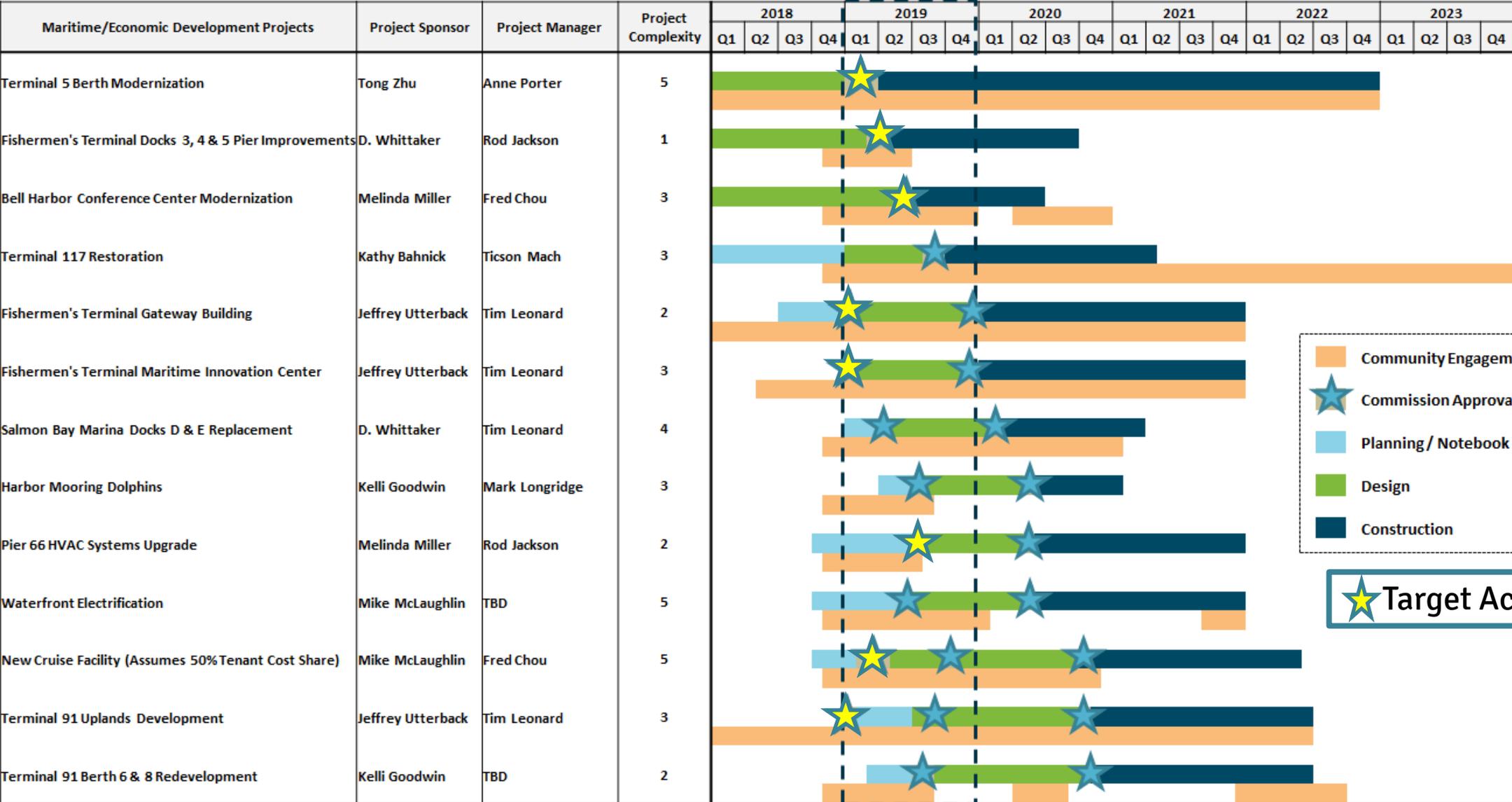
2) Waterfront Electrification: \$13M Prospective (future project)

2019-23 CIP: 2019 Spend Forecast & Milestones

MD/EDD 2019-23 CIP	2019 Forecasted Spend as of:			
Approved Nov 2018 (\$s in millions)	Nov 2018	Jan 2019	Jun 2019	2019 Milestones
Authorized (partial/design)				
Fishermen's Terminal Gateway Building	1.8	0.4	1.0	Concept design completed by Q4.
Terminal 117 Restoration	8.0	1.0	1.0	Schedule delayed due to Trustee negotiations.
Bell Harbor Conference Center Modernization	1.6	0.8	0.8	Construction contract award by Q3, construction begins Q4.
Fishermen's Terminal Docks 3, 4 & 5 Pier Improvements	5.5	0.6	0.6	Updated solution, net cost savings of \$3M. Construction begins Q4.
Total Authorized¹	\$16.9	\$2.8	\$3.4	
Pending Authorization				
New Cruise Facility (Assumes 50% Tenant Cost Share)	1.3	0.6	1.1	Predesign work underway in Q2. Partner RFP released in Q3.
Terminal 91 Uplands Development	3.5	0.6	0.1	Design team selected by Q4.
Terminal 91 Berth 6 & 8 Redevelopment	0.5	0.3	0.1	Design/permitting funding authorization by late Q4.
Waterfront Electrification	1.0	0.2	0.2	P66 Shorepower predesign complete by Q3. Design/permitting funding request in Q4.
Fishermen's Terminal Maritime Innovation Center	0.0	0.3	0.3	Concept design completed by Q4.
Salmon Bay Marina Docks D & E Replacement	0.4	0.4	0.1	Demolition permit by Q4.
Harbor Mooring Dolphins	0.2	0.0	0.0	Design/permitting funding authorization by Q4.
Pier 66 HVAC Systems Upgrade	1.2	0.7	0.8	System controls upgrade completed by Q4.
Total Pending Authorization¹	\$8.0	\$3.0	\$2.7	
Projects Underway	8.2	4.1	4.1	SBM Customer Service Buildings - construction contract by Q3.
Small Projects/Fleet/Technology/Tenant Improvements	5.5	8.4	6.5	
Contingency	3.0	3.0	2.0	
Total (\$ millions)	\$41.7	\$21.4	\$18.7	

¹Project status as of Nov 2018, some projects have since been authorized (in part or full).

2019-23 CIP Major Projects as of Nov 2018



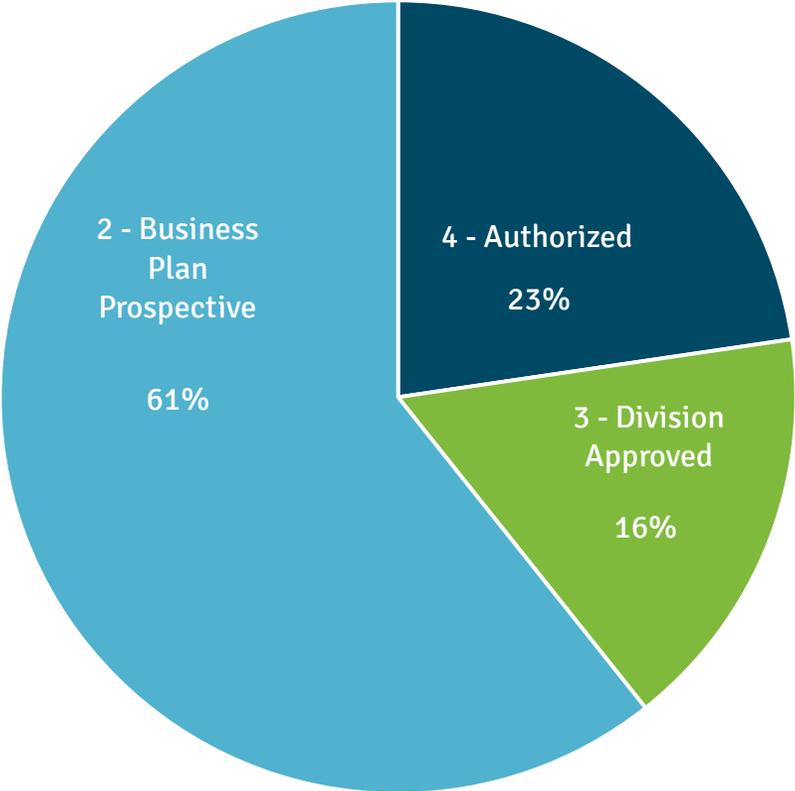
-  Community Engagement*
-  Commission Approval
-  Planning / Notebook
-  Design
-  Construction

 Target Achieved

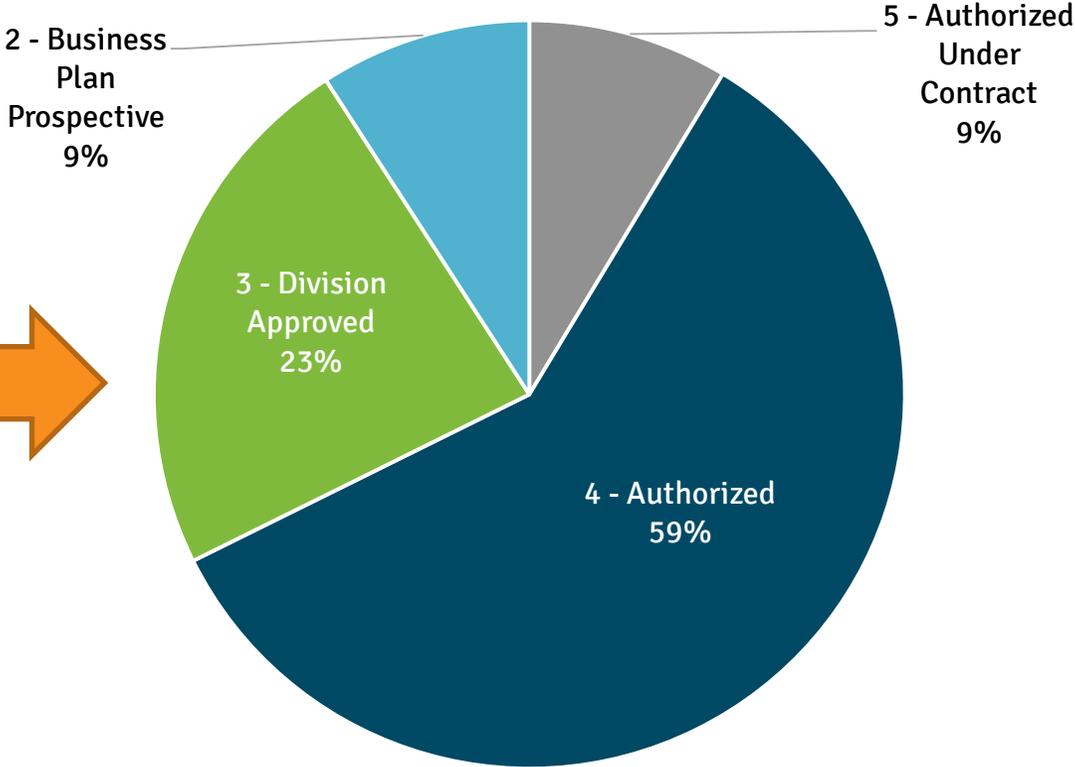
* Community engagement tasks will vary by project need

2019-2023 CIP Progress

2019-2023 CIP as of November 2018



2019-2023 CIP as of June 2019



6 of 12 Major Projects Advanced to Commission Approval since November 2018*

*Represents total project spending, many projects only partially approved

*Does not include Northwest Seaport Alliance Projects

CAPITAL FUNDING



Airport and Non-Airport Capital Are Funded Separately

- The 2019-2023 Maritime and EDD CIP included a funding plan
- Non-Airport business:
 - 50% share of Northwest Seaport Alliance (NWSA)
 - Maritime and Economic Development
- Share funding sources
 - Operating cash flow and Revenue bonds
 - Tax levy after payment of other tax levy uses
 - General Obligation (G.O.) bonds paid by the tax levy

Effective Financial Policies Provide Guardrails for the Funding Plan

- Financial sustainability is critical to on-going capital delivery
- Sound financial policies help right-size a CIP and ensure funding availability for project delivery
- Two policies under review per Commission Motion 2018-14:
 - Debt service coverage targets (non-Airport) to avoid over leverage
 - CIP Reserve(s) (Contingency) to provide flexibility and smooth cash flows

Non-Airport Capital Improvement Plan (CIP)

	2019-2023 (\$ million)
Non-Airport CIP	
Maritime & EDD CIP	\$ 333.5
NWSA - 50% Share (North & South Harbor)	215.5
NWSA - Contingency & Port Projects ⁽¹⁾	57.7
Strategic Reserve	50.0
TOTAL	\$ 656.8
Allocated Central Services CIP ⁽²⁾	10.9
Total Non-Airport Funded CIP	\$ 667.7
Estimated Funding Shortfall	(15.1)
<p>(1) Includes \$25 million NWSA CIP reserve, North Harbor channel deepening and other 100% Port legacy costs.</p> <p>(2) Assumes funding with Operating Funds/Cash Flow only.</p> <p>Note: totals may not add due to rounding</p>	

Per 2019 Budget

Non-Airport Capital Funding Plan

Non-Airport Funding Sources	2019-2023 (\$ million)
Operating Funds ⁽¹⁾	\$ 70.5
Operating Cash Flow	100.2
Grants	3.7
Tax levy ⁽²⁾	68.7
Harbor Development Fund	65.9
Future revenue bond proceeds (2023)	66.6
Future G.O. bond proceeds	277.0
TOTAL	\$ 652.6
⁽¹⁾ Includes environmental settlement proceeds.	
⁽²⁾ Assumes 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.

Per 2019 Budget

Tax Levy

- The maximum allowable levy for 2019 is \$104 million
- The current levy is \$74.2 million
- Port accounts for 1.3% of King County property taxes levied
- The 2019-2023 funding plan included an annual 3% increase to the tax levy amount; to be reviewed annually
- The 2019 median home pays \$71.39 to the Port

Tax levy uses

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



MOVING FORWARD – APPLYING THE LESSONS FOR 2020-2024 CIP

Five-year CIP Planning Process Improvements

- Current Progress already includes:
 - CIP prioritization
 - Collaboration between Operating Divisions and Project Management - Reorganization
 - Executive Review of CIP
 - Finance funding policies
- Enhancements:
 - Refine CIP prioritization and planning process
 - Recommended financial policy updates
 - Refine use of CIP reserves

CIP Delivery Enhancements

- Understand project dynamics and apply lessons learned to planning
- Implement capital delivery reorganization
- Assess organizational resources and processes
 - Procurement and Contracting
 - Safety
 - Permitting
 - Planning
 - Delegations
 - Hiring

Next Steps

- Prior to September 1, 2019 – Deliver policy update per Motion 2018-14
- October 8, 2019 – Commission budget workshop including Maritime and EDD 2020-2024 CIP
- October 22, 2019 – Commission briefing on the 2020-2024 Draft Plan of Finance
- November 12, 2019 – Introduction of 2020 Budget Resolution and public hearing
- November 19, 2019 – Passage of the 2020 Budget