

PORT OF SEATTLE
MEMORANDUM

DATE: November 10, 2006

TO: Port Commission

FROM: M.R. Dinsmore, Chief Executive Officer

SUBJECT: 2007 Budget Message

INTRODUCTION

I am pleased to present a budget document that summarizes the Port's accomplishments in 2006, outlines our goals, strategies, and targets for 2007 and highlights the benefits the Port generates for the community and the region.

Starting with the Seaport Division, in 2007 we plan to maximize revenues in both the commercial and recreational marinas, accommodate 189 cruise vessel calls, and achieve \$46 million in net operating income by the end of 2008. We will improve and update our seaport facilities to meet market demands while efficiently managing our existing assets and planning for expected future growth. We will work diligently to fill vacant industrial land and increase occupancy of our commercial properties.

A major goal of the Aviation Division is to have passengers from all over the world feel immediately welcome when visiting our facilities. As the 17th largest U.S. airport, with mostly origin-and-destination traffic, we are dedicated to providing quality customer service. We have incorporated cutting edge technology at our facilities and upgraded the architecture to create new, efficient, functional spaces that embrace the culture and spirit of the Northwest. By the end of 2006 we will have invested over \$2.8 billion dollars in the infrastructure of our airport.

For 2007, we are budgeting total operating revenues of \$442.7 million. This represents a 5.1 percent increase over the 2006 budget. Total operating expenses are budgeted at \$249.7 million, 9.2 percent higher than the 2006 budget. Nearly \$13 million of budgeted 2007 operating expenses results from new accounting rules requiring the establishment of a non-cash reserve for Other Post Employment Benefits (OPEB)—principally future retiree medical costs. Net Operating Income is \$192.9 million, a 0.1 percent increase over the 2006 budget. Depreciation Expense is budgeted at \$148.9 million, an increase of \$10.9 million over 2006. Net Operating Income after Depreciation is \$44 million, down \$10.8 million from the 2006 budget. We are continually working to improve financial performance for the mutual benefit of the port and our customers. The total capital budget for 2007 is \$684.1 million and the capital improvement program for 2007-2011 is \$2.2 billion, which represents on-going critical infrastructure investments that support the Port's business plan goals and objectives in all divisions.

BUSINESS PLAN/OPERATING BUDGET

Aviation

The Aviation Division manages Aeronautical and Non-aeronautical sides of its business. On the Aeronautical side, the Port's goal is to maintain a competitive cost per enplanement (CPE). Based on work in 2006, the forecast of future CPE has decreased considerably since the 2006 budget. On the non-aeronautical side, the primary goal is to increase cash flow as measured by net operating income (NOI). The revenue growth is driven by increased public parking and concession revenues realized in 2006.

Operating revenues are budgeted to increase by \$17.4 million over the 2006 budget, to a total of \$337.7 million. Airline revenues, which are determined by cost-recovery formulas, are budgeted to grow by 2.5%. Non-airline revenues are budgeted to increase by 9.9% over the 2006 budget. Total operating costs for the Airport are budgeted to increase by 12.5% over the 2006 budget.

Seaport

The Seaport operates three business groups: Cargo and Cruise Services, Harbor Services, and Real Estate. While staying financially strong, the Seaport invests in projects that benefit the community both economically and environmentally through its business activities. We maintain positive working relationships with labor, terminal operators and companies dedicated to sustaining freight mobility in the region.

Seaport operating revenues are up 3.7% from the 2006 budget, to \$104.5 million. Total operating expenses are budgeted to increase by \$0.6 million, or 1%, to a total of \$63.8 million. Net operating income before depreciation is \$40.7 million, an 8.4% increase over 2006.

Economic Development

The Economic Development Division (EDD) integrates the components of Business and Trade Development, Real Estate Development, and Regional Transportation. The combined efforts of these three functional groups work to leverage the Port's partnerships with regional and international businesses, trade groups, real estate partners and transportation groups.

Operating costs for the Economic Development Division are budgeted to increase by 4.1% over the 2006 budget for a total of \$3.8 million.

Corporate, Professional and Technical Services

Corporate departments continue to maintain responsible spending plans that meet the needs of our customers and provide enhanced services in technology, training, public communication and security. The end result is a \$79 million budget, an increase of 23.7% over 2006. A primary reason for the increase is due to reserving for an estimated \$12.9 million in future Other Post Employment Benefits (OPEB), which is required in 2007 by the Governmental Accounting Standards Board (GASB).

CAPITAL BUDGET

The 2007 Capital Budget of \$684.1 million represents the first year of the Port's 2007-2011 Capital Improvement Plan, which totals \$2.2 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 the Seaport.

TAX LEVY

The 2007 Budget assumes a levy rate of 23.17 cents per \$1,000 of assessed value. This corresponds to staff's recommendation based on the funding requirements of the capital improvement plan and other critical needs. Because of growth in assessed valuation in King County, this rate will translate into a projected overall tax levy of \$68.8 million in 2007, compared to \$62.7 million levied in 2006. The levy is proposed to 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

Thank you for your involvement in this year's budget process. We welcome your comments and suggestions for any improvements. It is our hope that the information contained in this document addresses your questions, issues and concerns. We look forward to working with you through-out the year 2007 and beyond.

TABLE II-1: 2007 BUDGET SUMMARY

		(in 000's)				
OPERATING BUDGET		Aviation	Seaport	Corporate	Economic	Total
Operating Revenues		\$328,092	\$104,509	\$494	\$0	\$433,095
Security Reimbursement		\$1,140	0			1,140
Fuel Hydrant Facility		\$8,452				8,452
Total Operating Revenues		\$337,684	\$104,509	\$494	\$0	442,688
Operating and Maintenance Expense		132,726	47,049		\$3,245	183,020
Corporate Administrative Expense		25,742	12,064	1,119	566	39,490
Security Costs	1	6,533	1,070		0	7,603
Law Enforcement Costs	2	15,942	3,645		0	19,587
Total Operating Expense		180,943	63,828	1,119	3,810	249,700
Net Operating Income before Depreciation		\$156,741	\$40,681	(\$624)	(\$3,810)	\$192,988
Depreciation		108,546	40,227		\$80	148,853
Net Operating Income after Depreciation		\$48,195	\$454	(\$624)	(\$3,891)	\$44,135
Revenue Bond Interest Expense		(105,547)	(15,381)			(120,928)
Interest Income		13,853	1,626			15,479
Other Non-Op Income (Expense)		(102)	(3,548)			(3,650)
Ad Valorem Tax Levy Revenue	3	7,570	60,722		522	68,814
Grants and Donations		115,523	17,698			133,221
Passenger Facility Charges & related Interest Income		60,988				60,988
Customer Facility Charge		19,867				19,867
PFC Bond Interest & Amortization		(11,880)				(11,880)
G.O. Bond Interest & Amortization		0	(14,870)			(14,870)
Public Asset Expense		0	(21,698)		0	(21,698)
Net Non-operating		100,272	24,549	0	522	125,343
Revenue Over Expense		\$148,467	\$25,003	(\$624)	(\$3,369)	\$169,478
CAPITAL BUDGET		Aviation	Seaport	Corporate	Economic	Total
Committed		\$446,013	\$147,447	\$13,907	\$522	\$607,889
Business Plan Prospective		69,042	7,177	0	0	76,219
Total		\$515,055	\$154,624	\$13,907	\$522	\$684,108
EMPLOYEES		Aviation	Seaport	Corporate	Economic	Total
Regular FTE's - Salary		291.3	130.4	412.8	14.6	849.1
Regular FTE's - Wage		536.0	67.3	136.0	0.0	739.3
Other FTE's		25.8	4.3	81.5	1.3	112.9
Total		853.1	202.0	630.3	15.9	1,701.3
CASH FLOW SUMMARY						
Beginning balance cash and investments	\$575,668					
Cash Receipts:	2007	% Total	Cash Expenditures:		2007	% Total
Revenues	\$442,688	38%	O&M expense		\$183,020	16%
Interest Receipts	17,764	2%	Corporate Administrative Expense		39,490	3%
Proceeds from Bond Issues	432,000	37%	Security Costs		7,603	1%
Grants	133,221	11%	Law Enforcement Costs		19,587	2%
Tax levy	68,814	6%	Interest Payments		177,946	15%
Passenger Facility Charges	60,988	5%	Others		34,650	3%
Rental Car Customer Facility Charges	19,867	2%	Bond Redemptions		83,220	7%
Other Receipts	1,175	0%	Committed Capital Expenditures		607,889	53%
Total Cash Receipts	\$1,176,517	100%			\$1,153,405	100%
Total Cash Expenditures						
Increase (Decrease) of cash during the year	\$23,112					
Ending balance cash & investments	\$598,781					

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