2009-2013 DRAFT PLAN OF FINANCE

A. Introduction

One year ago, the draft Plan of Finance reported that the Port generally enjoyed operating and financial stability in 2007 and expected 2008 to be similar. However, during 2008, domestic and international financial markets have undergone major disruptions; oil prices experienced significant swings; real estate markets have softened and economic growth has slowed – in the U.S. economists estimate that a recession has been underway since the spring. 2008 has therefore been a challenging year in many industries, specifically the airlines and shipping carriers that are critical to the Port's businesses. While the Port has experienced lower than expected container activity, preliminary Airport results show that 2008 enplanement estimates are projected to exceed those of 2007. The forecast for 2008 net operating income before depreciation is expected to be below budget, but still strong.

The Port currently expects that weak economic and financial conditions will continue into 2009, and the effects of all of these elements are reflected in the Port's key operating measure forecasts and in a higher cost of funds, reflected in the higher interest rate assumptions in the Capital Capacity Calculations section of this draft Plan of Finance. In addition, the Port has developed contingency capital plans that provide for the deferral of some project spending in the event that capital funding is unavailable.

The Port's key operating measure of Airport passenger traffic (enplanements) for 2008 is estimated to increase 4 percent over 2007, and is projected to decline by 3 percent from 2008 to 2009. For the Seaport division, container volumes projections for the 2008 full year are estimated at negative 12.7 percent, and the projection for the 2009 budget is a further decline of 1.3 percent. Financial results as measured by net operating income (NOI) before depreciation for 2008 are projected to be lower than budgeted, and less than 2007 actual results. The 2009 budget anticipates a moderate decline of 0.6 percent for NOI relative to the 2008 budget. While there are higher projected revenues at both the Seaport and Airport, operating expenses are projected to increase for both divisions as well as for the Real Estate division.

2008 was the third year of the Airport's new airline agreement implemented in 2006 and designed to minimize airline costs while providing financial stability. Under the agreement, the Airport charges airlines 100% cost recovery for all aeronautical costs with the ability to charge up to 125% of aeronautical debt service in the event that coverage on all Airport related debt service drops below 125%. The Airport retains non-aeronautical net revenues and the Port has been successful at increasing its working capital balances to maintain the equivalent of at least nine months of operating and maintenance expense in order to provide a liquidity cushion and mitigate the anticipated lower overall debt service coverage. The 2008 forecast indicates improved performance in revenues compared to budget. Expenses, however, are not favorable compared to budget. Contributors to the increase in expenses include worker's compensation settlements and unplanned expenses associated with GASB 49 implementation. The 2009 budget projects an increase in airline revenues and a small decline in non-airline revenues that collectively more than offset increases in operating expenses, resulting in an anticipated increase to NOI before depreciation. For more details about the Airport's revenues and expenses, please see Section V "Aviation". As discussed in detail in Section X, "Capital Budget", the Airport capital program has completed all major projects included in the 1999 $2.6 billion Phase I capital program. One of the program's major goals to construct a third runway was completed on time, going into use on November 20, 2008. It is projected that the third runway costs will be lower than the original budget by more than $105 million. Going forward into 2009, another major project, the Consolidated Rental Car Facility, with a $412 million budget, may experience schedule changes. Funding activities for the project has been ongoing during 2008 and will carry over into 2009, with the delay resulting from the financial market difficulties described earlier.

The reorganized Seaport 2008 NOI is forecast above budget, primarily due to the unanticipated receipt of an Environmental Grant and above budget revenue from the Grain Terminal and Cruise. The 2009 budget reflects a decrease in NOI compared to the 2008 budget. While 2009 budget revenues are projected to rise, they are more than offset by increased operating expenses. Increased revenues from the reactivation of Terminal 30 and cruise businesses contribute to the increased revenue forecast. Although much of Seaport's revenues and net income are derived from the Port's container terminal leases, this income is based on terminal acreage rather than container volumes; therefore, neither the sizable increases in container volumes in 2004 and 2005, nor the declines in 2006-2008 significantly affect Seaport financial performance. Container revenue grows either through the regularly scheduled increase in the terminal lease rates or through the increase in terminal acreage. As mentioned, the Port is planning on increasing container terminal acreage by converting Terminal 30 back to container use and moving the cruise operations currently located there to Terminal 91. In addition, the Seaport is continuing improvements at Terminals 25, 91, and 115. The primary reason for the increase in operating expenses comes from Containers & Support Properties and Environmental Reserves. Some of these increased expenses are a result of the Port's progress toward its Green Initiative strategy.

The new Real Estate (RE) division formed in 2008 as part of the Port's reorganization plan allows the Seaport and Aviation divisions to concentrate on their respective core businesses. Certain Seaport businesses and the real estate functions from the Economic Development division formed RE. This division integrates the efforts of 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. The RE division is also tasked with identifying and pursuing opportunities that enhance the region's long term viability and ultimately produce new revenue for the Port. Because these functions primarily provide public benefits, the RE Division budgeted a small negative NOI before depreciation of $0.6 million in 2008. The 2008 NOI forecast is negative $7.5 million, primarily due to the expensing of capital costs for the North Bay project. The major capital expenditure for RE for 2009 is the $107 million acquisition of the Eastside Rail Corridor from BNSF Railway Company. The acquisition was originally scheduled for 2008, but funding of the Eastside Rail Corridor project has been impacted by the disruption in the financial markets described earlier. For North Bay, the decision was made to terminate that project and write-off capital costs incurred to date for the development of this site. As mentioned, this is the primary contributor toward the negative 2008 NOI variance projected for RE. For more details please see Section VII, "Real Estate".

As part of the capital management process, each year the Port prepares the Draft Plan of Finance (the Plan). This provides a plan for funding the Port's currently anticipated capital spending. The Plan is designed as a flexible tool, providing guidance to the Commission and Port staff as planning and investment decisions are made during the coming year. The Plan is based on a five-year capital plan in order to provide better guidance on long-term funding.

Once a year, the Commission is presented with the Port's capital plan along with a funding analysis. By final budget action the Commission approves the capital plan and establishes the level of the Port's tax levy for the coming year. The first year of the capital plan forms the basis of the Port's Approved Capital Budget. Each quarter the capital plan is revised and progress is measured on capital spending; this is reviewed quarterly by the divisions and Senior Management and periodically by the Port Commission.

B. Overview of the Funded Capital Plan

The capital plan is the result of an iterative process that begins with updated business plans developed by each division and approved by division management. The plan is then reviewed in the context of the Port's projected capital capacity and further reviewed by Port Executive staff. Changes to the capital plan are incorporated into the final business plans and budgets and into the Plan of Finance. For information on the Port's Capital Improvement Program see Section X "Capital Budget."

Within the capital plan, projects are divided into several categories that determine their funding priority.

- Committed: Committed projects are those necessary to implement the divisions' business plans and are well scoped, have undergone financial analysis and at least division level review. They include projects that are already underway and authorized as well as projects not yet authorized, but ready for Commission level review. These projects receive a specific funding commitment in the Capital Plan.
- Prospective: Prospective projects may also be part of business plans, but are not yet well-scoped and analyzed and therefore are less certain as to timing or funding requirements. Prospective projects can be re-classified as Committed once they have met the necessary criteria, so it is important that capital funding be flexible enough to accommodate these projects as well as other changes to the Capital Improvement Program (CIP). Prospective projects are further subdivided into two categories as follows:
  - Business Plan Prospective: Projects that are prospective because of uncertainty of scope and timing, but are deemed to be critical for achieving business plan goals. This category includes projects that are contingent obligations associated with leases or other agreements.
  - Other Prospective: Projects that are still in preliminary planning or that are not currently deemed critical in meeting business plan goals.
- Public Expense. In addition to the CIP, the Port participates in several public projects, particularly in the area of regional transportation and contributions to Highline School District noise mitigation. Because these projects do not result in Port owned assets, they are accounted for separately as Public Expense Projects, but they use the same funding as capital projects and are included in the funding analysis for the Plan of Finance.

Committed projects are designated for funding and are the basis of the Plan of Finance. This year's Plan of Finance also includes most Business Plan Prospective projects. Consistent with last year's Plan, the Port continues to target a minimum 1.8x debt service coverage on its First Lien Revenue bonds and the Plan targets debt service coverage by division with the Airport meeting a 1.25x coverage on Airport revenue bond debt and the Seaport and RE collectively meeting 1.5x coverage on their revenue bond debt. Simultaneously the Port has been implementing plans to increase the minimum fund balances in the Port's working capital funds. The Plan is developed so that these targets are met in most years; temporary, minor dips below the targets can be tolerated if the long-term coverage is expected to rebound to at least the target coverage.

Consistent with past years since 1991, the Port Commission has authorized its property tax levy below the maximum levy allowable, thus preserving the flexibility for the Port to increase the levy if needed. For 2007, the Port levied $68.8 million or $0.2316 per $1,000 of assessed value. In 2008, the Port continued to reduce the levy rate to $0.2236, or $75.9 million. For 2009, despite an increase in the assessed value for King County property, and given the economic environment described earlier, the Port maintained a levy amount equal to the 2008 levy of $75.9 million, a levy rate of $0.1975 (see Section IV "Tax Levy"). The Plan assumes the same levy amount will increase by 3% in all future years regardless of changes in King County assessed values.

Also consistent with last year, the Plan retains at least 25% of the tax levy for general purposes and uses no more than 75% for General Obligation (G.O.) bond debt service. This policy is more restrictive than the Port's statutory authority for G.O. bond debt. Based on statute, as of December 31, 2008, the Port could issue an additional $583 million of non-voted G.O. bond debt (see Section IV "Tax Levy").

C. 2009-2013 Funding Plan

AIRPORT

The Airport's operating forecast is based on the airline lease agreement described above. During the forecast period, the Port expects to generate sufficient net income from non-airline sources to maintain Airport related debt service coverage at 1.25x without increasing airline charges above 1.0x coverage.

The funding Plan for the Airport includes Airport net income, the use of existing bond proceeds, future revenue bonds and commercial paper proceeds. The Port received a Letter of Intent (LOI) granted by the Federal Aviation Administration (FAA) for the Third Runway project totaling $278.4 million of which $197.2 million has already been spent; the Airport expects additional Federal grant money for capital improvements including noise mitigation and security projects. Passenger Facility Charge (PFC) collections (net of PFC bond debt service) also provide capital funding and the Plan anticipates using a portion of PFC receipts to support debt service on certain eligible future revenue bonds. Customer Facility Charge (CFC) collections and proceeds of Revenue Bonds, expected to be issued in 2009, will provide funding for the Consolidated Rental Car Facility. In addition, the Plan anticipates the use of the tax levy to fund the portion of Highline School District noise mitigation costs that are ineligible for Airport funding.

The current funding Plan includes all of the Airport's Committed and Business Plan Prospective projects including Rental Car Facility, the rebuild of Runway 16L/34R, trailing spending associated with the completion of the third runway; relocation of the north expressway; continuation of infrastructure improvements and noise mitigation; baggage screening and other security improvements. For more details about the major capital projects, please see Section X, "Capital Budget". The Plan for the Airport also includes the Airport's Public Expense related to Highline School District in the amount of $11.7 million and improvements to State Route 518 Corridor in the amount of $5 million, and the Airport's share of the corporate Professional and Technical Services (P&TS) Projects, which totals $33 million and represents the difference between the $1,420 million CIP and the $1,470 million in funding sources.

TABLE X-1: 2009-2013 AIRPORT [1] PROJECT FUNDING

	($ Millions)
Net Income	253
Existing Bond Proceeds	119
Passenger Facility Charges	65
Customer Facility Charges [1]	344
Federal Grants	86
Tax Levy (Highline Schools)	23
Future Revenue Bond Proceeds	580
Total [2]	1,470

[1] Includes proceeds from CFC-backed bond proceeds

[2] Includes $33 million in funding for the Airport's share of Corporate capital projects, primarily Information Technology

SEAPORT AND REAL ESTATE

The Seaport and Real Estate (RE) Divisions share the same funding sources. The 2009-2013 Plan funds both the Seaport and RE Committed and Business Plan Prospective projects. Seaport and RE funding includes net income and excess General Fund balance, proceeds from existing bonds, proceeds from future General Obligation (G.O.) bonds, including G.O. bonds expected to be issued in 2009. The Plan also assumes Seaport and RE Divisions funding from the tax levy and Federal grants for eligible portions of Seaport Security projects. The Seaport and RE funding Plan is based on the income projections associated with the existing facilities, new projects and the lease revenues from improved property utilization and on targeting 1.5x debt service coverage on Seaport and RE revenue bond debt.

The Plan funds the continued redevelopment of Terminal 30 for container operations, the redevelopment of Terminal 25 South for container yard operations as well as land acquisitions for container yard support; the relocation of the existing Terminal 30 cruise operations to Terminal 91, other container terminal improvements and renewal and replacement of various harbor facilities and the Eastside Rail Corridor property acquisition. The Plan assumes continued funding for the Green Port Initiative. The Plan includes $18 million for a portion of corporate P&TS and $22.5 million for Public Expense projects related to regional transportation. Based on the assumptions described above, the funding plan includes all Committed capital projects, but requires the deferral of an estimated $195 million of Business Plan Prospective capital spending. The inclusion of these costs less the $195 million deferral account for the difference between the $657 million five year CIP for Seaport and EDD and the $502 million in funding sources.

TABLE X-2: 2009-2013 SEAPORT AND REAL ESTATE [1] PROJECT FUNDING

	($ Millions)
Net Income and General Fund balance	115
Existing Revenue Bonds	58
Tax Levy	101
Future G.O. Bonds	226
Grants	2
Total **	502

** Includes $18 million in funding for the Seaport's and Real Estate's share of Corporate capital projects, primarily Information Technology

FINANCIAL IMPLICATIONS AND RISKS

The funding Plans above include projects currently identified as Committed and Business Plan Prospective. The Plan meets the First Lien Revenue Bond coverage target of at least 1.80x coverage and in fact results in First Lien coverage between 2.26x and 2.74x. The Plans were also designed to meet the targets of Airport revenue bond coverage of 1.25x and Seaport and RE coverage of 1.50x. The result is that coverage for all revenue bond debt service (irrespective of lien) ranges from a low of 1.44x to a high of 1.52x.

There are a number of risks that should be considered with regard to the above funding Plan. While the Committed projects are fairly certain, the Business Plan Prospective projects are still uncertain with regards to scope and timing; an increase in costs or acceleration of schedule for these projects could change the funding forecast. In addition, the Plan does not include Other Prospective projects or projects that are not currently contemplated but may be required for security, renewal and replacement or to address changes in the business environment. In addition, the forecast is based on a number of assumptions related to operating income and tax levy collection; changes in these assumptions could affect the Plan results as well. To minimize coverage impacts, the Port could employ a number of options:

- delay or reduce project spending
- further reduce operating costs or identify additional revenues
- utilize alternative financing for appropriate projects
- seek additional grant funding
- increase airline rates and charges
- increase the tax levy, subject to statutory constraints
- implement the Industrial Development District levy

Prior to implementation, the above mechanisms would be further evaluated in the context of business planning, asset liability management goals and Port policy objectives. Given potential costs or risks associated with each of the mechanisms, it is likely that a balanced approach would be pursued that utilized them in some combination.

The Plan of Finance assumes a levy amount of $75.9 million in 2009, which is below the Port's actual statutory authority of $85.3 million. The Port can access additional funding sources including remaining non-voted G.O. bond capacity and voted G.O. bond capacity, assess the tax levy at the maximum amount or assess an Industrial Development District (IDD) levy (subject to limitations described in Section IV "Tax Levy"). There are no plans to use these resources at present, but they are available should the Port Commission deem them appropriate.

D. Financing Initiatives

In 2008, the Port did not issue Revenue or General Obligation bonds to fund Seaport or RE projects. Existing bond proceeds issued in 2007 were used as part of the total funding. In 2009, the Port expects to issue an estimated $180 million in General Obligation bonds to fund Seaport and RE projects.

For the Airport, the plan to issue an estimated $412 million in Special Facility Revenue Bonds to fund the Airport's new Consolidated Rental Car Facility has been ongoing. Due to the difficulties in the financial markets described earlier, this was not completed in 2008; the Port plans to issue the bonds in 2009. The Port also expects to issue Revenue bonds to fund approximately $200 million of other Airport projects. During 2008, the Port refunded $200 million of the Airport's Auction Rate Securities (ARS) with the 2008 Variable Rate Demand Bonds Series, due to the failure in the ARS market. The Port also planned to use interest rate swaps to synthetically refund AMT debt that was not currently refundable. This was not completed and the Port does not plan to pursue this strategy in 2009

E. Capital Planning Resources

The following information on funding guidelines and financial model assumptions are resources for better understanding the 2009 Draft Plan of Finance.

PORT OF SEATTLE FUNDING GUIDELINES

The following guidelines have been prepared to assist the Commission, Port management, and staff in decisions regarding the allocation of Port capital funds.

Tax Levy

Projects should meet two criteria to be eligible for tax levy funding: 1) a long lag exists between capital costs and project revenues or the project's financial return will not support revenue bond financing (i.e. the internal rate of return, or IRR, is less than the current cost of debt); and 2) the project generates significant economic benefits for taxpayers. Each year, a tax levy request will be made for the funding of specific capital projects, certain environmental expenses, and other community investments. Once designated as levy funded, projects may be levy funded through completion. Information regarding the use of levy funds can be found in Section IV "Tax Levy".

General Obligation Bonds

Projects eligible for general obligation (G.O.) bond financing should meet three criteria: 1) a long lag exists between capital costs and project revenues or full payback from other sources of capital, or financial return is insufficient to support revenue bond financing (Internal Rate of Return ["IRR"] less than the current cost of debt); 2) the project generates significant economic benefits for taxpayers; and 3) projects using G.O. Bond funding must also be critical to the Port's core business. Because General Obligation Bonds are paid from the tax levy, many projects that qualify for levy funding may also be G.O. bond funded.

Revenue Bonds

Projects should earn the current cost of debt (in IRR terms) or fund projects that can be included in the airlines' rate base to be eligible for revenue bond financing. A target senior lien revenue bond coverage ratio of 1.8 times and 1.4 times coverage on all revenue bond debt will be maintained for capital planning purposes, but will be reviewed annually in light of changing circumstances such as critical funding needs or changes in the airport-airline operating agreement. An adequate cash flow margin (cash flow after debt service) will also be maintained for planning purposes.

Industrial Development District (IDD) Levy

In order to be considered for IDD levy financing, projects should be critical to core Port business or other major strategic initiatives, and should generate significant economic benefits for taxpayers. Additionally, projects must comply with all applicable legal requirements governing the use of the levy.

Airport Improvement Program (AIP) Grants and Passenger Facility Charges (PFCs)

Projects eligible for AIP grant and PFC funding should be consistent with airport investment strategies and must comply with the regulations of the grant-making agency. High priority safety, security and capacity projects will be stressed.

Funding vs. Asset Life

Project funding should in all cases closely match the life of the particular asset financed. For example, long-term financing in the form of 20-30 year revenue or general obligation bonds should only be used for assets having economic lives in a similar range or longer. Shorter-lived assets should be funded through pay-as-you-go or other short-term financing structures.

2009 DRAFT PLAN OF FINANCE ASSUMPTIONS

Capital Budget

Capital budget projections are based on the CIP presented to the Port Commission during October and November, 2008, and are included in Section X "Capital Budget."

Capital Capacity Calculations

The Port's capital capacity calculations combine projections of operating revenues, expenses, non-operating items, debt service, and capital spending to determine Port debt financing requirements. Assumptions used in the financial analysis of the 2009 Plan include:

- Interest on restricted and unrestricted funds equal 3.91%.
- Interest on general obligation debt is equal to 8.0% for 25 years.
- New First Lien revenue bonds are issued at 8.0% for 25 years.
- New Intermediate Lien revenue bonds are issued at 8.0% for 25 years.
- Interest on variable rate bonds is equal to 5.0%.
- 2008 capital spending estimates are based on estimated actuals as of July, 2008.
- 2009 operating revenue and expense projections are based on the preliminary operating budget as of October, 2008 and may vary slightly from the final budget.

Tax Levy

The Port's tax levy projections are based on estimates of King County assessed valuation and inflation. The Plan of finance assumptions are based on preliminary projections obtained from the King County Assessor's Office as of October, 2008.

A tax levy projection model is used to forecast future year assessed value amounts. Projections of assessed value are based on actual historical data.

Revenue and Expense Assumptions

Airport

- Expense projections are based on estimates developed as part of division business planning.
- Airport revenues determined according to the new airline agreement; landing fees and terminal rents are set to recover all airline related terminal and airfield operating costs and to recover all aeronautical capital costs at 100% debt service coverage on aeronautical debt. The remainder of the Airport operates in a businesses-like fashion, with the Port responsible for all costs and revenues. If non-airline net revenues are insufficient to generate 125% of all Airport related revenue debt service, the Port may increase airline charges up to 125% of aeronautical debt service.
- Environmental costs are included in O&M expense.
- Federal Airport Improvement Program (AIP) grant reimbursement projects are based on estimated spending on eligible projects and standard reimbursement rates of 75%-80%. Letter of Intent (LOI) receipts for third runway construction and security grants from the Transportation Security Administration (TSA) are included in the total grant amounts.
- Passenger Facility Charges (PFCs) are estimated based on projected enplanement levels, net of debt service payments on PFC bonds.
- Customer Facility Charges (CFCs) are estimated based on transaction days of car rentals at the Airport. The anticipated CFC-backed special revenue bond proceeds along with any CFC income net of debt service will fund the Rental Car Facility.

Seaport and Real Estate

- Revenue and expense projections are based on the divisions' long-range operating forecasts. Revenues generated from new investment were included if the related capital project is part of the committed CIP.
- Estimated security grant receipts for operating grants are included in gross revenues and the associated expenditures are included in operating expenses.
- Environmental costs are included in O&M expense.

Corporate Professional and Technical Services

- Expenses for Corporate Professional and Technical Services are distributed to the Airport, Seaport and RE divisions as corporate overhead.