

PORT OF SEATTLE
MEMORANDUM

DATE: November 10, 2008
TO: Port Commission
FROM: Tay Yoshitani, Chief Executive Officer
SUBJECT: 2008 Budget Message

INTRODUCTION

The Port prepared its 2008 budget to recognize the three operating divisions and their heightened commitment to environmental sustainability. We plan to reduce the use of natural resources by Port businesses and encourage our tenants and other regional governments to follow our lead. In the three divisions, Aviation, Seaport and Real Estate, our business strategy is to leverage our economic capabilities, while being environmentally responsible and utilizing sound business principles.

In the Aviation division our leadership will strive to implement projects and programs that meet the demands of our customers in a sustainable environment. Sea-Tac airport is growing and in 2007 it benefited from two new international flights. It is anticipated that passenger growth will be approximately four percent in 2007 and long term future passenger growth is predicted to average three percent. We will challenge internal and external stakeholders to accommodate the anticipated growth with an environmental focus.

Facing tough competition, our Seaport will continue to invest in its infrastructure to remain competitive and environmentally sound. The reorganized Seaport Division will concentrate on maritime activities to create economic and environmental vitality. Steps are being taken to reduce emissions, curb pollution, and conserve energy and water. We will market our assets to increase container growth, grow our cruise passenger volumes and maximize the uses of our docks and upland industrial buildings and properties.

Through re-organization we created a new Real Estate Division and added the Department of Social Responsibility. Our new Real Estate Division will improve, maintain and update our facilities to maximize occupancy rates and vessel moorage. The Division will work in unison with our customers to increase energy efficiencies and recyclables. In addition, we have strengthened our attention to small business participation and will be making every effort to ensure that we are socially responsible to the community and the northwest region we serve.

BUSINESS PLAN/ OPERATING BUDGET

The fiscal management of the budget is the cornerstone of our success as a Port. The 2008 operating revenues are budgeted at \$476.5 million, a 7.6 percent increase. Operating expenses are budgeted at \$265.4 million, a 6 percent increase. Net Operating Income is \$211.1 million, a 9.4 percent increase. Depreciation Expense is budgeted at \$147 million, a decrease of 1.8 million. Net Operating Income after Depreciation is \$64.0 million, up \$19.9 million from the 2007 budget. The total capital budget for 2008 is \$619.7 million and the five year capital improvement program is \$2.3 billion, which represents sustainable investments that support the Port's business plan and "green" initiative. As we improve economic stability, we continue to look for ways to improve our environmental footprint.

Aviation

The Aviation Division manages Aeronautical and Non-aeronautical sides of its business. On the Aeronautical side, the Port's goal is to manage cost in terms of cost per enplanement (CPE). 2008 budgeted CPE of \$11.63 is down from the budgeted 2007 CPE of \$11.84. On the non-aeronautical side, the primary goal is to increase cash flow as measured by net operating income (NOI).

Operating revenues are budgeted to increase by \$18.2 million, 5.4 percent over the 2007 budget. Revenues from airlines are budgeted to increase \$4.6 million, 2.4 percent over 2007 and Non-airline revenues are budgeted to increase \$13.9 million, 10.3 percent over 2007. Total operating expenses are budgeted at \$188.0 million, a 3.9 percent increase.

Seaport

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

Seaport operating revenues are budgeted at \$88.0 million. Total operating expenses are budgeted at \$43.5 million. Net operating income (NOI) before depreciation is \$44.5 million.

Real Estate

The Real Estate Division is new for 2008 and 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. Financial services, project management, facility planning, and environmental services are provided by the Seaport Division.

Real Estate operating revenues are budgeted at \$32.2 million. Total operating expenses are budgeted at \$32.8 million. Net operating income (NOI) before depreciation is (\$0.6) million.

Corporate, Professional and Technical Services

The three operating divisions of the Port are supported by a number of functional departments as well as service groups. These functional and service groups allocate their expenses according to the level of service they provide to the divisions. The corporate departments were re-organized in 2008 to provide efficient services to the divisions and the community by adding a new Social Responsibility department and moving Regional Transportation and Economic and Trade Development under the corporate group. Corporate operating expenses are budgeted at \$74.2 million.

Tax Levy

The 2008 Budget assumes a levy rate of 0.2250 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 \$75.9 million in 2008, compared to \$68.8 million levied in 2007. The tax levy section of this document provides details on the uses of the Port's levy.

SUMMARY

We are proud of our financial and environmental record, however we recognize that there are areas we can improve and grow. The budget is a reflection of our commitment to continue to do the things that we do well and improve in the areas where we can do better to increase our competitive advantage. Thank you for all your hard work and we welcome your comments.

TABLE II-1: 2008 BUDGET SUMMARY

		(in 000's)				
OPERATING BUDGET		Aviation	Seaport	Corporate	Real Estate	Total
Operating Revenues		\$346,604	\$82,978	\$471	\$32,183	\$462,236
Security Reimbursement		\$787	5,004			5,791
Fuel Hydrant Facility		\$8,451				8,451
Total Operating Revenues		\$355,842	\$87,982	\$471	\$32,183	476,477
Operating and Maintenance Expense		141,397	30,447		\$29,936	201,780
Corporate Administrative Expense		30,244	10,310	1,162	1,721	43,438
Law Enforcement Costs	1	16,340	2,723		1,110	20,173
Total Operating Expense		187,982	43,480	1,162	32,767	265,391
Net Operating Income before Depreciation		\$167,860	\$44,501	(\$691)	(\$584)	\$211,087
Depreciation		108,427	28,951		\$9,691	147,070
Net Operating Income after Depreciation		\$59,433	\$15,550	(\$691)	(\$10,275)	\$64,017
Revenue Bond Interest Expense		(100,404)	(15,381)		(3,761)	(119,547)
Interest Income		15,562	5,493		478	21,533
Other Non-Op Income (Expense)		(496)	(10,727)		(65)	(11,287)
Ad Valorem Tax Levy Revenue	2	12,275	53,878		9,746	75,899
Grants and Donations		75,709	4,340		0	80,049
Passenger Facility Charges & related Interest Income		62,440	0		0	62,440
Customer Facility Charge		20,262	0		0	20,262
PFC Bond Interest & Amortization		(11,449)	0		0	(11,449)
G.O. Bond Interest & Amortization		0	(13,933)		(1,232)	(15,165)
Public Asset Expense		(14,075)	(7,540)		0	(21,615)
Net Non-operating		59,824	16,130	0	5,166	81,120
Revenue Over Expense		\$119,257	\$31,681	(\$691)	(\$5,109)	\$145,137
CAPITAL BUDGET		Aviation	Seaport	Corporate	Real Estate	Total
Committed		\$354,238	\$131,956	\$14,838	\$118,638	\$619,670
Business Plan Prospective		54,336	34,479	0	4,175	92,990
Total		\$408,574	\$166,435	\$14,838	\$122,813	\$712,660
EMPLOYEES		Aviation	Seaport	Corporate	Real Estate	Total
Regular FTE's - Salary		310.0	78.1	446.0	71.5	905.6
Regular FTE's - Wage		549.5	0.0	136.0	66.3	751.8
Other FTE's		26.7	3.7	80.4	2.0	112.7
Total		886.2	81.8	662.4	139.8	1,770.2
CASH FLOW SUMMARY						
Beginning balance cash and investments	\$723,920					
Cash Receipts:	2008	% Total	Cash Expenditures:	2008	% Total	
Revenues	\$476,477	29%	O&M expense	\$201,780	17%	
Interest Receipts	24,334	1%	Corporate Administrative Expense	43,438	4%	
Proceeds from Bond Issues	903,000	55%	Security Costs	0	0%	
Grants	80,049	5%	Law Enforcement Costs	20,173	2%	
Tax levy	75,899	5%	Interest Payments	173,591	15%	
Passenger Facility Charges	62,440	4%	Other Expenses	22,684	2%	
Rental Car Customer Facility Charges	20,262	1%	Bond Redemptions	89,795	8%	
Other Receipts	1,075	0%	Public Asset Expense	21,615	2%	
Total Cash Receipts	\$1,643,537	100%	Committed Capital Expenditures	619,670	52%	
Total Cash Expenditures				\$1,192,745	100%	
Increase (Decrease) of cash during the year	\$450,792					
Ending balance cash & investments	\$1,174,712					

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Notes:

- 1) Budget 2008 includes law enforcement costs including Police costs.
- 2) Portions of Levy has non-Seaport use, see Tax Levy Section IV for detail.