

## **A. THE PORT OF SEATTLE**

The Port of Seattle is a public enterprise with unique authority operating in an international, market-driven environment. The Port provides services to its customers in order to return benefits to the citizens of King County, giving careful consideration to the economic, social, and environmental implications of its decisions.

The Port is comprised of three operating divisions Aviation, Seaport, and Real Estate, and Capital Development Division as well as a Corporate Professional and Technical Services Division. The Aviation Division manages the Seattle-Tacoma International Airport. The Seaport Division manages (primarily through leases) cargo and passenger marine terminals as well as industrial property connected with maritime businesses. The Real Estate Division manages moorage facilities, leases commercial and industrial buildings/properties, and plans and facilitates the development of selected real estate assets.

The Capital Development Division was established during 2008 and became fully operational during 2009. It houses existing engineering, project management and construction functions and the Port's new Central Procurement Office which consolidates contracting and procurement functions.

Corporate Professional and Technical Services provide high quality and cost-effective professional and technical services to the operating divisions and support the overall goals of the Port.

## **B. HISTORY OF THE PORT OF SEATTLE**

The Port was established in 1911 in an effort by citizens to ensure public ownership of the Seattle harbor. The Port of Seattle was the first autonomous municipal corporation in the United States specifically tasked to develop harbor and port facilities to encourage commerce. The port opened Fishermen's Terminal in 1912, its first warehouse in 1915 and began working on the creation of Harbor Island. Since then, the port has developed numerous properties as well as constructed the Seattle-Tacoma International Airport in 1949.

The Port's task hasn't changed over the years but its scope of services has expanded considerably. The Port continues to upgrade and modernize its facilities to meet current market demands. The Port has added container terminals, a grain terminal, cruise terminals, marinas, public parks and viewpoints and contributed significantly in the development of public amenities along Seattle's waterfront.

## **C. PORT OF SEATTLE FACILITIES AND SERVICES**

Seaport facilities encompass approximately 1,200 acres of moorage and cargo-related facilities. Nearly 500 acres are dedicated to container operations at four terminals with over 11,000 feet of berths and 26 cargo cranes –including ten Super Post-Panamax cranes. The Seaport also owns a fully automated grain terminal and general and breakbulk cargo facilities. It is home to the North Pacific factory trawler fishing fleet. The Seaport also includes two cruise vessel terminals with a total of three berths. In addition, the Seaport leases industrial property connected with these cargo, cruise, and factory trawler fishing businesses.

Seattle-Tacoma International Airport is located on 2,800 acres sixteen miles south of downtown Seattle. The port has made significant improvements to the airport including a new terminal expansion, terminal and infrastructure upgrades. The airport includes three runways that are 11,900 feet, 9,425 feet, and 8,500 feet in length and a subway system linking the concourses. The Seattle-Tacoma International Airport is the sixteenth largest U.S. airport as measured by total passengers and compared to other large airports, Sea-Tac has relatively high originations and destinations traffic.

The Real Estate Division manages the Port's holdings in commercial real estate, recreational marinas, industrial fishing terminals and developable property. This division was formed in 2008 and allows the Seaport and Aviation Divisions to concentrate on their core businesses.

**FIGURE II-1: FACILITY MAP**



## **D. STRATEGIC PLANNING**

### **Strategic Overview: Creating a Sustainable Port**

The Port's five-year strategic plan is driven by several key strategic challenges and opportunities facing the institution and the region today, with the goal of long-term sustainability. These challenges and opportunities include:

- Increasing competition from other ports, airports, and regions.
- Decreasing availability of public funds.
- Decreasing profit margins for most port and airport customers.
- Complying with new security restrictions and costs to the global transportation system.
- Increasing surface traffic congestion.
- An emerging new economy based on information-intensive products and services.
- A growing community interest in sustainability, to achieve a long-term balance of economic, social and environmental objectives and values.
- Influencing the demographics changes in present and future workforce.

The strategic focus of the organization for 2010 will center on these initiatives:

- Bring environmental leadership to front and center of entire organization.
- Achieve 2010 operating profit goals.
- Keep capital projects on schedule and budget.
- Strengthen the oversight of capital development and management.
- Promote programs for a high performance organization.
- Be proactive in public relations.

### **Mission**

**The Port of Seattle: Creating economic vitality HERE**

### **Vision and Values**

At the Port of Seattle, we:

- Invest in QUALITY services and facilities for our customers and community.
- Act with INTEGRITY and OPENNESS.
- Take RESPONSIBILITY and make the hard choices.
- Treat each other with TRUST AND RESPECT.
- Embrace DIVERSITY in our workforce and partnerships.
- Promote CONTINUOUS IMPROVEMENT in our organization and in ourselves.

### **Strategies**

- Ensure Airport and Seaport vitality.
- Develop new business and economic opportunities for the region and the port.
- Enhance public understanding and support of the port's role in the region.
- Be a catalyst for regional transportation solutions.
- Be a leader in transportation security.
- Exhibit environmental stewardship through our actions
- Be a high performance organization.

## **E. OPERATING PERFORMANCE BUDGET POLICY, PROCESS AND CALENDAR**

### **a. Budget Policy:**

The Port establishes a budget policy to provide systematic planning as part of the management performance and control. The purpose of this policy is to allow the capability to forecast realizable financial results over definite periods of time. This is accomplished through planning and coordination of the various complex operations and functions of the Port, through systematic communication and the use of the Port's financial control and management information system.

The operating performance budget is viewed as year one of the business plans and as such, it is an essential component of the management planning and control process. It quantifies business groups and departmental plans for future periods in strategic, operational and monetary terms. This facilitates coordination of plans between divisions/departments and provides a basis for control once the plan is in effect.

Various inputs to the budget planning process are required for it to be meaningful, including forecast of economic trends and business activity levels. Above all, goals, objectives, programs, action plans and performance measures defined and reviewed annually for consistency and support of the Port's overall mission.

The budget plan is based on assumptions about the success of marketing efforts, demand for services, and the cost, availability and need for people and materials. The budget process provides continual feedback which not only compares actual performance to the plan but also the validity of the assumptions on which the plan was based.

The Operating Performance Budget is a management tool for controlling and analyzing each area of responsibility. Budgeting as well as the recording of actual costs is done on an Org basis (formerly cost center). An Org is a distinct functional and physical unit. Its performance responsibility can be assigned to one person. There are over 200 Orgs at the Port. Each Org has a budget. The person assigned to each of these Org budget is responsible for the operating costs of that Org. Budgeting is done on a line-item basis for Revenues and Operating & Maintenance Expenses.

Allocated and/or indirect expenses are not budgeted for by the recipient Org. These are costs that are allocated to business groups/unit from service providers based on the Port's standard allocation formula or using an alternative allocation methodology. Allocated costs are general support costs that cannot be directly attributed to a business unit, but instead support the entire Port. Costs can come from within the division (intra-division allocation) or from outside the division (inter-department allocation).

Department Directors are responsible for preparing the operating budget for their areas of responsibility, subject to review and approval by several levels within the organization. Orgs can be combined to analyze and report on budgets by functional or business units. Port management needs current, timely and accurate information to make informed decisions in a timely manner. The objective of the budget process is to provide responsibility performance, financial and statistical information, to enhance effective management.

In addition to providing the business plan for the organization, the process results in a method of comparing actual financial results with the approved budget plan. The appropriateness of the pricing structure or the effects of changes in costs or activity can be observed. This approach gives management the flexibility to evaluate the performance of a particular activity. The Budget Report (compares the proposed budget to the current year's budget and last year's actual) and the Responsibility Report (compares actual results to budget) can advise a management if things are not going as expected, whether strategies are being accomplished, and also give him/her clues as to what might be wrong. The function of controlling and managing the operations of the Port is accomplished with the Operating Performance Budget.

The 2010 budget process included several Commission briefings with the operating division and corporate departments during the year to update the Commission on key issues facing the business groups and to solicit input into overall strategies and objectives. The divisions updated the Commission on each business unit with background information, discussing capital and operating plans and dialogue on major policy issues.

Divisions fine-tuned their business plans based on Commission input and put together budgets based on revised business plans.

Key events included budget planning meetings by the Executive Management team, the issuance of the budget guidelines/instructions and budget calendar to divisions, training of budgeteers on usage of the budget system, actual preparation of the budget by divisions and departments, internal budget reviews, which includes in-depth discussion of revenue and expense assumptions, new programs, initiatives, or other proposed increases in revenue, expenses as well as operational needs, review and agreement by the Commissioners and Executive Management, and release of the updated proposed budget to the Port Commission and public stakeholders.

Budget staff responded to inquiries of commission and interested stakeholders during commission budget workshops, first and second reading and adoption of the budget following public hearings.

In addition to the Operating Performance Budget as stated above, the budget staff prepares the Statutory Budget as defined in RCW 53.35.010 to show “estimated expenditures and the anticipated available funds from which all expenditures are paid.” Being a cash budget, the Statutory Budget establishes the level of the Port’s property tax levy and sets upper limits of expenditures, and is not used as an Operating Performance Budget.

**b. Budget Adoption:**

The budget is provided to the Port Commission and must be made available to the general public as required by law - RCW 53.35.010 and RCW 53.35.045. Two Public Hearings – First Reading and Second Reading and Final Passage and Adoption of Budget are held, at which time the Port Commission will make final recommendations and adopt the budget at a regular commission meeting and duly authenticated in open session with an announcement of the public hearings be made in the DAILY JOURNAL OF COMMERCE newspaper and copies of the preliminary budget be made available for distribution to any interested persons by a specified date as required by law - RCW 53.35.020 and RCW 53.35.045.

Subsequent to the public hearing and Commission adoption of a final plan, the statutory budget and resolution is then filed with the King County Council and King County Assessor as required by law, by a specified date as allowed by RCW 53.35.045.

**c. Monitoring of Budget:**

Once an annual budget is in place, the Responsibility Report (comparing actual results to budget) is generated monthly and variances from budget are analyzed and reported on a monthly basis, and more extensively each quarter, to determine if corrective action is needed. Divisions and departments prepare a quarterly year-end forecast, which is incorporated into the quarterly Performance/Variance Report. The Performance/Variance Report is a report in narrative form explaining the reason or causes of variances between actual revenues and expenses versus budgeted amounts on a quarterly basis. A good and accurate monthly and quarterly performance/variance report is a very important tool for management. This report provides explanation of variances from the approved plan and presented quarterly to Executive Management and the Commission in public meetings.

**d. Amending the Operating and Capital Budgets:**

The Chief Executive Officer of the Port of Seattle is authorized “Within Budget Limits” to transfer budgeted amounts between departments; however, any revisions that alter the total expenses port-wide that are not within the Chief Executive Officer Authorized Budget Limits require authorization from the port commission. As per Resolution 3065 as amended, whereas the Port Commission has adopted policy directives delegating administrative authority to the Chief Executive Officer for the purpose of day-to-day management and administration of the port and as stated in sections 20.2.1 and 20.2.2 of said resolution:

20.2.1 “Within Authorized Budget Limits” means with respect to capital projects, improvements or acquisitions, the term “Within Authorized Budget Limits” means that the project, improvement or acquisition:

- (i) Is included in the Port's Annually Approved Capital Budget, or
- (ii) Is included in the Port's Annually Reviewed Capital Improvement Plan
- (iii) Will not cause the Port to exceed the total approved dollar limit of the current Annually Approved Capital Budget.

20.2.2 "Within Authorized Budget Limits" means with respect to non-capital expenditures, that the expenditure:

- (i) Is included in the total approved dollar limit of the Port's current Annual Operating Budget.
- (ii) Will not cause the Port to exceed the total approved dollar limit of the Port's current Annual Operating Budget.

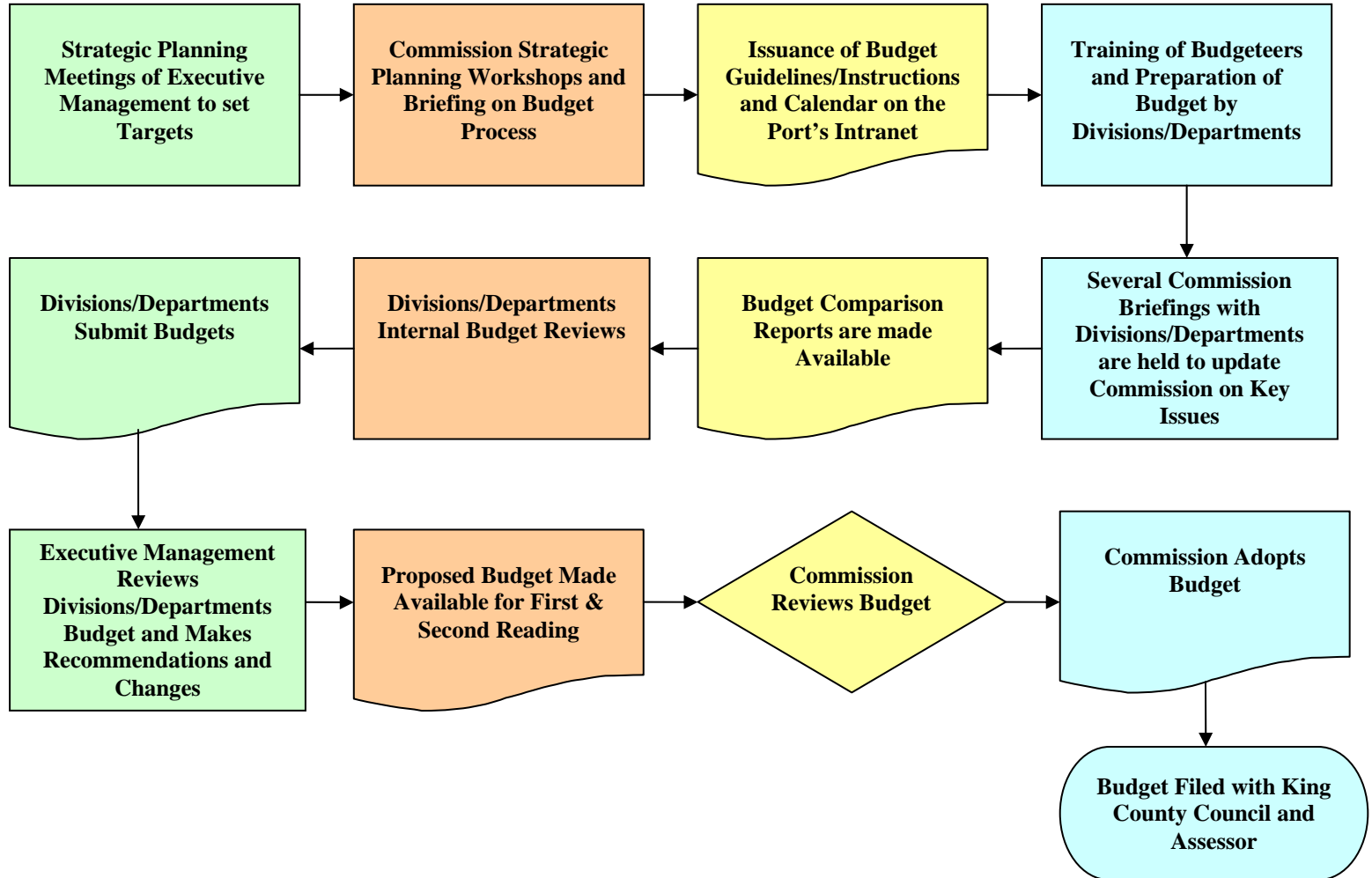
**e. Operating Performance Budget Process:**

The steps in the 2010 operating budget process are as follows:

- Budget planning meetings of Executive Management to set 2010 operating targets.
- Commission strategic and business planning briefing/workshop.
- Training of Budgeteers from the various divisions on the use of the budget system.
- Commission briefing on 2010 budget process, key assumptions & targets.
- Issuance of budget guidelines/instructions and budget calendar on the Port's intranet.
- For the operating divisions, targets are developed based on the divisions' business plan forecast.
- For corporate professional and technical services division, initial targets are based on a bottom-up assessment of needed resources to accomplish strategy/actions plans.
- Several Commission briefings with the operating divisions and corporate departments are held during the year to update the Commission on key issues facing the business groups/departments and to solicit input into any changes in strategy.
- Budget system available for input.
- Actual preparation of the budget by divisions/departments.
- Corporate Finance and Budget generates Budget Comparison Report, which compares the proposed budget to the current year's budget and last year's actual, and also produces the current year's Forecast Report.
- Divisions/departments complete their detailed budgets and are reviewed internally by their senior managers and finance and budget staff, which include in-depth discussion of revenue and expense assumptions, new programs, initiatives, or other proposed increases in revenue, expenses as well as operational needs.
- Divisions/departments budgets are submitted to corporate finance and budget and then reviewed against targets by Executive Management.
- Executive Management makes recommendations and changes, which are incorporated into divisions/departments budgets.
- Several commission and public budget workshops are held on divisions/departments budget and business plans.
- All budget issues are resolved and changes are entered and made into the budget system.
- Corporate Finance and Budget staff generates various reports in a timely manner and ascertains that all approved changes are incorporated into the budget and reports are accurate.
- Corporate Finance and Budget prepares preliminary budget document and releases proposed budget to the Port Commission and stakeholders on October 29, 2009.
- The First Reading of the budget will be on November 10, 2009.
- Budget Staff answer inquiries of commission and interested stakeholders during commission budget public hearing.
- The Second Reading, Final Passage and Adoption of the 2010 budget will occur on November 24, 2009 at which time the Port Commission will make final recommendations and adopt the budget.
- The Statutory Budget will be filed with King County Council and King County Assessor as required by law on December 1, 2009.
- Corporate Finance and Budget staff will prepare and release the final budget document to reflect Commission recommendations.

**FIGURE II-2: OPERATING BUDGET PROCESS FLOW CHART**

# OPERATING BUDGET PROCESS FLOW CHART



**f. Operating Performance Budget Planning Calendar:**

<u>Date</u>	<u>Activity</u>
5/21/09	Executive Management Budget Planning meeting
8/11/09	Commission Briefing on 2010 Budget Process, Key Assumptions & Targets
8/12/09	Budget Guidelines/Instructions and calendar available on the Port's Intranet
8/05 - 25/09	Budget User Training
8/17/09	Budget System Available for Input
8/17 - 9/28/09	Preparation of budget by divisions/departments
8/11/09	Seaport & Real Estate Strategy/Business Plan Commission Presentation
8/18/09	Aviation Strategy/Business Plan Commission Presentation
8/21/09	Allocation templates due to divisions Finance Staff
9/01 - 9/09/09	Budget Staff conducts Budget Workshops to assist budgeteers with budget
9/17/09	Preliminary Tax Levy Commission Briefing
9/17 - 25/09	Aviation, Seaport and Real Estate Internal Budget Reviews
9/18/09	Corporate Departments, Capital Development and Non-Operating Budgets due to Corporate Finance and Budget
09/28/09	Executive Management review of Corporate and Capital Development Budgets (both Operating & Capital Budgets)
09/29/09	Executive Management review of Seaport & Real Estate Budgets (both Operating & Capital Budgets)
09/29/09	Executive Management review of Aviation's Budget (both Operating and Capital Budgets)
09/30/09	All Corporate Budget Issues resolved
10/05 - 09/09	Capacity Funding Analysis
10/06/09	Commission Meeting to review Divisions Operating and Capital Budgets
10/09/09	Executive Management review of Draft Plan of Finance and Tax Levy
10/14/09	All Outstanding Budgets Issues resolved
10/15/09	All Divisions Budgets and documents due to Corporate Finance & Budget
10/20/09	Draft Plan of Finance & Tax Levy Commission Workshop
10/16 – 28/09	Corporate Finance and Budget Staff prepares 2010 preliminary budget document
10/29/09	2010 Preliminary Budget & Business Plan document is released and available to Commission and Public
11/10/09	First Reading and Public Hearing of 2010 Preliminary Budget & Business Plan – Commission Public Hearing
11/24/09	Second Reading, Final Passage and Adoption of the 2010 Budget & Business Plan – Commission Public Hearing
12/01/09	Filing of Budget with King County Council & King County Assessor as required by law

## **F. CAPITAL BUDGET POLICY, PROCESS AND CALENDAR**

### **a. Capital Budget Policy:**

As part of the Strategic Budgeting process, Corporate Finance and Budget (F&B) produces Capital Budget and Plan of Finance. Capital Budget consists of all divisions' capital plans or Capital Improvement Programs (CIP). The Plan of Finance is a five year funding plan of the CIP that the Port publishes on an annual basis.

The divisions review and revise their CIP in conjunction with the review of their existing business plans and strategies. The CIP is comprised of at least Committed projects from the 2009 CIP, less any that have been deleted, plus any Prospective projects that meet the criteria to move forward to Committed status. The CIP may include Business Plan Prospective projects if coverage targets are met. Divisions are encouraged to review CIP cash flows with respect to timing and reasonableness to ensure effective use of capital capacity.

### **b. Capital Budget Process:**

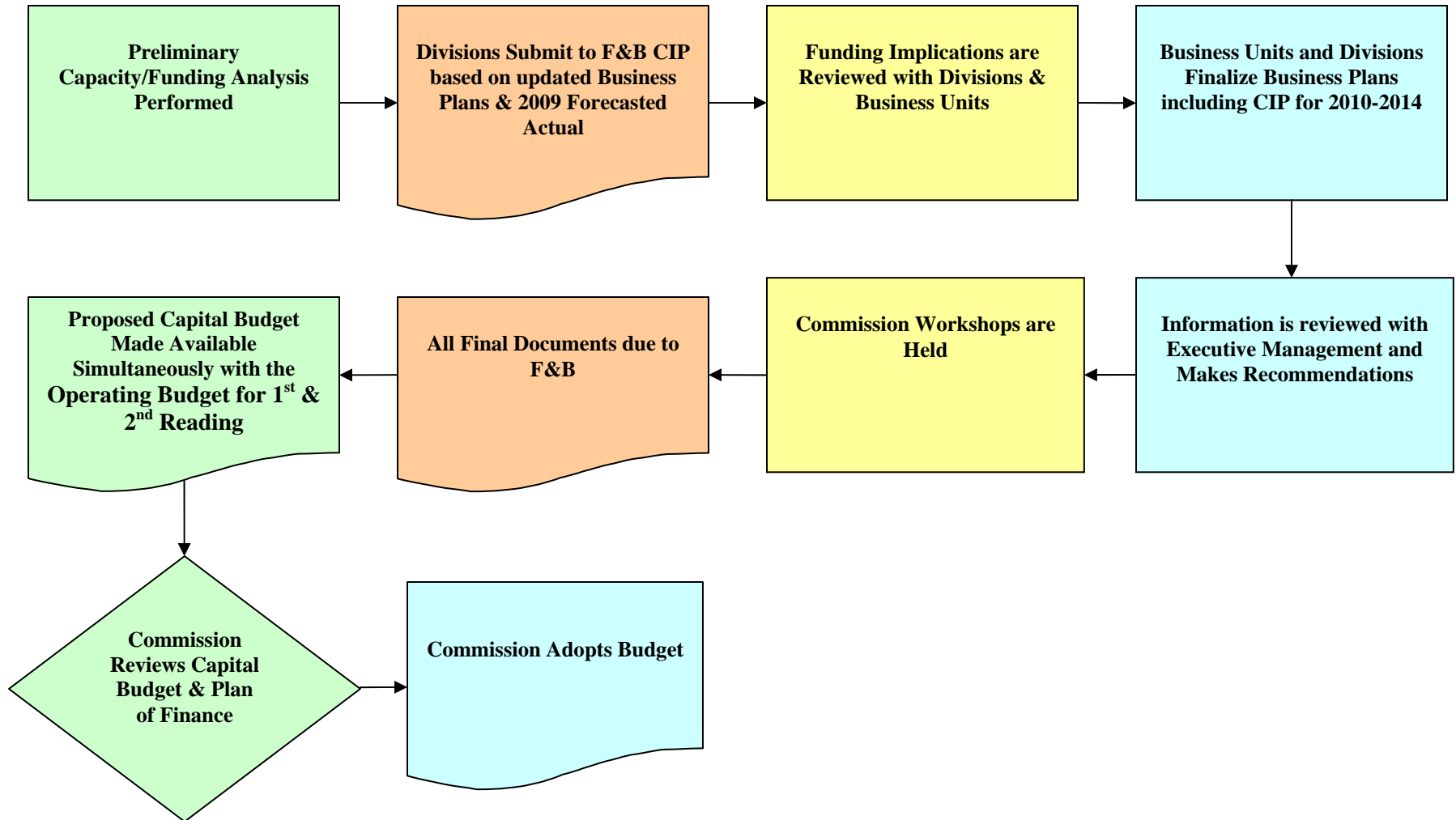
- A preliminary capacity/funding analysis will be performed once the 2<sup>nd</sup> quarter update is completed, but no later than by the end of August.
- At the end of September, divisions will submit to Corporate Finance & Budget (F&B) the CIP based on their updated business plans and 2009 forecasted actual (which includes actual through second quarter). The funding implications of these capital plans will be reviewed with the divisions and business units.
- Following F&B funding analysis and Executive review of preliminary plans, business units and divisions will finalize their business plans including their CIP for 2010 -2014.
- This information will then be reviewed with Executive, presented to the Commission, included in the 2010 Budget and Business Plan document.

After the closed of the 2009 fourth quarter in January 2010, the Approved 2010 Capital Budget will be determined based on the 2009 fourth quarter CIP update. Revised spending estimates will be used to establish the 2010 approved funding amount for each Committed Project and for divisions as a whole. However, only the original list of Committed Projects identified in the Plan of Finance will be included in the approved funding amount at this time. The Approved 2010 Capital Budget will become the standard for quarterly variance reporting during the year.

**Note:** Even though the Commission reviews the Capital Budget in November, each individual CIP project is presented and approved by the Commission in public meeting during the course of the year for spending authority.

**FIGURE II-3: CAPITAL BUDGET PROCESS FLOW CHART**

## CAPITAL BUDGET PROCESS FLOW CHART



**c. Capital Budget Planning Calendar:**

Following is the proposed 2010 capital budget planning calendar:

<b><u>Date</u></b>	<b><u>Activity</u></b>
8/28/09	CIP 2 <sup>nd</sup> Quarter Update completed (including CIP Funding)
8/28/09	Preliminary Seaport and Real Estate Forecast Models due to F&B
8/31 - 9/14/09	Preliminary Non-Aviation capital capacity analysis by F&B
9/17/09	Preliminary Tax Levy Briefing with Commission
9/25/09	Preliminary Aviation Forecast Model due to F&B
10/2/09	Aviation, Seaport and Real Estate Forecast Model due to F&B (CIP must match PSFS)
10/5 - 10/09/09	Capacity/Funding Analysis (Port-wide preliminary) by F&B
10/09/09	Executive reviews: Plan of Finance and use of Tax Levy
10/12 - 10/16/09	F&B Finalizes Capacity/Funding Analysis
10/14/09	F&B creates “CAPBUD” database from Projects before Q3-2009 update (This is a target date, actual date may change!)
10/20/09	Commission workshop: Plan of Finance and use of Tax Levy
10/23/09	All final documents due to F&B
10/29/09	Release of 2010-2014 Capital Budget and Draft Plan of Finance as part of the 2010 Budget and Business Plan document
11/10/09	First Reading and public hearing of the 2010 Budget
11/24/09	Second Reading and Final Passage of the 2010 Budget
12/01/09	Filing of Budget with King County Council & King County Assessor as required by law

**G. FINANCIAL MANAGEMENT POLICIES**

The primary purpose of the Port is to broaden and strengthen the economic base of the port district. The Port uses key criteria in various combinations as it pursues its capital and operating programs and projects. Clearly, national and international economic strengths or weaknesses have a direct bearing upon Port’s financial viability and role as an economic engine for the region.

## H. KEY FINANCIAL TOOLS

The Port uses several tools to monitor its financial performance and these are described below

- **Long-term Target:** The Port's long-term targets provide high-level policy guidance. These targets provide guidance to the business plans created by each division.
- **Business Plans:** The business plans set the strategic direction and priorities for each division. The business plans are a planning tool, which link operations, capital investments, and the interests of the Port's customers and the community.
- **Operating Performance Budget:** The Operating Budget is a one-year slice of the business plans. It is an essential component of the Port's management planning and control process. It quantifies line of business and departmental plans for the next year in both operational and monetary terms. Throughout the year, the Responsibility Reports (which compare actual results to budget) are generated monthly and variances from budget are analyzed on a monthly basis, and more extensively each quarter, to determine if corrective action is needed. Divisions and departments prepare a quarterly forecast, which is incorporated into the quarterly Performance Report, which provides explanation of variances from the approved plan and is presented quarterly to Executive Management and Commission in public meetings.
- **Balanced Budget:** The Port prepares an annual budget and supports, encourages and commits to a balanced budget in which revenues exceed expenses. In so doing, the practice is to pay for all current operating expenses with current revenues and not postpone current year operating expenses to future years or accrue future year's revenues to the current year. The Port policy further requires that budgeted operating expenses do not exceed budgeted revenues, and on-going expenses do not exceed on-going revenues.
- **Operating Forecasts:** Included in the budget document are five-year forecasts or projections of the divisions operating revenues and expenses. The first year of this forecast is the Operating Performance Budget.
- **Capital Budget:** A detailed plan of proposed outlays or capital expenditures arising from the acquisition or improvement of the Port's fixed assets and the means of financing them through bond proceeds, grants and operating revenues. This document serves as an operational and planning tool and it is directly tied to the business plans. The document identifies proposed capital projects at the airport and on the waterfront and prioritizes those projects.
- **Capital Expenditures:** Expenditures that arise from the acquisition or improvement of the Port's fixed assets. Port assets are given a useful life of more than three years when they become active. The expenditures reflected in the capital budget cover projects anticipated to provide modernized Seaport, Airport and Real Estate facilities for sustained growth of the Port.
- **Capital Budget Impact on the Operating Budget:** Its impact on the Operating Budget is through Capitalized Labor or Charges to Capital Projects, which include the salaries and benefits costs associated with capital projects. These costs are subtracted out of the operating budget and then budgeted in the capital budget as part of the cost of the project (s). It is also impacted in the form of increased operating, maintenance and depreciation expenses because of the new assets. Depreciation is a non-cash item that represents the use of long-term assets. Port assets are given a useful life of more than three years when they become active and each year some of that useful life is used up, worn or depreciated. The capitalized labor or charges to capital projects is displayed in table III-3 and the depreciation is displayed in table III-2. This information is also displayed in similar tables in the three sections of the operating divisions, section V, VI and VII.
- **Plan of Finance:** The Five-year Capital Budget is the basis of the Plan of Finance. This document provides a funding plan of the capital program developed within the financial targets and forecasts described within the Draft Plan of Finance section. The Draft Plan of Finance is prepared and presented to the Port Commission concurrently with the Operating Budget. See further discussion in the Draft Plan of Finance, section XI.

- **Capital Investment Matrix**: The matrix provides an analytical framework for capital projects. The results of the analysis provide financial and non-financial information for the Port Commission as a guide for capital investment decisions.
- **Treasury Management**: Using its internal Treasury since July 2002, the Port has experienced increased investment earnings, faster mobilization of funds, on-line banking capabilities, reconciliation and full control of its cash and investments.
- **General Coverage Ratios and Cash Flow Margins**: As part of its financial modeling, the Port targets that Airport cash flow equals 1.25 times all Airport related revenue debt and that Seaport and Real Estate cash flow equals 1.5 times all Seaport and Real Estate related revenue debt. In addition, the Port targets general obligation bond debt service use no more than seventy-five percent of the annual tax levy.
- **Bond Coverage Ratios**: The Port, through financial modeling, runs projections for its revenue bond debt service coverage ratio. Although the Port has an obligation under First Lien Revenue Bond covenants to maintain a ratio of 1.35, as a matter of practice a ratio of at least 1.8 is maintained. Debt service coverage may fall below this target level during periods of construction borrowing prior to the time that revenue producing assets come on-line.
- **Fund Balances**: Working capital fund balances are maintained in the General Fund and the Airport Development Fund at a targeted level of approximately nine months of operating and maintenance expenses. The Port maintains \$5 million in the Renewal and Replacement Fund as required by bond documents.
- **Performance/Variance Report**: A report in narrative form explaining the reason or causes of variances between actual revenues and expenses versus budgeted amounts on a quarterly basis. A good and accurate monthly and quarterly performance/variance report is a very important tool for management. Divisions and departments prepare a quarterly year-end forecast, which is incorporated into this report and it is presented quarterly to Executive Management and the Commission in public meetings.
- **Commitment Control**: The Port has in place a commitment control ledger that monitors department budgets which prevents departments from exceeding their total budget without approval.

## **I. FINANCIAL POLICIES AND DESCRIPTION OF MAJOR FUNDS**

- a. **Organization**: The Port of Seattle (the "Port") is a municipal corporation of the State of Washington, organized on September 5, 1911, through enabling legislation by consent of the voters within the Port district. In 1942, the local governments in King County selected the Port to operate the Seattle-Tacoma International Airport (the "Airport"). The Port is considered a special purpose government with a separately elected commission of five members and is legally separate and fiscally independent of other State or local governments. The Port has no stockholders or equity holders. All revenues or other receipts must be disbursed in accordance with provisions of various statutes, applicable grants, and agreements with the holders of its bonds.
- b. **Reporting Entity**: The Port reports the following fund: the Enterprise Fund accounts for all activities and operations of the Port.

The Enterprise fund is used to account for operations and activities that are financed at least in part by fees or charges to external users for Airport Facilities, Seaport and Real Estate properties. Therefore, the Port of Seattle summarizes all of its fund activities in the Enterprise Fund. This includes the Port's major business activities, which are comprised of three operating divisions - Aviation, Seaport, Real Estate; a new Capital Development division and a Corporate Professional and Technical Services division. The Aviation Division ("Aviation") serves the predominant air travel needs of a five-county area. The Airport has 19 U.S.-flag passenger air carriers (including regional and commuter air carriers) and ten foreign-flag passenger air carriers providing daily nonstop service from the Airport to 97 cities, including 19 foreign cities. The Seaport Division's ("Seaport") primary focus is on facilities that serve large vessels including

containerized and non-containerized cargo ships and cruise ships. The Seaport is a landlord port with major tenants including shipping companies, terminal operators and other maritime related businesses. The Seaport's container business involves the leasing of property and equipment used primarily for the transfer of international containerized cargo arriving by ship to various modes of land transportation destined for the Pacific Northwest and for other regions of the country and the reverse transfer of domestic goods and empty containers arriving by rail or truck to outbound ships for distribution to other countries around the world.

The Real Estate Division incorporates projects, functions and resources from the Seaport, the Airport and the former Economic Development group. The Real Estate Division will manage the Port's holdings in commercial real estate, recreational marinas, industrial fishing terminals and developable property.

The divisions have labor workforces subject to various collective bargaining agreements. These workforces support the operations and maintenance of the divisions.

The new Capital Development Division was established during 2008 and became fully operational during 2009. It houses existing engineering, project management and construction functions and the Port's new Central Procurement Office which consolidates contracting and procurement functions.

The Corporate Professional and Technical Services division provides various support services to the operating divisions and its expenses are allocated and charged to the operating divisions.

Within the Enterprise Fund, the Port segregates non-operating expenses made to public entities which are funded by the ad valorem tax levy. This includes expenses for district schools and infrastructure improvements to the state and region in conjunction with other agencies. These projects are controlled by other governmental entities and are not reflected in the Port's financial statements.

- c. **Basis of Accounting and Budgeting:** The Port does not distinguish between the Basis of Accounting and the Basis of Budgeting since the principles set forth as the Basis of Accounting are observed in the budgeting process. The Port is accounted for on a flow of economic resources measurement focus. The financial statements and the budget are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. The Government Accounting Standard Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, requires that governments' proprietary activities apply all GASB pronouncements as well as the pronouncements of the Financial Accounting Standards Board ("FASB") and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed by GASB Statement No. 20, the Port has elected to implement FASB Statements and Interpretations issued after November 30, 1989.
- d. **Use of Estimates:** The preparation of the Port's budget in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions in reporting of revenues and expenses in certain instances. Thus actual amounts could differ from those estimates.
- e. **Operating Revenues:** Fees for services, rents and charges for the use of Port Facilities such as: Dockage, Wharfage, Berthage and Moorage, Airport Transportation Fees, Airport Landing Fees, Equipment, Property Rentals and other revenues generated from port's operations are reported as operating revenue.
- f. **Non-Operating Revenues:** Revenues that do not result from the normal operation of Port's business such as: Ad Valorem Tax Levy, Interest Income, Non-operating Grants, Passenger Facilities Charges and Customer Facilities Charges and other revenues generated from non-operating sources are classified as non-operating.
- g. **Operating & Maintenance Expenses:** Cost or charges that arise from the normal operation of Port's business. These are costs or services required for a department/division to function. These include Salaries and Benefits, Equipment expense, Supplies and Stock, Travel and Other Employee expenses and all Direct Charges, even those from Corporate and from other Divisions.

- h. **Non-Operating Expenses:** Cost or charges that do not arise from the normal operation of the Port's business. An example is interest expense.
- i. **Capital Policy:** The Port's policy is to capitalize all asset additions - **Tangible Assets [Property, Plant and Equipment]** and **Intangible Assets**, if they exceed \$20,000, whether it is a single payment or an accumulation of related costs and with an estimated useful life of more than three years. Any asset costing less than \$20,000 will be expensed. Land, facilities and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on a straight-line basis. Buildings and improvements are assigned lives of 30 to 50 years, equipment 3 to 20 years, and furniture and fixtures 5 to 10 years.
- j. **Description of Major Funds:** There are dozens of funds that are summarized into the Enterprise Fund. The Enterprise Fund accounts for all activities and operations of the Port. The Enterprise fund is connected to the functional units in that it is used to account for operations and activities that are financed at least in part by fees or charges to external users for Airport Facilities, Seaport and Real Estate properties.

Therefore, the Port of Seattle summarizes all of its fund activities in the Enterprise Fund. This includes the Port's major business activities, which are comprised of three operating divisions - Aviation, Seaport, Real Estate; a Capital Development division and a Corporate Professional and Technical Services division. Some of the descriptions of the major funds are:

<b><u>Types of Funds</u></b>	<b><u>Fund Name</u></b>	<b><u>Fund #</u></b>	<b><u>Fund Description</u></b>
<b>1. Operating</b>	<b>General Fund</b>	00010	The general fund is the operating and capital fund for all Port-owned properties and businesses with the exception of the Seattle-Tacoma International Airport (Aviation). Transfers are made from this fund to the revenue bond fund for debt service and reserve requirements stemming from revenue bonds issued non-Airport improvements. All Port payrolls, all purchases of materials, supplies and services, and all non-Airport capital acquisition expenditures which are not otherwise funded are made from this fund. Periodic reports are generated indicating what general fund monies have been expended for payrolls or accounts payable that should be reimbursed by the other funds. These amounts will then be transferred from such other funds to the general funds as reimbursements.
	<b>Airport Development Fund (ADF)</b>	03040	This fund is used as a depository for all Airport receipts, and to fund operating and maintenance expenses related to the Airport (Aviation). Transfers are made from this fund to reimburse the general fund for operating and maintenance expenses. Transfers are made from this fund to the revenue bond fund for debt service and reserve requirements stemming from revenue bonds issued strictly for Airport improvements. Capital acquisition expenditures which are not otherwise funded are also made from this fund.
	<b>Tax Levy</b>	00020	The Tax Levy fund was established in 2002 and is used to receive the ad valorem tax levy by the Port. (These tax levy proceeds were previously deposited in the General Fund). Proceeds are used for General Obligation (G.O.) bonds debt service. Projects that meet criteria established by the Port may use Tax Levy as a source of funding.

<u>Types of Funds</u>	<u>Fund Name</u>	<u>Fund #</u>	<u>Fund Description</u>
	<b>Signatory Lease and Operating Agreement (SLOA) Deposit Surety Fund</b>	03042	Established in 2006, the SLOA fund is the “Security Fund” as defined in the Aviation’s 2006 Signatory Lease and Operating Agreement, section 19.2, Security Fund. Cash is held in this fund in lieu of lease performance sureties for the Airlines.
	<b>Customer Deposits Fund</b>	06010	This fund has been established as a depository of lease deposits and other monies held by the Port as surety, but belonging to Port of Seattle customers.
<b>2. Special Facility</b>	<b>Passenger Facilities Charges (PFC) :</b> <ul style="list-style-type: none"> <li>• Revenue</li> <li>• Capital</li> </ul>	06054 03060	The funds accruing to the PFC Revenue fund are derived from passenger facilities charges levied on embarking passengers at Seattle-Tacoma International Airport. Funds are to be used to pay PFC debt service and for specifically-designated airport facility improvement projects. All PFC’s revenues are deposited to the Revenue fund (06054). From the Revenue fund, there is a required monthly transfer of monies to the Debt Service fund equal to 1/6 <sup>th</sup> of semi-annual debt service payment by the 25 <sup>th</sup> of each month. The remaining balance of the Revenue fund, which includes interest earnings, is then transferred to Capital fund (03060).
	<b>Customer Facility Charge (CFC)</b>	CFC01	Established in 2006, the CFC Fund holds revenue derived from charges imposed upon customers of rental car companies accessing the Airport. Funds are to be used to pay CFC debt service, for specifically-designated Rent-A-Car (RAC) facility projects and their improvements, and specified RAC operating expenses.
	<b>Fuel Hydrant Fund</b> <ul style="list-style-type: none"> <li>• Revenue</li> <li>• Debt Service</li> <li>• Project</li> <li>• Reserve</li> </ul>	Held in Trust	The funds accruing to the Fuel Hydrant Revenue Fund are derived from Pledged Lease Revenue and Other Revenue as defined in Resolution No. 3504, as amended. Funds are to be used to pay Fuel Hydrant bonds debt service.  All Fuel Hydrant revenues are deposited to the Revenue account. From the Revenue account, there is a required monthly transfer of monies to the Debt Service account equal to 1/12 <sup>th</sup> of the annual debt service payment. Established at the time of bond issuance, the Reserve fund is intended to be used for debt service in the event the Port cannot repay.
<b>3. Debt Related</b>	<b>Bond Funds</b>	Various	The Port of Seattle issues bonds pursuant to bond resolutions to fund its Capital Improvement Program. Proceeds from bond issues are used to fund construction, capitalized interest and reserves, see below.
	<b>Construction Fund (CF)</b>	Various	Proceeds from bond issues are used for the Port’s facilities expansions and improvements, land acquisition, and/or pay interest during construction. Separate funds are set up for each bond issue to allow for the tracking and reconciliation

<u>Types of Funds</u>	<u>Fund Name</u>	<u>Fund #</u>	<u>Fund Description</u>
			of bond proceeds expenditures.
	<b>Reserve Fund</b>	Various	Established at the time of bond issuance for the purposes of securing the payment of principal and interest on related outstanding bonds. Terms set forth in the bond covenants dictate how much the Port is required to maintain in the Reserve fund. Not all bond issues have a cash funded Reserve fund; the Port may instead choose to maintain qualified surety and/or a qualified letter of credit.
	<b>Debt Service Fund (DSF)</b>	Various	Established as per the bond resolution to facilitate fund flow related to debt service
<b>4. Other Operating</b>	<b>Repair and Renewal Fund</b>	03150	Established pursuant to Master Resolution 3577, Section 4. (b), the proceeds of the fund may be used by the Port to pay extraordinary operating and maintenance expenses, make capital replacements, additions, expansions, repairs and renewals of the Facilities of the Port.

## **J. BUSINESS ASSESSMENT**

### **a. Local Economy and Outlook**

Like the national economy, Washington's economy also appears to be stabilizing. The expectation is that Washington economy is expected to bottom out at about the same time as the national economy and experience a similar recovery beginning in the third quarter of this year. The state will not lag in the recovery because of the strength in industries like aerospace and software.

According to the Washington State Economic and Revenue Forecast Council, job losses are expected to continue through the end of this year and the unemployment rate is expected to continue to rise through mid-2010. This is normal since the labor market recovery lags the recovery in activity. The home price bubble was later and less pronounced in the state of Washington than elsewhere. Housing construction in Washington has fallen in tandem with the national average. Current construction is below demographic demand, setting the stage for an eventual recovery in 2011 as the economy improves and the surplus housing is absorbed. Also, personal income growth in the state is weak now, but it is also expected to recover.

**TABLE II-1: SUMMARY FORECAST**

<b>SUMMARY FORECAST (Annual Percent Change)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Washington State Economic Forecast</b>					
Employment	2.6	0.9	-3.7	0.1	2.4
Unemployment Rate	4.5	5.3	9.5	10.5	9.8
Real Personal Income	5.4	0.6	-0.4	1.5	3.2
Consumer Price Index	3.9	4.2	0.7	2.2	2.5
Housing Permits	-5.3	-39.0	-50.1	63.7	50.3
Total Population (in 000's)	6488.0	6587.6	6688.3	6776.6	6870.8
% Change	1.8	1.5	1.5	1.3	1.4
Age 17 and Under	1566.2	1576.8	1588.5	1597.7	1610.3
% Change	24.1	23.9	23.8	23.6	23.4
Age 6 - 18	1151.9	1155.9	1156.5	1156.4	1158.7
% Change	17.8	17.5	17.3	17.1	16.9
Age 18 and Over	4921.8	5010.8	5099.8	5178.9	5260.5
% Change	75.9	76.1	76.2	76.4	76.6
Age 21 and Over	4645.1	4727.2	4810.7	4886.3	4969.0
% Change	71.6	71.8	71.9	72.1	72.3
Age 20 - 34	1335.6	1365.0	1397.2	1424.4	1455.9
% Change	20.6	20.7	20.9	21.0	21.2
Age 18 - 64	4174.9	4238.5	4301.4	4355.6	4413.4
% Change	64.3	64.3	64.3	64.3	64.2
Age 65 and Over	746.8	772.4	798.4	823.3	847.1
% Change	11.5	11.7	11.9	12.1	12.3
Source: Washington State Economic and Revenue Forecast Council, July 2009 www.erfc.wa.gov					

**TABLE II-2: STATE EMPLOYMENT BY INDUSTRY**

<b><u>Washington State Employment Classified by Industry</u></b>		
<b><u>Industry Description</u></b>	<b><u>Firms</u></b>	<b><u>Average Employment</u></b>
Information	2,474	104,938
Management of Companies and Enterprises	642	34,764
Utilities	228	4,902
Finance and Insurance	5,987	99,186
Professional, Scientific, and Technical Services	17,626	160,329
Manufacturing	7,146	287,227
Wholesale Trade	12,837	126,729
Mining	171	2,830
Construction	24,516	185,819
Government	2,049	521,183
Transportation and Warehousing	4,051	85,219
Health Care and Social Assistance	13,725	308,931
Admin., Support, Waste Mgmt. and Remediation Svcs.	9,365	143,951
Real Estate, Rental and Leasing	6,655	49,489
Educational Services	2,176	32,697
Retail Trade	14,374	320,697
Arts, Entertainment, and Recreation	2,420	47,112
Other Services (except Public Administration)	50,537	117,001
Agriculture, Forestry, Fishing, and Hunting	7,473	86,156
Accommodation and Food Services	12,501	231,665
<b>Total</b>	<b><u>196,950</u></b>	<b><u>2,950,824</u></b>

Source: Washington State Employment Security Department Labor Market and Economic Analysis, Quarterly Census of Employment and Wages, July 2009

**TABLE II-3: TOP 10 COMPANIES IN WASHINGTON**

Washington's top 10 companies  
(ranked by 2008 total Sales, figures in millions)

<b>Company</b>	<b>2008 Sales</b>	<b>Industry</b>	<b>Internet Home Page</b>
Costco Wholesale	\$72,483	Retail	<a href="http://www.costco.com">http://www.costco.com</a>
Microsoft	\$60,420	Computer software/services	<a href="http://www.microsoft.com">http://www.microsoft.com</a>
Amazon.com	\$19,166	Retail	<a href="http://www.amazon.com">http://www.amazon.com</a>
Paccar	\$14,973	Transportation equipment/services	<a href="http://www.paccar.com">http://www.paccar.com</a>
Starbucks	\$10,383	Restaurants/hospitality	<a href="http://www.starbucks.com">http://www.starbucks.com</a>
Nordstrom	\$8,573	Retail	<a href="http://www.nordstrom.com">http://www.nordstrom.com</a>
Weyerhaeuser	\$8,018	Forest products	<a href="http://www.weyerhaeuser.com">http://www.weyerhaeuser.com</a>
Expeditors International of Washington	\$5,634	Transportation equipment/services	<a href="http://www.expeditors.com">http://www.expeditors.com</a>
Alaska Air Group	\$3,663	Transportation equipment/services	<a href="http://www.alaskaair.com">http://www.alaskaair.com</a>
Puget Energy	\$3,358	Utilities	<a href="http://www.pse.com">http://www.pse.com</a>

Source: The 2009 Northwest Companies Database, Seattle Times

**b. Economic Impact**

The Port of Seattle retained Martin Associates to evaluate the economic impacts generated by the Seattle seaport, Seattle-Tacoma International Airport and the Port's non-maritime and non-aviation tenants, based on business activity data collected in 2007-2008. The firm has conducted similar studies at more than 250 seaports and most major airports in North America.

For the seaport, the study measures the impacts of five distinct types of waterborne activity:

- Marine cargo activity
- Fishing activity at marine terminals (and related services)
- Waterborne passenger activity (cruise and shoreside operations)
- Marina activity (recreational and transient boating)
- Non-marine cargo and non-aviation Port of Seattle real estate tenants (restaurant, retail, and industry-related services).

For the airport, the study measures the impacts of five business sectors:

- Airline/airport service sector
- Freight transportation sector
- Passenger ground transportation sector
- Contract construction/consulting services sector
- Visitors' industry sector

The study includes interviews with 929 firms doing business with the Port, plus surveys with 950 aviation passengers and 600 cruise passengers and ship crew. The analysis of real estate tenants is based on a survey of 291 tenants not included in other seaport operations.

The results provide a snapshot of the economic impact of Port of Seattle in 2007-2008, and impact models for each business unit operated by the Port of Seattle. The study provides models to assess the economic impacts of specific Port of Seattle capital development projects.

By air, land and sea, the Port of Seattle connects passengers and cargo to destinations around the globe. From tourism and international trade to fishing, boating and imported products, the Port affects nearly every person in the Northwest region—generating nearly 194,000 jobs—and affects many others throughout the world.

Successful trade and travel generate substantial—and dependable—revenue, including \$17 billion in business revenue in 2007. The Port of Seattle’s airport, seaport and real estate activities contribute to the local and regional economy on multiple levels through the reinvestment and re-spending of Port-generated revenue and income.

Results demonstrate the Port is a strong driving force for sustainable economic vitality. When combined with its tenants, Port of Seattle is responsible for the direct employment of 111,317 individuals, ranking among the top job-producers in the region including Microsoft (35,510 in Seattle and Washington state), Boeing (74,517), and the University of Washington (28,188)<sup>1</sup>.

Real estate tenants and businesses providing services at Port-owned marine terminals and Seattle-Tacoma International Airport generated \$17.6 billion in revenues, ranking among some of the region’s top 10 producers like Amazon.com (\$10.7 billion), Paccar (\$16.5 billion), and Weyerhaeuser (\$21.9 billion)<sup>1</sup>.

Port of Seattle seaport and airport facilities, as well as non-maritime and non-aviation related Port real estate tenants, generate the following economic impacts for the local and regional economy in 2007:

- 111,317 direct jobs are generated by Port-owned transportation facilities.
- As the result of local and regional purchases by those individuals, an additional 62,128 induced jobs are supported in the region.
- 20,540 indirect jobs were supported by \$1.4 billion of local purchases by businesses supplying services at the Port-owned facilities.
- \$3.8 billion of direct wages and salaries were received by those 111,317 directly employed by the Port’s transportation infrastructure. As the result of re-spending this income, an additional \$5.1 billion of income and consumption expenditures were created in the Seattle region, primarily King County.
- Businesses providing services at Port-owned marine terminals and Sea-Tac Airport, as well as real estate tenants, received \$17.6 billion of revenue, excluding the value of cargo shipped through the airport and marine facilities, and the landed value of the seafood caught by the fleet using Fishermen’s Terminal, Terminal 91 and the Maritime Industrial Center. The Port of Seattle received \$460.1 million from Seaport and Airport operations.
- \$867.0 million of state and local taxes were generated by activity at the Port of Seattle marine terminals, real estate tenants, and Sea-Tac International Airport. Of the \$867.0 million of state and local taxes, the State of Washington receives about \$561.1 million, and the balance, \$305.9 million, was received by local and county governments within the State. In addition, \$439.4 million of federal aviation-specific taxes were generated by activity at Sea-Tac International Airport.

---

<sup>1</sup> 2008 Greater Seattle Data Sheet <http://www.seattle.gov/oir/datasheet/Datasheet2008.pdf>

## **K. REVENUE AND EXPENSE ASSUMPTIONS**

Operating revenues are developed based on the terms of various lease agreements and on forecasted activity levels. Operating expenses are developed based on historical experience, forecasted activity levels and inflation.

Port wide salaries for exempt and non-exempt employees are budgeted to increase on average by 3.75% for 2010 and benefit costs are expected to decrease 2%. Aeronautical revenues are based on cost recovery and operating cost. Non-airline revenues are projected to decline by \$12.8 million versus the 2009 budget. Seaport and Real Estate revenues are projected to grow by -1.7% and -4.2%, respectively over the 2009 budget.

## **L. COMMISSIONERS AND OFFICERS**

The Port Commission is the legally constituted governing body of the Port of Seattle. As a governing body of a special purpose municipal corporation, it is charged with the responsibility of fulfilling legislatively mandated purposes and objectives.

The Port Commission is made up of five elected individuals. They are:

Bill Bryant, Chair and President  
Gael Tarleton, Vice President  
Lloyd Hara, Secretary  
Patricia Davis, Assistant Secretary  
John Creighton, Commissioner

The senior officers of the Port are:

Tay Yoshitani, Chief Executive Officer  
Linda Strout, Deputy Chief Executive Officer  
Mark Reis, Managing Director, Aviation  
Charles Sheldon, Managing Director, Seaport  
Joe McWilliams, Managing Director, Real Estate  
Ralph Graves, Managing Director, Capital Development  
Dan Thomas, Chief Financial Officer  
Craig Watson, General Counsel  
Kurt Beckett, Director External Affairs

# M. ORGANIZATION CHART

**FIGURE II-4: ORGANIZATION CHART**

