

PORT OF SEATTLE
MEMORANDUM

DATE: November 15, 2005

TO: Port Commission

FROM: M.R. Dinsmore, Chief Executive Officer

SUBJECT: 2006 Budget Message

INTRODUCTION

I am pleased to present the Port of Seattle's 2006 Budget, which will show an increase in net income from operations as well as a capital improvement program of nearly \$620 million – all without an increase in taxes.

This budget continues the programs, initiatives and investments currently underway in direct support of the Port's mission of "Creating Economic Vitality Here." The budget also reflects our continued success in growing revenues while effectively managing costs and underscores our ongoing commitment to our airline partners to mitigate future rate increases tied to new airport facility costs. With sustained growth in cargo and air passenger volumes, we are now in the midst of a solid recovery following the business downturn of the past several years. We are excited about the outlook for continued growth in 2006, and although we have many challenges and tough decisions ahead, with the involvement and support of the Commission, we are optimistic that we will continue our strong record of success.

The Aviation Division has had significant success in developing and implementing strategies to reduce future airline costs as measured by Cost Per Enplanement (CPE). Through aggressive cost management, growth in non-airline revenues, capital project deferrals, a new financing strategy and a planned new airline lease agreement, the airport's CPE is now projected at \$14.15 in 2009. This is a marked reduction from the CPE of \$25 forecast two years ago. The 2006 Budget reflects the first year of a new, seven-year airline lease agreement expected to be approved later this year. This new agreement is projected to save the airlines \$14 million in 2006. The Seaport is on track to meet its three-year goal of achieving Net Operating Income (NOI) of \$34 million in 2005, and is now targeting NOI of \$45 million in 2008, which appears achievable.

For 2006, we are budgeting total operating revenues of \$421.3 million. This represents a 4.7 percent increase over the 2005 budget. Total operating expenses are budgeted at \$228.6 million, 6.9 percent higher than the 2005 budget. Net Operating Income is \$192.7 million, a 2.1 percent increase over the 2005 budget. Depreciation Expense is budgeted at \$138 million, an increase of \$35.4 million over 2005, reflecting the completion of major new facilities, including the airport's Central Terminal expansion. Net Operating Income after Depreciation is \$54.8 million, down \$31.5 million from the 2005 budget as a result of the increase in depreciation. Revenues and expenses are carefully managed to improve financial performance for the mutual benefit of the port and our customers. The total capital budget for 2006 is \$619.9 million and the capital improvement program for 2006-2010 is \$2.5 billion, which represents critical infrastructure investments that support the Port's business plan goals and objectives.

BUSINESS PLAN/OPERATING BUDGET

Aviation

In 2006, the airport will see the first full year of operations for the new concessions program and the new Central Terminal. Continuing to grow sales per enplaned passenger as well as developing new parking products will continue to be both a challenge and an opportunity.

Operating revenues are budgeted to increase by 14.3 million over the 2005 budget. Airline revenues, which are determined by cost-recovery formulas, are budgeted to grow by 5.3%. Non-airline revenues are budgeted to increase slightly by 0.7% over the 2005 budget. Total operating costs for the Airport are budgeted to increase by 9.2% over the 2005 budget.

Seaport

Seaport operating revenues are up 9.2% from the 2005 budget, to \$96.2 million. An additional \$4.6 million of federal security funding is included in the revenue totals for total operating revenue of \$100.8 million. Total operating expenses including corporate costs are budgeted to increase \$1 million, or 1.6%, to a total of \$63 million. Included in operating expenses are \$5.5 million of security expenses. Net operating income before depreciation is \$37.5 million, a 10.1% increase over 2005.

Economic Development

The Economic Development Division (EDD) integrates the components of Business and Trade Development, Real Estate Development, and Regional Transportation. EDD intends to identify and pursue opportunities that enhance the region's long-term viability and produce new revenue for the Port by focusing on international and regional trade, real estate initiatives and actively participating in transportation solutions.

Operating costs for the Economic Development Division are budgeted to increase by 4.6% over the 2005 budget for a total of \$3.7 million.

Corporate, Professional and Technical Services

Corporate departments have developed responsible spending plans that not only will meet the needs of our customers, but will provide enhanced services in technology, training, and environmental work to cover new strategic initiatives. The end result is a \$64 million budget, an increase of 10.1% over 2005; the increase is primarily due to greater investment in information technology and new environmental initiatives focused on seaport air and water quality.

CAPITAL BUDGET

The 2006 Capital Budget of \$619.9 million represents the first year of the Port's 2006-2010 Capital Improvement Plan, which totals \$2.5 billion. This program represents investments identified as integral to achieving the Port's business plan strategies and objectives. The capital plan provides for ongoing investment in the maintenance and renewal of existing assets, provides for the continued expansion of key facilities including major improvements at Seattle-Tacoma International Airport, and continues the Port's commitment to environmental and noise mitigation.

TAX LEVY

The budget assumes a tax levy rate of \$.233/\$1,000, a reduction from the 2005 rate of \$.253/\$1,000, for a total levy of \$62.7 million. This is substantially less than the statutory limit of \$78.0 million. As in 2005, the levy will be used for General Obligation Bond debt service, Seaport capital improvements, environmental expenses and noise mitigation for the Highline School District. The tax levy section of this document provides details on the uses of the Port's levy.

CONCLUSION

The 2006 Budget reflects the Port of Seattle's commitment to meeting our strategic goals and objectives, with quantitative and qualitative outcomes for the mutual benefit of the community, our customers and our employees. It is with this approach to 2006 that I am pleased to submit the budget for your review. Thank you for your involvement in the budget process—I look forward to your review of this document and to any changes you might suggest for its improvement.

TABLE II-1: 2006 BUDGET SUMMARY

		(in 000's)				
OPERATING BUDGET		Aviation	Seaport	Corporate	Economic	Total
Operating Revenues		\$310,722	\$96,168	\$235	\$0	\$407,125
Security Reimbursement		\$1,140	4,588			5,728
Fuel Hydrant Facility		\$8,441				8,441
Total Operating Revenues		\$320,303	\$100,755	\$235	\$0	421,292
Operating and Maintenance Expense		119,345	43,994		\$3,005	166,343
Corporate Administrative Expense		20,579	10,274	850	657	32,360
Security Costs	1	6,319	5,519		0	11,838
Law Enforcement Costs	2	14,613	3,428		0	18,041
Total Operating Expense		160,857	63,215	850	3,661	228,582
Net Operating Income before Depreciation		\$159,446	\$37,540	(\$615)	(\$3,661)	\$192,710
Depreciation		100,980	36,812		\$92	137,884
Net Operating Income after Depreciation		\$58,466	\$728	(\$615)	(\$3,753)	\$54,826
Revenue Bond Interest Expense		(98,797)	(4,284)			(103,081)
Interest Income		16,193	1,619			17,812
Other Non-Op Income (Expense)		(240)	(7,851)			(8,091)
Ad Valorem Tax Levy Revenue	3	7,340	54,598		810	62,748
Grants and Donations		121,816	10,813			132,629
Passenger Facility Charges & related Interest Income		58,910				58,910
Customer Facility Charge		18,000				18,000
PFC Bond Interest & Amortization		(12,290)				(12,290)
G.O. Bond Interest & Amortization			(18,297)			(18,297)
Public Asset Expense		(3,050)	(14,913)		(1,000)	(18,963)
Net Non-operating		107,882	21,684	0	(\$190)	129,376
Revenue Over Expense		\$166,348	\$22,412	(\$615)	(\$3,943)	\$184,202

CAPITAL BUDGET		Aviation	Seaport	Corporate	Economic	Total
Committed		\$418,647	\$118,518	\$14,071	\$810	\$552,046
Business Plan Prospective		63,136	4,670	0	0	67,806
Total		\$481,783	\$123,188	\$14,071	\$810	\$619,852

EMPLOYEES		Aviation	Seaport	Corporate	Economic	Total
Regular FTE's - Salary		285.8	110.7	395.5	14.3	806.3
Regular FTE's - Wage		529.0	64.3	136.0	0.0	729.3
Other FTE's		21.3	4.8	81.8	1.0	108.9
Total		836.1	179.8	613.3	15.3	1,644.4

CASH FLOW SUMMARY						
Beginning balance cash and investments	\$820,747					
Cash Receipts:	2006	% Total	Cash Expenditures:	2006	% Total	
Revenues	\$421,292	48%	O&M expense	\$166,343	15%	
Interest Receipts	20,116	2%	Corporate Administrative Expense	32,360	3%	
Proceeds from Bond Issues	170,000	19%	Security Costs	11,838	1%	
Grants	132,629	15%	Law Enforcement Costs	18,041	2%	
Tax levy	62,748	7%	Interest Payments	159,010	15%	
Passenger Facility Charges	58,910	7%	Others	26,258	2%	
Rental Car Customer Facility Charges	18,000	2%	Bond Redemptions	125,170	11%	
Other Receipts	662	0%	Committed Capital Expenditures	552,046	51%	
Total Cash Receipts	\$884,357	100%		\$1,091,066	100%	
Total Cash Expenditures						
Increase (Decrease) of cash during the year	(\$206,710)					
Ending balance cash & investments	\$614,037					

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- 1) Security Costs not including Contracted Law Enforcement or Port of Seattle Police.
- 2) Budget 2006 includes law enforcement security costs including Police costs.
- 3) Portions of Levy has non-Seaport use, see Tax Levy Section IV for detail.