

**PORT OF SEATTLE**  
**MEMORANDUM**

**DATE:** November 6, 2008  
**TO:** Port Commission  
**FROM:** Tay Yoshitani, Chief Executive Officer  
**SUBJECT:** 2009 Budget Message

**INTRODUCTION**

The Port prepared its 2009 budget recognizing that we face tremendous budget challenges in the year ahead. Given the weakening economy and significant uncertainty on financial markets, both the airline and marine industries are operating in very tough environments. A softening real estate market also may result in higher vacancies at commercial properties next year. At the same time, we anticipate increases in medical insurance costs, salaries/wages and benefits, maintenance costs for new or existing facilities, and environmental costs because of a new government accounting regulation that affects the way environmental expenses are reported.

The **Airport** is expected to see a 3 percent decline in enplanements for 2009. With the costs for new facilities -- such as the C-1 baggage system -- hitting the airline rate base, the pressure for the Airport to reduce costs is tremendous. We continue to manage growth in passenger airline cost per enplanement on the airline side of business and to grow the net operating income on the non-airline side of business.

The **Seaport** is anticipating some growth in operating revenue with the reactivation of the Terminal 30 container facility in May 2009. However, container volumes are expected to decline more than 10 percent compared to this year's budget and the cruise business projects a 4 percent decline in passengers. The impact of that decline on revenue will be limited because of the fixed rate provisions in the container terminal leases. Critical activities for the Seaport in 2009 include the timely completion of the Terminal 30 container facility and Terminal 91 cruise facility; making significant progress on Green Initiatives in the areas of air emissions, storm water, and energy efficiency; and supporting customer growth plans and asset management.

For the **Real Estate Division**, the key challenges in 2009 will be to manage costs while catching up on maintenance of Real Estate properties -- particularly the Maritime Industrial Center and the final stages of seawall replacement at Fishermen's Terminal -- and to manage the Port's most recent acquisition, the Eastside Rail Corridor. The division will continue to improve, maintain and update our facilities to maximize occupancy rates and vessel moorage. The Division will work in unison with our customers to increase energy efficiencies and recyclables.

The Port implemented most of the State Auditor's performance audit recommendations by taking a series of measures and creating the **Capital Development Division** and Central Procurement Office in 2008. We will continue to implement the audit action plan by increasing resources for Internal Audit Department and adding a number of specific initiatives to the 2009 budget. These items include: implementing a new project management system, creating contract information Web site for contractors and vendors, creating procurement files and space, and adding new FTEs to the Capital Development Division.

## **BUSINESS PLAN/ OPERATING BUDGET**

The fiscal management of the budget is the cornerstone of our success as a Port. The 2009 operating revenues are budgeted at \$486.4 million, a 2.1 percent increase. Operating expenses are budgeted at \$277.9 million, a 4.7 percent increase. Net Operating Income before Depreciation is \$208.5 million, a 1.2 percent decrease, reflecting the fact that most cost increases, such as salaries and benefits, were offset by decreases in other expenses or covered by increased revenue. Depreciation Expense is budgeted at \$157.0 million, an increase of \$10.0 million. Net Operating Income after Depreciation is \$51.5 million, down \$12.5 million from the 2008 budget.

The total capital budget for 2009 is \$676.2 million and the five year capital improvement program is \$2.1 billion, which represents sustainable investments that support the Port's Business Plan and Green Initiative. As we improve economic stability, we continue to look for ways to reduce our environmental footprint.

### **Aviation**

The Aviation Division manages Aeronautical and Non-aeronautical sides of its business. On the Aeronautical side, the Port's goal is to manage cost in terms of cost per enplanement (CPE). The budgeted 2009 CPE is \$11.90, compared to \$11.63 in the 2008 budget. On the non-aeronautical side, the primary goal is to increase cash flow as measured by net operating income (NOI).

Operating revenues are budgeted at \$360.0 million, a \$4.2 million increase from the 2008 budget. Revenues from airlines are budgeted to increase \$4.3 million over 2008, and non-airline revenues are budgeted to decrease \$747 thousand over 2008. Total operating expenses are budgeted at \$189.5 million, a 0.8 percent increase.

### **Seaport**

The Seaport includes two major business groups: Cargo Operations, comprised of Container Operations and Container Marketing, and Cruise and Industrial Properties. There are also service groups within the Seaport. Professional and Technical Services are comprised of Environmental Services, Planning, Security and Finance. Additional services are provided by Seaport Administration.

Seaport operating revenues are budgeted at \$94.9 million. Total operating expenses are budgeted at \$51.9 million. Net operating income (NOI) before depreciation is \$43.0 million.

### **Real Estate**

The Real Estate Division includes five functional workgroups: Real Estate Development & Planning, Harbor Services, Maintenance, Property Management & Leasing and Pier 69 Facilities Management. These business and service groups oversee the development and management of various Port assets and vessel moorage facilities. Financial services, project management, facility planning, and environmental services are provided by the Seaport Division.

Real Estate operating revenues are budgeted at \$31.1 million. Total operating expenses are budgeted at \$35.4 million. Net operating income (NOI) before depreciation is (\$4.3) million.

### **Capital Development**

The new Capital Development Division was created in 2008 by integrating the efforts of six functional workgroups: Engineering, Port Construction Services, Aviation Project Management Group, Seaport Project Management Group, and the new Central Procurement Office which consolidates contracting and procurement functions. The Capital Development Division delivers projects and provides technical and contracting services in support of the business plans and infrastructure needs of the Port of Seattle. Capital Development operating expenses are budgeted at \$7.0 million.

### **Corporate, Professional and Technical Services**

The three operating divisions of the Port are supported by a number of functional departments as well as service groups, including the Port's Police Department. These functional and service groups allocate their expenses according to the level of service they provide to the divisions. The corporate departments were re-organized in 2009 by moving Engineering and Port Construction Services to Capital Development Division. Corporate operating expenses are budgeted at \$73.6 million.

### **CAPITAL BUDGET**

The total capital budget for 2009 is \$676.2 million and the five year capital improvement program is \$2.1 billion, which reflects the Port's continuing commitment to promoting regional economic activity through the investment in the development, expansion, and renewal of Port facilities that supports the Port's Business Plan and Green Initiative.

### **TAX LEVY**

The Port's 2009 Budget assumes a levy amount of \$75.9 million, which will remain flat at the 2008 level, while reducing the tax levy rate by 12.4% for taxpayers from .2250 cents per \$1000 of assessed value to .1970 cents. The tax levy, Section IV of this document provides details on the uses of the Port's levy.

### **SUMMARY**

The coming year will be challenging, but with the right tools, resources and our highly capable employees, we are well positioned to continue the Port's strong record of success. The budget is a reflection of our commitment to continue to do the things that we do well and improve in the areas where we can do better to increase our competitive advantage. We appreciate the Commission's guidance and support in pursuit of the Port's mission.

## **2009 Port of Seattle Budget and Plan of Finance**

The Port of Seattle's 2009 Budget and Plan of Finance invests in business operations that retain and create jobs, cuts costs and continues implementing a responsible plan to weather the global economic downturn.

### **Budget Summary**

- The 2009 Operating Budget includes cuts totaling \$9 million, reflecting the Port's commitment to belt-tightening. Those reductions are on top of \$8.2 million savings to date in 2008 operating expenses. Since early summer, the Commissioners and staff have been working together to reduce current expenses and draft the 2009 budget.
- The Port is simultaneously facing increased expenses of over \$11 million in environmental, dredging, and facility costs. The Port will also spend \$1.6 million in 2009 implementing recommendations from the 2007 performance audit, such as the Chief Procurement Office and other contracting technology improvements. Lastly, the Port faces \$2 million in increased health care premiums.\*
- The Commission has directed that \$630,000 in deferred maintenance projects will be funded in 2009 – projects that create near-term construction jobs and protect existing investments King County citizens and Port customers have made in seaport and real estate facilities.
- Despite these increased costs, the Port's cash flow (net operating income) is forecasted to remain strong at \$208.5 million.
- The Port's tax levy amount will remain level at \$75.9 million, the amount collected in 2008. The Port's capital budget includes investments in projects that create near-term jobs, as well as environmental initiatives such as the Northwest Ports Clean Air Strategy and removal of contaminated sediment from Puget Sound. The total capital budget for 2009 is \$676.2 million.

### **2009 Belt-tightening Measures**

- The Port's Operating Budget will be cut by \$9 million, including:
  - Professional services, such as architectural and engineering support, have been reduced by 31% or \$1.9 million.
  - Personal services, such as human resources or planning consultants, have been reduced by 21% or \$2.4 million.
  - Promotional expenses, such as trade and community development and other activities that promote the Puget Sound region, have been cut by 19% or \$390,000.
  - Supplies and stocks, including office, janitorial and other facility supplies, have been cut by 14.5% or \$993,000.
  - Travel and development expenses have been cut by 16% or \$788,000.
  - The overall Corporate Budget is reduced by 2% or \$1.5 million.
- The Port's Capital Budget defers up to \$195 million in projects for five years.
  - The Port will continue to focus on investing capital dollars in projects that create jobs for the region, like improvements to docks that are crucial for our trade with Alaska.

- The Port's Levy amount will remain level at \$75.9 million – while reducing the tax levy rate by 12.4% for taxpayers from .2250 cents per \$1000 of assessed value to .1970 cents.

**\*Increased 2009 Expenses:**

- |                                                                                    |               |
|------------------------------------------------------------------------------------|---------------|
| ○ Environmental costs, including asbestos remediation                              | \$4.1 million |
| ○ Dredging, particularly upland disposal at Terminal 30                            | \$5.4 million |
| ○ New facility costs, including cargo loading bridges                              | \$1.3 million |
| ○ State Auditor's Office (SAO) Audit implementation, including new staff positions | \$1.6 million |
| ○ Increased healthcare premiums                                                    | \$2.0 million |

**TABLE I-1: 2009 BUDGET SUMMARY**

|                                                      |                  | (in 000's) |                                  |             |         |             |           |
|------------------------------------------------------|------------------|------------|----------------------------------|-------------|---------|-------------|-----------|
| <b>OPERATING BUDGET</b>                              |                  | Aviation   | Seaport                          | Corporate   | Capital | Real Estate | Total     |
| Operating Revenues                                   |                  | \$350,153  | \$90,980                         | \$314       |         | \$31,111    | \$472,558 |
| Security Reimbursement                               |                  | \$1,050    | 3,955                            |             |         |             | 5,005     |
| Miscellaneous Revenue                                |                  | \$8,704    |                                  |             |         |             | 8,704     |
| Fuel Hydrant Facility                                |                  | \$100      |                                  |             |         |             | 100       |
| Total Operating Revenues                             |                  | \$360,006  | \$94,935                         | \$314       | \$0     | \$31,111    | 486,367   |
| Operating and Maintenance Expense                    | 3                | 140,979    | 38,419                           |             | 0       | \$29,431    | 208,829   |
| Corporate Administrative Expense                     |                  | 32,800     | 10,656                           | 1,020       |         | 4,878       | 49,354    |
| Law Enforcement Costs                                | 1                | 15,743     | 2,853                            |             |         | 1,082       | 19,678    |
| Total Operating Expense                              |                  | 189,522    | 51,928                           | 1,020       | 0       | 35,391      | 277,862   |
| <b>Net Operating Income before Depreciation</b>      |                  | \$170,484  | \$43,007                         | (\$706)     | \$0     | (\$4,280)   | \$208,506 |
| Depreciation                                         |                  | 115,605    | 30,903                           |             |         | \$10,528    | 157,036   |
| <b>Net Operating Income after Depreciation</b>       |                  | \$54,879   | \$12,105                         | (\$706)     | \$0     | (\$14,807)  | \$51,470  |
| Revenue Bond Interest Expense                        |                  | (106,051)  | (14,822)                         |             |         | (2,951)     | (123,824) |
| Interest Income                                      |                  | 18,006     | 4,950                            |             |         | 85          | 23,040    |
| Other Non-Op Income (Expense)                        |                  | (771)      | (1,364)                          |             |         | (95)        | (2,231)   |
| Ad Valorem Tax Levy Revenue                          | 2                | 650        | 61,409                           |             |         | 13,840      | 75,899    |
| Grants and Donations                                 |                  | 63,276     | 8,000                            |             |         | 0           | 71,276    |
| Passenger Facility Charges & related Interest Income |                  | 62,525     | 0                                |             |         | 0           | 62,525    |
| Customer Facility Charge                             |                  | 24,573     | -                                |             |         | 0           | 24,573    |
| PFC Bond Interest & Amortization                     |                  | (10,996)   | -                                |             |         | 0           | (10,996)  |
| CFC Bond Interest & Amortization                     |                  | (8,000)    | -                                |             |         | 0           | (8,000)   |
| G.O. Bond Interest & Amortization                    |                  | 0          | (18,954)                         |             |         | (10,245)    | (29,199)  |
| Public Asset Expense                                 |                  | (8,850)    | (15,205)                         |             |         | 0           | (24,055)  |
| <b>Net Non-operating</b>                             |                  | 34,361     | 24,013                           | 0           | 0       | 634         | 59,008    |
| <b>Revenue Over Expense</b>                          |                  | \$89,240   | \$36,118                         | (\$706)     | \$0     | (\$14,174)  | \$110,478 |
| <b>CAPITAL BUDGET</b>                                |                  | Aviation   | Seaport                          | Corporate   | Capital | Real Estate | Total     |
| Committed                                            |                  | \$348,202  | \$126,685                        | \$12,808    | \$0     | \$116,289   | \$603,984 |
| Business Plan Prospective                            |                  | 42,644     | 25,550                           | 1,890       | 0       | 2,100       | 72,184    |
| Total                                                |                  | \$390,846  | \$152,235                        | \$14,698    | \$0     | \$118,389   | \$676,168 |
| <b>EMPLOYEES</b>                                     |                  | Aviation   | Seaport                          | Corporate   | Capital | Real Estate | Total     |
| Total FTE's                                          |                  | 833.0      | 61.8                             | 474.7       | 271.3   | 151.1       | 1,791.9   |
| <b>CASH FLOW SUMMARY</b>                             |                  |            |                                  |             |         |             |           |
| Beginning balance cash and investments               |                  | \$603,829  |                                  |             |         |             |           |
| <b>Cash Receipts:</b>                                | 2009             | % Total    | <b>Cash Expenditures:</b>        | 2009        | % Total |             |           |
| Revenues                                             | \$486,367        | 37%        | O&M expense                      | \$208,829   | 17%     |             |           |
| Interest Receipts                                    | 25,358           | 2%         | Corporate Administrative Expense | 49,354      | 4%      |             |           |
| Proceeds from Bond Issues                            | 560,000          | 43%        | Security Costs                   | 0           | 0%      |             |           |
| Grants                                               | 71,276           | 5%         | Law Enforcement Costs            | 19,678      | 2%      |             |           |
| Tax levy                                             | 75,899           | 6%         | Interest Payments                | 199,842     | 16%     |             |           |
| Passenger Facility Charges                           | 62,525           | 5%         | Other Expenses                   | 44,844      | 4%      |             |           |
| Rental Car Customer Facility Charges                 | 24,573           | 2%         | Bond Redemptions                 | 99,730      | 8%      |             |           |
| Other Receipts                                       | 630              | 0%         | Public Asset Expense             | 24,055      | 2%      |             |           |
| Total Cash Receipts                                  | \$1,306,629      | 100%       | Committed Capital Expenditures   | 603,984     | 48%     |             |           |
| Total Cash Expenditures                              |                  |            |                                  | \$1,250,317 | 100%    |             |           |
| Increase (Decrease) of cash during the year          | <u>\$56,313</u>  |            |                                  |             |         |             |           |
| Ending balance cash & investments                    | <u>\$660,142</u> |            |                                  |             |         |             |           |

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Note:

- Budget 2009 law enforcement costs includes Police costs.
- Portions of Levy has non-Seaport use, see Tax Levy Section IV for detail.
- Capital Development Group allocates expenses to the Aviation, Seaport and Real Estate divisions.