

Port of Seattle Adoption of the 2020 Budget

Commission Meeting
November 19, 2019

Outline

- 2020 Budget Process Recap
- 2020 Key Business Activity Forecasts and Key Initiatives
- 2020 Operating Budget
- 2020 Comprehensive Operating & Non-Operating Budget
- 2020-2024 Capital Plan
- 2020 Sources and Uses of Funds
- 2020 Proposed Tax Levy
- Remaining 2020 Budget Schedule

2020 Budget Process

Jun. 4	2020 Budget Special Meeting with the Commission
Jun. 11	2020 Aviation Business Plan and Budget Development Briefing to the Commission
Jun. 25	2020 Maritime Business Plan and Budget Development Briefing to the Commission
Jul. 9	2020 EDD Business Plan and Budget Development Briefing to the Commission
Aug. 13	2020 Maritime and EDD CIP and Funding Discussion
Sept. 24	2020 Central Services Operating and Capital Budgets Briefing
Oct. 8	2020 Aviation Division Operating and Capital Budgets Briefing
Oct. 8	2020 Maritime and EDD Operating Budgets Briefing
Oct. 22	Maritime and EDD CIP Briefing
Oct. 22	Tax Levy & Draft Plan of Finance Commission Briefing
Oct. 22	Preliminary 2020 Budget Document provided to the Commission
Oct. 22	Preliminary 2020 Budget and 5-Year CIP Open House at Pier 69
Oct. 24	Preliminary 2020 Budget Document released to the public
Oct. 28	Preliminary 2020 Budget and 5-Year CIP Open House at the Airport
Nov. 12	Introduction & Public Hearing of the Preliminary 2020 Budget
Nov. 19	Adoption of the 2020 Budget
Dec. 2	File the 2020 Statutory Budget with King County
Dec. 13	Release the 2020 Final Budget and Draft Plan of Finance

Commission engaged in the budget process

2020 Business Activity Forecasts

Aviation Division:

- Forecast 3.0% growth in enplaned passenger for 2020 (from the 2019 year-end forecast, which is expected to be 4.0% higher than 2018)
- Enplaned passengers up 42% since 2014 (6.1% compounded annual growth rate)
- Major capital projects underway at Sea-Tac will reduce congestion, improve the customer experience, and add capacity to accommodate future growth

Maritime Division:

- 8.8% growth in cruise passengers to a record 1.3 million in 2020
- 16.1% reduction in grain volumes in 2020 due to the current trade climate and tariffs
- Recreational Marina occupancy rate of 95%, same as 2019
- Fishing and Commercial Operations occupancy rate average of 86%, same as 2019

Economic Development Division:

- Commercial Properties target 95% occupancy rate at the end of 2020

2020 budget supports growth in Port businesses

2020 Key Initiatives

Serve regional demand and maintain our global gateway.



- Serve regional demand for air service at Sea-Tac
- Support the airport capital improvement program



- Continue to improve safety & security
- Continue to improve customer service



- Support Cruise passenger growth
- Pier 66 BHICC Interior Modernization
- Advance real estate development projects



- Build capabilities through process improvement and innovations
- Operate as a highly effective and equitable public agency.

Serving increased demand is a key budget driver

2020 Key Initiatives

Create equitable opportunities throughout the region and invest in healthy communities and environment.



- Diversity in Contracting and WMBE
- Equity, Diversity and Inclusion
- Expand Eastside and other stakeholders engagement
- Workforce Development
- Continue internship program
- Maritime Secondary Education
- Youth Maritime Initiative
- Career Advancement Center
- Airport Community Ecology grants
- South King County Fund
- Energy and Sustainability grants
- Sustainable Aviation Fuels
- Promote economic development for the region
- Expand tourism opportunities
- Local Community Advertising Program

Significant budget resources to support community priorities

2020 Budget Highlights

(\$ in '000s)	2017	2018	2019	2019	2020	Budget Change	
	Actual	Actual	Budget	Forecast	Budget	\$	%
Operating Revenues	632,030	689,390	753,255	762,661	811,181	57,926	7.7%
Operating Expenses	372,976	397,638	454,986	443,487	469,769	14,783	3.2%
Net Operating Income	259,054	291,752	298,269	319,174	341,412	43,142	14.5%

- Operating revenues up 7.7% to a record \$811.2M from 2019 budget
- Operating expenses up 3.2% to \$469.8M from 2019 budget
- Net Operating Income up 14.5% to \$341.4M from 2019 budget
- The 2020 capital budget is \$640.5M and the 5-year capital spending plan is over \$3.4B
- The proposed tax levy for 2020 is \$76.4M, a 3% increase over the 2019 levy of \$74.2M

The 2020 budget reflects the Port's growth and continued investments for the region

Changes after the Preliminary Budget Published

- **Aviation Division**
 - Aeronautical revenues (cost recovery) decreased by \$221K primarily due to reduction in allocated expenses from Central Services.
 - No changes to Non-aeronautical revenues.
 - Operating expenses from the Airport increase by \$26K due to:
 - \$28K increase for an FTE from Central Services/Engineering to AV Maintenance (80% charged to Capital - Baggage Optimization project)
 - \$2K reduction in B&O tax due to lower Aeronautical revenues.
- **Maritime Division**
 - Maritime reduced Space Rental Expense for T46 Cruise by \$1.9M.
- **NWSA Joint Venture**
 - Reduced operating revenue by \$1.9M due to net of Space Rental Expense for T46 Cruise

Additional refinements made to the budget

Changes after the Preliminary Budget Published

- Economic Development Division
 - No changes other than cost allocations from Central Services
- Central Services
 - Added a new FTE in Commission Office
 - Transferred a FTE from Engineering to AV Maintenance to support the Baggage Optimization project
 - Corrected a minor budget entry error for Engineering department
 - Made some minor adjustments to a few departments' cost allocation

Additional refinements made to the budget

Pending Accounting Standard Change

- The Governmental Accounting Standards Board (GASB) has changed the treatment of operating leases starting in 2020
- Operating leases will be treated in a manner similar to capital leases—receipts and expenditures will be broken into an operating (rent) and non-operating (interest) component
- The primary impact will be a reduction in operating revenue and corresponding increase in non-operating revenue, so net operating income will be lower, although total revenue over expense (change in net position) will be the same
- This standard has not been incorporated into the 2020 budget due to the large number of leases and complexity of the calculations

GASB 87 will be adopted in 2020

2020 Operating Budget for Aviation

(\$ in '000s)	2017	2018	2019	2019	2020	Budget Change	
	Actual	Actual	Budget	Forecast	Budget	\$	%
Operating Revenues							
Aeronautical	264,114	291,268	365,604	361,493	401,342	35,738	9.8%
Non-Aeronautical	236,803	257,707	259,537	267,528	283,167	23,631	9.1%
TOTAL	500,916	548,975	625,140	629,021	684,510	59,369	9.5%
Operating Expenses	299,114	318,849	366,105	359,710	377,306	11,202	3.1%
Net Operating Income	201,802	230,126	259,036	269,311	307,203	48,168	18.6%

Operating revenues outgrow operating expenses

2020 Operating Budget for Non-Aviation

	2017	2018	2019	2019	2020	Budget Change	
(\$ in '000s)	Actual	Actual	Budget	Forecast	Budget	\$	%
Operating Revenues							
Maritime	54,183	57,575	59,729	59,029	62,938	3,208	5.4%
EDD	17,791	20,705	19,725	20,004	19,110	-615	-3.1%
NWSA Joint Venture	54,953	57,622	43,911	48,911	39,887	-4,023	-9.2%
Stormwater Utility	3,891	4,195	4,564	4,564	4,696	131	2.9%
Central Services	296	318	185	1,131	40	-145	-78.4%
Total	131,114	140,415	128,115	133,640	126,671	-1,444	-1.1%
Operating Expenses							
Maritime	42,164	43,252	50,822	48,749	54,396	3,575	7.0%
EDD	24,868	27,063	30,445	28,282	29,368	-1,078	-3.5%
NWSA Joint Venture	2,974	3,123	501	501	837	336	67.0%
Stormwater Utility	3,028	4,124	3,933	3,933	3,940	7	0.2%
Central Services	827	1,227	3,180	2,312	3,922	742	23.3%
Total	73,862	78,789	88,881	83,777	92,463	3,582	4.0%
Net Operating Income	57,252	61,626	39,234	49,863	34,208	-5,025	-12.8%

Lower NWSA Distributable Revenue reduces NOI for 2020

Accounting Impacts on NWSA Financials

(\$ in millions)	NWSA Budget with GASB 87			NWSA Budget without GASB 87		
	2019	2020	Change	2019	2020	Change
Operating Revenue	199.4	149.9	(49.5)	199.4	197.4	(2.0)
Operating Expense	99.3	98.9	(0.4)	99.3	99.2	(0.1)
Net Operating Income	100.1	51	(49.1)	100.1	98.2	(1.9)
Depreciation	13.5	15.4	1.9	13.5	15.4	1.9
NOI After Depreciation	86.6	35.6	(51.0)	86.6	82.8	(3.8)
Non-Operating Revenue/Expense	1.1	47.4	46.3	1.1	0.2	(0.9)
Change in Net Assets	87.7	83.0	(4.7)	87.7	83.0	(4.7)
POS Share of Distributable Revenue		41.5				
Less: 50% of T46 ILA Revenue		(1.9)				
POS Distributable Revenue		39.6				

GASB 87 and Joint Venture Accounting Affect NWSA Financials

Community Programs Summary

Program (in \$000)	2019 Budget	2020 Budget	2019 to 2020 Budget Change	
1) Airport Community Ecology (ACE) Fund	500	522	22	4.5%
2) Energy & Sustainability Fund	250	250	-	-
3) South King County Fund	750	1,500	750	100.0%
4) Duwamish Valley Community Equity Program	-	292	292	0.0%
5) Low Carbon Fuel Standard Support	-	150	150	-
6) Sustainable Aviation Fuels & Air Emissions Program	375	40	(335)	-89.3%
7) Economic Development Partnership Grants	960	960	-	-
8) Tourism Program	1,521	1,536	15	1.0%
9) Airport Spotlight Advertising Program	354	1,148	794	224.5%
10) City of SeaTac Community Relief	1,400	1,400	-	-
11) Maritime Innovation Center	-	150	150	-
12) Diversity in Contracting	1,657	2,059	402	24.3%
13) Equity, Diversity & Inclusion	648	1,586	938	144.9%
14) Workforce Development	2,920	2,879	(41)	-1.4%
15) High School Internship Program	634	775	141	22.2%
TOTAL	11,968	15,247	3,279	27.4%

- Added new programs for 2020:
 - Duwamish Valley Community Equity Program
 - Maritime Innovation Center
 - Low Carbon Fuel Standard Support
- Increased the budget for South King County Fund.
- Workforce Development eliminated K-12 Career Connected Learning, and added new items, which include Maritime Secondary Education, Engagement and Strategic Plan, and Career Advancement Center.
- Diversity in Contracting added 2 new FTEs in 2019.
- For 2020, Equity, Diversity and Inclusion included 3 new FTEs and additional resources to implement EDI strategy.

Adding new FTEs and resources to advance community programs

2020 Comprehensive Budget

(\$ in 000s)	2018 Actual	2019 Budget	2020 Budget	Change \$	Change %	Explanations
Revenues						
1. Aeronautical Revenues	291,268	365,604	401,342	35,738	9.8%	Cost recovery under SLOA
2. Other Operating Revenues	398,122	387,651	409,839	22,187	5.7%	Mainly due to higher revenues from the Airport, Maritime & EDD.
3. Tax Levy	71,771	74,160	76,385	2,225	3.0%	Assume a 3% increase from 2019.
4. PFCs	94,070	95,185	99,505	4,320	4.5%	Higher enplanement forecast for 2019.
5. CFCs	21,802	23,482	23,914	432	1.8%	Higher non-op revenue for CFC debt service
6. Fuel Hydrant	6,942	7,022	7,022		0.0%	No change from 2019.
7. Non-Capital Grants and Donations	1,711	2,655	2,551	(104)	-3.9%	Less non-capital grants from state.
8. Capital Contributions	43,650	49,345	48,010	(1,335)	-2.7%	Increase grants reimbursement from FAA and TSA.
9. Interest Income	26,287	30,903	27,669	(3,234)	-10.5%	Decrease in rates, partially offset by higher fund balances.
Total	955,623	1,036,007	1,096,237	60,230	5.8%	
Expenses						
1. O&M Expense	397,638	454,986	469,769	14,783	3.2%	New budget initiatives and average pay increase.
2. Depreciation	164,362	168,676	179,056	10,379	6.2%	More new assets coming into services.
3. Revenue Bond Interest Expense	100,443	129,429	157,231	27,801	21.5%	Assume \$600M new bond issuance & \$150M refunding in 2020.
4. GO Bond Interest Expense	13,414	12,689	12,003	(686)	-5.4%	Amortization of outstanding GO debts and no new issuance assumed.
5. PFC Bond Interest Expense	4,368	3,606	2,740	(865)	-24.0%	Decreased debt service on PFC bonds through amortization.
6. Non-Op Environmental Expense	10,600	5,000	5,000	-	0.0%	No change from 2019.
7. Public Expense	5,269	21,009	19,233	(1,776)	-8.5%	Safe and Swift, Heavy Haul, Checkpoint Screening Equipment.
8. Other Non-Op Rev/Expense	3,217	1,415	2,905	1,490	105.3%	Spotlight Advertising Program increase from \$353K to \$1,148K.
Total	699,310	796,810	847,937	51,127	6.4%	
9. Special Item	34,923	-	-	-	0.0%	T25 NRD restoration project special item.
10. Retro Adjust to Net Position	2,721	-	-	-	0.0%	Net of GASBs 75 and 86 adjustments.
Revenues over Expenses	218,669	239,197	248,300	9,103	3.8%	

A strong financial position for the Port in 2020

Capital Plan Summary

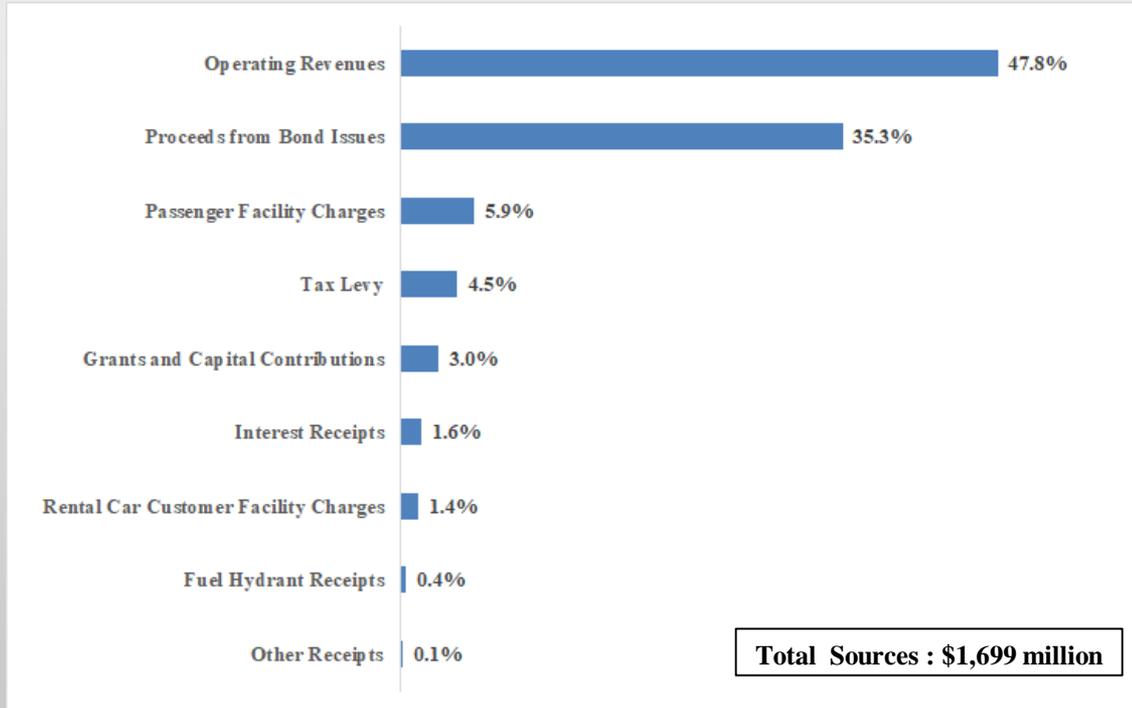
Capital Plan Summary by Division

\$ in 000's	2019 Fcst	2020	2021	2022	2023	2024	2020-2024
Aviation	660,834	656,204	577,314	471,143	547,039	671,262	2,922,962
Maritime	14,934	42,566	97,112	156,325	41,782	29,079	366,864
Economic Development	5,059	15,801	12,497	19,171	16,735	9,255	73,459
Stormwater Utility	1,619	2,104	650	650	650	650	4,704
Central Services and Other	12,003	(76,213)	40,469	25,673	58,116	26,992	75,037
Total	694,449	640,462	728,042	672,962	664,322	737,238	3,443,026

- Capital projects have been prioritized by staff.
- The capital plan does not include Port share of the NWSA capital spending between 2020 and 2024.

The Port continues to invest in the region with a 5-year capital plan of over \$3.4 billion

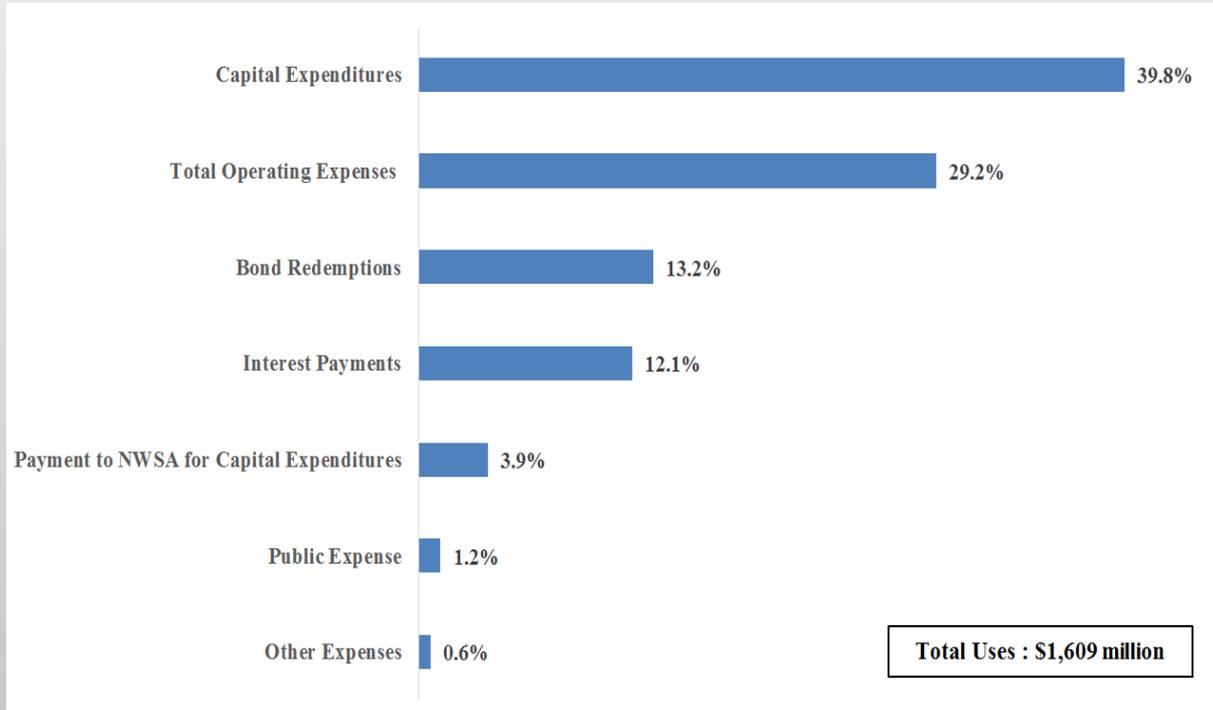
Sources of Funds



- Almost half of funding sources comes from operating revenues.
- 35% of the funding sources comes from bond proceeds.
- The tax levy makes up 4.5% of the funding sources in 2020.

The Port has diversified funding sources

Uses of Funds

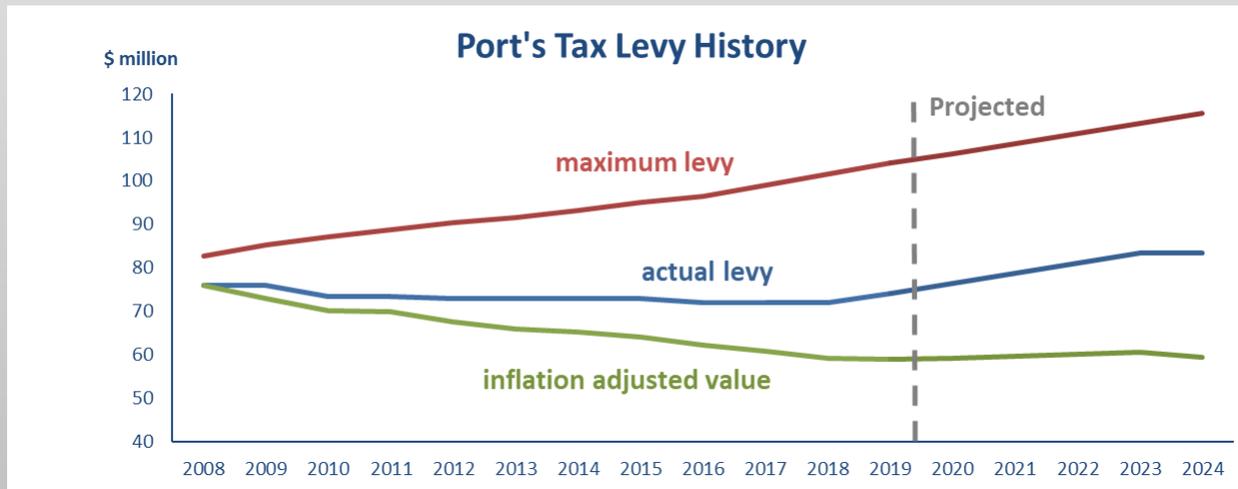


- Plan to spend about 40% of the funds on capital projects in 2020.
- 29.2% of total expenditures on operating expenses.
- 25.3% of the total spending on debt services.

\$1.6 billion total expenditures for 2020

Tax Levy Strategy

- In 2019, the Commission approved a 3% inflationary levy increase to support investments in the Seattle Harbor
- Funding assumed that the levy would increase 3% per year through 2023, then flat in 2024
- 2019 tax levy increased to \$74.2 million compared to \$72.0 million in 2018
- Over the prior decade, inflation reduced the purchasing value of the tax levy



Taxpayer Impact

	2018	2019	2020 preliminary
Tax Levy (\$ million)	72.0	74.2	76.4
Estimated millage rate (\$/1000)	0.135	0.123	0.120
Median home value (\$) ⁽¹⁾	509,000	582,000	611,000
Estimated median home Port tax (\$)	68.7	71.6	73.3

(1) 2018 and 2019 per King County Assessor; 2020 based on estimated 5% growth in assessed value

Preliminary estimate indicates that the median home-owner will see an increase payment of Port property tax of \$1.74 in 2020.

Remaining Budget Schedule

- Adoption of 2020 Budget Nov. 19, 2019
- File Statutory Budget with King County Dec. 2, 2019
- Release the 2020 Final Budget Document Dec. 13, 2019

Statutory budget to be filed with the County by December 2

APPENDIX



FTE Summary

	Aviation	Maritime	Econ Dev.	Central Services	Total
2019 Approved FTE's	1,105.78	173.00	36.00	940.30	2,255.08
Mid Year Approval	27.25	-	2.00	26.25	55.50
Eliminated	(42.75)	(1.50)	-	(2.00)	(46.25)
Net Transfers	64.00	21.00	(3.00)	(83.00)	(1.00)
Adjusted 2019 FTE's (note 1)	1,154.28	192.50	35.00	881.55	2,263.33
2020 Budget					
Eliminated	-	(3.00)	-	(2.20)	(5.20)
Transfer	-	1.00	-	(1.00)	-
Conversion of Emergency Hires	-	24.00	-	-	24.00
New FTE's	53.00	8.50	0.60	36.00	98.10
Total 2020 Changes (note 2)	53.00	30.50	0.60	32.80	116.90
Proposed 2020 FTE's	1,207.28	223.00	35.60	914.35	2,380.23

Notes:

- 1) Includes 3.0 FTE for Stormwater Utility in Maritime Division.
- 2) All F&B and ENV COEs, including a total of 7.5 new FTEs, roll up to Central Services.

FTEs driven by operating needs and growth initiatives

Tax Levy Sources and Uses 2020

(\$ million)

SOURCES OF TAX LEVY FUNDS

	2020
Prior Year Tax Levy Fund Balance	\$ 10.6
Projected Tax Levy Collection	76.4
Environmental Grants & Other Reimbursements	13.3
Total Sources	\$ 100.3

USES OF TAX LEVY FUNDS

G.O. bond debt service (Existing)	\$ 39.8
Non-Airport Capital Investments	24.8
Environmental Remediation Liability (Non-Aviation)	8.2
NWSA Membership Interest Contribution	5.5
Community Programs	11.4
Total Uses	\$ 89.7

Projected Ending 2020 Levy Fund Balance	\$ 10.6
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- The \$76.4 million tax levy is sufficient to fund the uses identified for 2020
- Current projections assume the issuance of General Obligation bonds in 2021

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