

In the opinion of K&L Gates LLP, Bond Counsel, assuming compliance with certain covenants of the Port, interest on the Series 2017A Bonds, Series 2017C Bonds and Series 2017D Bonds is excludable from gross income for federal income tax purposes under existing law, except for interest on any Series 2017C Bond or Series 2017D Bond for any period during which such Series 2017C Bond or Series 2017D Bond is held by a "substantial user" of the facilities financed by the Series 2017C Bonds or Series 2017D Bonds, or a "related person" to such "substantial user," within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2017A Bonds is not included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on certain corporations. Interest on the Series 2017C Bonds and Series 2017D Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. Interest on the Series 2017C Bonds and Series 2017D Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2017B Bonds is not excludable from gross income for federal income tax purposes. See "TAX MATTERS" herein.



\$16,705,000
Intermediate Lien Revenue
Refunding Bonds,
Series 2017A
(Non-AMT)

\$264,925,000
Intermediate Lien Revenue
Refunding Bonds,
Series 2017B
(Taxable)

\$313,305,000
Intermediate Lien
Revenue Bonds,
Series 2017C
(AMT)

\$93,230,000
Intermediate Lien
Revenue Bonds,
Series 2017D
(AMT)

Dated: Date of delivery

Due: As shown on inside cover pages

The Port of Seattle (the "Port") is issuing its Intermediate Lien Revenue Refunding Bonds, Series 2017A (Non-AMT) (the "Series 2017A Bonds"), Intermediate Lien Revenue Refunding Bonds, Series 2017B (Taxable) (the "Series 2017B Bonds"), Intermediate Lien Revenue Bonds, Series 2017C (AMT) (the "Series 2017C Bonds"), and Intermediate Lien Revenue Bonds, Series 2017D (AMT) (the "Series 2017D Bonds" and, together with the Series 2017A Bonds, Series 2017B Bonds, and Series 2017C Bonds, the "Series 2017 Bonds") (i) to refund certain outstanding Port bonds, (ii) to finance capital improvements to aviation facilities as described herein (the "2017 Projects"), (iii) to capitalize interest on all or a portion of the Series 2017C Bonds and Series 2017D Bonds, (iv) to make a deposit to the Intermediate Lien Reserve Account, and (v) to pay costs of issuing the Series 2017 Bonds.

Interest on the Series 2017 Bonds from their date of delivery is payable on each May 1 and November 1, commencing on November 1, 2017. The Series 2017A Bonds, Series 2017B Bonds, and Series 2017C Bonds are subject to redemption prior to their scheduled maturities, as described herein. The Series 2017D Bonds are not subject to redemption prior to their scheduled maturities. The fiscal agent of the State of Washington, currently U.S. Bank National Association, is the registrar, authenticating agent and paying agent for the Series 2017 Bonds. When issued, the Series 2017 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2017 Bonds. Purchases of beneficial interests in the Series 2017 Bonds will be made in book-entry form, in denominations of \$5,000 and integral multiples thereof within a series and maturity. Purchasers will not receive certificates representing their interests in the Series 2017 Bonds, except as described herein. So long as DTC or its nominee is the registered owner of the Series 2017 Bonds, payments of principal of and interest on the Series 2017 Bonds will be made directly to DTC or to such nominee. Disbursements of such payments to DTC's Direct Participants are the responsibility of DTC, and disbursements of such payments to the Beneficial Owners are the responsibility of the Direct Participants and the Indirect Participants as more fully described herein.

Maturity Dates, Principal Amounts, Interest Rates, Yields, Prices and CUSIP Numbers on Inside Covers

The Series 2017 Bonds are payable from and are secured by a pledge of Available Intermediate Lien Revenues of the Port as defined and described herein, on a parity with the Port's outstanding Intermediate Lien Parity Bonds and any future Intermediate Lien Parity Bonds described herein. The Series 2017 Bonds and any outstanding and future revenue bonds issued on a parity of lien with the Series 2017 Bonds are referred to in this Official Statement as the "Intermediate Lien Parity Bonds." **The Series 2017 Bonds are not general obligations of the Port or the State of Washington or of any political subdivision of the State of Washington. Neither the full faith and credit of the Port nor the taxing power of the Port is pledged to the payment of the Series 2017 Bonds.**

The Series 2017 Bonds are offered when, as and if issued, subject to receipt of the approving legal opinions of K&L Gates LLP, Seattle, Washington, Bond Counsel to the Port. Certain legal matters will be passed upon by Pacifica Law Group LLP, Seattle, Washington, Disclosure Counsel to the Port. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. It is expected that delivery of the Series 2017 Bonds will be made by *Fast Automated Securities Transfer* through DTC in New York, New York, on or about August 22, 2017.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

CITIGROUP

MORGAN STANLEY

BofA MERRILL LYNCH

BARCLAYS

GOLDMAN SACHS & CO. LLC

J.P. MORGAN

ACADEMY SECURITIES

**BACKSTROM MCCARLEY
BERRY & CO., LLC**

**THE WILLIAMS CAPITAL
GROUP, L.P.**

Port of Seattle
\$16,705,000
Intermediate Lien Revenue Refunding Bonds, Series 2017A (Non-AMT)

Due (May 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP* No.
2027	\$ 8,145,000	5.00%	2.13%	125.009%	735389YL6
2028	8,560,000	5.00	2.26	123.725**	735389YM4

Port of Seattle
\$264,925,000
Intermediate Lien Revenue Refunding Bonds, Series 2017B (Taxable)

Due	Principal Amount	Interest Rate	Yield	Price	CUSIP* No.
11/01/2017	\$ 1,880,000	1.270%	1.270%	100.000%	735389YN2
05/01/2018	7,210,000	1.500	1.500	100.000	735389YP7
05/01/2019	7,270,000	1.894	1.894	100.000	735389YQ5
05/01/2020	15,295,000	2.007	2.007	100.000	735389YR3
05/01/2021	15,865,000	2.230	2.230	100.000	735389YS1
05/01/2022	16,485,000	2.430	2.430	100.000	735389YT9
05/01/2023	17,160,000	2.636	2.636	100.000	735389YU6
05/01/2024	17,885,000	2.836	2.836	100.000	735389YV4
05/01/2025	3,945,000	2.971	2.971	100.000	735389YW2
05/01/2026	4,325,000	3.071	3.071	100.000	735389YX0
05/01/2027	1,325,000	3.171	3.171	100.000	735389YY8
05/01/2028	815,000	3.321	3.321	100.000	735389YZ5
05/01/2029	6,170,000	3.371	3.371	100.000	735389ZA9
05/01/2030	6,650,000	3.421	3.421	100.000	735389ZB7
05/01/2031	16,830,000	3.471	3.471	100.000	735389ZC5
05/01/2032	22,790,000	3.571	3.571	100.000	735389ZD3

\$103,025,000, 3.755% Term Bonds, due May 1, 2036
(Yield of 3.755% & Price of 100.00), CUSIP* No. 735389ZE1

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** Priced to the par call date of May 1, 2027.

Port of Seattle
\$313,305,000
Intermediate Lien Revenue Bonds, Series 2017C (AMT)

Due (May 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP* No.
2019	\$ 1,060,000	5.00%	1.17%	106.395%	735389ZF8
2020	7,410,000	5.00	1.30	109.753	735389ZG6
2021	7,790,000	5.00	1.44	112.752	735389ZH4
2022	8,190,000	5.00	1.53	115.649	735389ZJ0
2023	8,610,000	5.00	1.68	117.946	735389ZK7
2024	9,055,000	5.00	1.85	119.737	735389ZL5
2025	9,515,000	5.00	2.04	120.969	735389ZM3
2026	10,005,000	5.00	2.23	121.773	735389ZN1
2027	10,515,000	5.00	2.43	122.069	735389ZP6
2028	11,050,000	5.00	2.56	120.821**	735389ZQ4
2029	11,620,000	5.00	2.69	119.588**	735389ZR2
2030	12,215,000	5.00	2.81	118.463**	735389ZS0
2031	12,845,000	5.00	2.89	117.720**	735389ZT8
2032	13,510,000	5.00	2.96	117.074**	735389ZU5
2033	14,195,000	5.00	3.02	116.524**	735389ZV3
2034	14,920,000	5.00	3.08	115.977**	735389ZW1
2035	15,680,000	5.00	3.11	115.705**	735389ZX9
2036	16,490,000	5.00	3.14	115.433**	735389ZY7
2037	17,340,000	5.00	3.16	115.253**	735389ZZ4

\$51,290,000 5.00% Term Bonds, due May 1, 2042
(Yield of 3.23% & Price of 114.623%**), CUSIP* No. 735389A24

\$50,000,000 5.25% Term Bonds, due May 1, 2042
(Yield of 3.14% & Price of 117.508%**), CUSIP* No. 735389A32

Port of Seattle
\$93,230,000
Intermediate Lien Revenue Bonds, Series 2017D (AMT)

Due (May 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP* No.
2018	\$ 2,490,000	5.00%	1.09%	102.685%	735389A40
2019	8,190,000	5.00	1.17	106.395	735389A57
2020	8,615,000	5.00	1.30	109.753	735389A65
2021	9,035,000	5.00	1.44	112.752	735389A73
2022	9,515,000	5.00	1.53	115.649	735389A81
2023	10,000,000	5.00	1.68	117.946	735389A99
2024	10,505,000	5.00	1.85	119.737	735389B23
2025	11,050,000	5.00	2.04	120.969	735389B31
2026	11,620,000	5.00	2.23	121.773	735389B49
2027	12,210,000	5.00	2.43	122.069	735389B56

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** Priced to the par call date of May 1, 2027.

PORT OF SEATTLE

PORT COMMISSION

Name	Office	Term Expires
Tom Albro	President	December 31, 2017
Courtney Gregoire	Vice-President	December 31, 2019
Stephanie Bowman	Secretary	December 31, 2017
Fred Felleman	Assistant Secretary	December 31, 2019
John Creighton	Commissioner At Large	December 31, 2017

CERTAIN EXECUTIVE STAFF

David Soike, Interim Executive Director
Dan Thomas, Chief Financial Officer
Lance Lyttle, Managing Director, Aviation
Lindsay Pulsifer, Managing Director, Maritime
David McFadden, Managing Director, Economic Development
Craig Watson, General Counsel

PORT HEADQUARTERS

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Seattle, Washington

DISCLOSURE COUNSEL

Pacifica Law Group LLP
Seattle, Washington

FINANCIAL ADVISOR

Piper Jaffray & Co.
Seattle, Washington

BOND REGISTRAR

U.S. Bank National Association
Seattle, Washington

**INDEPENDENT
AUDITORS FOR THE PORT**

Moss Adams LLP
Seattle, Washington

**INDEPENDENT
CONSULTANT**

WJ Advisors LLC
Denver, Colorado

* This inactive textual reference to the Port's website is not a hyperlink, and the Port's website, by this reference, is not incorporated herein.

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No dealer, broker, sales representative or other person has been authorized by the Port to give any information or to make any representations with respect to the Series 2017 Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Port. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2017 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained by the Port from Port records and from other sources that are believed by the Port to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2017 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Port since the date hereof.

This Official Statement is not to be construed as a contract or agreement between the Port and purchasers or owners of any of the Series 2017 Bonds.

Neither the Port's independent auditors nor any other independent accountants have compiled, examined, or performed any additional procedures with respect to the financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and they assume no responsibility for, and disclaim any association with, the financial information.

The initial public offering prices or yields set forth on the inside cover pages hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2017 Bonds to certain dealers, unit investment trusts or money market funds at prices lower than or at yields higher than the public offering prices or yields stated on the inside cover pages hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2017 BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Certain statements contained in this Official Statement, including the appendices, reflect not historical facts but forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “forecast” and “believe” and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. All forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. Such risks and uncertainties include, among others, changes in regional, domestic and international political, social and economic conditions, federal, state and local funding, statutory and regulatory actions, litigation, population changes, financial conditions of tenants and/or other users of Port or Seaport Alliance facilities, technological change and various other events, conditions and circumstances, many of which are beyond the control of the Port.

OFFICIAL STATEMENT

RELATING TO

PORT OF SEATTLE

\$16,705,000	\$264,925,000	\$313,305,000	\$93,230,000
Intermediate Lien Revenue Refunding Bonds, Series 2017A (Non-AMT)	Intermediate Lien Revenue Refunding Bonds, Series 2017B (Taxable)	Intermediate Lien Revenue Bonds, Series 2017C (AMT)	Intermediate Lien Revenue Bonds, Series 2017D (AMT)

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, inside cover pages, table of contents and appendices, is to provide information concerning the issuance by the Port of Seattle (the “Port”) of \$16,705,000 of its Intermediate Lien Revenue Refunding Bonds, Series 2017A (Non-AMT) (the “Series 2017A Bonds”), \$264,925,000 of its Intermediate Lien Revenue Refunding Bonds, Series 2017B (Taxable) (the “Series 2017B Bonds”), \$313,305,000 of its Intermediate Lien Revenue Bonds, Series 2017C (AMT) (the “Series 2017C Bonds”), and \$93,230,000 of its Intermediate Lien Revenue Bonds, Series 2017D (AMT) (the “Series 2017D Bonds” and, together with the Series 2017A Bonds, Series 2017B Bonds and Series 2017C Bonds, the “Series 2017 Bonds”).

The fiscal agent of the State of Washington, currently U.S. Bank National Association, is the registrar, authenticating agent and paying agent (the “Registrar”) for the Series 2017 Bonds.

The Port is issuing the Series 2017 Bonds pursuant to Title 53 of the Revised Code of Washington (“RCW”) and pursuant to Resolution No. 3540, as amended, adopted by the Port Commission (the “Commission”) on June 14, 2005 (the “Intermediate Lien Master Resolution”), and Resolution No. 3735, adopted by the Commission on July 11, 2017 (the “Series Resolution” and, together with the Intermediate Lien Master Resolution, the “Resolution”). Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Resolution, copies of which are included in this Official Statement as Appendix G.

The Port is a municipal corporation of the State of Washington (the “State”). The Port was organized on September 5, 1911. The Port owns and operates Seattle-Tacoma International Airport (the “Airport”) and various maritime and industrial and commercial properties. The Port and the Port of Tacoma formed the Northwest Seaport Alliance (the “Seaport Alliance”) in 2015 to manage jointly the two ports’ container shipping terminals and certain industrial properties. See “THE PORT OF SEATTLE.”

Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

Security and Sources of Payment for the Series 2017 Bonds

The Series 2017 Bonds are payable solely from and are secured by a pledge of Available Intermediate Lien Revenues (hereinafter defined). The Series 2017 Bonds and any outstanding and future revenue bonds issued by the Port on a parity of lien with the Series 2017 Bonds are referred to collectively in the Intermediate Lien Master Resolution and in this Official Statement as the “Intermediate Lien Parity Bonds.” **The Series 2017 Bonds are not general obligations of the Port or the State of Washington or of any political subdivision of the State of Washington. Neither the full faith and credit of the Port nor the taxing power of the Port is pledged to the payment of the Series 2017 Bonds.**

As defined in the Intermediate Lien Master Resolution, “Available Intermediate Lien Revenues” means Gross Revenue of the Port (excluding Released Revenues, if any) after payment of (i) all Operating Expenses not paid from other sources; (ii) all payments, including sinking fund payments, required to be made into the debt service accounts within any redemption fund maintained for First Lien Bonds (hereinafter defined); (iii) all payments required to be made into any reserve accounts maintained for First Lien Bonds to secure payment of any First Lien Bonds; and (iv) all payments required to be made into any other revenue bond redemption fund and debt service

accounts or reserve accounts that may be created in the future to pay and secure the payment of the principal of and premium, if any, and interest on any revenue bonds or other revenue obligations of the Port having liens on “Net Revenues,” as such term is further defined in the Intermediate Lien Master Resolution, and the money in the Revenue Funds junior and inferior to the lien of the First Lien Bonds but prior to the lien of the Intermediate Lien Parity Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS” and the definitions in Appendix G.

“First Lien Bonds” are defined in the Intermediate Lien Master Resolution as revenue bonds of the Port that have been or that in the future may be issued by the Port as “Parity Bonds” under Resolution No. 3059, as amended, adopted by the Commission on February 2, 1990, as amended and restated by Resolution No. 3577, adopted by the Commission on February 27, 2007, and as amended, supplemented and restated from time to time (the “First Lien Master Resolution”). The First Lien Bonds and any revenue bonds or revenue obligations with a lien on Net Revenues that is junior and inferior to the lien of the First Lien Bonds but prior to the lien of the Intermediate Lien Parity Bonds are referred to collectively in the Intermediate Lien Master Resolution and in this Official Statement as “Permitted Prior Lien Bonds.” The Intermediate Lien Master Resolution does not limit the Port’s ability to issue Permitted Prior Lien Bonds. As of the date of this Official Statement, the only Permitted Prior Lien Bonds outstanding are First Lien Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS” and “OUTSTANDING PORT INDEBTEDNESS.”

The Port’s Revenue Bonds, Series 2009A (the “2009A Refunded Bonds” identified under the heading “—Refunding Plan”) and Revenue Bonds, Series 2009B-1 (Taxable) (the “2009B-1 Refunded Bonds” identified under the heading “—Refunding Plan” and, together with the 2009A Refunded Bonds, the “Refunded Bonds”) were issued as First Lien Bonds to finance a portion of the cost of the Port’s consolidated rental car facility. Revenue from Customer Facility Charges (“CFCs”) imposed upon customers of rental car companies accessing the Airport is not included in Gross Revenue. Customer Facility Charges may be used only to pay or finance costs of the consolidated rental car facility, and therefore the Port has not pledged CFCs as Gross Revenue to secure First Lien Bonds or Intermediate Lien Parity Bonds including the Series 2017 Bonds. The Port applies CFC revenue, however, to pay debt service on the Refunded Bonds and other bonds issued to finance costs of the consolidated rental car facility, and anticipates applying CFC revenue to pay debt service on any Series 2017 Bonds issued to refund the Refunded Bonds, as well as other bonds issued to finance the consolidated rental car facility. See “THE AIRPORT—Customer Facility Charges.”

The Intermediate Lien Master Resolution includes a number of covenants by the Port for the benefit of the owners and holders of each of the Intermediate Lien Parity Bonds and conditions that must be satisfied before additional Intermediate Lien Parity Bonds, including the Series 2017 Bonds, may be issued. See “SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS” and Appendix G.

Subordinate Obligations

The First Lien Master Resolution and the Intermediate Lien Master Resolution permit the Port to issue revenue obligations having a lien on Net Revenues and Available Intermediate Lien Revenues subordinate to the lien thereon of the Intermediate Lien Parity Bonds. The Port has issued Subordinate Lien Parity Bonds, including Subordinate Lien Commercial Paper Notes that are authorized to be issued from time to time in an amount up to \$250 million. See “OUTSTANDING PORT INDEBTEDNESS—Subordinate Lien Parity Bonds.”

Continuing Disclosure

The Port has covenanted for the benefit of the holders and beneficial owners of the Series 2017 Bonds to provide certain financial information and operating data and to give notices of certain events to assist the Underwriters in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5). See “CONTINUING DISCLOSURE” and Appendix H.

Report of the Independent Consultant and Audited Financial Statements

In connection with the issuance of the Series 2017 Bonds, WJ Advisors LLC, as independent consultant to the Port (the “Independent Consultant”), has prepared the Report of the Independent Consultant, dated July 14, 2017 and

included in this Official Statement as Appendix C. The Report of the Independent Consultant presents the results of the Independent Consultant's and its sub consultants' review of the Port's and the Seaport Alliance's forecasts of activity and forecast of financial performance through 2022. The Independent Consultant and its sub consultants reviewed the following Port-prepared forecasts: aviation activity for the Airport, noncontainerized cargo and cruise activity and the associated financial forecasts; and reviewed the following Seaport Alliance-prepared forecasts: container traffic and other cargo traffic of the Seaport Alliance and the associated financial forecasts. The Report of the Independent Consultant is an important part of this Official Statement, includes additional information regarding the Port, and should be read in its entirety. See the Report of the Independent Consultant in Appendix C.

The audited financial statements of the Port's Enterprise Fund and the Warehousemen's Pension Trust Fund as of December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015, and 2014, are included in this Official Statement as Appendix A. The audited financial statements of the Seaport Alliance for the year ended December 31, 2016 are included in this Official Statement as Appendix B. See "INDEPENDENT AUDITORS" and Appendices A and B.

None of the Port's independent auditors, the Seaport Alliance's independent auditors, or any other independent accountants has compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

Investment Considerations

The Series 2017 Bonds may not be suitable for all investors. Prospective purchasers of the Series 2017 Bonds should give careful consideration to the information set forth in this Official Statement and confer with their own tax and financial advisors before deciding whether to purchase the Series 2017 Bonds.

The Port's businesses are subject to a number of risk factors that may adversely affect Gross Revenue or Available Intermediate Lien Revenues. This Official Statement describes the Port's businesses and business environments, including certain risks, but it is impossible for the Port to specify or anticipate all risks associated with its operations. See "CERTAIN INVESTMENT CONSIDERATIONS." Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

Miscellaneous

Brief descriptions of the Series 2017 Bonds, the Resolution and certain statutes and agreements are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to such instruments, documents and statutes and to any other documents, statutes, agreements or other instruments described herein are qualified in their entirety by reference to each such document, statute or other instrument. Appendix G includes a copy of the Resolution.

SOURCES AND USES OF SERIES 2017 BOND PROCEEDS

Use of Series 2017 Bond Proceeds

Series 2017A Bonds and Series 2017B Bonds. The Series 2017A Bonds and Series 2017B Bonds are being issued by the Port (i) to refund all of the Refunded Bonds identified under the heading "—Refunding Plan" below, and (ii) to pay costs of issuing the Series 2017A Bonds and Series 2017B Bonds.

Series 2017C Bonds and Series 2017D Bonds. The Series 2017C Bonds and Series 2017D Bonds are being issued by the Port (i) to finance capital improvements to aviation facilities (the "2017 Projects") described under the heading "CAPITAL PLAN FUNDING," including reimbursing the Port for costs of the 2017 Projects, (ii) to capitalize interest on all or a portion of the Series 2017C Bonds and Series 2017D Bonds, (iii) to make a deposit to the Intermediate Lien Reserve Account, and (iv) to pay costs of issuing the Series 2017C Bonds and Series 2017D Bonds.

Refunding Plan

The Port will refund all of the following bonds for aggregate debt service savings (the “Refunded Bonds”). The Refunded Bonds, which were issued as First Lien Bonds, will be refunded with the Series 2017A Bonds and the Series 2017B Bonds, which are Intermediate Lien Parity Bonds.

Revenue Bonds, Series 2009A (the “2009A Refunded Bonds”)					
<u>Maturity Date (May 1)</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP* Number</u>
2027	5.25%	\$ 10,080,000	05/01/2019	100%	735389MQ8
2028	5.25	10,625,000	05/01/2019	100	735389MR6
TOTAL		\$ 20,705,000			

Revenue Bonds, Series 2009B-1 (Taxable) (the “2009B-1 Refunded Bonds”)					
<u>Maturity Date (May 1)</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP* Number</u>
2036 [†]	7.00%	\$ 255,450,000	05/01/2019	100%	735389MT2
TOTAL		\$ 255,450,000			

[†] Term Bonds.

Source: Port of Seattle.

Refunded Bonds. The Port will purchase certain direct non-callable United States Government Obligations (“Acquired Obligations”) with a portion of the proceeds of the Series 2017 Bonds. These Acquired Obligations will be deposited in the custody of U.S. Bank National Association (the “Escrow Agent”). The maturing principal of the Acquired Obligations purchased with proceeds of the Series 2017 Bonds, interest earned thereon, and necessary cash balance, if any, will provide payment of interest on and the redemption price of the Refunded Bonds when due up to and including the redemption date, and on such redemption date the redemption price of the Refunded Bonds. The Acquired Obligations, interest earned thereon, and necessary cash balance, if any, will irrevocably be pledged to and held in trust for the benefit of the owners of the Refunded Bonds by the Escrow Agent, pursuant to an escrow deposit agreement to be executed by the Port and the Escrow Agent.

Causey Demgen & Moore, P.C. (the “Verification Agent”) will verify the accuracy of the mathematical computations concerning the adequacy of the funds to be placed in the escrow account to pay on the redemption date, pursuant to the call for redemption, the principal of and interest on the Refunded Bonds. The verification will also confirm the mathematical computations supporting the conclusion of Bond Counsel that the Series 2017A Bonds are not “arbitrage bonds” as defined by Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”).

Payment of Refunded Bonds. A portion of the net proceeds from the sale of the Series 2017 Bonds will be irrevocably delivered to the paying agent for the Refunded Bonds (the “Bond Registrar”) to be applied to pay the interest on the Refunded Bonds coming due on May 1, 2019 as described in the table above, and to redeem and retire the Refunded Bonds on May 1, 2019 at a price of 100 percent of the principal amount thereof.

Because all payments of principal of and interest on the Refunded Bonds will be provided for when the Series 2017 Bonds are issued, the Refunded Bonds will cease to be entitled to any lien, benefit or security of the resolution authorizing their issuance except the right to receive payment from the Bond Registrar.

*CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright© 2017 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the Port, the Underwriters or their agents or counsel assumes responsibility for the accuracy of such numbers.

Effect of Refunding

The Refunded Bonds are First Lien Bonds that were issued to finance a portion of the cost of the Port's consolidated rental car facility. The Port applies CFC revenue to pay debt service on the Refunded Bonds and anticipates applying CFC revenue to pay debt service on Series 2017A Bonds and Series 2017B Bonds. CFC revenue is expected to be applied to reduce debt service on Intermediate Lien Parity Bonds as an Intermediate Lien Debt Service Offset (rather than increasing Available Intermediate Lien Revenues as a Prior Lien Debt Service Offset). Accordingly, changing the lien level of the Refunded Bonds (from First Lien Bonds to Intermediate Lien Parity Bonds) does not have a significant effect on Intermediate Lien Parity Bond debt service coverage. The Port will refund the Refunded Bonds for aggregate debt service savings. The Refunding Plan however, results in increased principal payments in earlier years (shortening the average maturity) to more closely match CFC revenue expected to be collected and used to pay debt service on the Series 2017A Bonds and Series 2017B Bonds.

Sources and Uses of Funds

The proceeds of the Series 2017 Bonds are to be applied, together with other funds, as follows:

Sources	Series 2017A Bonds	Series 2017B Bonds	Series 2017C Bonds	Series 2017D Bonds	Total
Principal Amount	\$ 16,705,000	\$ 264,925,000	\$ 313,305,000	\$ 93,230,000	\$ 688,165,000
Original Issue Premium	4,067,843	-	52,942,734	15,481,667	72,492,245
Port Contribution ⁽¹⁾	2,405,662	31,639,074	-	-	34,044,736
Total Sources	<u>\$ 23,178,505</u>	<u>\$ 296,564,074</u>	<u>\$ 366,247,734</u>	<u>\$ 108,711,667</u>	<u>\$ 794,701,981</u>
Uses					
Refunding Amount ⁽²⁾	\$ 22,376,632	\$ 284,880,619	\$ -	\$ -	\$ 307,257,250
2017 Project Costs	-	-	315,854,000	100,958,000	416,812,000
Capitalized Interest	-	-	33,803,500	4,029,683	37,833,183
Intermediate Lien Reserve Account Deposit	737,528	10,816,352	15,492,296	3,409,196	30,455,372
Costs of Issuance ⁽³⁾	64,345	867,104	1,097,938	314,788	2,344,175
Total Uses	<u>\$ 23,178,505</u>	<u>\$ 296,564,074</u>	<u>\$ 366,247,734</u>	<u>\$ 108,711,667</u>	<u>\$ 794,701,981</u>

Note: Totals may not foot due to rounding.

(1) Accrued interest on Refunded Bonds; amounts released from the Series 2009A Debt Service Reserve Fund and the Series 2009B Debt Service Reserve Fund.

(2) To be applied to defease and redeem the Refunded Bonds as described above.

(3) Represents costs of issuing the Series 2017 Bonds, including Underwriters' discount, legal fees, rating agency fees, Verification Agent fees, escrow fees, Independent Consultant fees, fees of the Financial Advisor, and additional proceeds.

DESCRIPTION OF THE SERIES 2017 BONDS

General

Series 2017 Bonds. The Series 2017 Bonds are to be dated as of and are to bear interest from their date of delivery. Interest on the Series 2017 Bonds is to be payable on November 1, 2017 and semiannually on each May 1 and November 1 thereafter, at the rates set forth on the inside cover pages of this Official Statement. The Series 2017 Bonds are to mature, subject to prior redemption, in the amounts and on the dates set forth on the inside cover pages of this Official Statement. Interest is to be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Book-Entry Only Form. The Series 2017 Bonds are being issued in fully registered form in denominations of \$5,000 and integral multiples thereof within a series, maturity and interest rate and when issued will be registered in the name of Cede & Co. (or such other name as may be requested by an authorized representative of DTC), as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2017 Bonds. Individual purchases may be made only in book-entry form. Purchasers will not receive certificates representing their interest in the Series 2017 Bonds purchased. So long as Cede & Co. is the registered owner of the Series 2017 Bonds, as nominee of DTC, references herein to "Owners," "Bondholders" or "Registered Owners" mean Cede & Co. (or such other nominee) and not the Beneficial Owners of the Series 2017 Bonds. In this Official Statement, the term "Beneficial Owner" means the person for whom its DTC Participant acquires an interest in the Series 2017 Bonds.

So long as Cede & Co. is the registered owner of the Series 2017 Bonds, the principal of and interest on the Series 2017 Bonds are payable by wire transfer to Cede & Co., as nominee for DTC which, in turn, is to remit such amounts to the Direct Participants for subsequent disbursement to the Beneficial Owners. See “DTC AND ITS BOOK-ENTRY SYSTEM” in Appendix F.

Optional Redemption

Series 2017A Bonds, Series 2017B Bonds, and Series 2017C Bonds

The Series 2017A Bonds, Series 2017B Bonds, and Series 2017C Bonds maturing on or after May 1, 2028, are subject to redemption at the option of the Port on or after May 1, 2027, as a whole or in part on any date, with the series, maturities and interest rates to be selected by the Port at a redemption price equal to 100 percent of the principal amount thereof, plus interest accrued to the date fixed for redemption. See “—Partial Redemption; Selection of Series 2017 Bonds.”

In addition, the Series 2017B Bonds are subject to redemption at the option of the Port as a whole or in part on any date prior to May 1, 2027, with the maturities and interest rates to be selected by the Port, at a redemption price described below (the “Make-Whole Redemption Price”). See “—Partial Redemption; Selection of Series 2017 Bonds.”

The Make-Whole Redemption Price is equal to the greater of (1) 100% of the principal amount of the Series 2017B Bonds to be redeemed; or (2) the sum of the present value of the remaining scheduled payments of principal and interest on the Series 2017B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2017B Bonds are to be redeemed, discounted to the date on which the Series 2017B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 25 basis points (0.25%); plus, in each case, accrued interest on the Series 2017B Bonds to be redeemed to the date on which the Series 2017B Bonds are to be redeemed.

“Treasury Rate” means, with respect to any redemption date for a particular Series 2017B Bond, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue with respect thereto, computed as of the second business day immediately preceding that redemption date, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price with respect thereto for that redemption date.

“Comparable Treasury Issue” means, with respect to any redemption date for a particular Series 2017B Bond, the United States Treasury security selected by the Independent Investment Banker which has an actual maturity comparable to the remaining average life of the Series 2017B Bonds of such maturity to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Series 2017B Bond to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Series 2017B Bond, (A) the average of the applicable Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (B) if the Independent Investment Banker for the Bonds obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers as designated by the Port.

“Reference Treasury Dealer” means each of four firms, as designated by the Port, and their respective successors; provided, however, that if any of them ceases to be a “Primary Treasury Dealer” (defined as a primary U.S. Government securities dealer in the City of New York), the Port will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date for the Series 2017B Bonds of a particular maturity, the average, as determined by the Independent Investment Banker and communicated to the Port, of the bid and asked prices for the applicable Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment

Banker and communicated to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding that redemption date.

“Business Day” means any day, other than a Saturday or Sunday, and other than a day on which the Registrar is required, or authorized or not prohibited, by law (including without limitation, executive orders) to close and is closed.

Series 2017D Bonds

The Series 2017D Bonds are not subject to optional redemption prior to their scheduled maturities.

Mandatory Sinking Fund Redemption

The Series 2017B Bonds maturing on May 1, 2036 and the Series 2017C Bonds maturing on May 1, 2042 (together, the “Term Bonds”), are subject to mandatory sinking fund redemption at a price of 100 percent of the principal amount thereof plus accrued interest to the date fixed for redemption on May 1 in the years and amounts as follows:

Series 2017B Bonds	
Date (May 1)	Mandatory Sinking Fund Redemption
2033	\$ 23,915,000
2034	25,110,000
2035	26,355,000
2036 [†]	27,645,000

[†]Maturity.

Series 2017C Bonds (5.00% Coupon)	
Date (May 1)	Mandatory Sinking Fund Redemption
2038	\$ 9,220,000
2039	9,710,000
2040	10,225,000
2041	10,785,000
2042 [†]	11,350,000

[†]Maturity.

Series 2017C Bonds (5.25% Coupon)	
Date (May 1)	Mandatory Sinking Fund Redemption
2038	\$ 9,025,000
2039	9,485,000
2040	9,975,000
2041	10,485,000
2042 [†]	11,030,000

[†]Maturity.

If the Port redeems a portion of the Term Bonds under the optional redemption provisions described above or purchases or defeases a portion of the Term Bonds, the Term Bonds so redeemed, purchased for cancellation, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the principal amount thereof against one or more scheduled mandatory redemption amounts for the Term Bonds as directed by the Port or, if no such direction is made, in such random manner determined by the Bond Registrar.

The Resolution provides that in the case of a mandatory sinking fund redemption of Term Bonds, the Term Bonds to be redeemed shall become due and payable on the date fixed for such mandatory sinking fund redemption, and the Port shall transfer to the Registrar amounts that, in addition to other money, if any, held by the Registrar for such purpose, will be sufficient to redeem, on the date fixed for redemption, all of the Series 2017 Bonds to be so redeemed.

Partial Redemption; Selection of Series 2017 Bonds

The Resolution provides that for so long as the Series 2017 Bonds are held in book-entry form with DTC, the selection for redemption of such Series 2017 Bonds (other than the Series 2017B Bonds) within a series, maturity and interest rate shall be made by lot in accordance with the operational arrangements of DTC (or at a substitute depository, if applicable) then in effect. See “DTC AND ITS BOOK-ENTRY SYSTEM” in Appendix F. The Series 2017B Bonds shall be selected for redemption based on a “*Pro Rata* Pass-Through Distributions of Principal” basis.

If less than all of the Series 2017B Bonds of a maturity and interest rate are called for prior redemption, the particular Series 2017B Bonds or portions thereof to be redeemed shall be selected on a “*Pro Rata* Pass-Through Distribution of Principal” basis in accordance with DTC procedures, provided that, so long as the Series 2017B Bonds are held in book-entry form, the selection for redemption of such Series 2017B Bonds shall be made in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the Registrar pursuant to DTC operational arrangements. If the Registrar does not provide the necessary information and identify the redemption as on a *Pro Rata* Pass-Through Distribution of Principal basis or if DTC’s operational arrangements no longer provide for selection on a *pro rata* basis, the Series 2017B Bonds will be selected for redemption in accordance with DTC procedures by lot.

If the Series 2017 Bonds to be redeemed are no longer held in book-entry-only form, the selection of Series 2017A Bonds, Series 2017C Bonds or Series 2017D Bonds to be redeemed shall be made by lot as set forth in the Series Resolution and the selection of Series 2017B Bonds to be redeemed shall be made based on a *Pro Rata* Pass-Through Distributions of Principal basis.

Notice of Redemption; Effect of Redemption

The Resolution also provides that written notice of any redemption of Series 2017 Bonds prior to maturity shall be given by the Registrar on behalf of the Port by first class mail, postage prepaid, not less than 20 days nor more than 60 days before the date fixed for redemption to the Registered Owners of Series 2017 Bonds that are to be redeemed at their last addresses shown on the Bond Register (which shall be DTC so long as such Bonds are held in book-entry form with DTC). The Resolution provides that the requirement to give notice of redemption shall be deemed complied with when notice is mailed to the Registered Owners at their last addresses shown on the Bond Register, whether or not such notice is actually received by the Registered Owners. The Resolution also provides that so long as the Series 2017 Bonds are in book-entry form with DTC, notice of redemption shall be given to Beneficial Owners of Series 2017 Bonds to be redeemed in accordance with the operational arrangements then in effect at DTC (or its successor or alternate depository) and that neither the Port nor the Registrar shall be obligated or responsible to confirm that any notice of redemption is, in fact, provided to Beneficial Owners.

Pursuant to the Resolution, unless the Port has rescinded a notice of optional redemption (or unless the Port provided a conditional notice of optional redemption and the conditions for the optional redemption set forth therein are not satisfied), the Series 2017 Bonds to be redeemed shall become due and payable on the date fixed for redemption, and the Port shall transfer to the Registrar amounts that, in addition to other money, if any, held by the Registrar for such purpose, will be sufficient to redeem, on the date fixed for redemption, all of the Series 2017 Bonds to be redeemed. If and to the extent that funds have been provided to the Registrar for the optional redemption of Series 2017 Bonds, then from and after the date fixed for redemption for such Series 2017 Bond or portion thereof, interest on each such Series 2017 Bond shall cease to accrue and such Series 2017 Bond or portion thereof shall cease to be Outstanding.

Conditional Optional Redemption; Rescission

The Resolution permits, in the case of optional redemption, notices of optional redemption to be conditional or to be rescinded at the option of the Port. If conditional, the notice is to state that the notice of redemption is conditional

and the conditions that must be met to permit redemption. The Resolution provides that the notice is to state further that (unless the conditions, if any, to redemption have not been satisfied or unless the notice of redemption shall have been rescinded) such Series 2017 Bonds will become due and payable and interest shall cease to accrue from the date fixed for redemption if and to the extent in each case funds have been provided to the Registrar for the redemption of such Series 2017 Bonds on the date fixed for redemption the redemption price will become due and payable upon each Series 2017 Bond or portion called for redemption, and that (unless the conditions, if any, to redemption have not been satisfied or unless the notice of redemption shall have been rescinded) interest shall cease to accrue from the date fixed for redemption if and to the extent that funds have been provided to the Registrar for the redemption of such Series 2017 Bonds.

Purchase of Series 2017 Bonds for Retirement

In the Series Resolution, the Port has reserved the right to use at any time any surplus Gross Revenue available after providing for the payments required by paragraph *First* through *Eleventh* described under the heading “SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS—Flow of Funds” to purchase for retirement any of the Series 2017 Bonds offered to the Port at any price deemed reasonable to the Designated Port Representative.

Defeasance

The Series Resolution provides that in the event money and/or non-callable Government Obligations that are direct or indirect obligations of the United States or obligations unconditionally guaranteed by the United States maturing or having guaranteed redemption prices at the option of the owner thereof at such time or times and bearing interest in amounts (together with such money, if any) sufficient to redeem and retire part or all of the Series 2017 Bonds in accordance with their terms are irrevocably delivered to the Registrar for payment of such Series 2017 Bonds or set aside in a special account and pledged to effect such redemption or retirement, and if the Series 2017 Bonds (or portion thereof) are to be redeemed prior to maturity, irrevocable notice, or irrevocable instructions to give notice of such redemption, has been delivered to the Registrar, then no further payments need be made to the Intermediate Lien Bond Fund (as hereinafter defined) or any account therein for the payment of the principal of and premium, if any, and interest on the Series 2017 Bonds (so provided for). Such Series 2017 Bonds shall cease to be entitled to any lien, benefit or security of the Resolution, except the right to receive the funds so set aside and pledged and such notices of redemption, if any, and such Series 2017 Bonds shall no longer be deemed to be outstanding under the Resolution or under any resolution authorizing the issuance of bonds or other indebtedness of the Port.

As currently defined in chapter 39.53 of the Revised Code of Washington, “Government Obligations” means (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and bank certificates of deposit secured by such obligations; (ii) bonds, debentures, notes, participation certificates or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, federal land banks or the Federal National Mortgage Association; (iii) public housing bonds and project notes fully secured by contracts with the United States; and (iv) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the federal savings and loan insurance corporation, to the extent insured or guaranteed as permitted under any other provision of State law.

The definition of “Government Obligations” in the Series Resolution incorporates any future statutory revision.

Series 2017B Bonds. If the Port defeases any Series 2017B Bonds, such Series 2017B Bonds may be deemed to be retired and “reissued” for federal income tax purposes as a result of the defeasance. In such event, the owner of a Series 2017B Bond would recognize a gain or loss on the Series 2017B Bond at the time of defeasance. See “TAX MATTERS.”

SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS

Pledge of Available Intermediate Lien Revenues

The Intermediate Lien Parity Bonds, including the Series 2017 Bonds, are revenue obligations of the Port payable from and secured by a pledge of Available Intermediate Lien Revenues. As defined in the Intermediate Lien Master Resolution, “Available Intermediate Lien Revenues” means Gross Revenue of the Port (excluding Released Revenues, if any) after payment of (i) all Operating Expenses not paid from other sources; (ii) all payments, including sinking fund payments, required to be made into the debt service accounts for First Lien Bonds; (iii) all payments required to be made into any reserve accounts maintained for First Lien Bonds; and (iv) all payments required to be made into any other redemption fund and debt service accounts or reserve accounts that may be created in the future to pay and secure the payment of the principal of and premium, if any, and interest on any revenue bonds or other revenue obligations of the Port having liens on Net Revenues junior and inferior to the lien of the First Lien Bonds but prior to the lien of the Intermediate Lien Parity Bonds.

As defined in the First Lien Master Resolution and Intermediate Lien Master Resolution, the term “Gross Revenue” means all income and revenue derived by the Port from time to time from any source whatsoever except and excluding: (i) the proceeds of any borrowing by the Port and the earnings thereon (other than the earnings on proceeds deposited in any reserve funds), (ii) income and revenue that may not legally be pledged for revenue bond debt service (including the Tax Levy as defined and described in Appendix D, CFC revenue and storm water utility (“SWU”) revenue), (iii) passenger facility charges (“PFCs”), head taxes, federal grants or substitutes therefore allocated to capital projects, (iv) payments made to the Port under Credit Facilities issued to pay or secure the payment of a particular series of obligations, (v) insurance or condemnation proceeds other than business interruption insurance, (vi) income and revenue of the Port separately pledged and used by it to pay and secure the payment of the principal of and interest on any issue or series of Special Revenue Bonds of the Port issued to acquire, construct, equip, install or improve part or all of the particular facilities from which such income and revenue are derived, provided that the withdrawal from Gross Revenue of any income or revenue derived or to be derived by the Port from any income-producing facility that was contributing to Gross Revenue prior to the issuance of any Special Revenue Bonds is not permitted, and (vii) income from investments irrevocably pledged to the payment of bonds issued or to be refunded under any refunding bond plan of the Port.

As defined in the Intermediate Lien Master Resolution, the term “Operating Expenses” means the current expenses incurred for operation or maintenance of the Facilities (other than Special Facilities), as defined under generally accepted accounting principles applicable to the Port, in effect from time to time, excluding (i) any allowances for depreciation or amortization, or (ii) interest on any obligations of the Port incurred in connection with and payable from Gross Revenue.

The Intermediate Lien Master Resolution provides for the creation of a bond fund (the “Intermediate Lien Bond Fund”) and a reserve account (the “Intermediate Lien Reserve Account”), each held by the Chief Financial Officer of the Port as the Port’s Treasurer, and provides that the Intermediate Lien Parity Bonds are obligations only of the Intermediate Lien Bond Fund and the Intermediate Lien Reserve Account. In the Intermediate Lien Master Resolution, the Port irrevocably obligates and binds itself for so long as any Intermediate Lien Parity Bonds remain outstanding to set aside and pay into the Intermediate Lien Bond Fund from Available Intermediate Lien Revenues or money in the Port’s general fund, airport development fund and any other fund established in the office of the Treasurer of the Port for the receipt of Gross Revenue (the “Revenue Fund”), on or prior to the respective dates on which the same become due, the principal of and premium, if any, and interest on the outstanding Intermediate Lien Parity Bonds. See Section 3 of the Intermediate Lien Master Resolution and Section 6 of the Series Resolution in Appendix G. The principal of and interest on the Intermediate Lien Parity Bonds are payable from and are secured by an equal lien and charge upon Available Intermediate Lien Revenues superior to all other liens and charges of any kind or nature whatsoever, subject to the prior liens and charges of Permitted Prior Lien Bonds. Net Payments (but not termination payments) made by the Port with respect to any Parity Derivative Product would be equal in rank to the lien of Intermediate Lien Parity Bonds on Available Intermediate Lien Revenues. The Port has not entered into swap agreements or Parity Derivative Products. No property or property tax revenues secure the repayment of the Intermediate Lien Parity Bonds, including the Series 2017 Bonds.

The Intermediate Lien Master Resolution provides that, notwithstanding the exclusions from Gross Revenue specified or described in the definition of Gross Revenue, the Port may elect in the future to pledge the income, proceeds and payments described as excluded and/or CFCs and any other receipts at any time as additional security for one or more series of obligations and thereby to include such exception and/or receipt in Gross Revenue for such series of obligations, but if and only to the extent that such receipts may legally be used to pay debt service on such series of obligations. See “—Intermediate Lien Rate Covenant” and “—Additional Intermediate Lien Parity Bonds.”

If and to the extent specified in a series resolution authorizing additional Intermediate Lien Parity Bonds, the obligation of the Port to reimburse the provider of a Credit Facility (a “Repayment Obligation”) also may be secured by a pledge of and lien on Available Intermediate Lien Revenues on a parity with other outstanding Intermediate Lien Parity Bonds.

Neither the Intermediate Lien Master Resolution nor any series resolutions authorizing outstanding Intermediate Lien Parity Bonds or the Series 2017 Bonds requires the Port to make deposits into the Intermediate Lien Bond Fund for Intermediate Lien Parity Bonds prior to the date on which the principal of and interest on such Intermediate Lien Parity Bonds come due. See “—Flow of Funds” and Section 3 of the Intermediate Lien Master Resolution in Appendix G.

Released Revenues

The Intermediate Lien Master Resolution permits the Port to remove from the definition of “Available Intermediate Lien Revenues” income or revenue of the Port previously included in Available Intermediate Lien Revenues, provided that the Port satisfies the conditions to such removal set forth in the Intermediate Lien Master Resolution. See the definition of “Released Revenues” in Section 1 of the Intermediate Lien Master Resolution in Appendix G. The First Lien Master Resolution and the resolutions under which Subordinate Lien Parity Bonds are issued do not permit the release of revenues previously included in Gross Revenue. As of the date of this Official Statement, the Port has not designated any Released Revenues.

Flow of Funds

Pursuant to the Intermediate Lien Master Resolution, all Gross Revenue must be deposited as collected in the Revenue Fund, a separate fund or funds held by the Treasurer. The Revenue Fund must be held separate and apart from all other funds and accounts of the Port. As required by the First Lien Master Resolution and the Intermediate Lien Master Resolution and by the resolutions authorizing Subordinate Lien Parity Bonds, Gross Revenue deposited in the Revenue Fund is to be applied by the Port as follows:

First, to pay Operating Expenses not paid from other sources (such as the general purpose portion of the Tax Levy and CFCs);

Second, to make all payments, including sinking fund payments, required to be made into the debt service account(s) of any redemption fund maintained for First Lien Bonds to pay the principal of and premium, if any, and interest on any First Lien Bonds (including the Refunded Bonds);

Third, to make all payments required to be made into the Common Reserve Fund and all other reserve account(s) established to secure the payment of any First Lien Bonds;

Fourth, to make all payments required to be made into any other revenue bond redemption fund and debt service account or reserve account created therein to pay and secure the payment of the principal of, premium, if any, and interest on any revenue bonds or other revenue obligations of the Port having a lien upon Net Revenues and the money in the Revenue Fund junior and inferior to the lien thereon for the payment of the principal of, premium, if any, and interest on any First Lien Bonds but prior to the lien thereon of the Intermediate Lien Parity Bonds;

Fifth, to make payments necessary to be paid into any bond fund or debt service account created to pay the debt service on the Intermediate Lien Parity Bonds (including the Series 2017 Bonds) and without duplication, to make Net Payments due with respect to any derivative product secured by a pledge of and

lien on Available Intermediate Lien Revenues on an equal and ratable basis with outstanding Intermediate Lien Parity Bonds;

Sixth, to make all payments required to be made into the Intermediate Lien Reserve Account;

Seventh, to make payments necessary to be paid into any bond fund or debt service account created to pay the debt service on bonds with a lien on Net Revenues subordinate to the Port's Intermediate Lien Parity Bonds but senior to its Subordinate Lien Parity Bonds (the "Reserved Lien Revenue Bonds");

Eighth, to make all payments required to be made into any reserve account(s) securing Reserved Lien Revenue Bonds;

Ninth, to make payments necessary to be paid into any bond fund or debt service account created to pay the debt service on the Subordinate Lien Parity Bonds;

Tenth, to make all payments required to be made into the reserve account(s), if any, securing Subordinate Lien Parity Bonds;

Eleventh, to make all payments required to be made into the Repair and Renewal Fund to maintain any required balance therein; and

Twelfth, to retire by redemption or purchase any outstanding revenue bonds or other revenue obligations of the Port as authorized in the various resolutions of the Commission authorizing their issuance or to make necessary additions, betterments, improvements and repairs to or extension and replacements of the Facilities or any other lawful Port purposes.

The Intermediate Lien Master Resolution provides that notwithstanding the foregoing, the obligations of the Port to make nonscheduled payments under a derivative product agreement (i.e., any termination payment or other fees) may be payable from Gross Revenue available after paragraph "*Sixth*" above, as set forth in such derivative product agreement. See "OUTSTANDING PORT INDEBTEDNESS—Interest Rate Swaps."

The Port is permitted but not obligated to pay Operating Expenses (but not revenue bond debt service) with the portion of the Tax Levy (described in Appendix D) remaining after the payment of the Port's outstanding limited tax general obligation bonds. See "Summary of the Port's Taxing Power" in Appendix D.

The Port's outstanding variable rate Subordinate Lien Parity Bonds are secured by bank letters of credit. Although none of the Port's revenue bonds is subject to acceleration, an event of default under any of the bank reimbursement agreements pursuant to which the letters of credit were issued, among other events, would entitle the issuer of such letter of credit to require the mandatory tender for purchase of all of the Subordinate Lien Parity Bonds secured by such letter of credit. In that event, the Port would be required to reimburse the letter of credit issuer or to purchase or redeem all of such bonds over the period (currently up to five years or less) and to pay interest at the rates set forth in the applicable reimbursement agreement. All of the Series 2017 Bonds will bear interest at fixed rates payable semiannually and, as described above, the Port is required to make deposits to pay interest on the Series 2017 Bonds on or before the semiannual interest payment dates and to pay principal on the Series 2017 Bonds on or before annual principal payment dates. Interest on the Port's variable-rate Subordinate Lien Parity Bonds is payable monthly or on another interest payment schedule. See "OUTSTANDING PORT INDEBTEDNESS—Subordinate Lien Parity Bonds."

Intermediate Lien Reserve Account

The Intermediate Lien Master Resolution provides for the Intermediate Lien Reserve Account to be held by the Treasurer of the Port within the Intermediate Lien Bond Fund for the purpose of securing the payment of the principal of, premium, if any, and interest on all outstanding Intermediate Lien Parity Bonds. The Port is required to maintain the Intermediate Lien Reserve Account at the "Intermediate Lien Reserve Requirement," which is the dollar amount equal to average Annual Debt Service on all outstanding Intermediate Lien Parity Bonds, determined and calculated as of the date of issuance of Intermediate Lien Parity Bonds of each series (and recalculated upon the issuance of a subsequent series of Intermediate Lien Parity Bonds and, at the Port's option, upon the payment of the

principal of the Intermediate Lien Parity Bonds). See definitions of “Annual Debt Service” and “Debt Service” in Section 1 of the Intermediate Lien Master Resolution in Appendix G.

The Intermediate Lien Master Resolution provides that the Intermediate Lien Reserve Requirement may be funded at the date of issuance of a series of Intermediate Lien Parity Bonds or may be funded in equal monthly deposits over a period of time (not greater than three years) established in the applicable series resolution, but also provides that the dollar amount, if any, required to be contributed as a result of the issuance of a series of Intermediate Lien Parity Bonds shall not be greater than the Tax Maximum (as defined in the Intermediate Lien Master Resolution). If the dollar amount required to be contributed at the time of issuance of a series of Intermediate Lien Parity Bonds exceeds the Tax Maximum, the dollar amount required to be contributed to the Intermediate Lien Reserve Account is to be adjusted accordingly. See Section 3 of the Intermediate Lien Master Resolution in Appendix G.

The Intermediate Lien Reserve Account is a pooled reserve, which secures all outstanding and future Intermediate Lien Parity Bonds. The Intermediate Lien Reserve Requirement upon the closing and delivery of the Series 2017 Bonds is \$127,786,268, calculated pursuant to the Intermediate Lien Master Resolution. Upon closing of the Series 2017 Bonds, the Intermediate Lien Reserve Requirement will be satisfied by cash and securities, including \$18,901,492 of proceeds of the Series 2017C Bonds and Series 2017D Bonds and \$11,553,880 transferred from the Series 2009A Debt Service Reserve Fund and/or the Series 2009B Debt Service Reserve Fund.

The Intermediate Lien Master Resolution requires that the Intermediate Lien Reserve Requirement be maintained by deposits of cash and/or qualified investments, a Qualified Letter of Credit or Qualified Insurance (each as defined in the Intermediate Lien Master Resolution), or a combination of the foregoing, and permits the Port to substitute a Qualified Letter of Credit or Qualified Insurance for cash and securities then on deposit in the Intermediate Lien Reserve Account and to transfer such cash and securities to any permitted fund or account specified by the Designated Port Representative. See Section 3 of the Intermediate Lien Master Resolution in Appendix G.

The Intermediate Lien Master Resolution requires replacement, over a period of up to three years, of any Qualified Letter of Credit or Qualified Insurance securing payment of Intermediate Lien Parity Bonds upon a “Credit Event” (e.g. insolvency, specified ratings downgrades or dissolution of the provider thereof). If such a Credit Event occurs, the Intermediate Lien Reserve Requirement must be satisfied within one year with other Qualified Insurance or another Qualified Letter of Credit, or within three years (in three equal annual installments) out of Available Intermediate Lien Revenues (or out of other money on hand and legally available for such purpose) after first making necessary provisions for all payments required to be made into the Intermediate Lien Bond Fund. As of the date of this Official Statement, none of the Intermediate Lien Reserve Requirement is maintained through use of a Qualified Letter of Credit or Qualified Insurance. See “Credit Event” and “Qualified Insurance” in Section 1 of the Intermediate Lien Master Resolution in Appendix G.

Intermediate Lien Rate Covenant

Under the Intermediate Lien Master Resolution, the Port has covenanted with the owners and holders of each of the Intermediate Lien Parity Bonds that, for so long as any of the same remain outstanding, the Port will at all times establish, maintain and collect rentals, tariffs, rates, fees and charges in the operation of all of its businesses that will produce in each fiscal year (i) Available Intermediate Lien Revenues as First Adjusted at least equal to 110 percent of the Amount Due, and (ii) Available Intermediate Lien Revenues as Second Adjusted at least equal to 125 percent of the Amount Due. The Intermediate Lien Master Resolution provides that the calculations described in clauses (i) and (ii) of the preceding sentence are separate rather than cumulative calculations regarding the sufficiency of Available Intermediate Lien Revenues and that such calculations are together to be considered as the “Intermediate Lien Rate Covenant.”

The Intermediate Lien Master Resolution also provides that, for purposes of the Intermediate Lien Rate Covenant, the “Amount Due” in each fiscal year of the Port shall be equal to (a) Scheduled Debt Service, plus (b) amounts required to be deposited during such fiscal year from Available Intermediate Lien Revenues into the Intermediate Lien Reserve Account, plus (c) any other amounts due to any Credit Facility Issuer or any Liquidity Facility Issuer, but excluding from the foregoing (i) payments made or to be made from refunding debt and capitalized debt service or other money irrevocably (by Commission resolution) set aside for such payment, and (ii) Intermediate Lien Debt Service Offsets identified by the Port in a certificate of the Designated Port Representative.

As defined in the Intermediate Lien Master Resolution, “Available Intermediate Lien Revenues as First Adjusted” means Available Intermediate Lien Revenues increased (without duplication) by Prior Lien Debt Service Offsets identified by the Port in a certificate of the Designated Port Representative and subject to further adjustment to reflect (a) the Port’s intent that regularly scheduled net payments under derivative products (interest rate hedges) with respect to Port revenue obligations (regardless of lien position) be reflected in the calculation of debt service obligations with respect to those revenue obligations and not as adjustments to Gross Revenue or Operating Expenses; and (b) the Port’s intent that Gross Revenue and Operating Expenses may be adjusted, regardless of then-applicable generally accepted accounting principles, for certain items (e.g., to omit) to reflect more fairly the Port’s annual operating performance.

“Available Intermediate Lien Revenues as Second Adjusted,” as defined in the Intermediate Lien Master Resolution, means (a) Available Intermediate Lien Revenues as First Adjusted; plus (b) the unrestricted balance in the Revenue Fund at the end of the two most recent fiscal years of the Port, whichever is lower (the “Available Coverage Amount”). The Intermediate Lien Master Resolution provides that no amounts may be included in the Available Coverage Amount unless such amounts are legally available for payment of debt service on Intermediate Lien Parity Bonds.

“Intermediate Lien Debt Service Offsets,” as defined in the Intermediate Lien Master Resolution, mean receipts of the Port that are not included in Gross Revenue and that are legally available and/or pledged by the Port to pay debt service on Intermediate Lien Parity Bonds, but excluding any receipts that have been designated as Prior Lien Debt Service Offsets.

“Prior Lien Debt Service Offsets,” as defined in the Intermediate Lien Master Resolution, mean receipts of the Port that are not included in Gross Revenue and that are legally available and/or pledged by the Port to pay debt service on Permitted Prior Lien Bonds.

“Scheduled Debt Service,” as defined in the Intermediate Lien Master Resolution, means the amounts required in a fiscal year to be paid by the Port as scheduled debt service (principal and interest) on outstanding Intermediate Lien Parity Bonds, adjusted by Net Payments (as defined in the Intermediate Lien Master Resolution) during such fiscal year.

For purposes of measuring the Port’s performance under the Intermediate Lien Rate Covenant (as well as debt service coverage with respect to First Lien Bonds and Subordinate Lien Parity Bonds), the Port makes adjustments in Operating Expenses (reduction) by the amount of Operating Expenses paid from sources that are not included in Gross Revenues (e.g., CFCs and the Tax Levy).

For purposes of measuring the Port’s performance under the Intermediate Lien Rate Covenant (and determining Available Intermediate Lien Revenues as First Adjusted), the Port increases Available Intermediate Lien Revenues with Prior Lien Debt Service Offsets that include the amount of First Lien Bond debt service paid from CFCs and PFCs.

For purposes of measuring the Port’s performance under the Intermediate Lien Rate Covenant, the Port reduces debt service on Intermediate Lien Parity Bonds by Intermediate Lien Debt Service Offsets, including debt service on Intermediate Lien Parity Bonds paid from CFCs or PFCs.

The Port covenants in the Intermediate Lien Master Resolution that, if the Available Intermediate Lien Revenues as First Adjusted or if Available Intermediate Lien Revenues as Second Adjusted in any fiscal year are less than required to fulfill the Intermediate Lien Rate Covenant, the Port will retain a Consultant to make recommendations as to operations and the revision of schedules of rentals, tariffs, rates, fees and charges; and that upon receiving such recommendations or giving reasonable opportunity for such recommendations to be made, the Commission, on the basis of such recommendations and other available information, will establish rentals, tariffs, rates, fees and charges for services and operations that will be necessary to meet the Intermediate Lien Rate Covenant in the fiscal year during which such adjustments are made. The Intermediate Lien Master Resolution provides that, if the Commission has taken such steps and if the Available Intermediate Lien Revenues as First Adjusted or if Available Intermediate Lien Revenues as Second Adjusted in the fiscal year in which adjustments are made nevertheless are not sufficient to meet the Intermediate Lien Rate Covenant, there shall be no default with respect to the Intermediate

Lien Rate Covenant during such fiscal year, unless the Port fails to meet the Intermediate Lien Rate Covenant for two consecutive fiscal years. See Section 6(a) of the Intermediate Lien Master Resolution in Appendix G.

Other Covenants

The Port has made a number of other covenants in the Resolution for the benefit of the holders and owners from time to time of the Intermediate Lien Parity Bonds, including taking or requiring to be taken such acts as may reasonably be within the Port's ability and required under applicable law to continue the exclusion from gross income for federal income tax purposes of the interest on the Series 2017A Bonds, the Series 2017C Bonds and the Series 2017D Bonds. See "TAX MATTERS" herein and the Series Resolution and Section 6 of the Intermediate Lien Master Resolution in Appendix G.

Permitted Prior Lien Bonds

Additional First Lien Bonds. The First Lien Master Resolution provides that the Port may issue bonds having a lien and charge upon Net Revenues equal to that of the outstanding First Lien Bonds (the "Additional First Lien Bonds") if (i) the Port has not been in default of its First Lien Bond rate covenant set forth in the First Lien Master Resolution for the immediately preceding fiscal year, and (ii) a certificate prepared by either a Consultant or the Port is filed demonstrating fulfillment of the First Lien Bond Coverage Requirement (defined below) for the first full fiscal year following the earlier of (a) the Date of Commercial Operation of the Facilities to be financed with the proceeds of the Additional First Lien Bonds or (b) the date on which any portion of interest on the Additional First Lien Bonds then being issued will no longer be paid from the proceeds of such Additional First Lien Bonds, and for the following two fiscal years. As defined in the First Lien Master Resolution, the Coverage Requirement for the First Lien Bonds (the "First Lien Bond Coverage Requirement") means Net Revenues equal to or greater than 135 percent of Aggregate Annual Debt Service (as defined in the First Lien Master Resolution) for all outstanding First Lien Bonds and all First Lien Bonds authorized but unissued. Net Revenues are to be based upon the financial statements of the Port for the Base Period (defined below), in the case of a certificate filed by the Port, and upon Net Revenues for the Base Period with such adjustments as the Consultant deems reasonable, in the case of a certificate filed by a Consultant. Under the First Lien Master Resolution, "Date of Commercial Operation" means the date on which the Facilities (as defined in the First Lien Master Resolution) are first ready for normal continuous operation, or if portions of the Facilities are placed in normal continuous operation at different times, the midpoint of the dates of continuous operation of all portions of such Facilities, as estimated by the Port, or if used with reference to Facilities to be acquired, the date on which such acquisition is final. "Base Period" means any consecutive 12-month period selected by the Port out of the 30-month period next preceding the date the Additional First Lien Bonds are issued.

Under the First Lien Master Resolution, Additional First Lien Bonds may be issued without satisfying the requirements described above for (i) refunding purposes under certain conditions, or (ii) paying Costs of Construction for Facilities for which First Lien Bonds have been issued previously if the principal amount of the Additional First Lien Bonds being issued for completion purposes does not exceed an amount equal to an aggregate of 15 percent of the principal amount of First Lien Bonds theretofore issued for such Facilities and reasonably allocable to the Facilities to be completed (as shown in a written certificate of a Designated Port Representative) and if a Consultant's certificate is delivered stating that the nature and purpose of the Facilities have not changed materially. The First Lien Master Resolution also permits the Port to issue refunding First Lien Bonds without satisfying the First Lien Coverage Requirement if the Maximum Annual Debt Service to be outstanding after the issuance of the refunding First Lien Bonds will not be greater than Maximum Annual Debt Service (as defined in the First Lien Master Resolution) were such refunding not to occur. The First Lien Master Resolution also provides that if and to the extent specified in a series resolution authorizing Additional First Lien Bonds, the obligation of the Port to reimburse the provider of a Credit Facility (a "Repayment Obligation") may be secured by a pledge of and a lien on Gross Revenue on a parity with any other outstanding First Lien Bonds.

Other Permitted Prior Lien Bonds. In the First Lien Master Resolution and in the Intermediate Lien Master Resolution, the Port reserves the right to issue obligations having lien(s) on Net Revenues junior and inferior to the lien of the First Lien Bonds but prior to the lien of the Intermediate Lien Parity Bonds, payable from Net Revenues available after payment of the amounts described above in paragraphs *First* through *Third* under "—Flow of Funds." In the Intermediate Lien Master Resolution, the Port has reserved the right to issue such Permitted Prior

Lien Bonds, and the Intermediate Lien Master Resolution does not contain any conditions to the issuance of Permitted Prior Lien Bonds. The Port at any time could choose to issue Permitted Prior Lien Bonds, but currently has no plans to do so. See Section 5(a) of the Intermediate Lien Master Resolution in Appendix G.

Additional Intermediate Lien Parity Bonds

General. The Intermediate Lien Master Resolution provides that the Port may issue bonds having a lien and charge upon the Available Intermediate Lien Revenues equal to that of outstanding Intermediate Lien Parity Bonds if the Port is not in default under the Intermediate Lien Master Resolution and if the Port meets the conditions described below under “—Certificate Required” or “—No Certificate Required.”

Certificate Required. Unless the Port satisfies the requirements described below in “—No Certificate Required,” the Port is required to deliver prior to the date of issuance of additional Intermediate Lien Parity Bonds, either (i) a certificate prepared as described below and executed by the Designated Port Representative stating that Available Intermediate Lien Revenues as First Adjusted during the Base Period were at least equal to 110 percent of Annual Debt Service in each year of the Certificate Period with respect to all Intermediate Lien Parity Bonds then outstanding and then proposed to be issued; or (ii) a Consultant’s certificate, prepared as described below, stating that projected Available Intermediate Lien Revenues as First Adjusted will be at least equal to 110 percent of Annual Debt Service in each year of the Certificate Period. See the definition of “Debt Service” in Section 1 of the Intermediate Lien Master Resolution in Appendix G. If Intermediate Lien Debt Service Offsets or Prior Lien Debt Service Offsets are or have been used to comply with the Intermediate Lien Rate Covenant, then for purposes of meeting the conditions described in clause (i) or (ii) of this paragraph, the Port is required to identify and irrevocably pledge the receipts that constitute such Intermediate Lien Debt Service Offsets or Prior Lien Debt Service Offsets for a period not less than the duration of the Certificate Period. “Intermediate Lien Debt Service Offsets” are defined in the Intermediate Lien Master Resolution as receipts of the Port that are not included in Gross Revenue and that are legally available and/or pledged by the Port to pay debt service on Intermediate Lien Parity Bonds, but excluding any receipts that have been designated as Prior Lien Debt Service Offsets.

The certificate executed by a Designated Port Representative described in clause (i) of the preceding paragraph is required to be based upon the financial statements of the Port for the Base Period, corroborated by the certified statements of the Division of Municipal Corporations of the State Auditor’s office of the State, or by an independent certified public accounting firm for the Base Period. In making the computations of projected Available Intermediate Lien Revenues in connection with the certificate of a Consultant described in clause (ii) of the preceding paragraph, the Consultant is required to use as a basis the Available Intermediate Lien Revenues for the Base Period corroborated by the certified statements of the Division of Municipal Corporations of the State Auditor’s office of the State, or by an independent certified public accounting firm for the Base Period. The Intermediate Lien Master Resolution requires the Consultant to make such adjustments to Available Intermediate Lien Revenues (including those described in establishing Available Intermediate Lien Revenues as First Adjusted) to compute projected Available Intermediate Lien Revenues as such Consultant deems reasonable as set forth in writing to the Port. See Sections 5(b)(1) and 5(c)(1) of the Intermediate Lien Master Resolution in Appendix G.

Under the Intermediate Lien Master Resolution, “Certificate Period” means a period commencing with the year of issuance of the proposed series of Intermediate Lien Parity Bonds and ending with the third complete fiscal year following the earlier of (i) the projected Date of Commercial Operation of the facilities to be financed with the proceeds of the proposed Intermediate Lien Parity Bonds; or (ii) the date on which no portion of the interest on the proposed series of Intermediate Lien Parity Bonds will be paid from the proceeds of such Intermediate Lien Parity Bonds (such date to be determined in accordance with the Port’s proposed schedule of expenditures).

No Certificate Required. The Port is authorized under the Intermediate Lien Master Resolution to issue Intermediate Lien Parity Bonds without providing either of the certificates described under the heading “Certificate Required” if (i) the Intermediate Lien Parity Bonds are being issued to refund Intermediate Lien Parity Bonds and either (a) the latest maturity of the Intermediate Lien Parity Bonds to be issued is not later than the latest maturity of the Intermediate Lien Parity Bonds to be refunded (were such refunding not to occur) and the increase in Annual Debt Service as result of such refunding in any year is less than the greater of \$25,000 or five percent of such Annual Debt Service on the Intermediate Lien Parity Bonds to be refunded or (b) the latest maturity of the Intermediate Lien Parity Bonds to be issued is later than the latest maturity of the Intermediate Lien Parity Bonds to be refunded (were

such refunding not to occur) and the Maximum Annual Debt Service on all Intermediate Lien Parity Bonds to be outstanding after the issuance of the refunding Intermediate Lien Parity Bonds is not greater than Maximum Annual Debt Service were such refunding not to occur; (ii) the Intermediate Lien Bonds are being issued to refund Intermediate Lien Parity Bonds or Permitted Prior Lien Bonds within one year prior to maturity or mandatory redemption if sufficient moneys are not expected to be available; or (iii) the Intermediate Lien Parity Bonds are being issued to pay Costs of Construction of Facilities for which indebtedness has been issued previously if the principal amount of such indebtedness being issued for completion purposes does not exceed an amount equal to an aggregate of 15 percent of the principal amount of indebtedness previously issued for such Facilities as shown in a written certificate of the Designated Port Representative, stating that the scope, nature and purpose of such Facilities has not materially changed and that the net proceeds of such indebtedness being issued for completion purposes will be sufficient, together with other available funds of the Port, to complete such Facilities. See Sections 5(b)(2) and 5(c) of the Intermediate Lien Master Resolution in Appendix G.

Refunding Permitted Prior Lien Bonds. Intermediate Lien Parity Bonds may be issued at any time for the purpose of refunding any Permitted Prior Lien Bonds; provided, however, that prior to the issuance of such Intermediate Lien Parity Bonds, the Port must provide a certificate if such a certificate would be required if the Permitted Prior Lien Bonds to be refunded were Intermediate Lien Parity Bonds. For the purposes of determining whether a certificate is required and for the purpose of preparing any such certificate, the debt service on the Permitted Prior Lien Bonds shall be calculated as if such Permitted Prior Lien Bonds were Intermediate Parity Lien Bonds. See Section 5(c)(2) of the Intermediate Lien Master Resolution in Appendix G.

For a discussion of the Port's future financing plans and needs, see "CAPITAL PLAN FUNDING."

Defaults and Remedies; No Acceleration; Rights of Credit Facility Issuers

The Intermediate Lien Master Resolution provides certain actions Registered Owners of the Series 2017 Bonds may take following the occurrence of a payment default on the Series 2017 Bonds or a default by the Port in the observance or performance of any other covenants, conditions or agreements on the part of the Port contained in the Intermediate Lien Master Resolution and the continuance of such covenant default for a period of 90 days. See Section 11 of the Intermediate Lien Master Resolution in Appendix G. The Intermediate Lien Master Resolution also provides that a Credit Facility Issuer is deemed to be the only party entitled to waive any default, to exercise the remedies provided in the Intermediate Lien Master Resolution and to consent to amendments of the Intermediate Lien Master Resolution in connection with Intermediate Lien Parity Bonds insured by such Credit Facility Issuer. See Sections 9 and 11 of the Intermediate Lien Master Resolution in Appendix G.

Payment of the principal of and accrued interest on the Intermediate Lien Parity Bonds, including the Series 2017 Bonds, is not subject to acceleration upon the occurrence and continuance of a default under the Intermediate Lien Master Resolution. Payments of debt service on Intermediate Lien Parity Bonds are required to be made only as they become due. In the event of multiple defaults in payment of principal of or interest on the Series 2017 Bonds, the Series 2017 Bond owners could be required to bring a separate action for each such payment not made. Any such action to compel payment or for money damages would be subject to the limitations on legal claims and remedies. See Section 11 of the Intermediate Lien Master Resolution in Appendix G.

OUTSTANDING PORT INDEBTEDNESS

First Lien Bonds

As of July 2, 2017, the Port had outstanding \$600,628,676 aggregate principal amount of First Lien Bonds (including the Refunded Bonds), of which \$17,248,350 is accreted interest on First Lien Bonds that are capital appreciation bonds. As described above, the Port has reserved the right to issue additional First Lien Bonds upon compliance with the provisions of the First Lien Master Resolution and to issue bonds secured by a lien or liens on Net Revenues senior to the lien of the Intermediate Lien Parity Bonds and subordinate to the lien of the First Lien Bonds. The First Lien Bonds are currently the only Permitted Prior Lien Bonds outstanding. See "SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS—Permitted Prior Lien Bonds," and "PORT FINANCIAL MATTERS."

The First Lien Master Resolution does not require that a debt service reserve fund be created for each series of First Lien Bonds and does not require that any minimum amount be deposited to a reserve fund for First Lien Bonds. At the option of the Port, First Lien Bonds may be secured by the Common Reserve Fund or may be secured by a separate reserve fund authorized by a series resolution. The Common Reserve Fund Requirement means a dollar amount equal to the lesser of (i) 50 percent of Maximum Annual Debt Service on all Outstanding Covered Bonds, and (ii) the Tax Maximum for all Outstanding Covered Bonds, determined and calculated as of the date of issuance of each series of Covered Bonds (and recalculated upon the issuance of a subsequent series of Covered Bonds and also, at the Port's option, upon the payment of principal of Covered Bonds). The term "Covered Bonds" means the Port's Revenue Refunding Bonds, Series 2011 (the "Series 2011 First Lien Bonds"), the Port's Revenue Bonds, Series 2016A, Series 2016B and Series 2016C (the Series 2016 First Lien Bonds") and any First Lien Bonds designated in the future as Covered Bonds secured by the Common Reserve Fund. As of July 2, 2017, the Common Reserve Fund Requirement is \$13,133,033, and currently is cash-funded. The Common Reserve Fund Requirement is recalculated from time to time upon the issuance of a series of Covered Bonds and also, at the Port's option, upon the payment of principal of Covered Bonds.

The Port is not required to replace or otherwise address any surety policy securing First Lien Bonds upon downgrade or withdrawal of ratings of the surety provider. In the event that a surety is terminated, or in the event the surety provider is insolvent or no longer in existence, the Port is required to satisfy the Common Reserve Fund Requirement or the reserve fund requirement for First Lien Bonds that are not Covered Bonds with a replacement surety or letter of credit within one year, or with cash within three years after the termination, insolvency or incapacity, as further provided in the First Lien Master Resolution and series resolutions.

Amounts on deposit in reserve funds for outstanding First Lien Bonds that are not Covered Bonds are not available to pay debt service on Covered Bonds, and amounts on deposit in the Common Reserve Fund are not available to pay First Lien Bonds that are not Covered Bonds. The Port's Revenue Bonds, Series 2003A (the "Series 2003A First Lien Bonds") are not Covered Bonds and are secured with a debt service reserve fund surety policy issued by MBIA (reinsured and administered by National Public Finance Guarantee Corporation), in the amount of \$13,373,451. The Series 2003A First Lien Bonds are scheduled to mature in 2021.

The Series 2009 First Lien Bonds (including the Refunded Bonds) are not Covered Bonds and the debt service reserve fund for these bonds is cash-funded. An allocable portion of the cash on deposit in the Series 2009 First Lien Bond debt service reserve fund will be transferred to the Intermediate Lien Reserve Account.

Intermediate Lien Parity Bonds

As of July 2, 2017, \$1,541,185,000 aggregate principal amount of Intermediate Lien Parity Bonds were outstanding (excluding the Series 2017 Bonds). See "SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS."

Subordinate Lien Parity Bonds

The Port's Subordinate Lien Parity Bonds are payable from Gross Revenue after all of the payments and transfers described in clauses *First* through *Eighth* under "SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS—Flow of Funds" have been made. Subordinate Lien Parity Bonds are not subject to acceleration but variable rate Subordinate Lien Parity Bonds may be subject to mandatory tender upon a default or the occurrence of certain other events. See "SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS—Flow of Funds."

As of July 2, 2017, the Port had outstanding \$53,175,000 aggregate principal amount of fixed rate Subordinate Lien Parity Bonds. In addition, the Port has two series of variable rate Subordinate Lien Parity Bonds outstanding (the Series 1997 Subordinate Lien Parity Bonds, outstanding in the aggregate principal amount of \$64,940,000, and the Series 2008 Subordinate Lien Parity Bonds, outstanding in the aggregate principal amount of \$184,495,000). The Port also has authorized the issuance from time to time of up to \$250 million of Subordinate Lien Commercial Paper Notes, of which \$29,655,000 was outstanding as of July 2, 2017.

The Port previously acquired a surety bond from FGIC (subsequently reinsured by MBIA, and currently administered and reinsured by National Public Finance Guarantee Corporation) in the amount of \$18,505,263 to secure the payment of outstanding Subordinate Lien Parity Bonds issued in 1999 (the “1999A/B Subordinate Lien Bonds,” of which, the 1999A Subordinate Lien Bonds are outstanding). The resolution authorizing the 1999A/B Subordinate Lien Bonds does not require that the surety bond be replaced upon ratings withdrawals or downgrades of FGIC’s ratings. The resolution does require that, in the event of the termination of the surety bond or the insolvency or incapacity of the provider, the 1999 Subordinate Lien Reserve Requirement shall be satisfied (i) within one year after the termination, insolvency or incapacity, but no later than the date of cancellation, with other Qualified Insurance or another Qualified Letter of Credit, or (ii) within three years (in three equal annual installments) after the termination, insolvency, or incapacity, out of Available Revenues (or out of other money on hand and legally available for such purpose). See “SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS—Flow of Funds.”

The Port’s outstanding variable rate Subordinate Lien Parity Bonds and the Port’s Subordinate Lien Commercial Paper Notes are secured by bank letters of credit. See “APPENDIX A—AUDITED FINANCIAL STATEMENTS—Note 6: Long-Term Debt; Subordinate Lien Variable Rate Demand Bonds” and “SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS—Flow of Funds.”

Passenger Facility Charge Revenue Bonds

As of July 2, 2017, the Port had outstanding \$110,790,000 aggregate principal amount of Passenger Facility Charge Revenue Bonds, Series 1998 and Series 2010 (the “PFC Bonds”), which have a first claim on PFC revenues. The PFC Bonds have no claim on Gross Revenue of the Port, and the Port’s revenue bonds have no claim on PFC revenues. See “THE AIRPORT—Passenger Facility Charges.”

General Obligation Bonds

The Port has statutory authority to issue limited tax and unlimited tax general obligation bonds. As of July 2, 2017, the Port had outstanding \$405,925,000 aggregate principal amount of limited tax general obligation bonds and no unlimited tax general obligation bonds. Limited tax general obligation bonds are general obligations of the Port, payable from property taxes levied by the Port within the State statutory limitations applicable to port levies permitted to be imposed without approval of the voters and from all other legally available funds of the Port. See Appendix D for information about the Port’s Tax Levy and limited tax general obligation bonds.

Special Obligations

From time to time, the Port may issue revenue bonds, revenue warrants or other revenue obligations for the purpose of undertaking any project, the debt service on which is to be payable from and secured solely by the revenues derived from such project (the “Special Revenue Bonds”). Revenues received from such projects are not Gross Revenue, and Special Revenue Bonds are not entitled to a lien on Gross Revenue on any basis, senior or junior, and are not payable from such Gross Revenue or any other revenues of the Port (other than the revenues derived from the project financed with the Special Revenue Bonds).

In June 2013, the Port issued \$88,660,000 aggregate principal amount of Special Facility Revenue Refunding Bonds (the “Fuel System Bonds”) to refund special facility revenue bonds issued to finance the cost of a fuel hydrant system at the Airport (the “Fuel System”). The Fuel System Bonds are limited obligations of the Port payable solely from payments to be made by the lessee (a consortium formed by airlines operating at the Airport) under a fuel system lease and under a guaranty and a security agreement provided by the lessee. In the resolution pursuant to which the Fuel System Bonds were issued, the Port agreed that, should insurance or other funds be insufficient to rebuild the Fuel System after substantial damage or destruction, the Port would pay the cost of rebuilding the Fuel System or would defease any then-outstanding Fuel System Bonds. As of July 2, 2017, \$76,135,000 of Fuel System Bonds remains outstanding.

Interest Rate Swaps

Under Washington law, the Port may enter into payment agreements (interest rate swaps, caps, floors and similar agreements) for the purposes of reducing interest rate risk or reducing the cost of borrowing. The Port has instituted a swap policy that establishes certain requirements for the use of payment agreements, including the authorization by the Commission of any payment agreement and compliance with all statutory requirements, including minimum counterparty ratings and minimum collateralization. The Port has not entered into any payment agreements.

Debt Payment Record

The Port has never defaulted on the payment of principal or interest on any of its bonds or other debt.

Historical Debt Service Coverage

The following table shows historical debt service coverage for the years 2012 through 2016 on outstanding First Lien Bonds and Intermediate Lien Parity Bonds calculated in conformity with the First Lien Master Resolution and the Intermediate Lien Master Resolution, and debt service on Subordinate Lien Parity Bonds. In accordance with the resolutions, the Port has used certain income items (not otherwise included in "Gross Revenue") in offsetting Operating Expenses and, in the case of the Intermediate Lien Parity Bonds, either in offsetting debt service or increasing Net Revenues available to be used to pay First Lien Bond debt service as permitted in its bond resolutions.

Each of the First Lien Rate Covenant and the Intermediate Lien Rate Covenant requires that debt service coverage be calculated for that lien level, based on the applicable offsets or other adjustments. Accordingly, the following table shows historical debt service coverage on a lien-by-lien basis for First Lien Bonds and Intermediate Lien Parity Bonds, rather than on an aggregate or cumulative basis.

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TABLE 1

**HISTORICAL FIRST LIEN BOND AND INTERMEDIATE LIEN
PARITY BOND DEBT SERVICE COVERAGE BY LIEN CALCULATED PER APPLICABLE RATE COVENANT
FOR THE YEARS ENDED DECEMBER 31
(\$ IN THOUSANDS)**

Fiscal Year	2012	2013	2014⁽⁷⁾	2015	2016
Gross revenues available for revenue bond debt service ⁽¹⁾	\$ 517,561	\$ 533,611	\$ 520,881	\$ 541,867	\$ 581,860
Operating expenses ⁽²⁾	298,169	306,989	306,300	317,806	325,285
Less: Operating expenses paid from sources other than gross revenues	(6,538)	(6,331)	(7,178)	(11,571)	(9,019)
Less: Port general purpose tax levy ⁽³⁾	(32,116)	(33,265)	(19,083)	(41,808)	(36,894)
Adjusted operating expenses	<u>259,515</u>	<u>267,393</u>	<u>280,039</u>	<u>264,427</u>	<u>279,372</u>
Nonoperating (expense) income – net ⁽⁴⁾	2,837	13,539	16,417	(143)	5,567
First Lien Bonds					
Net revenues available for First Lien Bond debt service	<u>\$ 260,883</u>	<u>\$ 279,757</u>	<u>\$ 257,259</u>	<u>\$ 277,297</u>	<u>\$ 308,055</u>
Debt service on First Lien Bonds	<u>\$ 107,580</u>	<u>\$ 80,673</u>	<u>\$ 61,214</u>	<u>\$ 60,740</u>	<u>\$ 52,320</u>
Coverage on First Lien Bonds (calculated per First Lien Rate Covenant)	2.43	3.47	4.20	4.57	5.89
Intermediate Lien Bonds					
Net revenues available for Intermediate Lien Parity Bond debt service	<u>\$ 153,303</u>	<u>\$ 199,084</u>	<u>\$ 196,045</u>	<u>\$ 216,557</u>	<u>\$ 255,735</u>
Add: Prior lien debt service offset paid by PFC revenues ⁽⁵⁾	14,814	3,971	1,893	419	0
Add: Prior lien debt service offset paid by CFC revenues ⁽⁶⁾	19,689	19,667	19,632	20,217	21,431
Available Intermediate Lien Revenues as first adjusted	<u>\$ 187,806</u>	<u>\$ 222,722</u>	<u>\$ 217,570</u>	<u>\$ 237,193</u>	<u>\$ 277,166</u>
Debt service on Intermediate Lien Parity Bonds – gross of debt service offsets	79,222	127,029	145,522	133,487	146,518
Less: Debt service offsets paid from PFC revenues ⁽⁵⁾	(15,783)	(28,640)	(29,730)	(28,406)	(25,583)
Debt service on Intermediate Lien Parity Bonds – net of debt service offsets	<u>\$ 63,439</u>	<u>\$ 98,389</u>	<u>\$ 115,792</u>	<u>\$ 105,081</u>	<u>\$ 120,935</u>
Coverage on Intermediate Lien Parity Bonds (calculated per Intermediate Lien Rate Covenant)	2.96	2.26	1.88	2.26	2.29
Debt service on Subordinate Lien Bonds ⁽⁸⁾	\$ 19,187	\$ 6,234	\$ 5,836	\$ 5,515	\$ 8,949

⁽¹⁾ The use of certain revenues is restricted; these revenues (for example, SWU revenues and CFC revenues) are not legally available to pay debt service on all revenue bonds and therefore are excluded from gross revenue available for revenue bond debt service. For 2013, gross revenues included (1) a one-time recognition of revenue, \$17,880,000, from the removal of security fund liability upon the expiration of the prior Signatory Lease and Operating Agreement, and (2) \$14,304,000, straight-line rent adjustments for the lease incentive provided under the current Signatory Lease and Operating Agreement. Airport revenues decreased in 2014 compared to 2013, because 2013 included a one-time increase when the Port recognized revenue of \$17.9 million due to elimination of the liability associated with the security fund maintained under the prior airline agreement.

⁽²⁾ Operating expenses are adjusted for certain operating expenses paid with revenues derived from sources other than gross revenues such as consolidated rental car facility related operating expenses paid from CFCs and SWU operating expenses paid from SWU operating revenues. Operating expenses are also reduced by that portion of the Port's property tax levy available to pay operating expenses (i.e. Port general purpose tax levy). See Appendix D.

⁽³⁾ In 2015 and 2016, the Port made its contractual payments, in the amount of \$120,000,000 and \$147,000,000, respectively, to the Washington State Department of Transportation ("WSDOT") for the SR 99 Alaskan Way Viaduct Replacement Program. These payments were accounted for as a special item in the Port's 2015 and 2016 Statement of Revenues, Expenses, and Changes in Net Position and were funded by the issuance of 2015 Limited Tax General Obligation ("LTGO") bonds and 2017 LTGO Bonds. The debt service associated with the 2015 LTGO bonds is included in the calculation of the Port's general purpose tax levy, beginning in 2015, but the actual payment to WSDOT is excluded from the schedule, as the funds were used for capital projects owned by other governmental entities.

⁽⁴⁾ Nonoperating (expense) income—net is adjusted for the following: Interest expense, income that is not legally available to be pledged for revenue bonds debt service (such as CFC, tax levy, fuel hydrant facility revenues, donations for capital purposes, grants for capital projects, monies received and used for capital projects owned by other government entities ("public expense projects") and other nonoperating SWU revenues and expenses). Certain non-cash items, such as depreciation are excluded, while other nonoperating revenues and expenses, such as environmental expense, are adjusted to a cash basis. The Port may also include certain proceeds from the sale of capital and non-capital assets in the year the proceeds are received.

⁽⁵⁾ During 2008, the Port implemented using PFC revenues toward other specific revenue bonds debt service related to PFC-eligible projects. The Port, as authorized by the Federal Aviation Administration ("FAA"), has the authority to use PFCs to pay: (i) debt service on bonds secured solely with PFCs; (ii) eligible projects costs (definitions, terms and conditions are set by the FAA), and (iii) revenue bonds debt service related to eligible PFC projects. Historically, the Port used PFCs to pay PFC debt service and to pay eligible projects costs.

⁽⁶⁾ Washington State law provides for the Port's authority to impose CFCs on rental car transactions at the Airport. CFCs may only be used to pay costs associated with the consolidated rental car facility including the payment of debt service on bonds issued to fund the facility. During 2009, the Port began using CFCs to pay debt service on related bonds, including the Refunded Bonds.

⁽⁷⁾ During 2015, the Port adopted the requirements of GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68 retroactively by restating the financial statements for 2014 in operating revenues, operating expenses and nonoperating income—net.

⁽⁸⁾ Starting in 2009, the Port used PFCs to pay PFC-eligible subordinate lien debt service and associated debt fees. However, such amounts are not permitted offsets in the legal coverage calculation on subordinate lien bonds.

Source: Port of Seattle.

**OUTSTANDING FIRST LIEN BONDS, INTERMEDIATE LIEN PARITY BONDS,
AND SUBORDINATE LIEN PARITY BONDS**

Table 2, below, presents, in aggregate, debt service for the Port's outstanding First Lien Bonds, Intermediate Lien Parity Bonds and Subordinate Lien Parity Bonds.

TABLE 2
REVENUE BOND DEBT SERVICE
FOR FIRST LIEN BONDS, INTERMEDIATE LIEN PARITY BONDS, AND SUBORDINATE LIEN PARITY BONDS

Year Ending Dec. 31	Outstanding First Lien Bonds ⁽¹⁾	Intermediate Lien Bonds ⁽²⁾				Subordinate Lien Bonds ⁽³⁾	Total Debt Service ⁽¹⁾⁽²⁾	
		Outstanding	Principal	Interest	Total			
2017 ⁽⁴⁾	\$42,937,989	\$137,408,732	\$1,880,000	\$1,787,040	\$3,667,040	\$141,075,772	\$208,333,402	
2018	32,798,131	139,559,213	9,700,000	11,142,536	20,842,536	160,401,748	237,687,030	
2019	44,752,389	131,833,908	16,520,000	16,189,967	32,709,967	164,543,875	253,844,085	
2020	37,549,711	133,993,025	31,320,000	25,409,144	56,729,144	190,722,169	272,872,060	
2021	38,418,706	147,822,100	32,690,000	27,036,346	59,726,346	207,548,446	275,462,241	
2022	25,024,281	153,438,550	34,190,000	25,795,909	59,985,909	213,424,459	268,009,357	
2023	25,032,687	143,184,350	35,770,000	24,461,572	60,231,572	203,415,922	243,622,134	
2024	25,028,014	142,672,425	37,445,000	23,027,544	60,472,544	203,144,969	243,377,448	
2025	39,523,814	123,322,738	24,510,000	21,712,207	46,222,207	169,544,944	224,302,486	
2026	39,533,439	123,304,450	25,950,000	20,532,443	46,482,443	169,786,893	224,589,910	
2027	23,523,869	123,316,375	32,195,000	19,132,650	51,327,650	174,644,025	213,470,871	
2028	24,328,469	122,327,750	20,425,000	17,836,109	38,261,109	160,588,859	200,259,613	
2029	28,122,589	121,291,375	17,790,000	16,937,831	34,727,831	156,019,206	199,526,644	
2030	28,119,949	121,696,125	18,865,000	16,124,212	34,989,212	156,685,337	200,234,589	
2031	18,619,731	102,600,625	29,675,000	15,091,879	44,766,879	147,367,504	181,466,882	
2032	13,620,096	75,293,000	36,300,000	13,734,004	50,034,004	125,327,004	154,479,618	
2033	-	74,867,750	38,110,000	12,185,460	50,295,460	125,163,210	140,751,845	
2034	-	50,828,500	40,030,000	10,537,140	50,567,140	101,395,640	101,395,640	
2035	-	50,833,625	42,035,000	8,805,885	50,840,885	101,674,510	101,674,510	
2036	-	35,521,125	44,135,000	6,987,785	51,122,785	86,643,910	86,643,910	
2037	-	35,330,750	17,340,000	5,623,000	22,963,000	58,293,750	58,293,750	
2038	-	34,794,375	18,245,000	4,722,094	22,967,094	57,761,469	57,761,469	
2039	-	34,789,375	19,195,000	3,762,956	22,957,956	57,747,331	57,747,331	
2040	-	34,793,625	20,200,000	2,753,756	22,953,756	57,747,381	57,747,381	
2041	-	-	21,270,000	1,691,431	22,961,431	22,961,431	22,961,431	
2042	-	-	22,380,000	573,288	22,953,288	22,953,288	22,953,288	
TOTAL⁽³⁾:	\$486,933,863	\$2,394,823,866	\$688,165,000	\$353,594,188	\$1,041,759,188	\$3,436,583,054	\$385,952,007	\$4,309,468,924

Note: Totals may not add due to rounding.

⁽¹⁾ Excludes the Refunded Bonds.

⁽²⁾ Debt service is net of capitalized interest.

⁽³⁾ Assumes an average interest rate of 3.67% per annum (Bond Buyer 40 Bond Index as of July 2, 2017) for all outstanding variable rate bonds, excluding Subordinate Lien Commercial Paper. Assumes level debt service to 2022 for the variable rate Series 1997 Subordinate Lien Bonds and level debt service to 2033 for the Series 2008 Subordinate Lien Bonds, in each case with principal payments commencing in 2018. Excludes the Port's subordinate lien commercial paper program, which is authorized in the amount of \$250 million, and as of July 2, 2017, was outstanding in the amount of \$29,655,000.

⁽⁴⁾ Includes debt service paid or to be paid in 2017.

Source: Port of Seattle.

THE PORT OF SEATTLE

Introduction

The Port is a municipal corporation of the State organized on September 5, 1911, under provisions of the laws of the State, now codified at RCW 53.04.010 *et seq.* In 1942, the local governments in the County selected the Port to operate the Airport. In addition to the Airport, the Port owns and operates various maritime facilities and industrial and commercial properties. The Port also owns container shipping terminals and has licensed these terminals, along with certain industrial properties, to the Northwest Seaport Alliance (the “Seaport Alliance”), a port development authority formed jointly in 2015 with the Port of Tacoma to manage the two ports’ container shipping terminals and related industrial properties. The Port’s major business is the Airport, which accounted for \$465.3 million (78 percent) of its total operating revenue in 2016.

The Port revised its organizational structure in 2015 and 2016. The Aviation Division continues as a separate operating division. Container shipping terminals and certain industrial properties that were formerly part of the Seaport Division have been licensed to the Seaport Alliance. Other former Seaport Division businesses and facilities – cruise, the grain terminal and certain other properties – were combined with recreational and commercial marinas into a newly formed Maritime Division. The Port has eliminated the Real Estate Division and created an Economic Development Division that includes certain commercial properties and has responsibility for the Port’s broader economic development activities, including property development, tourism, workforce development and small business initiatives (both formerly part of administrative services). In addition to the Port’s operating divisions, several departments provide corporate and capital development services to the operating divisions; the costs associated with these services are charged or allocated to the operating divisions and the Seaport Alliance.

Port Management

The Port Commission. Port policies are established by the five-member Commission elected at large by the voters of the County for four-year terms. The Commission appoints the Executive Director and hires Commission staff. The Commissioners also act on behalf of the Port in its capacity as a Managing Member of the Seaport Alliance.

On February 1, 2017, former Chief Executive Officer Ted Fick resigned his post. Former Chief Operating Officer David Soike has been appointed Interim Executive Director. The Port expects to hire a permanent Executive Director by the end of the year.

The current Commissioners are:

- | | | |
|-------------------|---|---|
| TOM ALBRO | — | President; founder and executive of several companies in construction, transportation and health care administration. Mr. Albro was elected to the Commission in 2009 and was re-elected in 2013. Mr. Albro has announced that he does not plan to seek another term. |
| COURTNEY GREGOIRE | — | Vice President; attorney at Microsoft. Ms. Gregoire was appointed on March 15, 2013 to an unexpired term of office, was elected to the Commission in November 2013 to serve for the remaining term to December 31, 2015, and was re-elected in 2015. |
| STEPHANIE BOWMAN | — | Secretary; Executive Director of Washington Asset Building Coalition. Ms. Bowman was appointed on May 3, 2013 to an unexpired term of office and was elected to the Commission in November 2013. |
| FRED FELLEMAN | — | Assistant Secretary; environmental consultant. Mr. Felleman was elected to the Commission in November 2015. |

JOHN CREIGHTON

— Commissioner at Large; experience as a corporate attorney with an international practice. Mr. Creighton was first elected to the Commission in November 2005, was re-elected in 2009 and 2013, and served three one-year terms as Commission President.

Certain Executive Staff. Through resolutions and directives, the Commission sets policy for the Port. The policies set by the Commission are implemented by the Port's Executive Director and the Port's staff. Brief resumes of the Interim Executive Director and certain other staff members are provided below.

DAVID SOIKE, INTERIM EXECUTIVE DIRECTOR, was appointed Interim Executive Director on February 2, 2017. As Interim Executive Director Mr. Soike directs the Port's staff in carrying out the policies established by the Commission. He was promoted to Chief Operating Officer in March 2016 from the position of Aviation Director of Facilities and Capital Programs. Mr. Soike has worked with the Port for nearly 36 years, beginning as a junior engineer and advancing into positions in project management, maritime and aviation. Mr. Soike holds a bachelor's degree in civil engineering from Washington State University and a master's degree in business administration from the University of Washington Foster School of Business.

DAN THOMAS, CHIEF FINANCIAL OFFICER, has been with the Port since 1990 and has served as Chief Financial Officer since 2000. Mr. Thomas served as the Port's Director of Finance and Budget from 1997 through 2000. As Chief Financial Officer, Mr. Thomas oversees the accounting, finance, treasury, budgeting, risk management, business intelligence and information technology functions. He holds a bachelor's degree in economics from Pennsylvania State University and a master's degree in business administration in finance from the University of Washington Foster School of Business.

LANCE LYTTLE, MANAGING DIRECTOR, AVIATION, joined the Port in January, 2016. Prior to joining the Port, Mr. Lyttle served as the Chief Operating Officer for the Houston Airport System. Preceding his work at the Houston Airport System, Mr. Lyttle served in top executive jobs at the Atlanta Hartsfield-Jackson International Airport. At the Port, Mr. Lyttle manages the Airport's operations and businesses and leads efforts to develop a sustainable airport master plan for the future. Mr. Lyttle has a B.Sc. (Physics and Computer Science) from the University of the West Indies, and a Master of Science in Management Information Systems from the University of the West Indies.

LINDSAY PULSIFER, MANAGING DIRECTOR, MARITIME, has been with the Port for more than 30 years and has served as Managing Director of the Maritime Division since 2015. In the role of Managing Director of Maritime, Ms. Pulsifer is responsible for the Port's cruise operations, fishing and commercial operations, grain, recreational boating, industrial properties and marine maintenance. Prior to her promotion, Ms. Pulsifer served as the Port's general manager of Marine Maintenance. Ms. Pulsifer holds a master's degree in business administration from the University of Washington Foster School of Business. Ms. Pulsifer has announced her intention to retire in the near future.

DAVID MCFADDEN, MANAGING DIRECTOR, ECONOMIC DEVELOPMENT, joined the Port in 2015. Mr. McFadden comes to the Port with more than 20 years of experience in economic development and business growth as President and CEO of the Yakima County Development Association. Mr. McFadden's responsibilities include overseeing the Port's commercial properties, real estate development initiatives, workforce development and tourism. Mr. McFadden received his Bachelor of Science Degree with Honors in Social Assessment and Policy and Master of Arts in Political Science from Western Washington University and is a Certified Economic Developer and Economic Development Finance Professional.

CRAIG WATSON, GENERAL COUNSEL, has been an attorney with the Port since 1990 and was named General Counsel in 2005. Mr. Watson's duties include providing legal advice to the Executive Director and Port Commission, supervising a staff of seven in-house attorneys and managing outside legal counsel. At the Port, Mr. Watson has worked on labor and employment law, construction-related matters, personal injury cases and insurance coverage matters. Previously, he worked for the Portland-based law firm of Bullivant Houser Bailey in its Seattle office as a civil litigator specializing in property loss and personal injury matters. Mr. Watson received his law degree in 1984 from Willamette University. After law school, he served as a clerk at the Oregon Court of Appeals.

THE AIRPORT

The Airport is located approximately 12 miles south of downtown Seattle. Currently, the Airport has facilities for commercial passengers, air cargo, general aviation and maintenance on a site of approximately 2,500 acres. Airport facilities include the Main Terminal and the South and North Satellites accessed via an underground train, a parking garage, and a consolidated rental car facility. The Airport has three runways that are 11,900 feet, 9,425 feet and 8,500 feet in length, respectively.

The Airport is the largest airport in the State. The Airport serves as the primary airport for the Seattle Metropolitan Area, which includes King, Snohomish and Pierce Counties, and much of western Washington State. The Seattle Metropolitan Area is the major population and business center in the State. Comparable airports in the region that currently provide commercial passenger and cargo service include: Portland International Airport in Oregon, approximately 160 miles to the south of the Airport, and Vancouver International Airport in British Columbia, approximately 155 miles to the north of the Airport. In addition, the Spokane International Airport in eastern Washington State, approximately 270 miles to the east of the Airport, provides domestic and international passenger service. There are several smaller regional airports in the Seattle region that offer cargo services, commercial passenger service and general aviation services. For example, Bellingham International Airport had approximately 0.5 million enplaned passengers in 2016. A new two-gate commercial passenger terminal is being constructed at Paine Field near the City of Everett, located approximately 40 miles north of the Airport. Alaska Air Group has announced that it will operate commercial passenger service out of Paine Field, with flights scheduled to begin in fall 2018. Other regional airports also may be able to add or expand commercial passenger service in the future.

Passenger Activity at the Airport

Passenger Enplanements. The Airport served approximately 22.8 million enplaned (embarked) passengers in 2016. Approximately 2.4 million (10.6 percent) of enplaned passengers were on non-stop flights to international destinations in 2016.

The following table illustrates the changes in enplanements at the Airport from 2012 through 2016, and from January through May 2017 compared to January through May 2016.

TABLE 3
SEATTLE-TACOMA INTERNATIONAL AIRPORT
HISTORICAL ENPLANED PASSENGERS
2012 – 2016

Year	Domestic	Percentage Increase	International	Percentage Increase	Total Enplaned Passengers	Percentage Increase
2016	20,385,030	7.6	2,411,088	11.4	22,796,118	8.0
2015	18,944,106	12.6	2,164,650	14.4	21,108,756	12.8
2014	16,824,379	7.8	1,892,399	6.8	18,716,778	7.7
2013	15,604,129	4.1	1,772,187	9.8	17,376,316	4.7
2012	14,982,946	0.5	1,614,378	8.8	16,597,324	1.2

Source: Port of Seattle.

YEAR-TO-DATE COMPARISON
JANUARY – MAY 2016 AND 2017

Year	Domestic	Percentage Increase	International	Percentage Increase	Total Enplaned Passengers	Percentage Increase
2017	7,793,646	2.8	1,002,119	12.2	8,795,765	3.8
2016	7,582,294		893,506		8,475,800	

Source: Port of Seattle.

O&D and Connecting Passenger Traffic. More than two-thirds of the Airport’s domestic passenger activity is origin and destination (“O&D”) activity, meaning that passengers either begin or end their trips at the Airport. In 2016 (the last year for which O&D data is available), the estimated percentage of O&D passenger traffic at the Airport was 69.4 percent, based upon 2016 O&D data from the U.S. Department of Transportation’s database. The Airport’s predominately O&D nature means that activity levels at the Airport are closely linked to the underlying economic strength of the geographic area served by the Airport. See Appendix I—DEMOGRAPHIC AND ECONOMIC INFORMATION. As shown in Table 4, the Airport’s top domestic O&D markets with at least one percent of market share in 2016 together represented more than 72.9 percent of enplaned passengers, and all but three were medium- or long-haul markets at least 500 miles from Seattle.

Connecting traffic is considered more discretionary than O&D traffic, because passengers may choose other connecting airports based on the price and/or convenience of routes established by airlines. Additionally, connecting traffic can be influenced by airline decisions to shift connecting activity from one airport to another. The following table shows the top domestic passenger O&D markets for the Airport in 2016.

TABLE 4
SEATTLE-TACOMA INTERNATIONAL AIRPORT
TOP DOMESTIC PASSENGER ORIGIN-DESTINATION MARKETS AND AIRLINE SERVICE
(WITH AT LEAST ONE PERCENT OF MARKET SHARE) 2016

Rank	Market of Origin or Destination ⁽¹⁾	Approximate air miles from Seattle	Share of market, based on enplaned passengers (%) ⁽²⁾
1	Los Angeles, CA	952	13.0
2	San Francisco, CA	674	10.6
3	Las Vegas, NV	889	4.4
4	New York City, NY	2,450	4.1
5	Phoenix, AZ	1,121	3.9
6	San Diego, CA	1,069	3.4
7	Chicago, IL	1,761	3.3
8	Denver, CO	1,037	3.1
9	Dallas/Ft. Worth, TX	1,722	2.4
10	Sacramento, CA	612	2.2
11	Washington, DC	2,408	2.0
12	Boston, MA	2,567	2.0
13	Minneapolis/St. Paul, MN	1,448	1.8
14	Atlanta, GA	2,241	1.8
15	Salt Lake City, UT	701	1.7
16	Spokane, WA	224	1.6
17	Anchorage, AK	1,453	1.6
18	Houston, TX	1,909	1.5
19	Honolulu, HI	2,742	1.5
20	Orlando, FL	2,553	1.4
21	Kahului, HI	2,684	1.2
22	Detroit, MI	1,927	1.1
23	Boise, ID	402	1.1
24	Austin, TX	1,771	1.1
25	Portland, OR	130	1.1
		Subtotal	72.9
		All other cities	27.1
		Total	100.0

Note: Totals may not add due to rounding.

⁽¹⁾ Each market includes the major airports within the market.

⁽²⁾ Compiled by the Port from U.S. Department of Transportation Statistics, T-100 Domestic Market Schedule T2.

Source: Port of Seattle.

Passenger Airlines Serving the Airport. Passenger enplanements at the Airport are spread over a variety of air carriers, with Alaska accounting for the largest share of enplaned passengers at the Airport in 2016 (38.6 percent). Alaska and Horizon Air Industries, Inc. (“Horizon”) operate a regional hub that serves passengers connecting to and from regional destinations and together accounted for 49.9 percent of enplaned passengers at the Airport in 2016. Alaska and Horizon are separately certificated airlines both owned by the Alaska Air Group. In December 2016, the Alaska Air Group acquired Virgin America, which will expand Alaska’s service in California. Virgin America accounted for 1.2 percent of enplanements at the Airport in 2016.

Delta accounted for the second largest share of enplaned passengers (20.5 percent) at the Airport in 2016, up from 11.5 percent in 2012. In 2014, Delta named the Airport as one of its hub airports. Delta has grown by adding both international and domestic service and recently announced additional service between Seattle and San Francisco and Los Angeles. Three other airlines combined accounted for an additional 19.9 percent of enplanements during 2016. The following table illustrates the market shares in 2016 and 2012 of the passenger airlines with a one percent or greater share of enplaned passengers at the Airport. Because Alaska and Delta together represent more than 50 percent of market share at the Airport, the Port is required to annually submit a competition plan to the FAA. The most recent competition plan update was submitted prior to its due date of February 22, 2016 and was approved in April 2016; the next update is due later in 2017 or upon adoption of a new or amended airline lease agreement.

TABLE 5
SEATTLE-TACOMA INTERNATIONAL AIRPORT
AIRLINES RANKED BY ENPLANED PASSENGER TRAFFIC
(2012 and 2016)

Airline	2012 Enplanements	2012 Enplanements Share (%)	2016 Enplanements	2016 Enplanements Share (%)
Alaska Airlines ⁽¹⁾	6,051,964	36.5	8,806,292	38.6
Horizon Airlines	2,343,579	14.1	2,561,063	11.2
Alaska Air Group Subtotal	8,395,543	50.6	11,367,355	49.9
Delta Air Lines ⁽²⁾	1,911,144	11.5	4,672,345	20.5
Southwest Airlines	1,403,814	8.5	1,710,854	7.5
United Airlines ⁽³⁾	1,783,441	10.7	1,441,007	6.3
American Airlines ⁽⁴⁾	719,291	4.3	1,387,114	6.1
JetBlue Airways	260,785	1.6	287,549	1.3
Virgin America ⁽⁵⁾	329,097	2.0	271,757	1.2
US Airways ⁽⁴⁾	503,337	3.0	-	-
Frontier Airlines ⁽⁶⁾	268,590	1.6	-	-
Hawaiian Airlines ⁽⁶⁾	179,535	1.1	-	-
All Others ⁽⁷⁾	842,747	5.1	1,658,137	7.3
Airport Total	16,597,324	100.0	22,796,118	100.0

Note: Totals may not foot due to rounding.

⁽¹⁾ Includes flights operated by SkyWest.

⁽²⁾ Includes Delta connections (in 2012, operated by SkyWest, Express Jet, and Mesaba Airlines; in 2016, operated by SkyWest and Compass Airlines).

⁽³⁾ Includes United Express (operated by SkyWest) and Continental Airlines.

⁽⁴⁾ American Airlines and US Airways merged in April 2014. In 2016, American Airlines included flights operated by American Eagle.

⁽⁵⁾ In December, 2016, Alaska Air Group acquired Virgin America.

⁽⁶⁾ Included in “All Others” category in 2016 (2016 market share of less than one percent).

⁽⁷⁾ Includes all airlines with less than one percent market share each.

Source: *Port of Seattle*.

The Port also provides facilities for air cargo services. In 2016, air cargo at the Airport totaled 366,431 metric tons compared to 332,636 metric tons in 2015.

Airport Business Agreements

The following table shows Aviation Division operating revenue by major source, and net operating income before depreciation for fiscal year ended December 31, 2016.

TABLE 6
AVIATION DIVISION NET OPERATING INCOME
(\$ IN THOUSANDS)

<u>Sources</u>	<u>2016</u>
<i>Aeronautical Revenues</i>	
Terminal ⁽¹⁾	\$141,549
Airfield ⁽¹⁾	88,311
Other ⁽²⁾	14,374
Total Aeronautical Revenues	<u>\$244,234</u>
<i>Non-Aeronautical Revenues</i>	
Public parking	\$69,540
Airport dining and retail	56,348
Rental car	37,082
Customer facility charges for operations ⁽³⁾	12,122
Ground transportation	12,803
Commercial properties	9,992
Utilities	7,233
Other ⁽⁴⁾	15,902
Total Non-Aeronautical Revenues	<u>\$221,022</u>
Total Aviation Division Operating Revenues	<u>\$465,256</u>
Total Aviation Division Operating Expenses	261,226
Net Operating Income Before Depreciation	<u>\$204,030</u>

⁽¹⁾ Net of revenue sharing with the signatory airlines. See “—The Airline Agreements.”

⁽²⁾ Consists primarily of revenues from airfield commercial area, aircraft overnight parking and badging fees.

⁽³⁾ Excludes CFCs accounted for as non-operating revenue, which are used to pay debt service.

⁽⁴⁾ Consists primarily of employee parking revenues.

Source: *Port of Seattle*.

The Airline Agreements

Status of Airline Agreements. The Port has begun negotiations with the airlines in connection with a new or amended lease and operating agreement to replace the current Signatory Lease and Operating Agreement (“SLOA III”), which is scheduled to expire on December 31, 2017. The Port expects to review its proposed agreement with the FAA prior to final adoption and to update its competition plan to take into account the new or amended agreement.

Current Agreement. The Airport derives a significant portion of its revenues from air carriers using the Airport. Pursuant to FAA guidelines, the Airport passes aeronautical costs on to the air carriers. Traditionally this has been accomplished through lease and operating agreements at the Airport. In 2013, the Port approved SLOA III. By December 31, 2013, airlines representing 99.9 percent of passenger traffic were signatories. SLOA III will expire on December 31, 2017, unless terminated earlier or extended in accordance with its terms.

Fee Structure. SLOA III establishes several types of fees designed to recover operating and capital costs of the associated aeronautical facilities on the Airfield (described below) and in the terminal. In calculating each type of rates and charges under SLOA III, the Port is required to reduce the applicable capital or operating costs by any amounts reimbursed or covered by government grants or PFCs, any insurance or condemnation proceeds or other

third-party payments, any reimbursements made by an airline in connection with projects undertaken for the benefit of an airline and any premiums paid by non-signatory airlines. Total costs are comprised of operating and capital costs allocated to the various components of the Airfield and the terminal.

Capital costs include: a charge for cash-funded assets placed into service on or after 1992, debt service costs (net of PFCs) allocable to revenue bond-funded capital improvements placed into service, and a debt service coverage fee if necessary to maintain total Airport-related debt service coverage at no less than 125 percent of debt service for that fiscal year. The debt service coverage fee provides a mechanism for the Port to increase charges if necessary to achieve 1.25 times Airport-related debt service coverage.

SLOA III also provides that if the Airport's Net Revenue (calculated as provided in SLOA III) exceeds 125 percent of total Airport-related debt service coverage in any fiscal year, 50 percent of the amount in excess of that threshold will be credited to the signatory airlines.

Airfield Rates and Charges. As defined in SLOA III, the "Airfield" is comprised of three areas: the Airfield Apron Area (the area immediately adjacent to the terminal building and areas for overnight aircraft parking), the Airfield Movement Area and the Airfield Commercial Area (including, but not limited to, the land, taxi lanes, ramps and the terminal used primarily for cargo activities and aircraft maintenance), and related costs and fees are calculated separately for each area. The most significant fee is the landing fee charged for use of the landing areas, runways, taxiways, adjacent field areas and related support facilities that comprise the Airfield Movement Area. The landing fee is computed by (i) adding budgeted capital costs (including Airport-related debt service and debt service coverage, if required) and operating expenses allocable to the Airfield Movement Area, (ii) subtracting other fees for use of the Airfield Movement Area and any non-signatory airline premium payments and then (iii) dividing the total by the maximum gross landed weight estimated by the Port for the next fiscal year. Similarly, fees for use of the Airfield Apron Area are calculated based on the operating and capital costs, including Airport-related debt service and Airport-related debt service coverage if required, allocable to those areas and charged to carriers based on landed weight. The Airfield Commercial Area is a separate compensatory (not cost recovery) cost center.

Terminal Rates and Charges. Airline terminal rental rates are based in part on the Terminal Building Requirement, which is computed by multiplying the total of budgeted operating expenses and capital costs, including Airport-related debt service and Airport-related debt service coverage (if required) allocated to the terminal, by the ratio of airline rentable space to total rentable space, less any non-signatory airline premiums included in rent payable by non-signatory airlines. Excluded from the cost recovery formula is any airline office or club space that is vacant. Use of the baggage system, passenger loading bridges, airline support systems and equipment and the federal inspection facility are calculated and charged separately; these are also based upon operating expenses and capital costs, and the Port may use non-aeronautical revenues to off-set costs associated with the federal inspection facility cost center.

Rates may be adjusted mid-year upon 30 days of notice to the airlines if actual results are expected to vary from budget projections by more than 10 percent. A final adjustment is made each year for the actual results of the prior year.

Capital Project Approval. SLOA III includes a list of previously approved capital improvement projects. SLOA III provides that if, by the time the Port elects to proceed with construction, the capital cost of any project on that approved list exceeds 110 percent of the cost to be included in the airline rate base presented in the agreement and the increase is not otherwise exempt under the agreement, the Port will notify the airlines and a Majority-in-Interest of the airlines may request a delay of 180 days on the project. A Majority-in-Interest is defined in SLOA III as air carriers that account for more than 55 percent of all signatory carriers and also account for more than 55 percent of terminal rents and landing fees paid by signatories in the preceding year. The Airport may notify the signatory airlines if it intends to construct any new project not included in the list of previously approved projects. If, within 30 days after the Port's notice, a Majority-in-Interest objects to the new project, the Airport must delay construction for 12 months.

Future Rates and Charges Alternatives. If an agreement is not executed prior to December 31, 2017, the Port expects to continue the current agreement on a month-to-month basis. Alternatively, pursuant to FAA guidelines, the Port can establish rates and charges by resolution or by a lease and use operating agreement. In the event that a lease and use operating agreement were not then in effect, rates and charges would be set by resolution. In 2013, the

Port adopted Resolution No. 3677, as amended, unilaterally establishing rates and charges for airlines serving the Airport. Upon execution of SLOA III, the implementation of Resolution No. 3677, as amended, was suspended. Upon expiration of SLOA III and absent any further action by the Commission or any new or amended agreement with the airlines, the Port Commission can direct the Managing Director, Aviation to implement the provisions of Resolution No. 3677, as amended.

Other Airport Businesses and Agreements. The Aviation Division’s non-airline revenues include revenues from public parking, rental car and employee parking fees; terminal concession agreements; ground transportation, rental car and other concession fees, and revenues from Airfield, terminal and other commercial property leases.

Public Parking. The Aviation Division operates an eight-floor parking garage for short-term and long-term public parking and for use by employees. The Port also provides approximately 1,500 parking spaces in a remote lot operated by a third party. In addition, privately-owned parking facilities compete with Airport parking. There are a number of privately owned and operated parking facilities offering a range of quality, cost and service, including facilities very near the Airport.

Rental Cars. The Airport leases space in a consolidated facility (which opened in 2012) to rental car operators and receives a concession fee based upon the gross revenues of rental car operations at the Airport and land rent. All rental car companies are required either to operate from the consolidated rental car facility or to use the facility to drop off or pick up their customers. At this time, nearly all of the rental car companies currently serving the Airport operate from the consolidated rental car facility. See “Customer Facility Charges.”

Passenger Terminal Concession Agreements—Dining and Retail. The Airport offers a range of dining and retail options, which include restaurants, specialty retail, convenience retail, duty-free goods and personal services, to the traveling public. The Port currently uses a direct leasing model at the Airport. The Port takes a staggered approach to handling these leases by soliciting proposals in groups of leasing opportunities. The Port manages the program to provide passengers with a range of dining and retail options throughout the terminal. Under the lease agreements, Airport dining and retail tenants pay rent based on a percentage of gross sales subject to a minimum annual guarantee. The tenants are subject to Port oversight of operations and quality assurance standards. The tenants also must adhere to a policy requiring that prices charged at the Airport be consistent with local prices at comparable businesses located off of airport property, commonly referred to as “street pricing.” To accommodate a recent increase in the minimum wage within the City of SeaTac, the street pricing policy was modified to include a 10 percent premium over comparable local prices; this premium gradually declines on an annual basis, reaching zero by January 1, 2020.

Miscellaneous Business Arrangements and Revenues. The Airport has agreements with a variety of ground transportation companies, under which the Port receives either concession fees or per-trip fees and permit fees. These include taxi and transportation network company service; various shuttle services also serve the Airport and pay a per-trip fee. In addition, there are standard land leases and other fees for other aeronautical and non-aeronautical tenants and users at the Airport, such as an in-flight kitchen and cargo hardstand revenues.

Regulation

Rates and Charges Regulation; Federal Statutes. Federal statutes and FAA regulations require that an airport maintain a rate structure that is as self-sustaining as possible and generally (with certain exceptions) limit the use of all revenue (including local taxes on aviation fuel and other airport-related receipts) generated by an airport receiving federal financial assistance to purposes related to the airport. Federal statutes also provide that, without air carrier approval, an airport may not include in its rate base debt service allocable to projects not yet completed and in service.

Federal statutes include provisions addressing the requirements that airline rates and charges set by airports receiving federal assistance be “reasonable” and authorize the U.S. Secretary of Transportation to review rates and charges complaints brought by air carriers.

The Port operates the Airport pursuant to an airport operating certificate issued annually by the FAA after an on-site review. In addition to this operating certificate, the Airport is required to obtain other permits and/or authorizations from the FAA and other regulatory agencies and is bound by contractual agreements included as a condition to the

grants the Port receives under the FAA's grant programs. Federal law also governs certain aspects of rate-setting and restricts grants of exclusive rights to conduct an aeronautical activity at an airport that receives or has received federal grants and other property. All long-term facility planning is subject to the FAA's approval; the Port is subject to periodic audits by the FAA; the Port's use of Airport revenues is subject to review by the FAA; and the Port's use of PFC revenue and grant proceeds is also subject to FAA approval, audit and review. The Port is also required to comply with the provisions of the federal Aviation and Transportation Security Act, with other federal security statutes and with the regulations of the Transportation Security Administration (the "TSA"). Security is regulated by the FAA and the TSA.

The FAA completed a revenue use audit of the Port in 2015 and issued preliminary findings of certain items that may not qualify for Airport funding. The Port has submitted initial responses to some of the items and intends to complete its responses to the FAA by August. Should the FAA ultimately determine that the items in question do not qualify, the Port may need to reimburse these expenditures, from non-Airport funds, for up to an estimated \$10 million and use non-Airport funds for these items in the future.

Other Regulation. The Port also is regulated by the federal Environmental Protection Agency and the Washington State Department of Ecology in connection with various environmental matters, including the handling of deicing materials and airline fuels and lubricants, protection of wetlands and other natural habitats, disposal of storm water and construction wastewater runoff and noise abatement programs. The Port's handling of noise, including restrictions and abatement programs, is also subject to the requirements of federal and State statutes and regulations.

Passenger Facility Charges

PFCs are fees collected from enplaned paying passengers to finance eligible, approved airport-related project costs, subject to FAA regulation. Airport operators are required to apply to the FAA for approval before imposing or using PFCs. The FAA has authorized the Port to impose a PFC of \$4.50 per paying enplaned passenger, the maximum allowable under current law.

PFC revenue is not included in the definition of "Gross Revenue" under the First Lien Master Resolution or the Intermediate Lien Master Resolution. PFC revenue remaining after payment of the PFC Bonds, however, may be applied to pay a portion of debt service on Port revenue bonds issued to finance PFC-eligible projects. Since 2008, the Port has applied and expects to continue to apply PFC revenue to pay a portion of debt service on such revenue bonds. Such amounts may not be taken into account when calculating debt service coverage of First Lien Bonds but may be taken into account when calculating compliance with the Intermediate Lien Rate Covenant. See Table 2, "Historical First Lien Bond and Intermediate Lien Parity Bond Debt Service Coverage by Lien Calculated per Applicable Rate Covenant For the Years Ended December 31." Before the Port can use PFC revenue to pay debt service on any of its bonds, the Port is required to obtain FAA consent. Since the Port implemented its PFC program in 1992, it has obtained FAA authorizations, pursuant to five PFC application approvals, to impose and use approximately \$2.2 billion of PFC revenues (at the \$4.50 PFC level and including investment income) for various projects. As of March 31, 2017, of the \$2.2 billion of approved authority, the Port has remaining unspent authority of approximately \$1.0 billion (and remaining projected aggregate PFC Bond debt service of \$134.2 million). The Port has applied for additional PFC authorization, for projects including the North Satellite Renovation and Expansion project and the International Arrivals Facility, and in its public notice estimated the total PFC revenue to be collected under the application at approximately \$1.7 billion. The Port expects a response from the FAA by September 20, 2017.

PFCs are imposed by the Port, collected by the airlines from paying passengers enplaning at the Airport and remitted to the Port (net of a handling fee, currently equal to \$0.11 for each PFC collected). The annual amount of PFCs collected by the Port depends upon the number of passenger enplanements at the Airport and the timely remittance of PFCs by the airlines. No assurance can be given that PFCs actually will be received in the amounts or at the times contemplated by the Port in its capital funding plans. In addition, the FAA may terminate or reduce the Port's authority to impose PFCs, subject to informal and formal procedural safeguards, if the FAA determines that the Port has violated certain provisions of federal law or the PFC or other federal regulations, or if the FAA determines that PFC revenue is not being used for approved PFC projects or that implementation of such projects did not begin within the time frames specified in the PFC statute or the PFC regulations. Future PFC applications may be denied if the FAA determines that the Port violated any of its federal grant assurances or violated certain federal statutes

and regulations applicable to airports. Amounts received or receivable under the PFC program are also subject to audit and adjustment by the FAA. The Port has never been found in violation of or been notified by the FAA as being out of compliance with federal grant assurances or applicable federal statutes and regulations other than as noted under the heading “—Regulation.”

Customer Facility Charges

Pursuant to RCW 14.08.120(7) (the “CFC Act”), the Port is authorized, at rates determined by the Port, to impose a CFC upon customers of rental car companies accessing the Airport. The CFC Act limits the uses for which the Port may collect the CFC. Specifically, the Port may impose the CFC only “for the purposes of financing, designing, constructing, operating, and maintaining consolidated rental car facilities and common use transportation equipment and facilities which are used to transport the customer between the consolidated car rental facilities and other airport facilities.”

The Port has been collecting the CFC since 2006, and since 2012 has collected a CFC of \$6.00 per transaction day. The Port has exclusive rate-setting ability with respect to CFCs, and the CFC Act does not limit the per-transaction or total dollar amount of CFCs that may be collected. The Port can use CFCs to pay both operating and capital costs associated with the consolidated rental car facility. The portion of CFC revenues used to pay capital costs, including debt service on applicable bonds, is accounted for as non-operating revenue, while the portion used to pay operating costs, including the costs of operating the shuttle bus service between the facility and the Airport terminal building, is accounted for as operating revenue.

The CFC Act allows CFCs to be used to repay the Port, with interest, for any non-CFC funds that the Port uses to fund eligible costs. The Port is applying CFCs to permitted purposes under the CFC Act, including the full payment of annual debt service on the Series 2009 First Lien Bonds (including the Refunded Bonds), issued in the initial aggregate principal amount of \$316,960,325.95, and Subordinate Lien Commercial Paper Notes issued to finance costs of the Port’s consolidated rental car facility and bus system. The Port expects to apply CFCs to pay debt service on the Series 2017A Bonds and Series 2017B Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR INTERMEDIATE LIEN PARITY BONDS—Intermediate Lien Rate Covenant” and Table 1.

In 2016, the Port recognized \$36.84 million in CFC revenues as shown in the table below.

TABLE 7
CFC REVENUES
FOR FISCAL YEAR 2016
(\$ IN THOUSANDS)

	2016
CFC Operating Revenues	\$ 12,121
CFC Non-operating Revenues ⁽¹⁾	24,715
Total CFC Revenues	\$ 36,836

(1) Used to pay debt service on the Series 2009 First Lien Bonds (including the Refunded Bonds) and Subordinate Lien Commercial Paper Notes used to pay costs of the consolidated rental car facility.

Source: Port of Seattle.

NORTHWEST SEAPORT ALLIANCE

General; Formation of Seaport Alliance

The Port is engaged in several maritime and real estate businesses, the most significant of which is the ownership of container cargo terminals. On August 4, 2015, the Port and the Port of Tacoma jointly formed the Northwest Seaport Alliance (the “Seaport Alliance”) to manage all of the two ports’ container terminals as well as certain industrial properties and other cargo terminals. The Port’s container terminals are located on the Seattle waterfront

in the central Puget Sound, and the Port of Tacoma's container terminals are located on the Tacoma waterfront in the south Puget Sound, approximately 30 miles south of Seattle.

The Port faces significant competition for container shipping business, and formed the Seaport Alliance in an effort to improve its competitive position. The purpose of the Seaport Alliance is to coordinate customer relationships, improve capacity utilization between the two ports, eliminate pricing competition between the ports by creating a unified gateway, and rationalize strategic capital investments at both ports. The Seaport Alliance is designed to unify management and operation of both ports' "Marine Cargo" (defined in the Charter to mean waterborne goods other than grain, liquefied natural gas, or methanol) businesses.

Legal Framework

Port Development Authority. The Seaport Alliance was formed by the Port and the Port of Tacoma as a port development authority (a "PDA"), with an effective date of August 4, 2015, pursuant to a provision in Title 53 RCW that grants ports the authority to create separate PDAs. As formed, the Seaport Alliance is to continue under its charter originally dated as of August 4, 2015, as amended by the First Amended Charter adopted on January 19, 2016 (the "Charter") for an indefinite term until dissolution. As approved, the Charter may be amended only by mutual agreement of both the Port and the Port of Tacoma. The statute allows, but the Charter prohibits, the Seaport Alliance to issue bonds, borrow funds, or enter into other debt instruments. By statute, PDAs do not have the power of eminent domain or the power to levy taxes or to impose special assessments.

Key Seaport Alliance Documents

A brief description of certain Seaport Alliance foundational documents follows.

Federal Maritime Commission Agreements. The ports entered into Federal Maritime Commission ("FMC") Discussion Agreement No. 201222, filed with the FMC on January 28, 2014 (the "Discussion Agreement"), which served as a preliminary discussion agreement under which the ports explored the feasibility of entering into the Seaport Alliance. Subsequently, FMC Agreement No. 201228, effective July 23, 2015 (the "Alliance Agreement") authorized the ports to meet, discuss, collect and share information, to coordinate and reach agreements, and to implement agreements on the creation and management of the Seaport Alliance. As agreed, the Seaport Alliance would include management, operation and use of the facilities designated as within the scope of the Seaport Alliance and the Alliance Agreement; joint marketing, planning, development and utilization of Seaport Alliance facilities; negotiating, setting and approving all terminal rates, charges, rules and regulations, and rates of return; and exploring all development and use options relating to those facilities that the ports designated as falling within the scope of the Seaport Alliance.

Seaport Alliance Interlocal Agreement. On October 14, 2014, the Port entered into an interlocal agreement (the "Alliance ILA") with the Port of Tacoma to serve as a framework for the creation of the Seaport Alliance pursuant to the Discussion Agreement. As stated in the Alliance ILA, the Seaport Alliance is the exclusive manager and operator of the marine cargo business of both ports, overseeing operations and capital investments. The individual ports retain their existing port commission governance structures, budgeting, ownership of assets, debt, and obligations for repayment of port debt.

Charter. Effective as of August 4, 2015 (the "Effective Date"), and as amended by the First Amended Charter adopted on January 19, 2016, the Charter establishes the ownership and management structure of the Seaport Alliance, including the separate existence of the Seaport Alliance from the member ports. The Charter provides for valuation of each port's membership interests, allocation of environmental costs, authorization of improvements by the Seaport Alliance to licensed properties, accounting, budgeting and capital planning. The Charter provides for the initial and continuing contributions of working capital, as well as capital expenditure contributions, by the member ports. The Charter outlines quarterly distributions of distributable cash revenues. Under the Charter, the Seaport Alliance acknowledges its members' debt obligations and their obligations to cause their assets and facilities to be managed in a manner that will permit them to meet their rate and operating covenants. The Charter also provides that the Seaport Alliance shall not have authority to issue debt or to own real property. The Charter provides for dispute resolution and dissolution procedures.

Property License Agreements. Each port entered into a License for Management of Property with the Seaport Alliance on August 4, 2015 (each a “License”), licensing certain properties to the Seaport Alliance (the “Licensed Properties”). The Licenses designate the Seaport Alliance as manager and agent for the member port, authorizing the Seaport Alliance to negotiate lease and other use agreements, fulfill the port’s landlord and owner obligations under existing use agreements, remit revenues from the Licensed Properties to the Seaport Alliance, and comply with Washington State Department of Natural Resources requirements as well as State and federal tax obligations. The Seaport Alliance agrees to provide property insurance for the Licensed Properties (or reimburse the member ports for insurance costs), and includes certain indemnifications from the member ports to the Seaport Alliance.

Authorizing Resolutions. On August 4, 2015, each port adopted an authorizing resolution to establish the PDA and approve the Charter, pursuant to the terms of the FMC agreements and the Alliance ILA (Port of Seattle Resolution No. 3711 and Port of Tacoma Resolution No. 2015-03).

Interlocal Agreements for Support Services and for Staffing. The member ports have entered into interlocal agreements for Seaport Alliance support services, describing service level expectations and allocating rates and charges for administrative, operational, maintenance and facilities development services. The member ports have entered into interlocal agreements providing staff to the Seaport Alliance.

Governance and Management

The Seaport Alliance is governed by the two ports as “Managing Members,” with each port acting pursuant to the Charter through its elected commissioners. The Managing Members have appointed a Chief Executive Officer who is responsible for hiring staff and entering into service agreements. In 2016, staff was comprised of certain Port of Tacoma employees (including several former Port employees now employed by the Port of Tacoma) who were assigned (seconded) to the Seaport Alliance on either a full-time or part-time basis; beginning in 2017, certain of these staff became employees of the Seaport Alliance. In addition, both ports provide certain services through service agreements with a portion of service department’s costs allocated to and paid by the Seaport Alliance. The interlocal agreements through which both ports agreed to assign staff included a waiver of potential conflicts of interest based on the expectation that no material conflict will exist in the dual roles. This management and staffing structure may continue to change over the next several years.

The Managing Members appointed John Wolfe, who also serves as the Port of Tacoma Chief Executive Officer, as the Seaport Alliance Chief Executive Officer upon formation of the Seaport Alliance. Mr. Wolfe may hold those two positions for up to five years. Pursuant to Resolution No. 2015-01, the Managing Members have delegated administrative authority within prescribed limits for the Seaport Alliance to the Chief Executive Officer.

John Wolfe, Chief Executive Officer. Mr. Wolfe has served as the Chief Executive Officer of the Port of Tacoma since 2010. Before being named Chief Executive Officer of the Port of Tacoma, he served as the Port of Tacoma’s deputy executive director since 2005. Prior to joining the Port of Tacoma, Mr. Wolfe served for two years as the executive director of the Port of Olympia, and before that as the Port of Olympia’s director of operations and marine terminal general manager. Mr. Wolfe also spent 10 years with Maersk Sealand/APM Terminals (“APM”) in Tacoma, most recently as the terminal’s operations manager. He serves on the boards of the American Association of Port Authorities (AAPA), Executive Council for a Greater Tacoma, Tacoma-Pierce County Chamber of Commerce and the Washington State Fair Board. Mr. Wolfe is also an executive board member of the Economic Development Board for Tacoma-Pierce County. Mr. Wolfe earned a bachelor’s degree in business administration from Pacific Lutheran University.

Membership Interests

Each port has an initial “Membership Interest” of 50 percent. At the end of 2017, the Chief Executive Officer shall review the valuation of Licensed Properties to determine if material changes in cash flows from certain Licensed Properties have occurred since the initial valuation for properties that were not leased throughout the time period covered by the initial valuation. The most significant facilities that could cause and be subject to the 2017 revaluation (due to upcoming lease expiration dates) are Terminal 5, owned by the Port, and the West Sitcum Terminal (APM) and Olympic Container Terminal, each owned by the Port of Tacoma. The revaluation process is to be initiated by the Seaport Alliance Chief Executive Officer if there has been a material change in the cash flows

expected to be generated from these or other properties licensed to the Seaport Alliance, and is subject to recommendation by the Chief Executive Officer and approval by the member ports. A material change in the value of these or other Licensed Properties could result in a corresponding change in Membership Interests. A revaluation also may occur upon the addition or removal of any property licensed to the Seaport Alliance. Under the Charter, a change in Membership Interest will affect Managing Member shares of Seaport Alliance Net Income or Losses and Distributable Cash as well as required contributions, each of which is determined based on Membership Interest. Changes in Membership Interest do not affect a Managing Member's voting rights under the Charter, as votes are not weighted by or otherwise determined by Membership Interest.

Funding and Financial Framework

Cash Distributions. The Seaport Alliance distributes cash to each Managing Member in an amount equivalent to cash flow provided from operations as calculated pursuant to generally accepted accounting principles ("GAAP") for a calculation period ("Distributable Cash"). Cash distributions are to be made no less than quarterly based on each Managing Member's Membership Interest. This cash-based calculation is different from the calculation of Net Income described below.

Net Income. The Seaport Alliance is treated as a joint venture for accounting purposes and the Port recognizes (commencing in 2016) as Gross Revenue its (initially 50 percent) share of the Seaport Alliance's Net Income and Losses. The terms "Net Income" and "Losses" are defined in the Charter to mean, for each fiscal year or other period, an amount equal to the Seaport Alliance's net operating income or losses less depreciation plus non-operating income or losses, including extraordinary and special items for such fiscal year or other period, determined in accordance with GAAP. The calculation of Distributable Cash and of Net Income or Losses will differ due to differences in the GAAP treatment for cash flow statements, which are cash-based, compared to income statements, which are accrual-based.

2016 Financial Results. The Seaport Alliance distributed a total of \$123.2 million in Net Income (as defined in the Charter) in Fiscal Year 2016 to the Managing Members. Revenues from container terminal leases and operations provided the largest source of revenues. The Seaport Alliance received \$7.9 million in non-operating income from a one-time reimbursement from the tenant at Terminal 18. See APPENDIX B.

Post-Formation Improvements; Capital Investments. By vote the member ports may authorize the Seaport Alliance to acquire or construct Post-Formation Improvements. Post-Formation Improvements will be recorded as Seaport Alliance assets. Member ports provided an initial capital contribution.

Recognition of Managing Member's Revenue Bond Obligations. The Charter recognizes that each Managing Member's respective share of revenues received by the Seaport Alliance with respect to the Licensed Properties has been or may be pledged in connection with such Managing Member's revenue bond obligations.

Under the Charter, the Managing Members instruct the Chief Executive Officer to manage the Seaport Alliance in a prudent and reasonable manner in support of the Managing Members' respective revenue bond covenants. The Charter provides that the Managing Members shall keep the Chief Executive Officer and the Seaport Alliance management informed of their respective revenue bond obligations, and shall notify the other Managing Member of any proposed change to such Managing Member's governing revenue bond resolutions as soon as practicable before adoption. The Charter does not modify or alter the obligations of each Managing Member with respect to its own bond obligations. The Seaport Alliance does not assume any obligations to the Managing Members' bond holders.

Pursuant to the Charter, if net income before depreciation of the Seaport Alliance is not sufficient for either Managing Member to be in compliance with a revenue bond rate covenant (as described in each Managing Member's governing bond resolutions in effect as of the Effective Date), then: (i) upon that Managing Member's request, the Seaport Alliance shall hire an independent third party consultant to perform analysis and make recommendations for actions needed to achieve revenue bond covenant compliance; (ii) if the consultant recommends an action that the Seaport Alliance is unwilling, unable or refuses to undertake, either Managing Member can require dissolution of the Seaport Alliance following the dispute resolution process even if within the "Initial Period" (as defined in the Charter, the expiration of 20 years following the Seaport Alliance's formation); and (iii) the Seaport Alliance shall have at least four months to respond, act and/or dissolve following its receipt of the consultant's recommended action, unless a shorter time is required by the applicable revenue bond covenants.

With respect to bonds of each Managing Member that were outstanding at the time of the formation of the Seaport Alliance, the Managing Members shall establish and maintain a requirement for the Seaport Alliance to calculate and establish a minimum level of net income from the Seaport Alliance equal to the amount required for the Managing Members to meet their revenue bond rate covenants in effect at the time of formation of the Seaport Alliance (“Bond Income Calculation;” initially calculated to be \$90 million). The Managing Members shall require the Bond Income Calculation to be reviewed annually as part of the Seaport Alliance budget process and the Managing Members may adjust the Bond Income Calculation so long as it does not cause any Managing Member to fail to comply with its rate covenant in effect at the time of formation of the Seaport Alliance. The Seaport Alliance may not take any action that reasonably would reduce Seaport Alliance income below the minimum level established by the Bond Income Calculation unless each Managing Member separately votes to approve that action. Such a vote by each Managing Member must occur even if the action is within the Chief Executive Officer’s delegated authority. The Bond Income Calculation is subject to adjustment, including reduction from payment or refunding of revenue bonds outstanding at the time of the formation of the Seaport Alliance. The Bond Income Calculation does not include debt service on bonds issued since the time of formation including future financial obligations, such as the Series 2017 Bonds, or debt service on general obligation bonds.

Dispute Resolution; Dissolution

Dispute Resolution. The Charter provides for good faith discussion followed by mediation in the event of a dispute between the members; certain matters (relating to the Licenses and distributions upon dissolution) are subject to binding arbitration. The Seaport Alliance and the member ports have waived any right to seek recourse in court for any dispute regarding the Seaport Alliance, the Charter, or the transactions or other documents contemplated by the Charter (a “Dispute”), and agree that the dispute resolution procedures under the Charter are to be the exclusive remedies available for resolution of such Disputes.

Dissolution. Except as described below, no Managing Member may take any action to dissolve, terminate, or liquidate the Seaport Alliance. No Managing Member may require re-valuation, apportionment, appraisal or partition of the Seaport Alliance or any of its assets, or to file a bill for an accounting, except as specifically provided in the Charter. Each Managing Member, to the fullest extent permitted by applicable law, has waived any rights to take any such actions under applicable law, including any right to petition a court for judicial dissolution.

Under the Charter, the Seaport Alliance shall be dissolved if the following occur: (i) a determination by both member ports to dissolve the Seaport Alliance; (ii) only after the Initial Period, a vote by a Managing Member that the Seaport Alliance be dissolved, upon the declaration by a Managing Member that there is a deadlocked Dispute following discussion and mediation as required under the Charter dispute resolution procedures; (iii) during or after the Initial Period, a dissolution is called by a Managing Member upon a Bond Income Calculation Dissolution Event described under the heading “Funding and Financial Framework—*Recognition of Managing Member’s Bond Obligations*”; and (iv) any dissolution required by operation of law. Dissolution of the Seaport Alliance is to be effective as of the day on which the event occurs giving rise to the dissolution, but the Seaport Alliance shall not terminate until there has been a winding up of the Seaport Alliance’s business and affairs, and the Seaport Alliance’s assets have been distributed as provided in the Charter.

Distribution on Dissolution. The Charter provides that should the Seaport Alliance be dissolved, management and all post-dissolution revenues of properties owned by the Port will revert to the Port as will any improvements on those properties. In the event of dissolution of the Seaport Alliance, and as part of the wind down process, the Chief Executive Officer is required to present a full account of the Licensed Properties, Post-Formation Improvements, Seaport Alliance-Owned Personal Property (as such terms are defined in the Charter), and liabilities of the Seaport Alliance to the member ports. The member ports are to direct the Chief Executive Officer to hire an independent third-party consultant to calculate the values for each Licensed Property and Post-Formation Improvement using the formulas described in the Charter, which are to determine the credits and debits due to the member ports upon dissolution. All credit and debit allocations may, however, be revised by vote of the member ports. The calculation of payments between the ports may result in a net payment to one of the two ports.

Licensed Properties

The ports have licensed container terminals and certain industrial properties and other cargo terminals to the Seaport Alliance for operation and management, including capital improvements. Ownership of the Licensed Properties remains with the licensing ports.

The Port licensed to the Seaport Alliance its four international container terminals (including two on-dock intermodal yards) and nine industrial properties that support domestic container trade or non-containerized trade. The Port of Tacoma properties licensed to the Seaport Alliance consist of six container terminals (four engaged in international trade and two in domestic trade), four intermodal yards (serving domestic and international trade), eight properties that accommodate non-containerized cargo (such as autos, breakbulk, and logs) and supporting industrial properties.

Licensed North Harbor/South Harbor Container Facilities and Terminal Lease Agreements. The following 10 container terminals are licensed to the Seaport Alliance: four container terminals (Terminal 5, Terminal 18, Terminal 30 and Terminal 46) owned by the Port, and six container terminals (Husky Terminal (encompasses Terminal 3 and Terminal 4), Washington United Terminal, APM (to be renamed West Sitcum Terminal), Olympic Container Terminal (“OCT”) (encompasses Terminal 7C and Terminal 7D, to be renamed Tacoma Container Terminal), Pierce County Terminal, and Totem Ocean Trailer Express (“TOTE”)), owned by the Port of Tacoma.

Most of the 10 container terminals are leased to terminal operators on a long-term basis. A portion of Terminal 5 is vacant and a portion was leased pursuant to a short-term lease that expired in June, 2017 with a non-container company, and the leases for the OCT and the APM Terminal also are scheduled to expire in 2017.

Leases are subject to amendments and modifications that may impact Seaport Alliance revenue (and therefore Port revenue) and are renegotiated from time to time to reflect the fluctuating businesses of the ports and tenants. The following table identifies the port owner, primary lessee, terminal area and lease expiration date for the container terminals licensed to the Seaport Alliance.

TABLE 8
CONTAINER FACILITY LEASES

	Terminal 5	Terminal 18	Terminal 30	Terminal 46	APM⁽⁴⁾	Husky (T-3 and T-4)	OCT⁽⁵⁾	PCT	WUT	TOTE
Port Owner	Port of Seattle	Port of Seattle	Port of Seattle	Port of Seattle	Port of Tacoma	Port of Tacoma	Port of Tacoma	Port of Tacoma	Port of Tacoma	Port of Tacoma
Primary Lessee	Foss Maritime	SSA Terminals, LLC and SSA Containers, Inc. ⁽²⁾	SSA Terminals (Seattle), LLC ⁽³⁾	Terminals Investment Limited	APM Terminals ⁽⁴⁾	International Transportation Services (ITS)	Ports America Washingt on	Evergreen Marine Corporation	Washington United Terminals (WUT)	Totem Ocean Trailer Express (TOTE)
Terminal Area	185 acres ⁽¹⁾	196 acres	70 acres	88 acres	135 acres	93 acres	54 acres	141 acres	123 acres	48 acres
Lease Expiration	2017	2039	2039	2025	2017	2046	Month to month	2024	2028	2034

⁽¹⁾ Foss Maritime leased approximately 50 of the 185 acres at Terminal 5. See “—Terminal 5.”

⁽²⁾ The original lease named SSA Terminals, LLC and Stevedoring Services of America, Inc. as Lessees. Subsequent Lessee name changes from Stevedoring Services of America, Inc. to SSA Marine, Inc., and then to SSA Containers, Inc. were solely changes in identity and not in ownership or control. SSA Terminals is a wholly-owned subsidiary of SSA Containers, Inc. SSA Terminals, Inc. can be sole signer with consent from the Port.

⁽³⁾ SSA Terminals (Seattle), LLC is a joint venture among SSA Seattle, LLC, China Shipping Terminals (USA), LLC, and Matson Seattle LLC.

⁽⁴⁾ The Seaport Alliance is in negotiations with a replacement tenant. Terminal to be renamed West Sitcum Terminal.

⁽⁵⁾ To be renamed Tacoma Container Terminal.

Note: Corporate ownership information provided in the footnotes above is based on information from the container terminal tenants and has not been independently verified.

Source: Seaport Alliance.

The Seaport Alliance receives rent paid under Port and Port of Tacoma container terminal leases. Under the current Port lease structure, tenants pay a per-acre rate derived from a Minimum Annual Guarantee (“MAG”) of container volumes (regardless of size of container and whether loaded or empty) through the facility, plus an additional per-container charge for any volumes in excess of the MAG. Under the current Port of Tacoma lease structure, tenants pay per-acre rent and pay volume-based fees for use of equipment and intermodal facilities; some of these fees are subject to a MAG. Generally, terminal lease rates have periodic adjustments based on inflation or market value.

Terminal 5. Effective July 31, 2014, the Port terminated its lease agreement with Eagle Marine Services at Terminal 5, the Port’s second largest container terminal. The Port agreed to terminate the lease while the Port began preliminary planning, initial design and permitting for improvements. A portion of Eagle Marine container traffic has moved to Terminal 18 and the Seaport Alliance is scheduled to receive \$9 million per year through 2023 through this arrangement. Under a lease termination agreement with APL (the owner of Eagle Marine), the Seaport Alliance anticipates receiving from APL certain payments if actual volumes are below the specified guaranteed minimum. For the lease year 2016, APL owes the Seaport Alliance \$3.7 million for volume shortfalls. The Seaport Alliance is currently in negotiations with APL and its parent company (CMA CGM) for potential future marine terminal agreements and those shortfalls are a part of the overall discussion. In the interim, the Seaport Alliance is pursuing temporary uses at Terminal 5, continuing design and permitting efforts for redevelopment and seeking a long-term tenant for the redeveloped facility. See “—Capital Planning and Budgeting.”

Lease rates for a Terminal 5 tenant could affect lease revenue at Terminal 18. The lease at Terminal 18 contains a Most Favored Nations (“MFN”) provision that requires the Port to maintain equitable rates comparable to the Port’s Terminal 5 container facility. If the Terminal 5 facility is offered to another international container terminal tenant such that the resulting rent structure is more or less than the rent on a per billable acre basis paid at Terminal 18, the Terminal 18 lessee has the right to (a) adjust its rent to that offered to the container terminal tenant at Terminal 5; or (b) may opt out of a rent adjustment under its MFN right. In this event, the Terminal 18 lessee is to have no further MFN rights. The Terminal 18 lessee’s MFN right is currently scheduled to expire on January 31, 2025.

Husky Terminal (Terminals 3 and 4). On April 7, 2016, the Seaport Alliance amended the lease at Husky Terminal and extended the lease until 2046. The tenant is required to pay a per-acre rate and to pay MAG fees for crane and intermodal yard usage. The Seaport Alliance is obligated to provide additional capital improvements to accommodate larger container ships and to improve operating efficiencies. See “—Capital Planning and Budgeting.”

APM Terminal. The APM Terminal has served the domestic shipping market. APM is not renewing its lease and the Seaport Alliance is currently negotiating a lease with SSA for SSA’s Matson operations.

OCT. The OCT lease expired on June 30, 2017. The terminal would require significant upgrades to support the cranes necessary to accommodate larger ships. The terminal’s proximity to Husky Terminal and the North Intermodal Yard, however, means it could serve as an expansion area for Husky Terminal operations. At this time, there are no plans to make the improvements at OCT required to support larger cranes. The Seaport Alliance recently entered into a month-to-month lease with Ports America to operate the facility.

Other Licensed Facilities. In addition to the container terminals, certain other facilities are licensed to the Seaport Alliance. These facilities include industrial properties owned by the Port that support domestic container trade or non-containerized trade, and the following properties owned by the Port of Tacoma: four intermodal yards (one domestic and three international), eight properties that accommodate non-containerized cargo (autos, breakbulk, logs etc.) and supporting industrial properties.

Containerized Cargo

Container Trade Through the Seaport Alliance. The Port and the Port of Tacoma lease containerized cargo facilities, licensed to the Seaport Alliance, to terminal operators. The terminal operators provide service to carriers and indirectly to the cargo owners (shippers). Carriers are the steamship lines that transport containers. Overall, the shipping industry can be volatile and is affected by global or domestic economic and financial factors. There is significant competition for container traffic among North American ports, including the Seaport Alliance. Shippers regularly contract with a number of carriers, and larger shippers also may direct traffic to one or more ports and

terminal facilities. In addition, carriers form alliances that can affect their decisions on routing cargo. The ability of a terminal operator to attract and move cargo efficiently is important to the success and value of a container facility. Neither the Port nor the Seaport Alliance is a participant in the agreements between and among the terminal operators, carriers and shippers, and do not have any control over these agreements including the rates that carriers pay to call at Seaport Alliance facilities.

Success of terminal operators in attracting cargo volumes depends largely on the size of the local market and the cost and efficiency of a port and inland transportation systems. Due to the relatively small population in the Pacific Northwest, the majority of cargo that passes through the Seaport Alliance either comes from or is destined for other regions. As such, the Seaport Alliance ports are considered discretionary ports. Discretionary cargo can be shifted to other ports generally based on the cost efficiency and reliability of moving cargo from its point of origin to its final destination; these routing decisions are made by carriers and shippers. Therefore, the Seaport Alliance competes with other ports on the West Coast (including the United States, Canada and Mexico) and on the Gulf and East Coasts. The cost, efficiency and quality of competing ports and the intermodal connections serving them may change, and cause cargo volumes to shift to more cost-efficient routes and ports. These factors are beyond the control of the Seaport Alliance or the Port.

The following table summarizes total container traffic through the Seaport Alliance's North Harbor and South Harbor from 2012 through 2016, and from January through May 2017 compared to January through May 2016. TEU volumes include international containers (all of which are handled through Seaport Alliance facilities) and domestic containers (some of which are transported by barge to and from private terminals that are not managed by the Seaport Alliance or by either port).

TABLE 9
CONTAINER VOLUMES FOR SEAPORT ALLIANCE
2012 – 2016
(IN THOUSANDS)

Year	International Containers				Domestic Containers TEUs	Total Containers TEUs
	Imports	Exports		Total Intl. TEUs		
	Full TEUs	Full TEUs	Empty TEUs			
2016	1,392	984	483	2,859	757	3,616
2015	1,308	872	581	2,761	769	3,529
2014	1,217	908	432	2,557	837	3,394
2013 ⁽¹⁾	1,239	984	413	2,635	821	3,456
2012 ⁽¹⁾	1,340	975	464	2,778	786	3,564

⁽¹⁾During the fourth quarter of 2014, an adjustment was made by the Port to certain prior-year (2005-2013) container TEU information to reflect a reporting discrepancy of non-Port containers. The revised 2012-2013 data is included above.

Note: Totals might not equal the sum of component parts due to rounding.

Source: Seaport Alliance (2015 and 2016); the ports (2012-2014).

YEAR-TO-DATE COMPARISON
JANUARY – MAY 2016 AND 2017
(IN THOUSANDS)

Year	International Containers				Domestic Containers TEUs	Total Containers TEUs
	Imports	Exports		Total Intl. TEUs		
	Full TEUs	Full TEUs	Empty TEUs			
2017	578	403	242	1,224	280	1,503
2016	521	382	179	1,082	304	1,386

Note: Totals might not equal the sum of component parts due to rounding.

Source: Seaport Alliance.

Insurance

The Seaport Alliance has purchased its own general liability and public official's liability insurance policy, protecting the entity and its officers and Commissioners, effective August 2015. Currently, the member ports procure property insurance on Licensed Properties and Seaport Alliance improvements located on Licensed Properties, and the Seaport Alliance reimburses the member ports for these costs. The Licenses include certain indemnifications from the member ports to the Seaport Alliance.

Capital Planning

The Seaport Alliance develops a multi-year Capital Improvement Program ("CIP") in conjunction with its annual operating budget. The Seaport Alliance CIP includes project cash flows both for projects that have already received authorization and for certain projects that are expected to be authorized.

The Seaport Alliance CIP for 2017-2022 includes various improvements for the Husky Terminal to accommodate large container ships including dock and gate improvements and the purchase of eight new cranes. Also included in the CIP are rehabilitation of Terminal 46, design and permitting of Terminal 5 for redevelopment, and various renewal and replacement projects in both the North and South Harbors.

Terminal 5 is considered an important facility for accommodating large container vessels in the North Harbor. In October 2016 the Port issued its final environmental impact statement ("EIS") for the Terminal 5 redevelopment project. As currently scoped, the Terminal 5 project would include berth deepening, wharf strengthening, and electrical improvements. The project would also include mitigations such as rail safety and quiet zones. The Seaport Alliance has begun the permitting process for the Terminal 5 improvements. In addition to the berth improvements, deepening of the waterway is being considered; permitting has not started for this work. The Terminal 5 project could cost \$300 million or more, depending on the timing and phasing of construction; this estimate does not include the costs of any waterway channel deepening. Key project elements include dock improvements to accommodate larger cranes and berth deepening; these costs as well as any costs for other terminal or intermodal improvements or equipment acquisition are not included in the current Seaport Alliance CIP. Also excluded from the Seaport Alliance CIP are any costs for channel deepening and potential additional equipment purchases.

TABLE 10

**SEAPORT ALLIANCE
CAPITAL IMPROVEMENT PLAN
2017 – 2022⁽¹⁾
(\$ IN MILLIONS)**

	2017-2022
Husky Terminal improvements and equipment	\$ 182.6
Other CIP (as of 2017 budget)	121.1
Seaport Alliance Capital Projects ⁽²⁾	\$ 303.7

Note: Totals may not add due to rounding.

⁽¹⁾ Excludes financing costs and non-capital expense (public assets expense, environmental expense).

⁽²⁾ Includes \$20.0 million estimated Seaport Alliance CIP in 2022, in addition to the Seaport Alliance 2017-2021 capital budget.

Source: Seaport Alliance.

Funding for the Seaport Alliance CIP is provided by the member ports. Each port approves its capital contribution along with project approval; the capital contribution represents that port's Membership Interest (currently 50 percent). The amount of the capital contribution is recommended by the Chief Executive Officer and may include all or some of the funding required for any given project. The Chief Executive Officer may request additional capital contributions from the Managing Members according to their Membership Interest based on changes to the Seaport Alliance CIP or the authorization of specific projects.

OTHER PORT BUSINESSES

Maritime and Other Port Businesses

Other Port businesses include management of facilities for non-containerized cargo, cruise, commercial and recreational marinas, and commercial and industrial properties.

The Maritime Division was formed in 2015 to manage the Port’s facilities for cruise, grain, marinas and certain properties and docks and the Economic Development Division was formed to manage the Port’s central waterfront facilities and certain properties as well as undertake property development and economic development programs.

In addition to providing facilities for containerized cargo, the Port offers handling facilities for certain non-containerized cargo including the breakbulk grain terminal. Volumes of non-containerized cargoes, grain in particular, have fluctuated substantially from year to year; the Port’s revenues from the lease of the grain terminal include a minimum annual guarantee and otherwise depend on volume.

TABLE 11

**SEATTLE HARBOR GRAIN VOLUMES
2012 – 2016
(IN METRIC TONS)**

Year	Grain
2016	4,389,089
2015	3,778,476
2014	3,618,489
2013	1,351,417
2012	3,161,013

Source: Port of Seattle.

The Port owns two cruise ship terminals, one located at Pier 66 on the Central Harbor waterfront, just west of downtown Seattle, and the second at Terminal 91, north of downtown Seattle. The cruise ship terminals principally serve ships bound for the state of Alaska cruise market. The Port competes with the City of Vancouver, British Columbia, which also has cruise ship facilities used by cruise lines that serve the state of Alaska cruise market. The Port’s revenues from the cruise ship facilities leases and agreements depend primarily upon the number of cruise ship passengers and vessel calls.

TABLE 12

**SEATTLE HARBOR CRUISE TRAFFIC
2012 – 2016**

Year	Cruise Ship Vessel Calls	Cruise Ship Passengers
2016	203	983,539
2015	192	898,032
2014	179	823,780
2013	187	870,994
2012	202	934,900

Source: Port of Seattle.

The Port also derives revenues from leases, dockage and other fees from various other industrial uses and marinas. The most significant sources of lease revenue are from seafood processing and cold storage companies. Dockage, moorage and wharfage fees are primarily from fishing vessels, some of which off-load seafood at docks adjacent to seafood processing and cold storage facilities. The Port owns and operates commercial and recreational marinas.

In 2014, the Port formed a storm water utility to provide surface water and storm water management and pollution control facilities and services to Port properties starting January 1, 2015. In 2016, the Port entered into an interlocal agreement with the City of Seattle to transfer to the Port assets and liabilities of certain storm water facilities on Port property. The SWU revenues collected by the Port (derived from rates and charges imposed by the SWU) are required to be used to pay related expenses and capital investments. Therefore, all revenues and expenses for the SWU are excluded from the calculation of Available Intermediate Lien Revenue. See Table 1.

CAPITAL PLAN FUNDING

Each year, the Port engages in a capital planning process to review its multi-year CIP and to develop a draft plan of finance for the following five years. As part of its annual budget process, the Port also develops a multi-year operating forecast from which the Port can estimate the availability of funding sources, which form the basis of the Port's draft plan of finance for funding the Port's CIP, the Port's share of the Seaport Alliance CIP and certain public expense items. The draft plan of finance is designed to provide guidance on long-term funding as planning and investment decisions are made during the year and is designed to be consistent with the Port's financial management policies.

In addition to the capital investment programs for the Airport and other Port businesses, the Port forecasts capital investment for Corporate service departments, primarily for information technology improvements.

The table below summarizes the Port's budgeted committed and business plan prospective CIP expenditures (excluding financing costs) for the 2017-2022 period, including the Port's share of Seaport Alliance capital projects. "Committed Projects" are ongoing projects or projects that are ready to move forward and for which a funding commitment will be secured. Projects that are considered important for achieving business plan goals, have business unit or division approval and are expected to move through the funding commitment process, but are less certain in timing or scope and are not yet under contract so can more easily be deferred, are referred to as "Business Plan Prospective Projects." In addition to specifically identified projects, the Port includes unspecified contingency. The Port's Committed Projects are described in the paragraphs below. The Port anticipates undertaking projects that are not in the table below, as described under the subheading "Excluded."

TABLE 13

**PORT OF SEATTLE
CAPITAL IMPROVEMENT PLAN
2017 – 2022⁽¹⁾
(\$ IN MILLIONS)**

<u>Division</u>	<u>Committed Projects</u>	<u>Business Plan Prospective Projects</u>	<u>Total</u>
Aviation Division	\$ 2,281.6	\$ 626.3	\$ 2,907.9
Other Port Businesses ⁽²⁾	182.8	130.3	313.1
Port Capital Projects ⁽³⁾	\$ 2,464.4	\$ 756.6	\$ 3,221.0
Seaport Alliance ⁽⁴⁾	151.8	-	151.8
Total Port Funded Capital Projects	\$ 2,616.3	\$ 756.6	\$ 3,372.9

Note: Totals may not add due to rounding.

⁽¹⁾ Excludes financing costs. Does not include non-capital expense (public assets expense, environmental expense).

⁽²⁾ Includes CIP for Maritime and Economic Development Divisions, and SWU.

⁽³⁾ Funding of Corporate CIP is allocated to the operating divisions, and is included in the Aviation and Other Port Businesses figures above.

⁽⁴⁾ Represents the Port's 50 percent share of Seaport Alliance capital funding; assumes all Seaport Alliance CIP is Committed. See "NORTHWEST SEAPORT ALLIANCE—Capital Planning and Budgeting" and Table 10.

Source: *Port of Seattle*.

Aviation Division Capital Plan. The Aviation Division's Committed capital plan is dominated by four major projects. The largest committed project is the development of a new International Arrival Facility for international passengers, which is needed to expand capacity to accommodate the Airport's growing international passenger base. The second major project is the reconfiguration of the baggage system to improve operational efficiency for both

Airport and TSA operations. Third is the Port's North Satellite Expansion project that includes renovating, reconfiguring and expanding the North Satellite Terminal to add eight new gates, address seismic concerns, and upgrade HVAC, lighting and fixtures. Fourth is the renovation of the South Satellite, which is needed to increase the level of service to international arrivals and both international and domestic departures. Other Business Plan Prospective Projects at the Airport include various discretionary projects that can be scoped and timed on an as-needed basis; some or all of these projects may move to Committed Projects status during the 2017-2022 period.

Seaport Alliance Capital Plan. Table 13 includes the Port's 50 percent share of the Seaport Alliance CIP, and assumes all Seaport Alliance CIP is Committed. See "NORTHWEST SEAPORT ALLIANCE—Capital Planning and Budgeting."

Other Port Businesses. The Maritime and Economic Development Divisions' committed capital plan supports investments in facilities and infrastructure for cruise, fishing, recreational boating and the Port's commercial real estate. Projects include expansion of the Pier 66 cruise facility and renewal and replacement efforts of existing assets at Shilshole Bay Marina, Fisherman's Terminal, and Bell Harbor Marina, as well as motor fleet replacement, tenant improvements, technology related investments and other small capital projects. Business Plan Prospective Projects include various upgrades and improvements to existing cruise and other facilities at Terminal 91 and Pier 66, in addition to several prospective projects at Fisherman's Terminal. Administrative services projects are primarily technology improvements and small capital items.

Public Expense and Environmental Remediation. In addition to the capital projects described above, the Port includes in its funding analysis its participation in public projects, particularly in connection with freight mobility and its environmental remediation liabilities and potential future liabilities.

Funding. Based on a preliminary funding analysis, the Port expects to fund its \$3.4 billion CIP, including its share of the Seaport Alliance CIP but excluding financing costs, from a variety of sources. The Airport and other businesses expect to fund their 2017-2022 CIP projects using their designated operating funds, including net income, federal grants, PFCs, CFCs, and proceeds of existing and additional revenue bonds. Additional revenue bonds during 2017-2022 are estimated to fund \$1.9 billion of Airport projects (including \$416.8 million expected to be financed with proceeds of the Series 2017 Bonds). A portion of the Tax Levy also may be used to fund certain projects. The Port will need to defer \$66.6 million out of its non-Airport capital plan (from either the Committed Projects or the Business Plan Prospective Projects) to stay within the Port's funding policies, which includes operating cash flow margins and minimum operating fund balances.

Sustainable Airport Master Plan Excluded. The CIP does not include costs related to the Sustainable Airport Master Plan ("SAMP"). The master plan process provides a comprehensive assessment of facilities capacity and forecasted demand over five-, ten-, and 20-year timeframes. The previous formal master plan for the Airport was developed in the mid-1990s. The SAMP is currently undergoing review; the timing and scope of SAMP has not been finalized but is expected to provide a plan for the phased redevelopment and expansion of facilities as well as new facilities after a process of evaluating alternatives. The SAMP may include a new terminal, an automated people mover and other significant components. Based on preliminary estimates, the SAMP could cost in excess of \$10 billion for a 10-20 year program.

The Port is also undergoing strategic planning processes for real estate and for Fishermen's Terminal. Those plans could include additional acquisitions or development projects that are not included in the capital plan above, as projects, costs and timing are uncertain at this time.

The Port endeavors to develop reasonable cost projections for its projects. However, actual costs may be higher or lower than projections in the CIP. Recently, the regional construction market has experienced growth in construction costs that may impact the costs of certain projects.

PORT FINANCIAL MATTERS

General

The Port's audited financial statements for the Enterprise Fund and the Warehousemen's Pension Trust Fund as of December 31, 2016 and 2015, and for the years ended December 2016, 2015 and 2014, respectively, are set forth in Appendix A, together with the Independent Auditors' Report thereon. See "INDEPENDENT AUDITORS."

Summary of Historical Operating Results

The following table summarizes selected operating results of the Enterprise Fund of the Port for fiscal years 2012 through 2016. The summary sets forth operating results as extracted by Port management from the Port's audited financial statements for the years ended December 31, 2012 through 2016. For a discussion of the Port's 2015 and 2016 operating results, see "Management's Discussion and Analysis" in Appendix A. In its audited financial statements, the Port does not account for proceeds of the Tax Levy, non-operating CFC revenue, federal capital grant receipts or PFCs as operating revenue and, accordingly, such proceeds are not included in the following summaries of operating results.

TABLE 14
SELECTED HISTORICAL OPERATING RESULTS
FOR THE YEARS ENDED DECEMBER 31, 2012 THROUGH 2016
(\$ IN THOUSANDS)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
OPERATING REVENUES:					
Aviation	\$ 386,023	\$ 414,011	\$ 405,704	\$ 422,892	\$ 465,256
Non-Aviation ⁽¹⁾	135,683	130,967	128,785	136,041	133,211
TOTAL OPERATING REVENUES	<u>\$ 521,706</u>	<u>\$ 544,978</u>	<u>\$ 534,489</u>	<u>\$ 558,933</u>	<u>\$ 598,467</u>
OPERATING EXPENSES:					
Aviation	\$ 216,565	\$ 225,920	\$ 228,172	\$ 238,140	\$ 261,226
Non-Aviation ⁽²⁾	81,604	81,069	78,128	79,666	64,059
TOTAL OPERATING EXPENSES					
BEFORE DEPRECIATION	<u>\$ 298,169</u>	<u>\$ 306,989</u>	<u>\$ 306,300</u>	<u>\$ 317,806</u>	<u>\$ 325,285</u>
NET OPERATING INCOME BEFORE DEPRECIATION	<u>\$ 223,537</u>	<u>\$ 237,989</u>	<u>\$ 228,189</u>	<u>\$ 241,127</u>	<u>\$ 273,182</u>
DEPRECIATION	<u>167,279</u>	<u>171,374</u>	<u>166,337</u>	<u>163,338</u>	<u>164,336</u>
OPERATING INCOME	<u><u>\$ 56,258</u></u>	<u><u>\$ 66,615</u></u>	<u><u>\$ 61,852</u></u>	<u><u>\$ 77,789</u></u>	<u><u>\$ 108,846</u></u>

⁽¹⁾ Includes combined operating revenues of the former Seaport and Real Estate divisions from 2012-2015; 2016 figures reflect Port reorganization, and include operating revenues from Maritime and Economic Development divisions plus the Port's 50% share of net income from the Seaport Alliance. Operating revenues from Capital Development and Corporate divisions are included in all years presented. Operating revenues from SWU are included in 2015 and 2016.

⁽²⁾ Includes combined operating expenses of the former Seaport and Real Estate divisions from 2012-2015; 2016 figures reflect Port reorganization, and include operating expenses from Maritime and Economic Development divisions. Operating expenses of the Capital Development and Corporate divisions that are not allocated to the operating divisions are included in Non-Aviation in all years presented. Operating expenses from SWU are included in 2015 and 2016.

Source: Port of Seattle.

Beginning in 2016, the Port recognizes as part of operating revenue its (initially 50 percent) share of the Seaport Alliance's Net Income (as defined in the Charter). The Port's revenues from the Seaport Alliance are derived from certain facilities licensed by the Port and the Port of Tacoma to the Seaport Alliance. The following table summarizes selected operating results of the Enterprise Fund of the Port for fiscal year 2015 and 2016. The summary sets forth operating results as extracted by Port management from the Port's audited financial statements for the year ended December 31, 2015 and 2016. For a discussion of the Port's 2016 operating results, see "Management's Discussion and Analysis" in Appendix A. See also Appendix B for a discussion of the Seaport Alliance 2016 operating results.

TABLE 15

**SELECTED HISTORICAL OPERATING RESULTS
FOR THE YEARS ENDED DECEMBER 31, 2015 and 2016
(\$ IN THOUSANDS)**

	2015	2016
Aviation Revenue ⁽¹⁾⁽²⁾	\$ 422,892	\$ 465,256
Aviation Expenses	(238,140)	(261,226)
Net Income from Aviation	\$ 184,752	\$ 204,030
Seaport Alliance Revenue	\$ -	\$ 61,584
Maritime Revenue	47,268	50,810
Economic Development Revenue	18,164	15,903
Other Revenue ⁽³⁾⁽⁴⁾	70,610	4,914
Total Non-Aviation Revenue	\$ 136,041	\$ 133,211
Non-Aviation Expenses	(79,666)	(64,059)
Net Income from Non-Aviation	\$ 56,375	\$ 69,152
Net Income before Depreciation	\$ 241,127	\$ 273,182

(1) Net of revenue sharing with the signatory airlines. See “—The Airline Agreements.”

(2) Includes CFC operating revenues. (as defined in the Charter).

(3) Includes SWU revenue, which is restricted for use solely for utility purposes, and an immaterial amount of corporate operating revenues.

(4) Included in 2015 were the revenues and expenses derived from the Ports container business and industrial properties that were licensed to and reported under the Seaport Alliance beginning in 2016.

Source: Port of Seattle.

OTHER MATTERS

Investment Policy

The Port has an investment policy, adopted as of June 11, 2002, and last amended June 5, 2012. For investment and operational efficiencies, the Port consolidates its various cash sources, including bond proceeds, into one investment pool (the “Pool”), governed by this investment policy. Separate funds are established within the Pool for accounting and tracking purposes, and investment earnings from the Pool are allocated monthly to each participating fund, based upon the average daily fund balances.

Authorized investments are made in accordance with and subject to restrictions of RCW 36.29.020. The investment policy allows diversification among various types of securities including:

- (i) U.S. Treasury securities;
- (ii) U.S. agency securities, including agency mortgage-backed securities limited to (1) collateralized mortgage pools having a stated final maturity not exceeding the maturity limits of the investment policy (10 years), and (2) planned amortization and sequential pay classes of collateralized mortgage obligations collateralized by 15-year agency-issued pooled mortgage securities having a stated final maturity not exceeding the maturity limits of the investment policy;
- (iii) Certificates of Deposit with Washington State banks authorized by the State’s Public Deposit Protection Commission;
- (iv) Bankers’ Acceptances, purchased on the secondary market, issued by any of the top 50 world banks in terms of assets; and

(v) Repurchase Agreements, provided that (1) the repurchase agreement does not exceed 60 days; (2) the underlying collateral is a security authorized by the investment policy for purchase as provided in the policy; and (3) all underlying securities used for repurchase agreements are settled on a delivery versus payment basis. Securities collateralizing repurchase agreements must be marked to market daily and have a value of at least 102 percent of the cost of the repurchase agreements having maturities less than 30 days and 105 percent for those having maturities that exceed 30 days.

Other permitted investments include reverse repurchase agreements with maturities not exceeding 60 days, commercial paper purchased on the secondary market, rated no lower than A1/P1 as authorized by Washington State Investment Board Guidelines, and certain municipal bonds rated “A” or better by at least one nationally-recognized credit rating agency.

Although the investment policy allows diversification among various types of securities, it provides risk controls by setting limits for each security type. 100 percent of the Pool may be invested in U.S. Treasury securities, 60 percent in U.S. agency securities, excluding agency discount notes, 20 percent in agency discount notes, 10 percent in agency mortgage-backed securities, 15 percent in certificates of deposit, 20 percent in bankers’ acceptances, 20 percent in commercial paper, 20 percent in Municipal Securities, 15 percent in overnight repurchase agreements, 25 percent in term repurchase agreements, and five percent in reverse repurchase agreements.

To meet its investment objectives, the policy includes additional risk controls that impose further restrictions on the types of securities. These include limiting the maturity date of securities purchased to be no more than 10 years from the settlement date and a portfolio target modified duration of two years, plus or minus six months.

See Note 2 in the financial statements included in Appendix A.

Chapter 39.59 RCW limits the investment of public funds by local governments to the following authorized instruments: (i) bonds of the State or any local government in the State, (ii) general obligation bonds of any other state or local government thereof which have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency, (iii) registered warrants of a local government in the same county as the local government making the investment, (iv) obligations of the U.S. government, its agencies and wholly owned corporations, or obligations issued or guaranteed by supranational institutions, provided, that at the time of investment, the United States government must be the largest shareholder of such institution, (v) obligations of the Federal Home Loan Bank, Federal National Mortgage Association and other government-sponsored enterprises, (vi) bankers’ acceptances, (vii) commercial paper, subject to the Guidelines, and, as of June, 2016, (viii) corporate notes, subject to the Guidelines.

Labor Relations

The Port budgeted for approximately 2,021 regular full-time-equivalent (“FTE”) employees in 2017, an increase of approximately 8.8 percent from 1,857 in the 2016 budget. Approximately 936 actual employees (employees can differ from FTEs) belong to bargaining units under 22 labor contracts.

Pension Plans

Salaried employees of the Port belong to one of two retirement systems, the Public Employees Retirement System (“PERS”) or the Law Enforcement Officers’ and Fire Fighters’ Fund (“LEOFF”). The Washington State Department of Retirement Systems (the “DRS”) administers these and other defined benefit retirement plans, including plans that cover both State and local government employees. The retirement plans are funded by contributions from employers, contributions from employees and investment returns. Retirement funds are invested by the Washington State Investment Board (the “WSIB”), a 15-member board created by the Legislature in 1981.

Contribution rates for the plans for the upcoming biennium are adopted by the State during even-numbered years according to a statutory rate-setting process. The process begins with the Office of the State Actuary (the “OSA”) performing an actuarial evaluation of each plan and determining recommended contribution rates. Actuarial valuations are prepared on a plan-wide basis and not for individual employers such as the Port. The OSA is required to provide an actuarial valuation of each retirement system, including PERS and LEOFF, every two years. In

practice, however, the OSA provides valuations annually, although only the valuations for odd-numbered years are used to calculate contribution rates. The OSA provides preliminary results and recommended contribution rates to the Select Committee on Pension Policy, a committee of the Legislature (the “SCPP”), and the Pension Funding Council (“Pension Council”). The rates adopted by the Pension Council are subject to revision by the Legislature, and the Legislature may adopt, and has adopted, contribution rates lower than those suggested by the OSA and adopted by the Pension Council. All employers are required to contribute at the levels established by the Legislature.

The rates that have been adopted by the Legislature have been lower than those that would have been required to produce actuarially required contributions. In August 2016 OSA issued its Report of the Combined Actuarial Valuation as of June 30, 2015 for the primary purpose of determining contribution requirements for the 2017-2019 biennium based on a June 30, 2015 measurement date and under the funding policy established by the Legislature. Assets were valued under the actuarial asset method. Liabilities were valued using the Entry Age Normal cost method at an interest rate of 7.7 percent (7.5 percent for LEOFF Plan 2). (The WSIB’s average annual return on the investment of the retirement plan funds for the 10-year period from July 1, 2007 through June 30, 2016 was 6.2 percent.) Under the actuarial assumptions, PERS 1 had a 58 percent funded status on an actuarial value basis, or a \$5.239 billion unfunded actuarial accrued liability, and PERS 2 and 3 had an 88 percent funded status on an actuarial value basis, or a \$3.715 billion unfunded actuarial accrued liability.

The information above in this section has been obtained from information on the State Actuary’s and DRS’s websites. The OSA website includes information regarding the values, funding levels and investments of these retirement plans. These websites are not incorporated by reference.

The DRS website (which website is not incorporated by reference into this Official Statement) also includes audited Schedules of Collective Pension Amounts and Schedules of Employer Allocations, published June 2015, as of June 30, 2014, for all of the plans DRS administers, for use by those employers required to implement GASB 68, including the Port.

See Note 8 in Appendix A for more pension information including the Port’s required contributions to, and contribution rates for, PERS and LEOFF for the year ended December 31, 2016, as well as the Port’s proportionate share of the net pension liability or asset, proportionate share of contributions and pension expense for each plan.

On May 25, 2004, the Port adopted an amended plan and trust agreement for the Warehousemen’s Pension Plan and Trust (the “Warehousemen’s Pension Plan”) that gives the Port sole administrative control of the pension plan and guarantees that the Port will pay all accrued benefits for former employees of the warehouse and distribution business, which was closed in 2002. The Warehousemen’s Pension Plan is a defined benefit plan. The Warehousemen’s Pension Plan is closed and provides that only service credited and compensation earned prior to April 1, 2004, will be utilized to calculate benefits. As of December 31, 2016, the net pension liability was \$11,601,000, and the plan fiduciary net position as a percentage of total pension liability was 43.9 percent. The December 31, 2016, valuation included an investment rate of return of 6.3 percent, net of plan investment expense and including inflation. See Appendix A, Note 15.

Other Post-Employment Benefits

In addition to pension benefits described in Note 8 of the audited financial statements included in Appendix A, the Port provides other post-employment benefits (“OPEB”) as described in Note 9. As of December 31, 2016, the Port had an actuarial accrued liability of \$7,552,000 for LEOFF Plan 1 Members’ Medical Services Plan benefits. As of December 31, 2016, the Port had a net OPEB obligation associated with life insurance coverage for eligible retired employees of \$2,872,000. See Note 9 in Appendix A.

Environmental Concerns

Overview. The Port has been notified by federal and State environmental agencies that it is potentially liable for some or all of the costs of environmental investigation and cleanup activities on certain parcels of Port-owned property. The Port has identified a number of contaminated sites on Aviation Division and other properties and facilities that must be investigated for the presence of hazardous substances and remediated in compliance with federal and State environmental laws and regulations. Some Port facilities may require asbestos abatement, and some properties owned or operated by the Port may have unacceptable levels of contaminants in soil, sediments

and/or groundwater. In some cases, the Port has been designated by the federal government as a “Potentially Responsible Party,” and/or by the State government as a “Potentially Liable Person” for the investigation and cleanup of properties owned by the Port or where the Port may have contributed to site contamination. Although the Port may not bear ultimate liability for the contamination, under federal and State law, the Port is presumptively liable as the property owner, and it is often practically and financially beneficial for the Port to take initial responsibility to manage and pay for the cleanup. In each of these matters, the Port is cooperating with the notifying agency and taking appropriate action with other parties to investigate and remediate environmental damage or contamination. Currently, it is not possible to determine the full extent of the Port’s liability in these matters.

Lower Duwamish Waterway (“LDW”) Superfund. The Port is one of several Potentially Responsible Parties and is a member of the Lower Duwamish Waterway Group, along with King County, the City of Seattle and the Boeing Company, which funded the Remedial Investigation and Feasibility Study for the LDW Site. In November 2014, the Environmental Protection Agency (“EPA”) released a Record of Decision (“ROD”) for the in-waterway portion of the site cleanup. The ROD included a cleanup cost estimate of \$342 million (present value discounted at 2.3 percent based on a study completed in 2012); the current value (not discounted) is \$395 million. EPA’s current value for the remedy ranges from \$277 million to \$593 million. A more precise estimate will not be available until after completion of an extensive sampling and design effort, which will not be until 2021 at the earliest. It is also unknown what portion of the costs will be paid by the Port.

East Waterway Superfund. The Port also is one of several Potentially Responsible Parties at the Harbor Island/East Waterway Superfund Site and is working with the EPA and other Potentially Responsible Parties, including the City of Seattle and the County, to conduct a Remedial Investigation and Feasibility Study for cleanup of contaminated sediments in the East Waterway. The Port does not know the amount or timing of any liability.

Recognizing Liabilities. The Port has developed a procedure consistent with current accounting rules to recognize liabilities for environmental cleanups, to the extent that such liabilities can be reasonably estimated. As of December 31, 2016, the Port had recognized liabilities for environmental cleanups in the amount of approximately \$55.088 million. Where appropriate, the Port is pursuing financial reimbursement from State funding agencies, other Potentially Responsible Parties and Potentially Liable Persons, and from its insurers. See Note 1— Summary of Significant Accounting Policies and Note 10—Environmental Remediation Liabilities in Appendix A.

Allocation of Seaport Alliance Environmental Costs. The Seaport Alliance charter allocates environmental costs between the Seaport Alliance and the ports as follows. Remediation costs that are associated with contamination on Licensed Properties that occurred before the effective date of the Seaport Alliance remain the responsibility of the Port owner, provided that any remediation costs necessary to support Seaport Alliance operations shall be the responsibility of the Seaport Alliance. For any Post-Formation Improvement not owned by either port prior to the effective date, remediation costs shall be the responsibility of the Seaport Alliance. All cost allocations may be revised on a project-specific basis by a vote of the Managing Members.

INSURANCE

General Overview

The Port has a comprehensive risk management program that financially protects the Port against loss from adverse events to its property, operations, third-party liabilities, and employees. The Port’s insurance year for liability coverage runs from October 1, 2016 to October 1, 2017. The Port’s insurance year for property coverage runs from July 1, 2017 to July 1, 2018. The Port utilizes the services of Alliant Insurance Services for the placement of its liability and property insurance. Alliant was selected through a competitive selection process. All of the Port’s insurance carriers are rated “A” or better by the A.M. Best & Company and include American International Group, Liberty Mutual, Atlantic Specialty Company, Lexington, Navigators Insurance, and National Union.

Property Insurance

The Port maintains a comprehensive property insurance program for loss of, and damage to, Port property including business interruption and equipment breakdown with a \$750.0 million per occurrence limit at a \$500,000 per occurrence deductible for Aviation Division properties and \$250,000 elsewhere. Terrorism coverage is purchased through the London market and is provided with a sub-limit of \$350.0 million per occurrence. Coverage for flood is

capped at an annual aggregate of \$25.0 million above a flat \$500,000 deductible. Property insurance coverage extends to contractors of the Port, in addition to the Port, for property damage to the capital improvements that are in the course of construction. This “course of construction” coverage has a maximum limit of \$50.0 million per project. Projects under construction with values that exceed \$50.0 million must be specifically underwritten. The total estimated replacement cost of insured Port property is \$4.9 billion. Additional insurance, through a separate builder risk insurance policy was procured in the second quarter of 2016 to provide full replacement cost coverage for the North Satellite Renovation and Expansion project. A second similar builder risk policy was purchased separately for the International Arrivals Facility in April, 2017. These two separate builder risk policies will insure the interests of both the Port and the contractor(s). The builder risk policies run through completion of the projects. The Port does not purchase earthquake insurance for its insured property unless it is part of a stand-alone builder risk property insurance policy specific to a project under construction.

Liability Insurance

The Port purchases excess non-aviation commercial general liability (namely bodily injury and property damage coverage) insurance, which covers losses involving actual or alleged bodily injury and/or property damage that arises from claims made against the Port by third parties. This is a primary policy with a \$750,000 per occurrence (claim) retention for general liability occurrences and a limit of \$10.0 million per occurrence. Excess to this primary policy is an excess marine policy with coverage up to a \$150.0 million per occurrence limit, which provides coverage for Port marine exposures (cargo, cruise, marina, and terminal operations). This excess liability policy also includes coverage for the Port’s non-aviation operational, automobile, employee benefits, and foreign liability exposures. Coverage includes claims resulting from bodily injury and property damage arising from terrorism acts (under the Terrorism Risk Insurance Program Reauthorization Act of 2007 and reauthorized in 2015). The Port also has a London-based terrorism liability policy that offers \$15.0 million of limits per occurrence and in the annual aggregate for acts of terrorism (whether certified or not) that would apply to any Port operation at any Port location.

The Port purchases a separate airport operator’s primary and excess liability insurance policy which covers liability claims from third parties that involve property damage and/or bodily injury arising out of airport operations. The limit of liability is \$500.0 million with a \$1.0 million per occurrence (claim) retention. The annual policy retention aggregate is \$1.0 million. Coverage for events stemming from terrorism and/or war (malicious acts) is included under the Airport operator’s primary insurance policy up to a limit of \$100.0 million.

Liability insurance is also purchased to cover exposures and liabilities that could stem from the wrongful or non-intentional acts of Port employees, directors, and Commissioners (Public Official Liability), and employment practices liability (\$10.0 million aggregate limit/\$1.5 million per claim retention); fiduciary liability (\$5.0 million limit/no deductible), and law enforcement liability (\$10.0 million limit/\$1.5 million per wrongful act retention). The Port also purchases an employee dishonesty policy (also known as a fidelity bond) protecting the Port from liability due to the dishonesty and/or fraudulent acts of Port employees. This policy has a \$5.0 million limit. The Port self-insures its workers’ compensation exposure. The Port also insures its vessels for liability under a separate policy with limits of \$1.0 million per occurrence. The Port also has a foreign liability master policy which provides liability coverage for property damage and bodily injury for Port employees when engaged in foreign travel. This policy also has coverage for emergency medical expenses and coverage for kidnap and ransom. Finally, the Port has a cyber-liability policy that provides limits up to \$5.0 million in the annual aggregate for various cyber exposures and liability, including breach notification response and expenses, cyber extortion, and damage to data including business interruption.

Third-Party Agreements

Contractors, tenants, and lessees are required to carry at least \$1.0 million of commercial general liability insurance (up to \$25.0 million or more for large construction projects and higher-risk projects) and automobile liability insurance of at least \$1.0 million (\$5.0 million for automobiles operated on the non-movement part of the aircraft operations area and \$10.0 million for automobiles operated on the aircraft movement area of the aircraft operations area). The Port requires airline tenants, with aircraft operations on the airfield at the Airport to provide between \$50.0 million and \$300.0 million per-occurrence liability limits. Ground handlers, working for the airlines on the airfield, and under license to the Port are required to carry a minimum of \$5.0 million per occurrence of general liability insurance and \$5.0 million per occurrence of automobile liability insurance. Contractors and other third-

party vendors working for the Port must also provide proof of workers' compensation coverage for their employees as well as Washington State "stop-gap" coverage that covers employers' liability. The Port requires all contractors, tenants, and lessees, to include the Port as an "additional insured" on their policies of commercial general liability insurance, along with a waiver of subrogation in favor of the Port, and endorsement that requires these parties insurance to be primary and non-contributory relative to any general liability insurance the Port carries. All contracts and lease agreements require that the Port, and its employees, officers, and Commissioners are to be held harmless and indemnified for all actual and alleged claims that arise out of the acts of the Port's contractors, consultants, vendors, licensees, and lessees. Professionals such as engineers, architects, and surveyors, are also required to carry professional liability (errors and omissions) insurance for work they do for the Port with minimum limits of \$1.0 million per claim or wrongful act.

Owner Controlled Insurance Program

The Airport's Capital Improvement Program (ACIP) construction projects (built between 2001 and 2008) were insured against third party claims under an Owner Controlled Insurance Program (OCIP) that expired on December 31, 2008. All ACIP work completed prior to the OCIP termination date continued to be covered for potential future claims for property damage and bodily injury through December 31, 2016. The run out period has ended and there are no open or outstanding claim obligations remaining relative to this former policy. The collateral agreement has ended and there are no more funds to be returned to the Port or to be paid to the Port. All potential claims that may arise from errors and omissions involving professional work will be potentially covered under the OCIP program if the claim is reported prior to December 31, 2018. The Port still has an open collateral agreement for this coverage. There are no open claims or outstanding claim obligations owed under this policy.

Northwest Seaport Alliance

The Charter specifies the terms and identifies allocation of risk and indemnity obligations. Ownership of the Licensed Properties remains with the licensing ports, thus, both the Port and the Port of Tacoma continue to purchase property insurance individually for their respective properties. Approximately, \$660 million worth of Port property that is licensed to the Seaport Alliance continues to be insured under the Port's property insurance policy.

The Port's excess marine policy was endorsed to add the Seaport Alliance as an additional insured on an excess basis with regards to claims and litigation brought against the Seaport Alliance. The Seaport Alliance does maintain its own primary public entity liability policy with limits of up to \$10.0 million to protect against claims against the Managing Members of the Seaport Alliance, and general liability claims.

Starting in 2017, workers who were formerly Port of Tacoma employees (including former Port employees) are now employed by the Seaport Alliance. The Seaport Alliance is in compliance with state industrial insurance (workers compensation) requirements for the workforce.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase of the Series 2017 Bonds involves investment risk. Prospective purchasers of the Series 2017 Bonds should consider carefully all of the information set forth in this Official Statement, including its appendices, evaluate the investment considerations and merits of an investment in the Series 2017 Bonds and confer with their own tax and financial advisors when considering a purchase of the Series 2017 Bonds.

The Series 2017 Bonds are secured solely by a pledge of Available Intermediate Lien Revenues. The Port's ability to derive Available Intermediate Lien Revenue from the operation of the Port sufficient to pay debt service on the Series 2017 Bonds depends on many factors, some of which are not subject to the control of the Port.

Factors subject to the Port's control, to some degree, include the contractual terms the Port establishes with its tenants, including airlines and container terminal operators, as well as the contractual terms the Port establishes with banks and other entities providing liquidity or credit enhancement for Port obligations and whether and when to amend such terms. In addition, the Port determines, subject to the requirements of the Intermediate Lien Master Resolution, as applicable, whether and when to issue additional indebtedness secured by a lien on Available Intermediate Lien Revenue either senior to, on parity with or subordinate to the lien of the Series 2017 Bonds.

There are many factors outside of the Port's control that can affect activity levels in the Port's operating divisions. Some known factors include the level of economic activity both within and outside of the area served by the Port, general demand for air travel and commodities, the financial condition of the airline and shipping industries, regulation of the Port and Seaport Alliance operations, global health, security and other geopolitical concerns, and natural disasters.

The following section discusses some of the factors affecting Available Intermediate Lien Revenues. The following discussion cannot, however, describe all of the factors that could affect Available Intermediate Lien Revenues. In addition to these known factors, other factors could affect the Port's ability to derive Available Intermediate Lien Revenues sufficient to pay debt service on the Intermediate Lien Parity Bonds.

Uncertainties of the Aviation Industry

The ability of the Port to generate revenues from its Airport operations depends, in part, upon the financial health of the aviation industry. The economic condition of the industry is volatile, and the aviation industry has undergone significant changes, including mergers, acquisitions, consolidations, bankruptcies and closures. The industry is cyclical and subject to intense competition and variable demand. Further, the aviation industry is sensitive to a variety of other factors, including (i) the cost and availability of labor, fuel, aircraft and insurance, (ii) general economic conditions, (iii) international trade, (iv) currency values, (v) competitive considerations, including the effects of airline ticket pricing and increased taxes and fees, (vi) traffic and airport capacity constraints and the national aviation system capacity constraints, (vii) political risk including the uncertainties of federal funding, governmental regulation, including security regulations, fees, and taxes imposed on airlines and passengers, and maintenance and environmental requirements, (viii) passenger demand for air travel, and (ix) disruption caused by airline accidents, natural disasters, criminal incidents and acts of war or terrorism, such as the events of September 11, 2001. The aviation industry is also vulnerable to strikes and other union activities. Airlines operating at the Airport have filed for bankruptcy in the past and may do so in the future.

Aeronautical Revenues

The FAA provides airports with the ability to recover airline-related costs within certain guidelines. Airports may enter into use and lease agreements with airlines or they may set rates and charges by legislative action. The Airport currently has airline agreements, scheduled to expire on December 31, 2017. The Port currently is negotiating, but has not yet come to agreement on, a new or amended use and lease agreement. The Port also has adopted Resolution No. 3677, as amended, establishing airline rates and charges. Implementation of this resolution is currently suspended during the term of the airline agreements. Upon the expiration or termination of the agreements, the Port may enter into a new agreement with the same or different terms, which may be more or less favorable, or may choose to amend its agreements to respond to adverse economic or other conditions at the Airport. It is also possible that Resolution 3677, as amended, or any new rate resolution or amendment to the current rate resolution could be challenged by one or more of the airlines. The airlines are not required to pay for all of the Port's costs at the Airport.

Uncertainties of Non-Aeronautical Revenues

In addition to revenue from the airlines, the Aviation Division has the use of non-aeronautical revenue, such as parking and concession revenue, but also takes the risk that such revenue may not be sufficient to enable the Aviation Division to satisfy from non-aeronautical revenue all of its obligations not covered by aeronautical revenues. The Port's ability to generate revenues at the Airport from its non-airline businesses (including parking, car rentals and terminal concessions such as food and beverage sales) depends, in part, upon the volume of passengers passing through the Airport, economic conditions, and ground transportation and terminal concession preferences, pricing and alternatives. The nature of the businesses that provide concessions and services at the Airport change as new business models develop. For example transportation network companies represent a relatively new business model providing service at the Airport and may adversely affect not only other ground transportation businesses but also other Airport businesses, including parking and rental car businesses.

Uncertainties of the Container Shipping Industry

The Port's revenues from the Seaport Alliance depend, in part, upon the financial health of the maritime industry and upon tenants' abilities to compete with other terminals at other ports in North America. The shipping industry and the demand for and utilization of non-aviation facilities is highly competitive and sensitive to a variety of factors, including (i) the cost and availability of labor, fuel and insurance, (ii) general economic conditions, (iii) international trade, (iv) currency values, (v) competitive considerations, (vi) political risks including changes in governmental funding, treaties and regulation and (vii) disruption caused by natural disasters, labor strife, criminal incidents and acts of war or terrorism. The maritime industry is also vulnerable to strikes, slowdowns, lockouts, and other labor activities. Maritime tenants and customers, or their business partners, may file for bankruptcy. See "—Bankruptcy." These factors and therefore the relative attractiveness of the Seaport Alliance may differ significantly from other ports.

Competition from Other Container Ports

The Seaport Alliance competes for market share with other United States West Coast ports, as well as with ports in other parts of the United States and in Canada and Mexico. Factors such as the total delivered cost for goods, service reliability, available distribution and transload facilities, transit time, marine and intermodal facilities and the ability to accommodate larger container ships affect carrier decisions (and sometimes shipper directions) about which port(s) to use. Carriers also may form alliances that affect their decisions on port locations. These factors may be affected by developments outside the Seaport Alliance or Port's control. For example, future developments could impact the Seaport Alliance's market share. Action by other ports to improve or expand their marine facilities, or intermodal service improvements at other ports on the West Coast or elsewhere in North America, could impact the Seaport Alliance's market share. The revenues of the Seaport Alliance may be adversely impacted by increased competition, improvements or additions to marine or supporting facilities at other ports, and pricing decisions by other port facilities; the Port cannot predict the scope of any such impact at this time. The formation of the Seaport Alliance is not expected to reduce the competition with ports outside of the Puget Sound.

In addition, the imposition of fees that apply only to the Port or only to a subset of ports including the Port (such as fees that only apply to state or United States ports, e.g., the harbor maintenance tax on United States imports) increase the ocean carriers' cost to use Seaport Alliance facilities and may adversely impact the Port's revenues. The Port cannot predict whether any such additional fees will be imposed or existing fees increased, the amount of such fees or the impact thereof on Port revenues.

Uncertainties Regarding the Seaport Alliance

As described under the heading "NORTHWEST SEAPORT ALLIANCE," the Port and the Port of Tacoma formed the Seaport Alliance as a separate PDA to more effectively address certain risks associated with the container terminal business. The intent in forming the Seaport Alliance was to eliminate pricing competition between the two ports by creating a unified gateway, to allow for coordination regarding customer relationships, to improve capacity utilization between the two ports, and to rationalize strategic capital investments. The formation of the Seaport Alliance may or may not successfully address these risks and may create new risks, including the risks associated with undertaking a new joint venture with an outside entity with its own governance structure, the risk associated with the operating and financial performance of additional facilities (which also provide some geographic, facility, tenant and customer diversification), and exposure to the financial strength of the Port of Tacoma to make future capital expenditures.

Under the Alliance ILA and the Charter, the Port has agreed to work cooperatively with the Port of Tacoma, and accordingly has agreed not to act unilaterally with respect to certain matters. Decisions that could have a material effect on the Port, including new business agreements and leases or amendment to existing agreement and leases and future capital contributions to the Seaport Alliance, must be approved by each port and, accordingly, the Port will need to reach agreement with the Port of Tacoma on these matters. Even if agreement is reached, the process may cause delay.

Marine cargo activities at the properties licensed from the ports to the Seaport Alliance are exclusively handled by the Seaport Alliance, and the Seaport Alliance has first right of refusal for new marine cargo opportunities. The

Seaport Alliance shares its Net Income (as defined in the Charter) with both Managing Members. It is possible that the Port will realize less operating revenue from the Seaport Alliance net income than it would have received through direct operation of the Licensed Properties. The Seaport Alliance was formed under a new provision in Chapter 53 RCW and faces the risks associated with a new authority as well as the risks associated with a joint venture. The Seaport Alliance selected as its Chief Executive Officer, the Chief Executive Officer of the Port of Tacoma, who may serve in those dual roles for up to five years. It is possible that the dual role may pose a real or perceived conflict of interest. Other staff serves in dual roles either directly or through service agreements.

The minimum level of Seaport Alliance net income required to be maintained for the Bond Income Calculation was established based on the amount required at formation of the Seaport Alliance for the ports to meet their then current bond rate covenants, and may not always reflect the amount required to meet bond rate covenants going-forward. The Bond Income Calculation is subject to adjustment, including reduction from payment or refunding of bonds outstanding at the time of the formation of the Seaport Alliance. The Bond Income Calculation does not include debt service on the obligations issued since formation of the Seaport Alliance or future financial obligations, including the Series 2017 Bonds. The Seaport Alliance may be unable to meet this minimum level of net income every year or any year, and this minimum level may not be sufficient in light of the Port's then bond covenants, due to business risks and other factors, including factors outside of the control of the Seaport Alliance and outside of the control of the Port as a Managing Member. The Charter also permits a port that is not in compliance with a bond rate covenant (if Seaport Alliance net income before depreciation combined with a port's other net income before depreciation is not sufficient to satisfy the covenant) to require that the Seaport Alliance engage an independent third-party consultant, and provides the ports with specified remedies if the Seaport Alliance does not implement the consultant's recommendations. This provision applies in the event of noncompliance with a bond rate covenant that was in effect at the time of formation of the Seaport Alliance, and may not be applicable in the event the covenant is amended in the future.

The Charter allows for a revaluation in 2017 of the contribution of each port, and therefore the Port's membership share may be adjusted and with that, its share of both Seaport Alliance net income from and capital contributions to the Seaport Alliance (but not its share for the purposes of governance or voting rights under the Charter). The Port may also adjust its membership share with the addition or subtraction of properties or capital contributions, subject to Managing Member approval.

The Alliance ILA and the Charter are subject to amendment with member consent, and the structure of the Seaport Alliance, the Bond Income Calculation, the distribution of cash, dispute resolution, prohibition against borrowing and dissolution provisions are all subject to change. Amendments to the Alliance ILA and Charter generally also require FMC approval.

Seaport Alliance Capital Projects. The Seaport Alliance currently is undertaking design and permitting of a project to redevelop Terminal 5, and is seeking a tenant for the redeveloped facility. Although the Seaport Alliance is planning the facility with the expectation of entering into a long-term lease, and expects that any such lease would require tenant funding of certain improvements and equipment, there can be no assurance that the Seaport Alliance will secure a tenant, or that the lease would cover these costs, or that any such lease would be in effect prior to proceeding with the redevelopment project or that there would be no additional costs related to the facility including channel dredging. There also may be future improvements to other Licensed Properties or to adjunct infrastructure that are not included in the Seaport Alliance CIP, but may be important to the operations of the Seaport Alliance or to its ability to compete with other ports.

Future Capital Projects

The Port has identified its CIP for the 2017-2022 period. The program is based on identified improvements and current cost and timing estimates and also includes some allowance for unidentified projects. The actual costs and schedules of projects are subject to change, and may result in significantly higher costs than currently estimated. There may be additional improvement needs including those identified in the Sustainable Airport Master Plan or in the real estate and Fishermen's Terminal strategic plans or expansion of Terminal 5 or other facilities for the Seaport Alliance that are necessary to address competitive challenges in the Port's or the Alliance's various businesses or are deemed to provide an economic benefit. There is no guarantee that capital investments will generate new revenues or revenues sufficient to off-set costs.

Other Agreements

The Port has entered into various agreements that provide rent and concessions revenue to the Port. Some of the revenue payable under these agreements is based on volume and thus will vary, perhaps substantially. These agreements have various expiration dates. There is no guarantee that agreements will be renewed or that new agreements will have similar provisions and associated revenues. There is also no guarantee that existing agreements will not be amended with terms less favorable than current terms.

Liquidity and Credit Facilities

The Port has purchased from monoline bond insurance companies surety bonds to satisfy debt service reserve fund obligations in connection with certain outstanding Port debt, including certain First Lien Bonds and Intermediate Lien Parity Bonds. In addition, bank letters of credit provide liquidity and credit enhancement for certain of the Port's Subordinate Lien Parity Bonds (variable rate demand obligations and commercial paper). See "APPENDIX A—AUDITED FINANCIAL STATEMENTS—Note 6: Long-Term Debt; Subordinate Lien Variable Rate Demand Bonds." In these and other respects, the Port is exposed to rating and other credit-related risks associated with various monoline insurers and banks.

Although the Port is not obligated to purchase variable rate Subordinate Lien Parity Bonds if a bank fails to honor its letter of credit, the Port is exposed to bank credit risk. Rating downgrades or other credit events affecting the banks, for example, have and can result in higher variable interest rates paid by the Port, either in connection with remarketed bonds or "bank bonds" purchased by the bank upon a failed remarketing or upon a mandatory tender that would be required if an expiring letter of credit cannot be replaced. A Port event of default (or, in certain circumstances, a rating downgrade or withdrawal) under bank reimbursement agreements pursuant to which the letters of credit were issued, among other events, would entitle the bank to require the mandatory tender for purchase of all of the Subordinate Lien Parity Bonds secured by such letter of credit. In that event or upon the purchase by the bank of "bank bonds" resulting from an inability to convert the bonds or to remarket the bonds for a period, to issue new commercial paper or to replace an expiring letter of credit, the Port would be required to reimburse the bank or to purchase or redeem all of such bonds over a three- to five-year period and to pay interest at the higher rates set forth in the applicable reimbursement agreement.

Limitation of Remedies

Under the terms of the Resolution, payments of debt service on Series 2017 Bonds are required to be made only as they become due and the occurrence of a default does not grant a right to accelerate payment of the Series 2017 Bonds. In the event of multiple defaults in payment of principal or of interest on the Series 2017 Bonds, the Series 2017 Bond owners could be required to bring a separate action for each such payment not made. Remedies for defaults are limited to such actions which may be taken at law or in equity. See Appendix G. No mortgage or security interest has been granted or lien created in any real property of the Port to secure the payment of any of the Port's bonds, including the Series 2017 Bonds. Leases with tenants, including airlines and container terminal operators, are subject to bankruptcy proceedings, leading to possible rejection of the leases or to long delays in enforcement.

Various State laws, constitutional provisions, and federal laws and regulations apply to the obligations created by the issuance of the Series 2017 Bonds. There can be no assurance that there will not be any change in, interpretation of, or addition to the applicable laws and provisions will not be changed, interpreted, or supplemented in a manner that would have a material adverse effect, directly or indirectly, on the affairs of the Port.

In the event of a default in the payment of principal or of interest on the Series 2017 Bonds, the remedies available to the owners of the Series 2017 Bonds upon a default are in many respects dependent upon judicial action, which is often subject to discretion and delay under existing constitutional law, statutory law, and judicial decisions, including the federal Bankruptcy Code. Bond Counsel's opinion as to enforceability to be delivered simultaneously with delivery of the Series 2017 Bonds will be qualified by certain limitations, including limitations imposed by bankruptcy, reorganization, insolvency, and equity principles. See the proposed forms of Bond Counsel opinions included in Appendix E.

Bankruptcy; Dissolution

The enforceability of the rights and remedies of the Bondholders, the obligations of tenants or customers of the Port, and of the Port and the liens and pledges created by the Resolution are subject to the United States Bankruptcy Code (the “Bankruptcy Code”) and/or to other applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors’ rights generally, to equitable principles that may limit the enforcement under Washington law of certain remedies and to exercise by the United States of America of powers delegated to it by the United States Constitution. Some of the risks associated with a bankruptcy, insolvency or dissolution are described below and include the risks of delay in payment and of nonpayment. Potential purchasers of the Series 2017 Bonds should consult their own attorneys and advisors in assessing the risk and the likelihood of recovery in the event the Port, its tenants or customers, or any other party becomes a debtor in a bankruptcy, insolvency or dissolution case prior to the time the Series 2017 Bonds are paid in full.

In addition, payments made by a bankrupt entity within 90 days (up to 366 days if the entity is found to be an insider) of a filing of a bankruptcy case could be deemed to be “avoidable preferences” under the Bankruptcy Code and thus could be subject to recapture in bankruptcy, including from the Series 2017 Bondholders. If an entity is in bankruptcy, parties (including the Series 2017 Bondholders) may be prohibited from taking action to collect from or to enforce obligations of such entity without permission of the bankruptcy court, and the Port may be prevented from making payments to the Bondholders from funds in its possession. These restrictions may result in delays or reductions in payments on the Series 2017 Bonds.

There may be other possible effects of a bankruptcy of the Port or tenants or customers of the Port that could result in delays or reductions in payments on the Series 2017 Bonds, or result in losses to the Bondholders. Regardless of any specific adverse determinations in any such bankruptcy proceeding, the fact of such a bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2017 Bonds.

Tenants or Customers. The bankruptcy of a signatory airline or of another tenant or customer of the Port could result in delays, additional expenses and/or reductions in payments or nonpayment to the Port and, as a result, could reduce Gross Revenue and Available Intermediate Lien Revenue. Bankruptcy law in the United States is governed by the Bankruptcy Code, and federal bankruptcy courts retain jurisdiction over parties that are subject to bankruptcy petitions, voluntarily or involuntarily. Bankruptcy courts have the jurisdiction, within the limits of the Bankruptcy Code, to review debtors’ agreements and the debtors’ decisions to assume or reject their agreements and to approve, reject or delay payments of debtors’ financial and other obligations. Risks associated with bankruptcy include the risk of substantial delay in payment or of non-payment, the risk that the Port might not be able to enforce its other contractual remedies, the risk that the Port may have to return certain payments received during the “preference” period and the risk of additional litigation costs if the Port decides or is required to participate in bankruptcy proceedings. Bankruptcy of a major tenant or customer could result in long delays and significant costs and possibly in large losses to the Port. Additional requirements, delays, costs or losses could apply in the event that tenants or customers are subject to bankruptcy law of another nation in addition to or in lieu of U.S. bankruptcy laws.

The Port. Under current Washington law, political subdivisions or public agencies, such as the Port, may be able to file for bankruptcy under chapter 9 of the Bankruptcy Code. In 1935, the Washington State Legislature authorized taxing districts in the state of Washington to file a petition under Section 80 of chapter IX of the then applicable Bankruptcy Act of 1898. The 1935 authorizing statute has not been amended notwithstanding the fact that the Bankruptcy Act of 1898 has been superseded. The 1935 authorizing statute likely allows municipalities in Washington to seek relief under chapter 9 of the now applicable Bankruptcy Code. In the event of a chapter 9 bankruptcy filing by the Port, owners of the Series 2017 Bonds may not be able to exercise any of their remedies under the Intermediate Lien Master Resolution, as applicable, during the course of the proceeding. Legal proceedings to resolve issues could be time consuming, and substantial delays or reductions in payments to Bondholders may result.

The Seaport Alliance. Under current Washington law, as a PDA, the Seaport Alliance is not a taxing district and may not be able to file for bankruptcy under chapter 9 of the Bankruptcy Code. The Charter provides for dissolution under certain circumstances, and for distribution upon dissolution to the member ports. Each Managing Member, to the fullest extent permitted by applicable law, has waived any rights to take any such actions under applicable law, including any right to petition a court for judicial dissolution. By state statute, if a PDA is insolvent or dissolved,

the superior court of a county in which the PDA operates has jurisdiction and authority to appoint trustees or receivers of the assets and property of the PDA and to supervise the trusteeship or receivership. All liabilities incurred by a PDA are to be satisfied exclusively from the assets and properties of the PDA. No creditor or other person has any right of action against the port district or districts creating the PDA on account of any debts, obligations, or liabilities of the PDA. The Port of Tacoma may be able to file for bankruptcy under chapter 9 of the Bankruptcy Code.

Laws and Regulation

The Port is subject to federal, State, and local laws and regulations. Failure by the Port (or by its contractors or tenants) to comply with, or violations of, statutory and regulatory requirements could result in the loss of grant and PFC funds and in other consequences. These statutory and regulatory requirements are subject to change and could become more stringent and costly for the Port and its customers and tenants and for the Seaport Alliance. For example, statutory or regulatory requirements limiting emissions or otherwise addressing climate change could be implemented or increased. Climate change concerns have led to new or proposed laws and regulations at the federal, state and local level, which could have a material adverse effect on the Port's or Seaport Alliance's operation or the Port's tenants. The Port cannot predict whether future restrictions or limitations on the Port or Seaport Alliance will be imposed, whether future legislation or regulations will affect funding for capital projects or whether such restrictions or legislation or regulations will adversely affect Available Intermediate Lien Revenues.

Federal Funding and other Actions

The Port and the Seaport Alliance receive federal funds, including through FAA and TSA budgets. A portion of the Port's and the Seaport Alliance's assets also are invested in securities of the U.S. government. These federal funds and investments may be adversely impacted by federal legislative and executive actions, including but not limited to cuts to federal spending. Federal funding is subject to federal legislative action, including through the federal budget process. Budgetary acts, including sequestration, could continue to affect FAA and TSA budgets, operations, and the availability of certain federal grant funds. In addition, budgetary acts could cause the FAA and the TSA to implement employee furloughs, hiring freezes or other staffing changes (including of air traffic controllers), which could result in flight delays or cancellations. Other federal legislative or executive actions may affect the Port's federal funds and investments, and may have other financial or operating impacts on the Port or the Seaport Alliance. Executive orders regarding immigration or travel could reduce international passenger traffic, for example. The Port, the Seaport Alliance or other state and local jurisdictions also could be affected if the federal government withholds or attempts to withhold federal grants or other funds flowing through or to "sanctuary jurisdictions." The Port can make no representations at this time concerning what impact, the timing of such impact, or the materiality of such impact that federal legislative and executive actions would have on Port or Seaport Alliance finances or operations.

Accounting Rules

The Port is subject to accounting rules and standards promulgated by the Governmental Accounting Standards Board. These rules may change, requiring the Port at such time to value and state its accounts in ways beyond the Port's ability to control or predict.

Seismic, Climate Change and Natural Disaster Considerations

The Port's facilities and other Licensed Properties are in an area of seismic activity, with frequent small earthquakes and occasional moderate and larger earthquakes. The Port can give no assurance regarding the effect of an earthquake, a tsunami from seismic activity in Washington or in other areas, a volcano, mudslide, climate change, or other natural disaster or that proceeds of insurance carried by the Port or by the Port of Tacoma, as applicable, would be sufficient, if available, to rebuild and reopen Port facilities or other Licensed Properties or that Port facilities, other Licensed Properties or surrounding facilities and infrastructure could or would be rebuilt and reopened in a timely manner following a major earthquake or other natural disaster.

Continuing Compliance with Tax Covenants; Changes of Law

The Resolution and the Port's tax certificate will contain various covenants and agreements on the part of the Port that are intended to establish and maintain the tax-exempt status of interest on the Series 2017A Bonds and Series 2017B Bonds (the "Tax-Exempt Bonds"). A failure by the Port to comply with such covenants and agreements, including any remediation obligations, could, directly or indirectly, adversely affect the tax-exempt status of interests on the Tax-Exempt Bonds. Any loss of tax-exemption could cause all of the interest received by the Owners of the Tax-Exempt Bonds to be taxable. All or a portion of interest on the Tax-Exempt Bonds also could become subject to federal and/or state income tax as a result of changes of law. Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax-Exempt Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest.

INITIATIVES AND REFERENDA

Under the State Constitution, the voters of the State have the ability to initiate legislation and to modify existing laws through the powers of initiative and referendum. An initiative measure is submitted to the voters (if an initiative to the people) or to the Legislature (if an initiative to the Legislature) if the Secretary of State certifies the receipt of a petition signed by at least eight percent of the number of voters registered and voting for the office of governor at the preceding regular gubernatorial election. Certified initiatives to the people are placed on the ballot for the next State-wide general election.

Certified initiatives to the Legislature are submitted to the Legislature at its regular session each January. Once an initiative to the Legislature has been submitted, the Legislature must take one of the following three actions: (i) adopt the initiative as proposed, in which case the initiative becomes law without a vote of the people; (ii) reject or refuse to act on the proposed initiative, in which case the initiative must be placed on the ballot at the next State general election; or (iii) approve an amended version of the proposed initiative, in which case both the amended version and the original initiative must be placed on the next State general election ballot.

A bill passed by the Legislature is referred to the people for final approval or rejection if the Secretary of State certifies the receipt of a petition signed by at least four percent of the number of voters registered and voting for the office of governor at the preceding regular gubernatorial election. Certain actions of the Legislature necessary for the immediate preservation of the public peace, health or safety and the support of State government or its existing institutions are exempt from the referendum process.

Proposed initiatives to the people must be filed within 10 months prior to the next State general election, and the petition signatures must be filed not less than four months before such general election. Proposed initiatives to the Legislature must be filed within 10 months prior to the next regular session of the Legislature, and the petition signatures must be filed not less than 10 days before such regular session of the Legislature. A referendum measure may be filed any time after the Governor has signed the act that the sponsor wants referred to the ballot. Petition signatures must be filed within 90 days after the final adjournment of the legislative session at which the act was passed.

An initiative or referendum approved by a majority of voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

In recent years there have been a number of initiatives filed in the State, including initiatives targeting fees and taxes imposed by local jurisdictions or subjecting local jurisdictions to additional requirements. The Port cannot predict whether this trend will continue, whether any filed initiatives will receive the requisite signatures to be certified to the ballot, whether such initiatives will be approved by the voters, whether, if challenged, such initiatives will be upheld by the courts and whether any current or future initiative could have a material adverse impact on the Port's revenues or operations.

LITIGATION AND ADMINISTRATIVE PROCEEDINGS

No Litigation Concerning the Series 2017 Bonds

As of the date of this Official Statement, there is no litigation, to the knowledge of the Port, pending or threatened, challenging the authority of the Port to issue the Series 2017 Bonds or seeking to enjoin the issuance of the Series 2017 Bonds.

Other Litigation and Administrative Proceedings

The Port is a defendant in various legal actions and claims that arise during the normal course of business. Some of these claims may be covered by insurance. The Port is not aware of any legal actions that, in the opinion of Port management, will have a material adverse effect on the financial position, results of operations or cash flows of the Port.

CONTINUING DISCLOSURE

The Port is covenanting for the benefit of the holders and beneficial owners of the Series 2017 Bonds to provide certain financial information and operating data (the “Annual Disclosure Report”) by not later than six months following the end of the Port’s fiscal year (which currently would be June 30, 2018, for the report for the 2017 fiscal year), and to provide notices of the occurrence of certain enumerated events. The Annual Disclosure Report and notices of listed events are to be filed with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Disclosure Report and in notices of listed events is set forth in Appendix H. These covenants are made by the Port to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

The Port has provided the 2016 audited financial statements for the Seaport Alliance in Appendix B, and may choose to file future Seaport Alliance financial statements on a voluntary basis. The Port is not, however, undertaking or committing to provide financial statements of the Seaport Alliance.

In the past five years, the Port has complied in all material respects with its previous undertakings with regard to the Rule to provide annual reports and notices of enumerated events.

TAX MATTERS

Series 2017A Bonds, Series 2017C Bonds and Series 2017D Bonds

In the opinion of Bond Counsel, interest on the Series 2017A Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Series 2017A Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Series 2017A Bonds is not included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on certain corporations.

In the opinion of Bond Counsel, interest on the Series 2017C Bonds and Series 2017D Bonds is excludable from gross income for federal income tax purposes, except for interest on any Series 2017C Bond or Series 2017D Bond for any period during which such Series 2017C Bond or Series 2017D Bond is held by a “substantial user” of the facilities financed by the Series 2017C Bonds and Series 2017D Bonds, or by a “related person” to such substantial user within the meaning of Section 147(a) of the Code. Furthermore, interest on the Series 2017C Bonds and Series 2017D Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

Federal income tax law contains a number of requirements that apply to the Series 2017A Bonds, Series 2017C Bonds and Series 2017D Bonds (the “Series 2017 Tax-Exempt Bonds”), including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the Series 2017 Tax-Exempt Bonds and the facilities financed or refinanced with proceeds of such bonds and certain other matters. The Port has covenanted to comply with all applicable requirements.

Bond Counsel's opinion is subject to the condition that the Port comply with the above-referenced covenants and, in addition, will rely on representations by the Port and its advisors with respect to matters solely within the knowledge of the Port and its advisors, respectively, which Bond Counsel has not independently verified. If the Port fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Series 2017 Tax-Exempt Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2017 Tax-Exempt Bonds, regardless of the date on which the event causing taxability occurs. In rendering its opinion, Bond Counsel has relied on the report of Causey Demgen & Moore, P.C. with respect to the accuracy of certain mathematical calculations.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Series 2017 Tax-Exempt Bonds. Owners of the Series 2017 Tax-Exempt Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning such bonds, which may include tax issues associated with original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the Series 2017 Tax-Exempt Bonds should be aware that ownership of the Series 2017 Tax-Exempt Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series 2017 Tax-Exempt Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the Series 2017 Tax-Exempt Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations, such as the Series 2017 Tax-Exempt Bonds, are in many cases required to be reported to the Internal Revenue Service (the "IRS"). Additionally, backup withholding may apply to any such payments made to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel gives no assurance that any future legislation or clarifications or amendments to the Code, if enacted into law, will not cause the interest on the Series 2017 Tax-Exempt Bonds to be subject, directly or indirectly, to federal income taxation. From time to time, legislation is proposed that, if enacted, could alter the federal income tax consequences described herein, or otherwise prevent owners of the Series 2017 Tax-Exempt Bonds from realizing the full current benefit of the tax status of the interest on the Series 2017 Tax-Exempt Bonds. Prospective purchasers of the Series 2017 Tax-Exempt Bonds should consult their own tax advisors regarding any pending or proposed federal legislation, as to which Bond Counsel expresses no view.

Bond Counsel's opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel's legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the Port's compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Series 2017 Tax-Exempt Bonds. Owners of the Series 2017 Tax-Exempt Bonds are advised that, if the IRS does audit the Series 2017 Tax-Exempt Bonds under current IRS procedures, at least during the early stages of an audit, the IRS will treat the Port as the taxpayer, and the owners of the Series 2017 Tax-Exempt Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the Series 2017 Tax-Exempt Bonds until the audit is concluded, regardless of the ultimate outcome.

Premium. An amount equal to the excess of the purchase price of a Series 2017 Bond over its stated redemption price at maturity constitutes premium on that Series 2017 Bond. A purchaser of a Series 2017 Bond must amortize any premium over that Series 2017 Bond's term using constant yield principles, based on the Series 2017 Bond's yield to maturity. As premium is amortized, the purchaser's basis in the Series 2017 Bond and the amount of tax exempt interest received will be reduced by the amount of amortizable premium properly allocable to the purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes

on sale or disposition of the Series 2017 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Series 2017 Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and the state and local tax consequences of owning such Series 2017 Bonds.

Series 2017B Bonds - Certain Federal Tax Consequences

The following discussion describes aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of Series 2017B Bonds. This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect).

This summary discusses only Series 2017B Bonds held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, Owners holding the Series 2017B Bonds as part of a hedging transaction, "straddle," conversion transaction, or other integrated transaction, or Owners whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2017B Bonds. ACCORDINGLY, INVESTORS WHO ARE OR MAY BE DESCRIBED IN THIS PARAGRAPH SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO SUCH INVESTORS, AS WELL AS TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL, OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

In General. Interest derived from a Series 2017B Bond by an Owner is subject to U.S. federal income taxation. In addition, a Series 2017B Bond held by an individual who, at the time of death, is a U.S. person is subject to U.S. federal estate tax.

Payments of Interest. Interest, including additional amounts of cash and interest, if any, paid on the Series 2017B Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner's method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest income; whereas Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

Disposition or Retirement. Upon the sale, exchange or other disposition of a Series 2017B Bond, or upon the retirement of a Series 2017B Bond (including by redemption), an Owner will recognize capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (reduced by any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the Series 2017B Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes. Under the Bond Resolution, certain of the Series 2017B Bonds are subject to optional and mandatory redemption. See "DESCRIPTION OF THE SERIES 2017 BONDS—Optional Redemption." The Series 2017B Bonds are subject to defeasance at any time prior to their stated maturities. See "DESCRIPTION OF THE SERIES 2017 BONDS—Defeasance." If the Port defeases any Series 2017B Bonds, such Series 2017B Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a Series 2017B Bond could recognize a gain or loss on the Series 2017B Bond at the time of defeasance.

Unearned Income Medicare Contribution. A 3.8 percent Medicare tax applies to certain net investment income earned by individuals, estates, and trusts. For these purposes, net investment income generally includes an Owner's interest income from a Series 2017B Bond (including accrued original issue discount, if any, on a Series 2017B Bond and market discount) and gain realized on the sale, retirement or other disposition of a Series 2017B Bond. In the case of an individual, the tax is imposed on the lesser of (i) the Owner's net investment income for the year, or (ii) the amount by which the Owner's modified adjusted gross income (i.e., adjusted gross income reduced by

certain exclusions applicable to U.S. citizens or residents living abroad) exceeds \$250,000 (if the Owner is married and filing jointly or a surviving spouse), \$125,000 (if married filing separately) or \$200,000 (if the Owner is unmarried or in any other case). In the case of an estate or trust, the tax is imposed on the lesser of (i) undistributed net investment income, or (ii) the excess of adjusted gross income over the dollar amount at which the highest income tax bracket applicable to an estate or trust begins.

Information Reporting and Backup Withholding. Payments of interest on Series 2017B Bonds held of record by U.S. persons other than corporations and other exempt Owners must be reported to the IRS. Such information will be filed each year with the IRS on Form 1099, which will reflect the name, address, and taxpayer identification number of the Owner. A copy of Form 1099 will be sent to each Owner of a Series 2017B Bond for federal income tax reporting purposes.

Interest paid to an Owner of a Series 2017B Bond ordinarily will not be subject to withholding of federal income tax if such Owner is a U.S. person. Backup withholding of federal income tax may apply, however, to payments made in respect of the Series 2017B Bonds, as well as payments of proceeds from the sale of Series 2017B Bonds, to Owners who are not “exempt recipients” and who fail to provide certain identifying information. The backup withholding rule currently in effect is 28 percent. This withholding generally applies if the Owner of a Series 2017B Bond (who is not an exempt recipient) (i) fails to furnish such Owner’s social security number or other taxpayer identification number (“TIN”), (ii) furnishes an incorrect TIN, (iii) fails to properly report interest, dividends or other “reportable payments” as defined in the Code, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective Owner will be requested to complete an appropriate form.

Any amounts withheld under the backup withholding rules from a payment to a person would be allowed as a refund or a credit against such person’s U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, certain penalties may be imposed by the IRS on an Owner who is required to supply information but who does not do so in the proper manner.

The federal tax discussion set forth above is included for general information only and may not be applicable depending upon an owner’s particular situation. Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Series 2017B Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not U.S. persons.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain requirements on employee benefit plans subject to Title I of ERISA (“ERISA Plans”), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements under Title I, Part 4 of ERISA, including, but not limited to, the requirements of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, “Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons” (each a “Party in Interest”)) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any Series 2017B Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest and (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets within the meaning of 29 CFR Sec. 2510.3-102 as

modified by ERISA Section 3(42). Depending on the identity of the Plan fiduciary making the decision to acquire or hold Series 2017B Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption (“PTCE”) 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by “qualified professional asset managers”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by certain “in-house asset managers”) (collectively, the “Class Exemptions”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries (or affiliates of such fiduciaries) with respect to the “plan assets” of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a Series 2017B Bond, each purchaser will be deemed to have represented and warranted that either (i) no “plan assets” of any Plan have been used to purchase such Series 2017B Bond, or (ii) the purchase and holding of such Series 2017B Bond either do not constitute or result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code, or are exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under ERISA) should consult with its legal advisor concerning an investment in any of the Series 2017B Bonds.

LEGAL MATTERS

Issuance of the Series 2017 Bonds is subject to receipt of the legal opinion of K&L Gates LLP, Bond Counsel to the Port, and to certain other conditions. See Appendix E for the forms of the opinions of Bond Counsel. Certain legal matters will be passed upon for the Port by Pacifica Law Group LLP, Disclosure Counsel to the Port. Any opinion of such firm will be addressed solely to the Port, will be limited in scope, and cannot be relied upon by investors.

Certain legal matters will be passed on for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Counsel to the Underwriters. Any opinion of such firm will be addressed solely to the Underwriters, will be limited in scope, and cannot be relied upon by investors.

RATINGS

Moody’s Investors Service, S&P Global Ratings and Fitch Ratings have assigned their ratings of “A1,” “A+,” and “AA-” respectively, to the Series 2017 Bonds. Certain information was supplied by the Port to such rating agencies to be considered in evaluating the Series 2017 Bonds.

The foregoing ratings express only the views of the rating agencies and are not recommendations to buy, sell or hold the Series 2017 Bonds. An explanation of the significance of each of the ratings may be obtained from the rating agency furnishing the rating. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, or any of them, if, in their or its judgment, circumstances so warrant. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series 2017 Bonds. The Port does not have any obligation to take any action, other than file a listed event notification, if the ratings on the Series 2017 Bonds is changed, suspended or withdrawn.

THE REGISTRAR

The principal of and interest and redemption premium, if any, on the Series 2017 Bonds are payable by the fiscal agent of the State of Washington, currently U.S. Bank National Association (the “Registrar”). For so long as the Series 2017 Bonds remain in a “book-entry only” transfer system, the Registrar will make such payments to DTC, which, in turn, is obligated to remit such principal payments to the DTC participants for subsequent disbursement to the Beneficial Owners of the Series 2017 Bonds. See Appendix F.

FINANCIAL ADVISOR

Piper Jaffray & Co. has served as financial advisor to the Port relative to the preparation of the Series 2017 Bonds for sale, timing of the sale and other factors relating to the Series 2017 Bonds. The financial advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Series 2017 Bonds. Piper Jaffray & Co. makes no guaranty, warranty or other representation on any matter related to the information contained in this Official Statement. A portion of the financial advisor's compensation for this transaction is contingent on the sale and delivery of the Series 2017 Bonds.

UNDERWRITING

The Series 2017A Bonds are to be purchased from the Port at an aggregate purchase price of \$20,736,286.50 (the principal amount of the Series 2017A Bonds, less Underwriters' discount of \$36,556.55, and plus original issue premium of \$4,067,843.05); subject to the terms of a bond purchase contract between the Port and Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, Barclays Capital Inc., Goldman Sachs & Co. LLC, J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Academy Securities, Inc., Backstrom McCarley Berry & Co., LLC, and The Williams Capital Group, L.P. (collectively, the "Underwriters").

The Series 2017B Bonds are to be purchased from the Port at an aggregate purchase price of \$264,414,032.04 (the principal amount of the Series 2017B Bonds, less Underwriters' discount of \$510,967.96); subject to the terms of a bond purchase contract between the Port and the Underwriters.

The Series 2017C Bonds are to be purchased from the Port at an aggregate purchase price of \$365,590,042.69 (the principal amount of the Series 2017C Bonds, less Underwriters' discount of \$657,691.56, and plus original issue premium of \$52,942,734.25); subject to the terms of a bond purchase contract between the Port and the Underwriters.

The Series 2017D Bonds are to be purchased from the Port at an aggregate purchase price of \$108,549,411.33 (the principal amount of the Series 2017D Bonds, less Underwriters' discount of \$162,256.02, and plus original issue premium of \$15,481,667.35); subject to the terms of a bond purchase contract between the Port and the Underwriters.

The bond purchase contract provides that the Underwriters will purchase all of the Series 2017 Bonds if any are purchased and that the obligation of the Underwriters to accept and pay for the Series 2017 Bonds is subject to certain terms and conditions set forth therein, including the approval by counsel of certain legal matters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Port, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Port.

The initial public offering prices or yields set forth on the inside cover page may be changed from time to time by the Underwriters without prior notice. The Underwriters may offer and sell the Series 2017 Bonds to certain dealers, unit investment trusts or money market funds at prices lower than the public offering prices or at yields higher than the yields stated on the inside cover page.

The Port will use a portion of the proceeds from this offering to redeem the Refunded Bonds. To the extent an Underwriter or an affiliate thereof is an owner of Refunded Bonds, such Underwriter or affiliate, as applicable,

would receive a portion of the proceeds from the issuance of the Series 2017 Bonds contemplated herein in connection with such Refunded Bonds redeemed by the Port.

Citigroup Global Markets Inc., one of the Underwriters of the Series 2017 Bonds, has informed the Port that it has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the Series 2017 Bonds.

Morgan Stanley & Co. LLC, one of the Underwriters of the Series 2017 Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2017 Bonds.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series 2017 Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2017 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2017 Bonds that such firm sells.

Academy Securities, Inc., one of the Underwriters on the Series 2017 Bonds, has entered into Distribution Agreements with TD Ameritrade Inc., Stoeber, Glass & Company Inc., BNY Mellon Capital Markets LLC, Commonwealth Financial Network, R. Seelaus & Co., Douglas & Co. Municipals, Inc., Ross, Sinclair & Associates, Inc., W.H. Mell Associates, Inc., Intercoastal Capital Markets, Inc., and Janney Montgomery Scott LLC for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these Distribution Agreements (if applicable to this transaction), Academy Securities may share a portion of its underwriting compensation with these firms.

The Williams Capital Group, L.P., one of the Underwriters on the Series 2017 Bonds, has entered into a negotiated dealer agreement (“Dealer Agreement”) with TD Ameritrade for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement, TD Ameritrade may purchase bonds from The Williams Capital Group, L.P. at the original issue price less a negotiated portion of the selling concession applicable to any bonds that such firm sells.

INDEPENDENT CONSULTANT

The Report of the Independent Consultant, prepared by WJ Advisors LLC, has been included in this Official Statement with the consent of WJ Advisors LLC, the Independent Consultant, and in reliance upon the Independent Consultant’s expertise in airport and seaport matters. From time to time, WJ Advisors LLC and its subconsultants prepare studies and forecasts for the Port for use by the Port in its planning activities.

As noted in the Report of the Independent Consultant, WJ Advisors LLC believes the underlying approach and assumptions utilized in its Report are reasonable. Any projection, however, is subject to uncertainties and inevitably some assumptions regarding future trends will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the projected and actual results, and differences may be material. See Appendix C. The Report of the Independent Consultant should be read in its entirety.

INDEPENDENT AUDITORS

The Port’s financial statements for the Enterprise Fund and the Warehousemen’s Pension Trust Fund as of December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015, and 2014, respectively, included herein as Appendix A, have been audited by Moss Adams LLP, independent auditors, as stated in its report appearing herein. The audited financial statements of the Port of Seattle are public documents. The Port of Seattle has not requested that Moss Adams LLP provide consent for inclusion of its audited financial statements in this Official Statement, and Moss Adams LLP has not performed, since the date of its report included herein, any

procedures on the financial statements addressed in that report. Further, Moss Adams LLP has not participated in any way in the preparation or review of this Official Statement.

The Seaport Alliance's financial statements for the year ended December 31, 2016, included herein as Appendix B, have been audited by RSM US, LLP, independent auditors. RSM US, LLP has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. RSM US, LLP also has not performed any procedures relating to this Official Statement.

In addition to the annual audit of its financial statements by its independent auditors, the Port also undergoes an annual accountability audit by the Office of the Washington State Auditor ("SAO"). The accountability audit reviews the Port's uses of public resources, compliance with state laws and regulations, its policies and procedures, and internal controls over such matters. On February 7, 2017, the SAO issued its report on the results of the accountability audit for the year ended December 31, 2016. In its report, the SAO presented a finding challenging a \$4.7 million special one-time payment the Port made to exempt employees in December 2015 as violating the Washington State Constitution. It is unclear what steps the Port or others will take in response to a finding and whether there would be any financial or other consequences for the Port.

MISCELLANEOUS

The purpose of this Official Statement is to supply information to purchasers of the Series 2017 Bonds. The summaries provided in this Official Statement and in the appendices attached hereto of the Series 2017 Bonds and the documents referred to herein do not purport to be comprehensive or definitive, and all references to the documents summarized are qualified in their entirety by reference to each such document. All references to the Series 2017 Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. Copies of the documents referred to herein are available for inspection during the period of the offering at the principal office of the Port.

Statements in this Official Statement, including matters of opinion, projections and forecasts, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Port and the purchasers of the Series 2017 Bonds.

PORT OF SEATTLE

By _____ /s/ Daniel R. Thomas
Chief Financial Officer

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APPENDIX A
AUDITED FINANCIAL STATEMENTS OF THE PORT
(SEE ATTACHED)

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REPORT OF INDEPENDENT AUDITORS

To the Port Commission
Port of Seattle
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund and the Warehousemen's Pension Trust Fund of the Port of Seattle (the "Port") as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Port's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. We did not audit the financial statements of the Northwest Seaport Alliance, a joint venture, which reflects total assets of \$65,059,000 and total revenue of \$61,583,771 for the year ended December 31, 2016. Those statements were audited by other auditors, whose report has been furnished to us, and in our opinion insofar as it relates to the amounts as included for the Port, is based solely on the report of other auditors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund and the Warehousemen's Pension Trust Fund of the Port of Seattle as of December 31, 2016 and 2015, and the changes in net position and cash flows for the Enterprise Fund, and the changes in fiduciary net position for the Warehousemen's Pension Trust Fund for the years ended December 31, 2016, 2015 and 2014 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of proportionate share of the net pension liability and contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Moss Adams LLP

Seattle, Washington
April 24, 2017

PORT OF SEATTLE

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of the Port of Seattle's (the "Port") activities and financial performance provides an introduction to the financial statements of the Port for the fiscal year ended December 31, 2016, including the Port operations within the Enterprise Fund and the Warehousemen's Pension Trust Fund, with selected comparative information for the years ended December 31, 2016 and 2015.

The Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Warehousemen's Pension Trust Fund. This includes the Port's major business activities, which are comprised of the Aviation, Maritime, and Economic Development Divisions. Enterprise Funds are used to account for operations and activities that are financed at least in part by fees or charges to external users. The Warehousemen's Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. The Port became the sole administrator for the Warehousemen's Pension Plan and Trust effective May 25, 2004.

The MD&A presents certain required supplementary information ("RSI") regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures. The information contained in this MD&A has been prepared by management and should be considered in conjunction with the financial statements and the notes thereto, which follow this section. The notes are essential to thoroughly understand the data contained in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of four parts: MD&A, the basic financial statements, the notes to the financial statements, and the RSI. The report includes the following three basic financial statements for the Port Enterprise Fund: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The report also includes the following two basic financial statements for the Warehousemen's Pension Trust Fund: Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

LOCAL ECONOMIC FACTORS

Washington's economy is expanding at a solid pace. The unemployment rate remained at an average of 5.7% in 2016 from 2015. During 2016, jobs in both private sector and government increased 2.6% and 2.5%, respectively. The Seattle metropolitan area added about 52,500 jobs in 2016 from 2015. Approximately 39,500 of the new jobs added in 2016 were in the information technology, education, health services, leisure and hospitality, government, and construction job markets.

The Port's 2016 performance reflected the recovery of the local economy. At the Airport, 45.7 million passengers passed through in 2016, an increase of 8% from 2015 and exceeded the all-time record for the sixth consecutive year. For the Maritime Division, the 2016 cruise season hosted 203 vessel calls and 984,000 passengers, an increase of 9.5% in passengers from 2015. Grain volumes totaled 4.4 million metric tons, an increase of 16.2% from 2015. For the Economic Development Division, occupancy levels at commercial properties were at 95% in 2016, slightly higher compared to a broader Seattle market average occupancy of approximately 93%.

THE NORTHWEST SEAPORT ALLIANCE

The ports of Seattle and Tacoma (“the home ports”) joined forces in August 2015 to unify management of marine cargo facilities and business to strengthen the Puget Sound gateway and attract more marine cargo and jobs to the region by creating The Northwest Seaport Alliance (“NWSA”). The NWSA is a separate governmental entity established as a Port Development Authority, similar to Public Development Authorities formed by cities and counties.

Each Port Commission is a Managing Member of the NWSA. Each home port will remain a separate legal entity, independently governed by its own elected commissioners. Each home port has granted the NWSA a license for the NWSA’s exclusive use, operation and management of certain facilities, including the collection of revenues. Ownership of the licensed facilities remains with the home ports, not with the NWSA. The NWSA is intended to support the credit profiles of both home ports, and its financial framework will preserve both home ports’ commitment to financial strength and fiscal stewardship. The home ports are committed to ensure existing bond pledges and covenants will not be negatively affected. Outstanding bonds will remain obligations of each individual home port. To maintain the rights of each home port’s existing bondholders, the charter prohibits the NWSA from issuing debt. The home ports set up an initial 50/50 investment in the NWSA. NWSA’s operating cash flows back to the home ports on a monthly basis. The NWSA has its own annual operating budget and five-year capital investment plan. The home ports contribute to capital construction projects subject to Managing Member approval. Capital funding does not come from working capital.

On January 1, 2016, the NWSA became a separate legal entity to be accounted for as a joint venture. Accordingly, the Port transferred \$12.9 million in cash with the related assets and liabilities, primarily lease securities and customer advances, to the NWSA as the opening balance for the formation of the new entity. Additionally, the Port transferred \$39.0 million of cash (consisting of working capital, and capital construction funds) and \$7.9 million of construction work in progress to the NWSA for its 50% share in the entity. The reduction of cash and construction work in progress was offset by an increase in the investment in joint venture reflected as a noncurrent asset in the Port’s Statement of Net Position as of January 1, 2016. The Port’s operating revenues in 2016 included 50% of the NWSA’s changes in net position in 2016.

Additional information on the joint venture can be found in Note 13 in the accompanying notes to the financial statements.

ENTERPRISE FUND

Financial Position Summary

The Statement of Net Position presents the financial position of the Enterprise Fund of the Port at the end of the fiscal year. The statement includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Enterprise Fund. Net position, the difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources, is an indicator of the current fiscal health of the organization and the enterprise’s financial position over time.

A summarized comparison of the Enterprise Fund assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at December 31 is as follows (in thousands):

	2016	2015	2014 (Restated)
ASSETS:			
Current, long-term, and other assets	\$ 1,199,739	\$ 1,351,677	\$ 1,032,463
Capital assets	<u>5,505,951</u>	<u>5,508,198</u>	<u>5,501,400</u>
Total assets	<u>\$ 6,705,690</u>	<u>\$ 6,859,875</u>	<u>\$ 6,533,863</u>
DEFERRED OUTFLOWS OF RESOURCES	\$ 35,225	\$ 30,633	\$ 29,142
LIABILITIES:			
Current liabilities	\$ 384,385	\$ 379,856	\$ 334,375
Noncurrent liabilities	<u>3,188,953</u>	<u>3,374,583</u>	<u>3,102,698</u>
Total liabilities	<u>\$ 3,573,338</u>	<u>\$ 3,754,439</u>	<u>\$ 3,437,073</u>
DEFERRED INFLOWS OF RESOURCES	\$ 19,230	\$ 29,153	\$ 39,008
NET POSITION:			
Net investment in capital assets	\$ 2,591,049	\$ 2,474,130	\$ 2,424,133
Restricted	343,175	318,691	252,005
Unrestricted	<u>214,123</u>	<u>314,095</u>	<u>410,786</u>
Total net position	<u>\$ 3,148,347</u>	<u>\$ 3,106,916</u>	<u>\$ 3,086,924</u>

Assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$3.1 billion as of December 31, 2016 and 2015. Total net position increased \$41.4 million from 2015 to 2016 and \$20.0 million from 2014 to 2015, respectively.

In 2015, the Port adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The Port adopted both statements retroactively by restating the financial statements, for all periods presented, to account for the multiple-employer cost-sharing plans that the Port participates in the Washington State Retirement System and the Warehousemen's Pension Plan. The new accounting standards require governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a net pension liability, and to more comprehensively and comparably measure the annual costs of pension benefits instead of reporting pension expense based on cash contributions paid to the plans. As a result, operating revenues, operating expenses, and nonoperating income—net for 2014 were restated and reduced by \$0.4 million, \$3.0 million, and \$0.8 million, respectively. Further discussion of the impact of the adoption of these new accounting standards can be found in Note 1, Note 8, and Note 15 in the accompanying notes to the financial statements and the related RSI.

For each year presented, the largest portion of the Enterprise Fund's net position represents its net investment in capital assets. The Port uses these capital assets to provide services to its tenants, passengers, and customers of the Aviation, Maritime and Economic Development Divisions; consequently, these assets are not available for future spending. Although the Port's net investment in capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations, since the capital assets themselves cannot be used to liquidate liabilities. From 2015 to 2016 and 2014 to 2015, there was an increase of \$116.9 million and \$50.0 million, respectively, in net investment in capital assets. Total capital assets, net of accumulated depreciation, including construction work in progress remained relatively constant between years. The changes in this category from 2015 to 2016 were largely due

to scheduled and early principal payments of debt made in 2016. The issuance of 2015 Intermediate Lien Revenue and Refunding Bonds, along with an increase in deferred inflows of resources resulting from the refunding debt transaction primarily accounted for the changes in this category from 2014 to 2015.

As of December 31, 2016 and 2015, the restricted net position of \$343.2 million and \$318.7 million, respectively, was comprised mainly of unspent revenue bond proceeds restricted for debt service reserves in accordance with bond covenants, airport Passenger Facility Charges (“PFC”) subject to Federal regulations, and rental car Customer Facility Charges (“CFC”) subject to State regulations. From 2015 to 2016 and from 2014 to 2015, there was an increase of \$24.5 million and \$66.7 million, respectively, in this category. The increase in restricted net position from prior year was primarily due to an increase in PFCs from enplanement growth in conjunction with the timing of PFC related expenditures. This increase was offset by a decrease in restricted debt service reserves associated with interest payments made starting in 2016 from the capitalized interest fund of 2015 Intermediate Lien Revenue and Refunding Bonds. The increase from 2014 to 2015 was primarily due to higher PFCs resulting from growth in enplanements in conjunction with the timing of PFC and CFC related expenditures, as well as the addition of restricted debt service reserves associated with the issuance of the 2015 Intermediate Lien Revenue and Refunding Bonds.

As of December 31, 2016, the unrestricted net position was \$214.1 million, a decrease of \$100.0 million from \$314.1 million in 2015. The decrease was largely attributable to the \$147.7 million payment made by the Port as a special item in 2016 for the State Route 99 (“SR 99”) Alaskan Way Viaduct Replacement Program. Resources from the unrestricted net position may be used to satisfy the Port’s ongoing obligations. However, amounts from Airport operations must be used solely for the Aviation Division’s ongoing obligations due to federal regulations. Cash and cash equivalents, and investment balances related to Airport operations decreased from 2015 to 2016 from \$305.4 million to \$297.9 million, respectively, primarily due to the timing of capital project spending during the year. The increase from 2014 to 2015 from \$256.2 million to \$305.4 million, respectively, was largely attributed to the favorable operating performance of the Airport from enplanement growth in 2015.

Statement of Revenues, Expenses, and Changes in Net Position

The change in net position is an indicator of whether the overall fiscal condition of the Enterprise Fund has improved or worsened during the year. Following is a summary of the Statement of Revenues, Expenses, and Changes in Net Position (in thousands) for the years ended December 31:

	2016	2015	2014 (Restated)
Operating revenues	\$ 598,467	\$ 558,933	\$ 534,489
Operating expenses	<u>325,285</u>	<u>317,806</u>	<u>306,300</u>
Operating income before depreciation	273,182	241,127	228,189
Depreciation	<u>164,336</u>	<u>163,338</u>	<u>166,337</u>
Operating income	108,846	77,789	61,852
Nonoperating income—net	62,177	39,399	52,611
Capital contributions	18,108	22,804	16,746
Special item—SR 99 Viaduct expense	<u>(147,700)</u>	<u>(120,000)</u>	
Increase in net position	41,431	19,992	131,209
Net position—beginning of year, as restated (Note 1)	<u>3,106,916</u>	<u>3,086,924</u>	<u>2,955,715</u>
Net position—end of year	<u>\$ 3,148,347</u>	<u>\$ 3,106,916</u>	<u>\$ 3,086,924</u>

Financial Operation Highlights

A summary of operating revenues is as follows (in thousands):

	2016	2015	2014 (Restated)
OPERATING REVENUES:			
Services	\$ 231,326	\$ 212,612	\$ 195,364
Property rentals	291,874	332,696	325,219
Customer facility charge revenues	12,121	12,663	13,608
Operating grants and contract revenues	1,562	962	298
Joint venture income	61,584		
Total operating revenues	<u>\$ 598,467</u>	<u>\$ 558,933</u>	<u>\$ 534,489</u>

During 2016, operating revenues increased 7.1% from \$558.9 million in 2015 to \$598.5 million in 2016. Aviation Division operating revenues increased \$42.4 million largely due to growth in non-aeronautical revenues of \$24.2 million and aeronautical revenues of \$18.2 million. Aeronautical revenues are based on cost recovery and the increase in aeronautical revenues of \$26.2 million was primarily due to cost recovery on new assets placed in service and higher operating expenses to support increased airline activity. This was partially offset by higher revenue sharing in 2016 of \$7.9 million under the terms of the airline lease agreement. The growth in non-aeronautical revenues was due to strong performance and increases in (1) Public Parking of \$6.5 million, (2) Airport Dining and Retail of \$4.7 million, (3) Ground Transportation of \$4.0 million, (4) Rental Cars of \$2.7 million, and (5) Commercial Properties of \$2.0 million. All increases were driven by higher passenger volumes. Aviation experienced passenger growth of 8% making the Airport the ninth busiest airport in North America for 2016 based on passenger volume compared to 13th place in 2015. Maritime Division operating revenues increased \$3.5 million due to revenue increases in all operations including (1) higher Grain Terminal volumes, (2) Fishing and Operations revenue growth of 8% driven by rate increases and expanded utilization of moorage and Port assets, (3) Cruise with more sailings due to higher passenger volumes of 9.5% over 2015, and (4) Recreational Boating from rate increases. Starting January 1, 2016, the NWSA became a separate legal entity to be accounted for as a joint venture. As such, operating revenues in 2016 no longer included revenues from the cargo terminals for container operations and industrial properties but instead included \$61.6 million, 50% of the NWSA's changes in net position in 2016. Economic Development Division operating revenues decreased by \$2.3 million from prior year primarily due to lower Conference and Event Center revenues impacted by construction related to Pier 66 cruise terminal expansion.

During 2015, operating revenues increased 4.6% from \$534.5 million in 2014 to \$558.9 million in 2015. Aviation Division operating revenues increased \$17.2 million largely due to growth in non-aeronautical revenues of \$16.4 million. This was driven by increased passenger volumes with strong performance in (1) Public Parking reflecting an increase of \$5.9 million, (2) Airport Dining and Retail concessions with an increase of \$4.7 million, and (3) Commercial Properties with an increase of \$1.3 million. Aeronautical revenues were relatively flat compared to 2014 due to a \$12.4 million increase in airline revenue sharing which essentially offset an increase in aeronautical cost recovery revenue driven by new assets placed in service and higher operating expenses to support increased airline activity. Maritime Division operating revenues increased \$3.5 million due to (1) a \$1.4 million increase in Cruise revenues from higher passenger volumes and rate increases, and (2) a \$0.9 million increase in Grain Terminal revenues from higher volumes and increased contract rates. Container revenues decreased slightly from 2014 despite of an increase in volume. While Container revenues from Terminal 46 increased by \$1.2 million from higher lift volumes exceeding the minimum annual guarantee, this increase was offset by lower Container revenues of \$1.2 million from the limited interim use of Terminal 5 following the closure of the terminal for redevelopment and the Eagle Marine lease cancellation in 2014. Shilshole Bay Marina and Fishermen's Terminal revenues increased due to higher moorage occupancy and rates while Fishermen's Terminal benefitted from an early

termination lump sum payment from an office tenant. Starting January 1, 2015, the Port established its Stormwater Utility for Port-owned properties located within the City of Seattle. As a result, \$2.8 million of Surface Water Utility fees were paid directly by the tenants to the Stormwater Utility in 2015. In 2014 and prior years, they were reported as Maritime and Economic Development Divisions operating revenues. Economic Development Division operating revenues increased by \$1.9 million primarily due to Conference and Event Center revenue increases of \$1.4 million from strong sales and a vibrant regional economy. Commercial Properties revenue increased due to increased activity at the Bell Street Garage and increased rent at Harbor Marina Corporate Center, World Trade Center West, and Bell Street Retail.

A summary of operating expenses is as follows (in thousands):

	2016	2015	2014 (Restated)
OPERATING EXPENSES:			
Operations and maintenance	\$ 237,964	\$ 234,017	\$ 228,292
Administration	63,456	60,225	56,711
Law enforcement	23,865	23,564	21,297
Total operating expenses	<u>\$ 325,285</u>	<u>\$ 317,806</u>	<u>\$ 306,300</u>

During 2016, operating expenses increased from \$317.8 million in 2015 to \$325.3 million in 2016. Aviation Division operating expenses increased \$23.1 million due to (1) targeted spending to support increased passenger volumes including security checkpoint queue management contractor costs of \$2.2 million, (2) increased janitorial services of \$2.5 million, (3) higher payroll costs of \$2.6 million, and (4) outside service costs related to the Burien's Northeast Redevelopment Area ("NERA") 3 grant spending of \$1.1 million. In addition, there was an increase in corporate and other division allocations of \$10.0 million of which the largest related to (1) Central Procurement and Project Management departments costs of \$4.0 million for process improvement, and (2) Police from increased payroll costs, uniform and protective equipment costs, worker's compensation and litigated expenses. Maritime Division operating expenses increased \$6.8 million from 2015 in direct and allocated expenses. This increase was driven by increases in Police and corporate allocations resulting from a change in methodology with the creation of the NWSA comprised of cargo terminals and industrial properties which are no longer part of Maritime Division in 2016. Maritime operating expenses also increased due to (1) higher utility expenses where the largest amount related to surface water, and (2) mitigation costs tied to the Pier 66 cruise terminal expansion. Economic Development Division operating expenses increased \$1.9 million primarily due to (1) \$2.1 million higher corporate allocations, (2) a reduction of contingent liability of \$1.4 million from favorable determinations of lawsuits brought forth by adjacent property owners of the Eastside Rail Corridor (the "Corridor") recognized in 2015, and (3) a \$0.3 million increase in consulting services for property appraisals and evaluations along with new Economic Development Partnership Programs started in mid-2016. This Partnership Program was developed to support economic development activities in 31 cities in King County and the local community. These increases were offset by (1) a decrease of \$1.6 million in expenses due to lower sales activity in the Conference and Event Center resulting from Pier 66 cruise terminal expansion, and (2) \$0.5 million lower maintenance expenses due to less work charged to Bell Harbor International Conference Center and World Trade Center.

During 2015, operating expenses increased from \$306.3 million in 2014 to \$317.8 million in 2015. In 2015, the Port recognized a one-time lump sum payroll expense of \$4.9 million paid to exempt employees for transitioning the workforce to a 40-hour work week. Aviation Division operating expenses increased \$10.0 million primarily due to higher payroll expenses of \$4.9 million, outside services expenses of \$3.7 million, environmental expenses of \$2.3 million, and divisional allocations of \$1.9 million. These increases were offset by lower capital to expense charges of \$3.1 million compared to 2014. Maritime Division operating expenses increased \$1.9 million primarily due to a feasibility study, outside legal expenses, and increased security costs at Terminal 5. Additionally, maintenance expenses increased at Terminal 5 and Terminal 46 primarily due to

Storm Water Pollution plans, replacement and installation of a sewer lift station, maintenance of fire service systems, as well as annual inspections and repairs of the fire hydrants. Container expenses increased due to corporate charges for the formation of the NWSA and the configurations for interim use of Terminal 5. Economic Development Division operating expenses decreased by \$4.2 million, largely due to a reduction of contingent liability of \$1.4 million from favorable determinations of lawsuits brought forth by adjacent property owners of the Corridor. In addition, operating expenses decreased due to a higher proportion of tenant improvements qualifying for capitalization. These decreases were slightly offset by increased expenses due to higher volume of activities in the Conference and Event Centers.

As a result of the above, operating income before depreciation increased \$32.1 million from 2015 to 2016, compared to a \$12.9 million increase from 2014 to 2015. Depreciation expense increased by \$1.0 million from 2015 to 2016 and decreased \$3.0 million from 2014 to 2015.

A summary of nonoperating income (expense)—net, capital contributions, and special item are as follows (in thousands):

	2016	2015	2014 (Restated)
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenues	\$ 71,678	\$ 72,819	\$ 72,801
Passenger facility charge revenues	85,570	79,209	69,803
Customer facility charge revenues	24,715	23,540	19,889
Noncapital grants and donations	6,284	5,358	10,159
Fuel hydrant facility revenues	6,992	6,957	6,935
Investment income—net	8,448	9,122	11,202
Revenue and capital appreciation bonds interest expense	(105,567)	(110,128)	(108,910)
Passenger facility charge revenue bonds interest expense	(5,251)	(5,584)	(5,906)
General obligation bonds interest expense	(9,765)	(10,490)	(9,475)
Public expense	(8,560)	(5,023)	(6,854)
Environmental expense—net	(280)	(2,888)	(9,142)
Other (expense) income—net	(12,087)	(23,493)	2,109
Total nonoperating income—net	<u>\$ 62,177</u>	<u>\$ 39,399</u>	<u>\$ 52,611</u>
CAPITAL CONTRIBUTIONS	\$ 18,108	\$ 22,804	\$ 16,746
SPECIAL ITEM—SR 99 Viaduct expense	(147,700)	(120,000)	

During 2016, nonoperating income—net was \$62.2 million, a \$22.8 million increase from 2015 nonoperating income—net. The increase was largely due to a decrease in losses from the retirement of panel replacements on the Center Runway of \$8.6 million and loss on sale of property to the City of SeaTac for \$13.3 million in the Aviation Division in 2015 compared to 2016 activity of which the largest retirement related to a Heating, Ventilation and Air Conditioning (“HVAC”) system retirement in Concourse A of \$1.2 million. Additionally, an increase in passenger enplanements in 2016 from 2015 contributed to an increase in PFC revenues in 2016. The Economic Development Division had a loss on the sale of the Eastside Rail Corridor assets of \$4.6 million and additional retirements of Odyssey Museum tenant improvements of \$1.4 million with the expansion of the cruise terminal and event center facilities at Pier 66. Larger expenditures in public expense in 2016 included a \$2.1 million second and final contribution to King County’s South Park Bridge and a \$1.3 million installment payment relating to environmental work and design of a third eastbound lane on State Route SR18.

During 2015, nonoperating income—net was \$39.4 million, a \$13.2 million decrease from 2014. This was largely due to (1) an \$8.6 million loss on retirement of Aviation capital assets resulting from panel replacements for the Center Runway, (2) a \$13.3 million loss on sale of property to the City of SeaTac for use

in its Connecting 28th/24th Avenue South Project, (3) a \$10.8 million settlement from a bankruptcy claim against an asbestos insulation manufacturer received in 2014, and (4) decreases in noncapital grants and donations from Department of Ecology grant activity in 2015. This was offset by a decrease in environmental expense in Terminal 30 and Terminal 117 in 2015, and an increase in PFC revenues in 2015 due to increased enplanements.

During 2016, capital contributions decreased \$4.7 primarily due to lower grant revenues from the Airport Improvement Program specifically related to the Third Runway embankment work for \$6.1 million including stream relocation, drainage, fill and erosion protection that prepared the site for pavement. This decrease was partially offset by a slight increase in grant reimbursements related to the Center Runway construction in 2016 and 2015 of \$16.4 million and \$15.1 million, respectively.

During 2015, capital contributions increased \$6.1 million primarily due to increase in grant revenues from Airport Improvement Program reimbursements for Center Runway construction.

The Port recorded its payments made to the Washington State Department of Transportation (“WSDOT”) for the SR 99 Alaskan Way Viaduct Replacement Program as special items in 2015 and 2016. The first payment of \$120.0 million made in 2015 was in accordance with the funding agreement entered into with WSDOT for the State’s eligible construction costs incurred on the Tunnel Design Build Project. The Port made the remaining \$147.7 million payments to WSDOT in 2016. The SR 99 Alaskan Way Viaduct Replacement Program will improve movement of freight and other traffic on the west corridors of the Seattle transportation system between the Duwamish and Ballard-Interbay neighborhoods, including easy access to the Port’s cargo, recreational boating, commercial fishing, cruise facilities and the Airport.

Increase in net position for 2016 and 2015 was \$41.4 million and \$20.0 million, respectively. The \$21.4 million increase between the two years was primarily due to increased net operating income and nonoperating income-net, slightly offset by the \$27.7 million increase in the payment made to WSDOT relating to the SR 99 Alaskan Way Viaduct Replacement Program.

WAREHOUSEMEN’S PENSION TRUST FUND

The Warehousemen’s Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. Effective May 25, 2004, the Port became the sole administrator of the Warehousemen’s Pension Plan and Trust (the “Plan”). This plan was originally established to provide pension benefits for the employees at the Port’s warehousing operations at Terminal 106. In late 2002, the Port terminated all warehousing operations following the departure of the principal customer who operated the facility. The Plan provides that only service credited and compensation earned prior to April 1, 2004 shall be utilized to calculate benefits under the Plan, and the Port agrees to maintain the frozen Plan and to contribute funds to the Plan in such amounts that may be necessary to enable the Plan to pay vested accrued benefits as they become due and payable to participants and beneficiaries of the Plan.

A summarized comparison of the assets, liabilities, and fiduciary net position of the Warehousemen’s Pension Trust Fund as of December 31, and changes in fiduciary net position for the years ended December 31 is as follows (in thousands):

	2016	2015	2014
Total assets	\$ 9,066	\$ 9,191	\$ 9,988
Total liabilities			
Total fiduciary net position	<u>\$ 9,066</u>	<u>\$ 9,191</u>	<u>\$ 9,988</u>
Total additions	\$ 2,054	\$ 1,384	\$ 1,908
Total deductions	<u>(2,179)</u>	<u>(2,182)</u>	<u>(2,202)</u>
Decrease in fiduciary net position	(125)	(798)	(294)
Fiduciary net position—beginning of year	<u>9,186</u>	<u>9,984</u>	<u>10,278</u>
Fiduciary net position—end of year	<u>\$ 9,061</u>	<u>\$ 9,186</u>	<u>\$ 9,984</u>

Total fiduciary net position as of December 31, 2016 remained relatively unchanged compared to 2015.

Total fiduciary net position as of December 31, 2015 decreased by \$0.8 million from December 31, 2014 mainly due to a decline in the fair value of investments.

Additional information on the Port’s Warehousemen’s Pension Trust Fund can be found in Note 15 in the accompanying notes to the financial statements.

CAPITAL ASSETS

The Port’s capital assets as of December 31, 2016, amounted to \$5.5 billion (net of accumulated depreciation). This investment in capital assets includes land, air rights, facilities and improvements, equipment, furniture and fixtures, and construction work in progress. The Port’s investment in capital assets after accumulated depreciation remained relatively constant between years.

In 2016, the Port’s expenditures for capital construction projects totaled \$184.7 million of which \$160.5 million, \$12.9 million, and \$4.7 million related to Aviation Division, Maritime Division, and Economic Development Division, respectively. Major Aviation projects included \$41.6 million related to design and construction of the new International Arrivals Facility, \$28.3 million related to the North Satellite expansion and renovation, \$11.2 million related to the Delta Sky Club expansion, and \$10.7 million related to reconstruction of the Center Runway. The most significant Maritime and Economic Development project spending related to \$1.5 million in Terminal 91 upgrades and \$2.8 million in Terminal 102 roof and HVAC replacement, respectively.

During 2016, capital construction projects totaling \$87.3 million were completed and placed in service as capital assets. The most significant completed projects were in the Aviation Division relating to the reconstruction of Center Runway for \$11.6 million and the Delta Sky Club expansion for \$11.6 million.

During 2016, the Port collected \$71.8 million in property taxes through a King County ad valorem tax levy. The Port funds its capital assets from multiple sources, including but not limited to operating income, ad valorem tax levy, PFCs, Federal and State grants, and bond proceeds. All capital assets are accounted for within the Enterprise Fund.

The Port achieved its goal in preserving the 42-mile Corridor for public ownership. In January 2015, the Port received a cash payment of \$13.2 million from King County for the total outstanding balance including

accrued interest related to the Purchase and Sale Agreement entered in 2013 for a portion of the Southern Segment and an easement over portions of the Freight Segment of the Corridor. In November 2015, the Port received a cash payment of \$1.1 million from City of Woodinville related to the Purchase and Sale Agreement entered in 2014 for a portion of the Freight Segment (within Woodinville Corporate Limits and Bothell Corporate Limits) of the Corridor. No gain or loss was recorded on either transaction. In March 2016, the Port completed the sale of the remaining portions of the Corridor and any improvements located in Snohomish County, including the Snohomish River Bridge to Snohomish County for \$3.5 million. The Port recorded a loss on the sale of these capital assets of \$4.6 million in 2016.

In January 2015, the Port agreed to sell three cranes and the related spare parts to SSA Terminals, LLC and SSA Containers, Inc., the current tenant at Terminal 18. The Port estimates a loss of \$1.1 million will be reported on the sale of these capital assets in 2017, along with the Port's 50% share of the associated sales tax.

Additional information on the Port's capital assets can be found in Note 3 in the accompanying notes to the financial statements.

DEBT ADMINISTRATION

As of December 31, 2016, the Port had outstanding revenue bonds and commercial paper of \$2.5 billion, a \$172.4 million decrease from 2015 due to scheduled principal payments, early extinguishment of debt, and the refunding of existing revenue bonds.

In 2016, the Port issued \$150.1 million in Series 2016ABC First Lien Revenue Refunding Bonds to partially refund the outstanding Series 2007A First Lien Revenue Bonds, to fully refund the outstanding Series 2007B First Lien Revenue Bonds, pay the costs of issuing the bonds, and to contribute to the First Lien Common Reserve Fund. Also in 2016, the Port issued \$99.1 million in Series 2016 Intermediate Lien Revenue Refunding Bonds to fully refund the outstanding Series 2006 Intermediate Lien Revenue Refunding Bonds, and to pay the costs of issuing the bonds.

As of December 31, 2016, the Port had outstanding General Obligation ("GO") bonds of \$283.6 million, a \$21.9 million decrease from 2015 due to scheduled principal payments.

As of December 31, 2016, the Port had outstanding PFC Revenue bonds of \$110.8 million, a \$12.5 million decrease from 2015 due to a scheduled principal payment.

As of December 31, 2016, the Port had outstanding Fuel Hydrant Special Facility Revenue bonds of \$79.5 million, a \$3.2 million decrease from 2015 due to a scheduled principal payment.

Since May 2003, the fuel facilities have been leased to SeaTac Fuel Facilities LLC ("Lessee") for 40 years (including two five-year option periods). The Port owns the fuel system and the Lessee is obligated to collect the fuel system fees and to make monthly rent payments, which include a base rent for the land to the Port and facilities rent to Wells Fargo Bank Northwest, National Association ("Trustee"). Facilities rent is established at an amount sufficient to pay semiannual debt service, replenish any deficiency in the debt service reserve fund, and pay other fees associated with the bonds, including the Trustee fee. No ad valorem tax levy revenues or other revenues of the Port (other than fuel facilities lease revenues) are pledged to pay the debt service on the Fuel Hydrant Special Facility Revenue Bonds.

Below are the underlying Port credit ratings as of December 31, 2016. Certain Port bonds include bond insurance or bank letters of credit, and as such, those bonds may assume the credit rating of the associated bond insurer or letter of credit provider.

	Fitch	Moody's	S&P
General obligation bonds	AAA	Aa1	AAA
First lien revenue bonds	AA	Aa2	AA-
Intermediate lien revenue bonds	A+	A1	A+
Subordinate lien revenue bonds	A	A2	A+
Passenger facility charge revenue bonds	A	A1	A+
Fuel hydrant special facility revenue bonds		A2	A-

In January 2017, Fitch changed most of the Port's credit ratings based on their criteria revision. Fitch downgraded its ratings of the Port's GO bonds from AAA to AA-, upgraded its ratings of the Port's Intermediate Revenue bonds from A+ to AA-, upgraded its ratings of the Port's Subordinate Lien Revenue bonds from A to AA-, and upgraded its ratings of the Port's PFC Revenue bonds from A to A+. Also, in January 2017, Moody's upgraded its ratings of the Port's GO bonds from Aa1 to Aaa.

In March 2017, the Port issued \$127.3 million in Series 2017 Limited Tax GO Bonds, which were used to reimburse the Port and provide long-term funding for the Port's final 2016 contractual payments, totaling \$147.7 million, to WSDOT for the SR 99 Alaskan Way Viaduct Replacement Program, and pay the costs of issuing the bonds.

Additional information on the Port's debt and conduit debt activities can be found in Note 5 and Note 6, respectively, in the accompanying notes to the financial statements.

PORT OF SEATTLE — ENTERPRISE FUND

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2016 AND 2015

(In thousands)

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 51,453	\$ 9,965
Restricted cash and cash equivalents:		
Bond funds and other	40,009	6,294
Fuel hydrant assets held in trust	3,633	3,499
Short-term investments	237,050	209,229
Restricted short-term investments: Bond funds and other	191,508	145,416
Accounts receivable, less allowance for doubtful accounts of \$858 and \$218	43,898	42,794
Related party receivable—joint venture	10,527	
Grants-in-aid receivable	8,353	10,688
Taxes receivable	1,314	1,393
Materials and supplies	6,585	6,883
Prepayments and other current assets	7,960	8,223
Total current assets	<u>602,290</u>	<u>444,384</u>
NONCURRENT ASSETS:		
Long-term investments	283,559	515,047
Restricted long-term investments:		
Bond funds and other	232,048	361,438
Fuel hydrant assets held in trust	5,789	6,029
Investment in joint venture	65,059	
Net pension asset	6,728	11,901
Long-term receivable	199	7,447
Other long-term assets	4,067	5,431
CAPITAL ASSETS:		
Land and air rights	2,000,919	2,008,635
Facilities and improvements	5,095,806	5,048,814
Equipment, furniture, and fixtures	459,207	443,273
Total capital assets	7,555,932	7,500,722
Less accumulated depreciation	(2,263,416)	(2,108,483)
Construction work in progress	213,435	115,959
Total capital assets—net	<u>5,505,951</u>	<u>5,508,198</u>
 Total noncurrent assets	 <u>6,103,400</u>	 <u>6,415,491</u>
 Total assets	 <u>6,705,690</u>	 <u>6,859,875</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred loss on refunding bonds	12,781	16,222
Deferred charges on net pension asset and liability	22,444	14,411
Total deferred outflows of resources	<u>35,225</u>	<u>30,633</u>
TOTAL	\$ 6,740,915	\$ 6,890,508

See notes to financial statements.

	2016	2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 123,028	\$ 120,453
Related party payable—joint venture	7,030	
Payroll and taxes payable	36,152	34,341
Bonds interest payable	36,384	41,725
Customer advances	13,221	12,777
Current maturities of long-term debt	<u>168,570</u>	<u>170,560</u>
Total current liabilities	<u>384,385</u>	<u>379,856</u>
NONCURRENT LIABILITIES:		
LONG-TERM LIABILITIES:		
Net pension liability	107,596	95,548
Environmental remediation liability	42,381	48,429
Bonds interest payable	15,832	13,181
Other postemployment benefits obligation	10,424	9,687
Lease securities and other long-term liability	<u>5,106</u>	<u>16,817</u>
Total long-term liabilities	<u>181,339</u>	<u>183,662</u>
LONG-TERM DEBT:		
Revenue and capital appreciation bonds	2,538,942	2,678,392
General obligation bonds	285,533	311,195
Passenger facility charge revenue bonds	101,076	115,284
Fuel hydrant special facility revenue bonds	<u>82,063</u>	<u>86,050</u>
Total long-term debt	<u>3,007,614</u>	<u>3,190,921</u>
Total noncurrent liabilities	<u>3,188,953</u>	<u>3,374,583</u>
Total liabilities	<u>3,573,338</u>	<u>3,754,439</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred gain on refunding bonds	15,390	12,597
Deferred credits on net pension asset and liability	<u>3,840</u>	<u>16,556</u>
Total deferred inflows of resources	<u>19,230</u>	<u>29,153</u>
NET POSITION:		
Net investment in capital assets	2,591,049	2,474,130
Restricted for:		
Debt service reserves	177,572	188,181
Passenger facility charges	135,317	104,704
Customer facility charges	16,129	15,335
Grants and other	14,157	10,471
Unrestricted	<u>214,123</u>	<u>314,095</u>
Total net position	<u>3,148,347</u>	<u>3,106,916</u>
TOTAL	<u>\$ 6,740,915</u>	<u>\$ 6,890,508</u>

See notes to financial statements.

PORT OF SEATTLE — ENTERPRISE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In thousands)

	2016	2015	2014 (Restated)
OPERATING REVENUES:			
Services	\$ 231,326	\$ 212,612	\$ 195,364
Property rentals	291,874	332,696	325,219
Customer facility charge revenues	12,121	12,663	13,608
Operating grants and contract revenues	1,562	962	298
Joint venture income	61,584		
Total operating revenues	<u>598,467</u>	<u>558,933</u>	<u>534,489</u>
OPERATING EXPENSES:			
Operations and maintenance	237,964	234,017	228,292
Administration	63,456	60,225	56,711
Law enforcement	23,865	23,564	21,297
Total operating expenses	<u>325,285</u>	<u>317,806</u>	<u>306,300</u>
NET OPERATING INCOME BEFORE DEPRECIATION	273,182	241,127	228,189
DEPRECIATION	<u>164,336</u>	<u>163,338</u>	<u>166,337</u>
OPERATING INCOME	<u>108,846</u>	<u>77,789</u>	<u>61,852</u>
NONOPERATING INCOME (EXPENSE):			
Ad valorem tax levy revenues	71,678	72,819	72,801
Passenger facility charge revenues	85,570	79,209	69,803
Customer facility charge revenues	24,715	23,540	19,889
Noncapital grants and donations	6,284	5,358	10,159
Fuel hydrant facility revenues	6,992	6,957	6,935
Investment income—net	8,448	9,122	11,202
Revenue and capital appreciation bonds interest expense	(105,567)	(110,128)	(108,910)
Passenger facility charge revenue bonds interest expense	(5,251)	(5,584)	(5,906)
General obligation bonds interest expense	(9,765)	(10,490)	(9,475)
Public expense	(8,560)	(5,023)	(6,854)
Environmental expense—net	(280)	(2,888)	(9,142)
Other (expense) income—net	<u>(12,087)</u>	<u>(23,493)</u>	<u>2,109</u>
Total nonoperating income—net	<u>62,177</u>	<u>39,399</u>	<u>52,611</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND SPECIAL ITEM	<u>171,023</u>	<u>117,188</u>	<u>114,463</u>
CAPITAL CONTRIBUTIONS	<u>18,108</u>	<u>22,804</u>	<u>16,746</u>
INCOME BEFORE SPECIAL ITEM	189,131	139,992	131,209
SPECIAL ITEM—SR 99 Viaduct expense	<u>(147,700)</u>	<u>(120,000)</u>	
INCREASE IN NET POSITION	41,431	19,992	131,209
TOTAL NET POSITION:			
Beginning of year, as restated (Note 1)	<u>3,106,916</u>	<u>3,086,924</u>	<u>2,955,715</u>
End of year	<u>\$ 3,148,347</u>	<u>\$ 3,106,916</u>	<u>\$ 3,086,924</u>

See notes to financial statements.

PORT OF SEATTLE – ENTERPRISE FUND

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In thousands)

	2016	2015	2014 (Restated)
OPERATING ACTIVITIES:			
Cash received from customers	\$ 521,064	\$ 584,730	\$ 549,055
Cash received from joint venture for support services provided	8,514		
Customer facility charge receipts	12,121	12,663	13,608
Cash paid to suppliers for goods and services	(122,710)	(111,235)	(132,300)
Cash paid to employees for salaries, wages and benefits	(198,924)	(198,466)	(187,439)
Operating grants and contract revenues	1,562	962	298
Other	(1,626)	(2,571)	(1,611)
Net cash provided by operating activities	<u>220,001</u>	<u>286,083</u>	<u>241,611</u>
NONCAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuance and sale of GO bonds		120,006	
Principal payments on GO bonds	(2,320)		(15,275)
Interest payments on GO bonds	(4,681)	(2,804)	(571)
Cash paid for special item—SR 99 Viaduct expense	(147,700)	(120,000)	
Cash paid for environmental remediation liability	(5,457)	(9,032)	(19,627)
Public expense disbursements	(7,764)	(5,360)	(4,049)
Ad valorem tax levy receipts	71,753	72,941	72,926
Noncapital grants and contract revenues	6,284	5,358	10,159
Proceeds from assets held for sale		14,207	
Environmental recovery receipts	2,655	2,746	11,923
Litigation settlement receipt			10,847
Receipts from implicit financing		2,236	
Net cash (used in) provided by noncapital and related financing activities	<u>(87,230)</u>	<u>80,298</u>	<u>66,333</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from issuance and sale of revenue bonds, GO bonds, fuel hydrant special facility revenue bonds, PFC bonds, and commercial paper	302,959	704,501	
Proceeds used for refunding of revenue bonds, GO bonds, fuel hydrant special facility revenue bonds, and PFC bonds	(319,620)	(376,938)	
Principal payments on revenue bonds, GO bonds, fuel hydrant special facility revenue bonds, PFC bonds, and commercial paper	(138,585)	(171,030)	(158,246)
Interest payments on revenue bonds, GO bonds, PFC bonds, fuel hydrant special facility revenue bonds, and commercial paper	(144,770)	(131,777)	(135,310)
Acquisition and construction of capital assets	(179,180)	(192,023)	(185,853)
Deposits and proceeds from sale of capital assets	3,830	253	4,432
Receipts from capital contributions	20,307	21,545	15,111
Passenger facility charge receipts	82,130	78,152	69,140
Customer facility charge receipts	24,716	24,117	19,925
Fuel hydrant facility revenues	6,993	6,957	6,935
Net cash used in capital and related financing activities	<u>\$ (341,220)</u>	<u>\$ (36,243)</u>	<u>\$ (363,866)</u>

See notes to financial statements.

(Continued)

PORT OF SEATTLE — ENTERPRISE FUND

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In thousands)

	2016	2015	2014 (Restated)
INVESTING ACTIVITIES:			
Purchases of investment securities	\$ (296,292)	\$ (560,615)	\$ (732,616)
Proceeds from sales and maturities of investments	577,585	161,953	782,305
Interest received on investments	12,654	9,128	7,895
Cash used to fund investment in joint venture	(59,408)		
Cash distributions received from joint venture	47,542		
Net cash provided by (used in) investing activities	<u>282,081</u>	<u>(389,534)</u>	<u>57,584</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (including \$678, \$1,027, and \$909 restricted cash and cash equivalents of fuel hydrant assets held in trust reported as restricted long-term investments, respectively)			
	73,632	(59,396)	1,662
CASH AND CASH EQUIVALENTS:			
Beginning of year	<u>20,785</u>	<u>80,181</u>	<u>78,519</u>
End of year	<u>\$ 94,417</u>	<u>\$ 20,785</u>	<u>\$ 80,181</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:			
Operating income	\$ 108,846	\$ 77,789	\$ 61,852
Miscellaneous nonoperating (expense) income	(1,626)	(2,571)	(1,611)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	164,336	163,338	166,337
(Increase) Decrease in assets:			
Investment in joint venture	(61,584)		
Accounts receivable	311	(3,744)	16,406
Materials and supplies, prepayments and other	7,315	3,188	12,717
Net pension asset	5,173	2,795	(9,979)
(Increase) Decrease in deferred outflows of resources:			
Deferred charges on net pension asset and liability	(8,213)	(6,948)	(1,999)
(Decrease) Increase in liabilities:			
Accounts payable and accrued expenses	(1,093)	46,306	(11,873)
Payroll and taxes payable	2,990	(4,408)	(2,487)
Lease securities and customer advances	1,636	6,364	4,383
Net pension liability	11,612	20,938	(25,927)
Environmental remediation liability	2,276	1,591	(1,951)
Other postemployment benefits obligation	737	209	423
(Decrease) Increase in deferred inflows of resources:			
Deferred credits on net pension asset and liability	(12,715)	(18,764)	35,320
Net cash provided by operating activities	<u>\$ 220,001</u>	<u>\$ 286,083</u>	<u>\$ 241,611</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Net unrealized investment (loss) gain	\$ (5,110)	\$ (815)	\$ 3,036
Construction work in progress transfer to joint venture	7,887		
See notes to financial statements.			(Concluded)

PORT OF SEATTLE – WAREHOUSEMEN'S PENSION TRUST FUND

STATEMENT OF FIDUCIARY NET POSITION

AS OF DECEMBER 31, 2016 AND 2015

(In thousands)

	2016	2015
ASSETS:		
Cash and cash equivalents	\$ 134	\$ 237
Investments in mutual fund—fair value:		
Fixed income	3,446	3,624
Domestic equities	2,753	2,640
International equities	2,589	2,542
Total investments	<u>8,788</u>	<u>8,806</u>
Other assets	<u>144</u>	<u>148</u>
Total assets	<u>9,066</u>	<u>9,191</u>
LIABILITIES:		
Accounts payable	<u>5</u>	<u>5</u>
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 9,061</u>	<u>\$ 9,186</u>

See notes to financial statements.

PORT OF SEATTLE – WAREHOUSEMEN'S PENSION TRUST FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In thousands)

	2016	2015	2014
ADDITIONS:			
Employer contributions	\$ 1,500	\$ 1,500	\$ 1,500
Investment income:			
Net appreciation (depreciation) in fair value of investments	357	(308)	202
Dividends	227	227	251
Less investment expenses	(30)	(35)	(45)
Net investment income (loss)	<u>554</u>	<u>(116)</u>	<u>408</u>
Total additions	<u>2,054</u>	<u>1,384</u>	<u>1,908</u>
DEDUCTIONS:			
Benefits	2,093	2,079	2,091
Administrative expenses	45	46	45
Professional fees	41	57	66
Total deductions	<u>2,179</u>	<u>2,182</u>	<u>2,202</u>
Net decrease in net position	(125)	(798)	(294)
NET POSITION RESTRICTED FOR PENSIONS			
Beginning of year	<u>9,186</u>	<u>9,984</u>	<u>10,278</u>
End of year	<u>\$ 9,061</u>	<u>\$ 9,186</u>	<u>\$ 9,984</u>

See notes to financial statements.

PORT OF SEATTLE

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization—The Port of Seattle (the “Port”) is a municipal corporation 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. The Port 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 the Port’s bonds.

Reporting Entity—The Port reports the following funds: the Enterprise Fund accounts for all activities and operations of the Port except for the activities included within the Warehousemen’s Pension Trust Fund. 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.

In 2015, the Port underwent a series of reorganizations to strategically position the Port to achieve future growth, operational excellence and talent development. Effective January 1, 2016, the Port and its Enterprise Fund is comprised of three operating divisions, namely Aviation, Maritime, and Economic Development. The Aviation Division manages the Airport serving the predominant air travel needs of a five-county area. The Airport has 14 United States (“U.S.”) flag passenger air carriers (including regional and commuter air carriers) and 14 foreign-flag passenger air carriers providing nonstop service from the Airport to 107 cities, including 23 foreign cities. The Maritime Division manages industrial property connected with maritime businesses, recreational marinas, Fishermen’s Terminal, cruise, grain, and maritime operations. The Economic Development Division focuses on managing the Port’s industrial and commercial properties including conference and event centers, encouraging tourism, developing small business opportunities, and providing for workforce development in the aviation, maritime, and construction industries.

The Warehousemen’s Pension Trust Fund accounts for the assets of the employee benefit plan held by the Port in a trustee capacity. On May 25, 2004, the Port became the sole administrator for the Warehousemen’s Pension Plan and Trust (the “Plan”). This Plan was originally established to provide pension benefits for the employees at the Port’s warehousing operations at Terminal 106. In late 2002, the Port terminated all warehousing operations following the departure of the principal customer who operated the facility. As of May 25, 2004, the Plan is a governmental plan maintained and operated solely by the Port.

For financial reporting purposes, component units are entities which are legally separate organizations for which the Port is financially accountable, and other organizations for which the nature and significance of their relationship with the Port are such that exclusion would cause the Port’s financial statements to be misleading or incomplete. Based on these criteria, the following is considered a component unit of the Port’s reporting entity.

The Industrial Development Corporation (“IDC”) is a blended component unit of the Port and is included within the accompanying financial statements. The IDC is a special purpose government with limited powers and is governed by a Board of Directors, which is comprised of the same members of the Port’s Commission. The Port’s management has operational responsibility for the IDC. The IDC has issued tax-exempt nonrecourse revenue bonds to finance industrial development for acquiring, constructing, and renovating transshipment and manufacturing facilities within the corporate boundaries of the Port. These revenue bonds are solely

payable and secured by revenues derived from the industrial development facilities funded by the revenue bonds and leased to the IDC. The Port has not recorded these obligations, or the related assets, in the accompanying financial statements of the Port, as the Port has no obligation for the outstanding bonds. A copy of the separate financial statements for the IDC may be obtained at:

Port of Seattle
Pier 69
P.O. Box 1209
Seattle, WA 98111

Basis of Accounting—The Port is accounted for on a flow of economic resources measurement focus. The financial statements are prepared in accordance with generally accepted accounting principles in the U.S. as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB’s authoritative literature certain accounting and financial reporting guidance issued by Financial Accounting Standards Board (“FASB”) pronouncements which do not conflict with or contradict GASB pronouncements. It also eliminates the option to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements. The more significant Port’s accounting policies are described below.

Use of Estimates—The preparation of the Port’s financial statements in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are used to record environmental remediation liabilities, litigated and non-litigated loss contingencies, insurance recoveries, allowances for doubtful accounts, grants-in-aid receivable, arbitrage rebate liabilities, healthcare benefit claims liabilities, net pension assets, net pension liabilities, and other postemployment benefits obligations. Actual results could differ from those estimates.

Significant Risks and Uncertainties—The Port is subject to certain business and casualty risks that could have a material impact on future operations and financial performance. Business risks include economic conditions, collective bargaining disputes, security, litigation, Federal, State, and local government regulations, and changes in law. Casualty risks include natural or man-made events that may cause injury or other damages at Port facilities. The Port has a comprehensive risk management program that protects the Port against loss from various adverse casualty events to its property, operations, third-party liabilities, and employees. The Port carries excess commercial insurance to provide a financial means to recover from many of these potential events or losses. The excess commercial insurance coverage is above a self-insured retention that the Port maintains. The Port is a qualified workers compensation self-insurer in the State and administers its own workers compensation claims. Claims, litigation and other settlements have not exceeded the limits of available insurance coverage in any of the past three years, when insurance was applicable.

The Port is self-insured for majority of its sponsored healthcare plans. Employees covered by these plans pay a portion of the premiums for their coverage. The Port purchased a stop-loss insurance policy for the self-insured healthcare plan to limit the Port’s individual claims liability up to \$200,000 per year in 2016 and 2015, and to 125% of expected claims in aggregate. Healthcare benefit claims liabilities are not discounted to present value as nearly all healthcare claims are current in nature. The estimated liability is based upon actual claims that have been submitted and authorized for payment as well as actuarially determined claims incurred but not reported. The estimated liability is included in payroll and taxes payable in the Statement of Net Position.

The table below reflects the changes in the claim liabilities for the years ended December 31 (in thousands). Claim payments made during the current year include associated incremental costs such as administration expenses and stop-loss insurance policy premiums. Employees' cost sharing portion of the healthcare plan and retirees' payments for participating in the Port's healthcare plan made during the current year are included as "Other" in the table below. Retirees' participation in the Port's healthcare plan is not implicitly or explicitly subsidized.

Years ended December 31,	Beginning balance	Current year claims and changes in estimates	Claim payments	Other	Ending balance
2016	\$ 946	\$ 11,601	\$ (13,235)	\$ 1,698	\$ 1,010
2015	1,070	12,295	(14,224)	1,805	946
2014	1,423	11,724	(13,800)	1,723	1,070

Employee Benefits—Eligible Port employees accrue paid time off and extended illness. The paid time off accrual rates increase based on length of service. A stipulated maximum of paid time off may be accumulated by employees while there is no maximum limit to the amount of extended illness accrual that can be accumulated. Terminated employees are entitled to be paid for unused paid time off. Under certain conditions, terminated employees are entitled to be paid for a portion of unused extended illness accrual.

The Port also offers its eligible union and non-union employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the "457 Plan"). Employees are able to direct their 457 funds to any investment options available under the 457 Plan. The Port placed its deferred compensation plan assets in a separate trust as required under the Small Business Job Protection Act of 1996 and as such, the related assets and liabilities are not included in the Port's financial statements.

On an annual basis, the Port has the option of offering a 401(a) supplemental savings plan (the "401(a) Plan") for non-union employees. The 401(a) Plan establishes a 401(a) tax-deferred savings account for each eligible employee. The Port matches employee contributions to their 457 plan with a dollar-for-dollar contribution to the 401(a) Plan up to a fixed maximum of \$2,200. This matching contribution increases with tenure. Employees are able to direct their 401(a) funds to any investment options available under the 401(a) Plan. The Port placed its supplemental savings plan assets in a separate trust as required under the Small Business Job Protection Act of 1996 and as such, the related assets and liabilities are not included in the Port's financial statements.

The Port contributes to the 401(a) Police Retirement Plan and Trust, and the 401(a) Fire Fighters Retirement Plan and Trust in lieu of Social Security contributions for certain eligible uniformed law enforcement officers and fire fighters who elected not to participate in the Social Security system. This complies with the collective bargaining agreements for employees who participate in these plans. Employees are able to direct their 401(a) funds to any investment options available under the 401(a) Plans. The Port placed the plans' assets in separate trusts as required under the Small Business Job Protection Act of 1996 and as such, the related assets and liabilities are not included in the Port's financial statements.

Investments and Cash Equivalents—All short-term investments with a maturity of three months or less at the date of purchase are considered to be cash equivalents except for the restricted portion of the fuel hydrant assets held in trust not used to pay the current maturities of Fuel Hydrant Special Revenue Bonds plus accrued interest that is reported as restricted long-term investments in the Statement of Net Position. Investments are carried at fair value plus accrued interest receivable. Fair values are determined based on quoted market rates. Unrealized gains or losses due to market valuation changes are recognized in investment income—net in the Statement of Revenues, Expenses, and Changes in Net Position.

Accounts Receivable and Allowance for Doubtful Accounts—Accounts receivable are recorded for invoices issued to customers in accordance with the contractual arrangements. Unbilled receivables are recorded when revenues are recognized upon service delivery and invoicing occurs at a later date. Finance charges and late fees are recognized on accounts receivable in accordance with contractual arrangements. Interest income on finance charges and late fees are minimal. The Port’s policy defines delinquent receivable as 90 days or more past due. The allowance for doubtful accounts is based on specific identification of troubled accounts and delinquent receivables. Accrual of accounts receivable, related finance charges and late fees are suspended once the accounts receivable is sent to a third party collection agency, placed in dispute or litigation, or the customer has filed for bankruptcy. Accounts receivable are written-off against the allowance when deemed uncollectible. Recoveries of receivables previously written-off are recorded when received.

Grants-in-Aid Receivable—The Port receives Federal and State grants-in-aid funds on a reimbursement basis for all divisions, mostly related to construction of Airport and Maritime facilities and other capital activities, along with operating and nonoperating grants to perform enhancements in both Airport and Maritime security as well as environmental prevention/remediation programs.

Materials and Supplies—Materials and supplies are recorded at the lower of cost or market. The Port’s policy is to expense materials and supplies when used in operations and to capitalize amounts used in capital projects as construction work in progress.

Investments in Joint Venture—The Port adopted joint venture accounting beginning January 1, 2016 to account for its 50% share in the NWSA. The Port’s investment in the NWSA is presented in the Statement of Net Position as investment in joint venture which is increased by the Port’s share in the NWSA’s change in net position, additional cash funding, and decreased by the receipt of cash distributions from the NWSA. The Port’s share of joint venture income is presented in the Statement of Revenues, Expenses, and Changes in Net Position. Additional information about the investment in joint venture can be found in the MD&A and Note 13.

Capital Assets—Capital assets are stated at cost, less accumulated depreciation. Costs applicable to noise damage remedies, together with the cost of litigation, in exchange for air rights are generally recorded as intangible capital assets. The Port’s policy is to capitalize all asset additions equal to or greater than \$20,000 and with an estimated life of three years or more. The Port capitalizes interest during construction until the asset is placed into service, based on average construction expenditures and average actual debt service rates for bond funded construction, excluding externally restricted acquisition of specified qualified assets financed with grants or proceeds from tax-exempt debt. 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. The Port periodically reviews its long-lived assets for impairment. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly.

Operating and Nonoperating Revenues—Fees for services, rents, charges for the use of Port facilities, Airport landing fees, operating grants, a portion of the customer facility charge (“CFC”) revenues, other revenues generated from operations, and joint venture income are reported as operating revenues. Ad valorem tax levy revenues, noncapital grants and donations, passenger facility charge (“PFC”) revenues, the remaining portion of CFC revenues, fuel hydrant facility revenues, and other income generated from nonoperating sources are classified as nonoperating revenues.

Operating and Nonoperating Expenses—Expenditures related to the Port’s principal ongoing operations are reported as operating expenses. Operating expenses include operations and maintenance expenses, administrative expenses, and law enforcement expenses. All other expenses not meeting this definition are reported as nonoperating expenses. Nonoperating expenses include interest, environmental, and public expenses.

Nonexchange Transactions—GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, establishes uniform revenue and expense recognition criteria and financial reporting standards regarding when (i.e., in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. When the Port receives value without directly giving equal value in return, these transactions, which include taxes, intergovernmental grants, entitlements, other financial assistance, and nongovernmental contractual agreements are reported as revenues.

- For derived revenue transactions, such as PFC and CFC, the Port recognizes receivables in the period when the exchange transaction on which the fee/charge is imposed occurs or records cash when received, whichever occurs first. Revenue is recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the receivables are recognized, provided that the underlying exchange transaction has occurred. Resources received in advance are reported as unearned revenues until the period of the exchange.
- For imposed nonexchange revenue transactions, such as ad valorem tax levy revenues, the Port recognizes receivables in the period when an enforceable legal claim to the receivables arises, i.e. lien date, or records cash when received, whichever occurs first. Resources received in advance before the lien date is reported as deferred inflows of resources.
- For government-mandated nonexchange transactions and voluntary nonexchange transactions, such as grant programs, resources received before the eligibility requirements are met (excluding time requirements) are reported as unearned revenues. Resources received before time requirements are met, but after all other eligibility requirements have been met, is reported as deferred inflows of resources.

When the Port gives value without directly receiving equal value in return, these transactions, which include expenses for district schools and infrastructure improvements to the State and region in conjunction with other agencies, are reported as public expense.

Passenger Facility Charges—As determined by applicable Federal legislation, which are based upon passenger enplanements, PFC generated revenues are expended by the Port for eligible capital projects and the payment of principal and interest on specific revenue bonds. PFC revenues received from the airlines at \$4.50 per passenger, are recorded as nonoperating income in the Statement of Revenues, Expenses, and Changes in Net Position.

Customer Facility Charges—As determined by applicable State legislation, CFC generated revenues received from rental car companies at \$6.00 per transaction day, are expended by the Port for eligible capital projects, the payment of principal and interest on specific revenue bonds funding the Rental Car Facility (“RCF”) at the Airport, and certain related operating expenses. A portion of CFC revenues is recorded as operating revenues as it is associated with the operation of the RCF. The remaining portion of CFC revenues is recorded as nonoperating income in the Statement of Revenues, Expenses, and Changes in Net Position.

Ad Valorem Tax Levy—Ad valorem taxes received by the Port are utilized for the acquisition and construction of facilities, payment of principal and interest on GO bonds issued for the acquisition or construction of facilities, contributions to regional freight mobility improvement, environmental expenses, certain operating expenses, and public expenses. The Port includes ad valorem tax levy revenues and interest expense on GO bonds as nonoperating income in the Statement of Revenues, Expenses, and Changes in Net Position.

The King County (“County”) Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually on January 1 on property values listed as of the prior year. The lien date is January 1. Assessed values are established by the County Assessor at 100% of fair market value. A

re-evaluation of all property is required every two years. Taxes are due in two equal installments on April 30 and October 31. Collections are distributed daily to the Port by the County Treasurer.

Payments in Lieu of Taxes—The Port, on behalf of the State of Washington, collects applicable leasehold taxes from its tenants. The taxes are a pass-through to the State and are, therefore, not reflected as an expense or revenue by the Port.

Airline Rates and Charges—During 2013, the Port reached agreement with the airlines for the new Signatory Lease and Operating Agreement (“SLOA III”). SLOA III is effective for the period January 1, 2013 through December 31, 2017. SLOA III is a hybrid-compensatory rate setting methodology. Under SLOA III, aeronautical rates are set to recover both operating and capital costs by cost center. Key provisions include: (1) a one-time reduction in the revenue requirement of \$17,880,000, from the removal of the security fund liability when SLOA II expired, (2) cash funded assets included in capital recovery formulas extend back to 1992, (3) Airport does not recover costs relating to vacant publicly accessible office space (costs associated with all other airline space are fully recovered), (4) cost recovery formulas permit the Port to charge the airlines 100% of annual debt service allocated to the airlines (unless the Port determines in its sole discretion that a charge above 100% of annual airline debt service is necessary to maintain the total Airport revenue bond coverage at 1.25 times the sum of the annual debt service), and (5) revenue sharing of 50% of the cash flow available for debt service above 125% of annual debt service is credited to the signatory airlines. Settlement calculations comparing 2016 revenue requirements and invoices billed in 2016 for each cost center and for all airlines, including revenue sharing, have been reflected in the 2016 financial statements.

Lease Securities—Under the terms of certain lease agreements, the Port requires or allows its customers or tenants to provide security to satisfy contractual obligations. The Port classifies these amounts as lease securities and are included in noncurrent liability in the Statement of Net Position. The Port is allowed to draw from the lease securities in certain events as defined in these agreements, such as for defaults or delinquencies in rent payment. The balance is determined by the lease terms and is recalculated according to the provisions of the agreements.

Environmental Remediation Liabilities—The Port’s policy requires accrual of environmental remediation liabilities amounts when (a) one of the following specific obligating events is met, and (b) the amount can be reasonably estimated. Obligating events include: imminent endangerment to the public, permit violation, named as party responsible for sharing costs, named in a lawsuit to compel participation in pollution remediation, or commenced or legally obligated to commence pollution remediation. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the Port’s environmental remediation liabilities. Costs incurred for environmental remediation liabilities are typically recorded as nonoperating environmental expenses unless the expenditures relate to the Port’s principal ongoing operations, in which case they are recorded as operating expenses. Costs incurred for environmental remediation liabilities can be capitalized if they meet specific criteria. Capitalization criteria include: preparation of property in anticipation of a sale, preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated, performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment, or acquisition of property, plant, and equipment that have a future alternative use not associated with pollution remediation efforts.

Debt Discount and Premium—Debt discounts and premiums relating to the issuance of bonds are amortized over the lives of the related bonds using the effective interest method.

Refunding and Defeasance of Debt—The Port has legally defeased certain bonds by placing proceeds, either in the form of new bond proceeds or existing Port cash, in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not recorded on the accompanying financial statements. As of December 31, 2016 and

2015, the total defeased, but unredeemed, bonds outstanding totaled \$1,375,000 and \$3,380,000, respectively.

For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as deferred outflow of resources or deferred inflow of resources and recognized as a component of interest expense on a straight-line basis over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Special Item—The Port recorded its payments made to the Washington State Department of Transportation (“WSDOT”) for the SR 99 Alaskan Way Viaduct Replacement Program as special items in 2015 and 2016. The first payment of \$120.0 million made in 2015 was in accordance with the funding agreement entered into with WSDOT for the State’s eligible construction costs incurred on the Tunnel Design Build Project. The Port made the remaining \$147.7 million payments to WSDOT in 2016. The SR 99 Alaskan Way Viaduct Replacement Program will improve movement of freight and other traffic on the west corridors of the Seattle transportation system between the Duwamish and Ballard-Interbay neighborhoods, including easy access to the Port’s cargo, recreational boating, commercial fishing, cruise facilities and the Airport.

Net Position—Net position represents all assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Net position is displayed in the Statement of Net Position in the following categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted: Net position subject to externally imposed stipulations on their use.
- Unrestricted: All remaining net position not meeting the definition of “net investment in capital assets” or “restricted.”

When both restricted and unrestricted resources are available for the same purpose, restricted net position is considered to be used first over unrestricted net position.

Recently Issued Accounting Pronouncements—In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. This statement also requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. This statement is effective for periods beginning after June 15, 2015. The Port adopted this statement in 2016 and the required disclosure of the Port’s investments can be found in Note 2.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. This statement is effective for periods beginning after June 15, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of

Statement No. 68, which are effective for periods beginning after June 15, 2016. This standard did not apply to the Port.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (“OPEB”)*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement is effective for periods beginning June 15, 2016. The Port is currently evaluating the impact of the adoption of this standard on its financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement addresses accounting and financial reporting for OPEB that is provided to the employees by the state and local governmental employers. This statement also establishes the standard for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for periods beginning June 15, 2017. The Port is currently evaluating the impact of the adoption of this standard on its financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*. This statement reduces the generally accepted accounting principles (“GAAP”) hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for periods beginning after June 15, 2015 and should be applied retroactively. The adoption of this standard did not have any material impact to the Port’s financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement provides financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (1) whether current-year revenues were sufficient to pay for current-year services, (2) compliance with finance-related legal or contractual requirements, (3) where a government’s financial resources come from and how it uses them, and (4) financial position and economic condition and how they have changed over time. This statement is effective for periods beginning after December 15, 2015. The adoption of this standard did not have any material impact to the Port’s financial statements.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement amends the scope and applicability of Statement No. 68 to exclude certain cost-sharing multiple-employer defined benefit pension plans that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. This statement is effective for periods beginning after December 15, 2015. The adoption of this standard did not have any material impact to the Port’s financial statements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost. This statement is effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for periods beginning after December 15, 2015. This standard did not apply to the Port.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No.14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement is effective for periods beginning after June 15, 2016. The Port is currently evaluating the impact of the adoption of this standard on its financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognizes assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. This statement is effective for periods beginning after December 15, 2016. The Port is currently evaluating the impact of the adoption of this standard on its financial statements.

In March 2016, the GASB issued Statement No.82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for periods beginning after June 15, 2017. The Port is currently evaluating the impact of the adoption of this standard on its financial statements.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (“AROs”). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement is effective for periods beginning after June 15, 2018. The Port is currently evaluating the impact of the adoption of this standard on its financial statements.

Restatement—In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*. This statement revises and establishes new financial reporting requirements for governments participating in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans and defined contribution plans. This statement requires governments providing defined benefit pensions to recognize its long-term obligation for pension benefits as a liability for the first time. Changes in the net pension asset and liability are recorded in the period incurred, as pension expense, or as deferred outflows of resources, or deferred inflows of resources, depending on the nature of the change. Differences between projected and actual earnings on pension plan investments are amortized over five years. Changes as a result of differences between expected and actual experience, and changes in actuarial assumptions for all plan types, as well as changes in proportion and differences between Port’s contributions and its proportionate share of contributions related to multiple-employer cost-sharing plans are amortized over the weighted average

remaining service lives of all participants. The amortized amount is recognized as a component of pension expense beginning with the period in which they are incurred.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. This statement amends Statement No. 68 to require that, at transition, a government recognizes a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

The Port adopted both statements retroactively by restating the financial statements for all periods presented. The beginning balance of net position was reduced by \$92,820,000 and restated as of January 1, 2013 for the following: (1) removal of \$828,000 of pension asset related to the Warehousemen’s Pension Plan previously reported under Statement No. 27, (2) recognition of net pension liabilities of \$89,372,000 and \$12,064,000 related to the multiple-employer cost-sharing plans that the Port participates in the Washington State Retirement System and the Warehousemen’s Pension Plan, respectively, (3) recognition of net pension assets of \$4,717,000 related to the multiple-employer cost-sharing plans that the Port participates in the Washington State Retirement System, and (4) recognition of \$4,727,000 in deferred outflow of resources related to the additional contribution to the multiple-employer cost-sharing plans that the Port participates in the Washington State Retirement System under Statement No. 71.

The required disclosures for the multiple-employer cost-sharing plans that the Port participates in the Washington State Retirement System and the Warehousemen’s Pension Plan can be found in Note 8 and Note 15, respectively, in the accompanying notes to the financial statements and the related required supplementary information.

The following table shows the restated balances within the financial statements (in thousands):

	As previously reported	Effect of restatement	As restated
2014 ENTERPRISE FUND			
STATEMENT OF NET POSITION			
CURRENT ASSETS:			
Prepayments and other current assets	\$ 16,397	\$ 376	\$ 16,773
LONG-TERM ASSETS:			
Other long-term assets	14,294	(1,481)	12,813
Net pension asset		14,696	14,696
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charges on net pension asset and liability		6,916	6,916
LONG-TERM LIABILITIES:			
Net pension liability		74,585	74,585
DEFERRED INFLOWS OF RESOURCES:			
Deferred credits on net pension assets and liability		35,320	35,320
NET POSITION:			
Restricted for:			
Grants and other	1,883	6,238	8,121
Unrestricted	506,422	(95,636)	410,786

(Continued)

	As previously reported	Effect of restatement	As restated
2014 ENTERPRISE FUND			
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION			
OPERATING REVENUES:			
Operating grants and contract revenues	747	(449)	298
OPERATING EXPENSES:			
Operations and maintenance	229,323	(1,031)	228,292
Administration	56,794	(83)	56,711
Law enforcement	23,217	(1,920)	21,297
NONOPERATING INCOME (EXPENSE):			
Other (expense) income—net	1,272	837	2,109
TOTAL NET POSITION:			
Beginning of year	3,048,535	(92,820)	2,955,715
			(Concluded)

Reclassifications and Presentation—Certain reclassifications of prior years’ balances have been made to conform with the current year presentations. Such reclassifications did not affect the total increase in net position or total current or long-term assets or liabilities.

NOTE 2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits—All deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (“FDIC”), and deposits in excess of FDIC coverage are protected under the Public Deposit Protection Commission (“PDPC”) of the State of Washington collateral pool program. The PDPC is a statutory authority under Chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make pro rata assessments from all qualified public depositories within the State. Per State statute, all uninsured public deposits are collateralized at no less than 50%. Therefore, in accordance with GASB, *Codification of Governmental Accounting and Financial Reporting Standards*, Section 150.110, PDPC protection is of the nature of collateral, not of insurance. Pledged securities under the PDPC collateral pool are held under the control of the PDPC for the protection of the pool.

Investments—Statutes authorize the Port to invest in savings or time accounts in designated qualified public depositories or in certificates, notes, or bonds of the United States (“U.S.”) government. The Port is also authorized to invest in other obligations of the U.S. or its agencies or of any corporation wholly owned by the government of the U.S., or U.S. dollar denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder. Statutes also authorize the Port to invest in bankers’ acceptances purchased on the secondary market, in Federal Home Loan Bank notes and bonds, Federal Farm Credit Banks consolidated notes and bonds, Federal Home Loan Mortgage Corporation bonds and notes, and Federal National Mortgage Association notes, bonds, debentures and guaranteed certificates of participation or the obligations of any other U.S. government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System. The Port can also invest in commercial paper and corporate notes, provided both adhere to the investment policies, procedures and guidelines established by the Washington State Investment Board

(“WSIB”), certificates of deposit with qualified public depositories, local and state general obligations, and revenue bonds issued by Washington State governments that are rated at least “A” by a nationally recognized rating agency.

The Port’s investment policy limits the maximum maturity of any investment security purchased to ten years from the settlement date. The Port’s investment policy allows for 100% of the portfolio to be invested in U.S. government Treasury bills, certificates, notes, and bonds. The Port’s investment policy limits investments in U.S. government agency securities to 60%, agency mortgage-backed securities to 10%, certificates of deposit to 15% but no more than 5% per issuer, bankers’ acceptances to 20% but no more than 5% per bank, commercial paper to 20% but no more than 3% per issuer, overnight repurchase agreements to 15%, term only repurchase agreements to 25%, reverse repurchase agreements to 5%, agency discount notes to 20%, and municipal securities to 20% of the portfolio with no more than 5% per issuer. Bankers’ acceptances can only be purchased on the secondary market and are limited to the largest 50 world banks listed each July in the American Banker. These banks must meet tier one and tier two capital standards. Commercial paper must be purchased on the secondary market, rated no lower than A1/P1, and meet WSIB guidelines. Additionally, the Port is allowed to purchase the following agency mortgage backed securities: (1) collateralized mortgage pools having a stated final maturity not exceeding the maturity limits of the Port’s investment policy, and (2) planned amortization and sequential pay classes of collateralized mortgage obligations collateralized by 15-year agency-issued pooled mortgage securities and having a stated final maturity not exceeding the maturity limits of the Port’s investment policy.

The Port’s investment policy allows for repurchase and reverse repurchase agreements with maturities of 60 days or less. The investment policy requires that securities collateralizing repurchase agreements must be marked to market daily and have a market value of at least 102% of the cost of the repurchase agreements having maturities less than 30 days and 105% for those having maturities that exceed 30 days. For reverse repurchase agreements, when used for yield enhancement rather than cash management purposes, only “matched book” transactions will be utilized. This means that the maturity date of the acquired security is identical to the end date of the reverse repurchase transaction. Reverse repurchase agreements will only be executed with Primary Government Bond Dealers.

Fair Value Measurement and Application—The Port categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Port used the following valuation techniques in its fair value measurement. Investment securities classified in Level 1 were valued using prices quoted in active markets for identical securities, and Level 2 were valued using prices determined by the use of quoted prices for similar assets or liabilities in active markets. The Port did not have any Level 3 investments. Additionally, as of December 31, 2016 and 2015, the Port’s investment pool held repurchase agreements (interest-earning investment contracts), and the Fuel Hydrant Investment Pool held a money market fund; none of which were subject to fair value application.

Investment Portfolio—As of December 31, 2016 and 2015, restricted investments—bond funds and other were \$463,565,000 and \$513,148,000, respectively. These are primarily unspent bonds proceeds designated for capital improvements to the Port’s facilities and for debt service reserve fund requirements. Others include cash receipts from PFCs, CFCs and lease securities.

The tables below identify the types and concentration of investments by issuer, and maturities of the Port's investment pool as of December 31 (in thousands). Investments of bond proceeds held in trust are not included in the tables. As of December 31, 2016 and 2015, the Port's investment pool had 5.7% and 1.3%, respectively, of the portfolio invested in repurchase agreements, collateralized with securities backed by the full faith and credit of the U.S. Government, and the remainder of the pool is invested in "AAA" and "AA+" rated U.S. Government agencies, treasury securities, and municipal bonds.

Investment type	Fair value	Maturities (in Years)			Percentage of total portfolio
		Less than 1	1-3	More than 3	
2016					
Repurchase agreements *	\$ 58,751	\$ 58,751	\$	\$	5.7 %
<u>Level 1</u>					
U.S. Treasury Notes	285,306	265,314	19,992		27.6
<u>Level 2</u>					
Federal agencies securities:					
Federal Farm Credit Banks	200,171	29,354	45,818	124,999	19.4
Federal Home Loan Bank	180,892	77,872	28,994	74,026	17.5
Federal Home Loan Mortgage Corporation	185,299	54,995	9,997	120,307	17.9
Federal National Mortgage Association	116,531	24,963	30,330	61,238	11.3
Municipal Bonds	5,667	5,667			0.6
Total portfolio	\$ 1,032,617	\$ 516,916	\$ 135,131	\$ 380,570	100.0 %
Accrued interest receivable	3,010				
Total cash, cash equivalents and investments	\$ 1,035,627				
Percentage of total portfolio	100.0 %	50.1 %	13.1 %	36.8 %	
2015					
Repurchase agreements *	\$ 16,259	\$ 16,259	\$	\$	1.3 %
<u>Level 1</u>					
U.S. Treasury Notes	464,656	149,907	314,749		37.3
<u>Level 2</u>					
Federal agencies securities:					
Federal Farm Credit Banks	242,275	84,654	59,262	98,359	19.5
Federal Home Loan Bank	177,563	87,749	40,357	49,457	14.3
Federal Home Loan Mortgage Corporation	195,641		114,658	80,983	15.7
Federal National Mortgage Association	142,678	29,899	55,183	57,596	11.4
Municipal Bonds	5,879		5,879		0.5
Total portfolio	\$ 1,244,951	\$ 368,468	\$ 590,088	\$ 286,395	100.0 %
Accrued interest receivable	2,438				
Total cash, cash equivalents and investments	\$ 1,247,389				
Percentage of total portfolio	100.0 %	29.6 %	47.4 %	23.0 %	

* Includes \$2,020,000 and \$559,000 of cash as of December 31, 2016 and 2015, respectively.

Investment Authorized by Debt Agreements—Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements and subject to compliance with State law. In May 2003, the Port issued Fuel Hydrant Special Facility Revenue Bonds in the amount of \$121,140,000 to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. These bonds were fully refunded by the Series 2013 Fuel Hydrant Special Facility Revenue Refunding Bonds in June 2013. The fuel hydrant facility financing is administered by Wells Fargo Bank Northwest, National Association (“Trustee”).

The tables below identify the types and concentration of investments by issuer, and maturities of the Fuel Hydrant Investment Pool (in thousands). As of December 31, 2016 and 2015, 31.4% and 47.6%, respectively, of the Fuel Hydrant Investment Pool were invested in Rule 2a7 qualified Wells Fargo Government Money Market Fund – Institutional Class (“WFGMMF”) Fund with security holdings having maturity limits no longer than 13 months. The WFGMMF Fund holds securities authorized by the statutes, which means at least 80% of the investments are invested in U.S. Government obligations, including repurchase agreements collateralized by U.S. Government obligations. The remainder of the WFGMMF Fund was invested in “AAA” rated high-quality short-term money market instruments. The balance of the Fuel Hydrant Investment Pool was invested in U.S. Treasury Notes and “AAA” and “AA+” rated U.S. Government agency securities. A portion of the proceeds from the Fuel Hydrant bonds, along with monthly facilities rent, are held by the Trustee in order to satisfy the debt service reserve fund requirement, to make debt service payments, and to pay Trustee and other bond-related fees.

Investment type	Fair value	Maturities (in Years)			Percentage of total portfolio
		Less than 1	1-3	More than 3	
2016					
Wells Fargo Government Institutional Money Market Fund	\$ 2,955	\$ 2,955	\$	\$	31.4 %
<u>Level 1</u>					
U.S. Treasury Notes	3,000	3,000			31.9
<u>Level 2</u>					
Federal agencies securities:					
Federal Home Loan Bank	1,959		994	965	20.8
Federal National Mortgage Association	1,490			1,490	15.9
Total portfolio	\$ 9,404	\$ 5,955	\$ 994	\$ 2,455	100.0 %
Accrued interest receivable	18				
Total cash, cash equivalents and investments	\$ 9,422				
Percentage of total portfolio	100.0 %	63.3 %	10.6 %	26.1 %	

(Continued)

Investment type	Fair value	Maturities (in Years)			Percentage of total portfolio
		Less than 1	1-3	More than 3	
2015					
Wells Fargo Government Institutional Money Market Fund	\$ 4,527	\$ 4,527	\$	\$	47.6 %
<u>Level 1</u>					
U.S. Treasury Notes	4,992	2,000	2,992		52.4
<u>Level 2</u>					
Federal agencies securities:					
Federal Home Loan Bank					
Federal National Mortgage Association					
Total portfolio	\$ 9,519	\$ 6,527	\$ 2,992	\$	100.0 %
Accrued interest receivable	9				
Total cash, cash equivalents and investments	\$ 9,528				
Percentage of total portfolio	100.0 %	68.6 %	31.4 %	%	

(Concluded)

Interest Rate Risk—Interest rate risk is the risk that an investment’s fair value decreases as market interest rates rise. The Port manages its exposure to this risk by setting maturity limits and duration targets in its investment policy. The investment pool is managed similarly to a short-term fixed income fund. The modified duration of the portfolio, by policy, has a 2.0 target plus or minus 50 basis points (2.0 is an approximate average life of 27 months). For 2016 and 2015, the modified duration of the portfolio was approximately 2.3 and 2.1, respectively. Securities in the portfolio cannot have a maturity longer than ten years from the settlement date.

As of December 31, 2016 and 2015, the modified duration of the Fuel Hydrant Investment Pool were approximately 1.3 and 0.3, respectively. As of December 31, 2016 and 2015, \$2,955,000 and \$4,527,000, respectively, of the Fuel Hydrant Investment Pool was invested in the WFGMMF Fund, was uninsured, and was registered in the name of the Trustee.

Custodial Credit Risk—Custodial credit risk is the risk that, in the event of the failure of the counter-party, the Port will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To mitigate this risk, the Port’s investment policy requires all security transactions, including repurchase agreements, are settled on a delivery versus payment basis. This means that payment is made simultaneously with the receipt of the securities. The securities are delivered to the Port’s safekeeping bank.

NOTE 3. CAPITAL ASSETS

Capital assets consist of the following at December 31 (in thousands):

	Beginning balance	Additions	Retirements	Ending balance
2016				
Capital assets, not being depreciated:				
Land and air rights	\$ 2,008,635	\$ 995	\$ (8,711)	\$ 2,009,919
Art collections and others	9,017			9,017
Total	<u>2,017,652</u>	<u>995</u>	<u>(8,711)</u>	<u>2,009,936</u>
Capital assets being depreciated:				
Facilities and improvements	5,048,584	55,193	(8,201)	5,095,576
Equipment, furniture, and fixtures	434,486	21,316	(5,382)	450,420
Total	<u>5,483,070</u>	<u>76,509</u>	<u>(13,583)</u>	<u>5,545,996</u>
Total capital assets	<u>7,500,722</u>	<u>77,504</u>	<u>(22,294)</u>	<u>7,555,932</u>
Less accumulated depreciation for:				
Facilities and improvements	(1,864,476)	(136,117)	4,598	(1,995,995)
Equipment, furniture, and fixtures	(244,007)	(28,219)	4,805	(267,421)
Total	<u>(2,108,483)</u>	<u>(164,336)</u>	<u>9,403</u>	<u>(2,263,416)</u>
Construction work in progress	115,959	184,734	(87,258)	213,435
Total capital assets—net	<u>\$ 5,508,198</u>	<u>\$ 97,902</u>	<u>\$ (100,149)</u>	<u>\$ 5,505,951</u>
2015				
Capital assets, not being depreciated:				
Land and air rights	\$ 2,023,040	\$ 2,578	\$ (16,983)	\$ 2,008,635
Art collections and others	9,017			9,017
Total	<u>2,032,057</u>	<u>2,578</u>	<u>(16,983)</u>	<u>2,017,652</u>
Capital assets being depreciated:				
Facilities and improvements	4,930,136	153,097	(34,649)	5,048,584
Equipment, furniture, and fixtures	415,923	30,787	(12,224)	434,486
Total	<u>5,346,059</u>	<u>183,884</u>	<u>(46,873)</u>	<u>5,483,070</u>
Total capital assets	<u>7,378,116</u>	<u>186,462</u>	<u>(63,856)</u>	<u>7,500,722</u>
Less accumulated depreciation for:				
Facilities and improvements	(1,752,785)	(136,591)	24,900	(1,864,476)
Equipment, furniture, and fixtures	(229,169)	(26,747)	11,909	(244,007)
Total	<u>(1,981,954)</u>	<u>(163,338)</u>	<u>36,809</u>	<u>(2,108,483)</u>
Construction work in progress	105,238	195,939	(185,218)	115,959
Total capital assets—net	<u>\$ 5,501,400</u>	<u>\$ 219,063</u>	<u>\$ (212,265)</u>	<u>\$ 5,508,198</u>

For the years ended December 31, 2016 and 2015, net loss on sale and disposition of capital assets of \$9,062,000 and \$22,894,000, respectively, were recorded in nonoperating other (expense) income—net in the Statement of Revenues, Expenses, and Changes in Net Position. In 2016, the Aviation Division, Maritime Division and Economic Development Division recognized losses of \$2,433,000, \$198,000, and \$6,448,000, respectively, from the demolition, retirement and sale of capital assets. A significant loss in the Aviation Division was related to the retirement of a heating, ventilation and air-conditioning system in Concourse A of \$1,248,000. Other notable losses were in the Economic Development Division which included a \$4,602,000

loss on the sale of the remaining portion of the Eastside Rail Corridor (the “Corridor”) located in the Snohomish County and a \$1,406,000 loss on the retirement of the Odyssey Museum tenant improvements with the expansion of the cruise terminal and event center facilities at Pier 66.

In 2015, the Aviation Division, Maritime Division, and Economic Development Division recognized net losses (gains) of \$22,931,000, \$(88,000), and \$176,000, respectively, from the demolition, retirement and sale of capital assets. The most significant losses were in the Aviation Division related to panel replacements for the Center Runway of \$8,612,000 and a \$13,332,000 loss on sale of property to the City of SeaTac for use in its Connecting 28th/24th Avenue South Project. The same site was also identified by WSDOT as the interchange site for the future SR 509 extension to I-5. The sale of this property will improve the traffic access to the Airport from the south, with improved road services from the Des Moines Creek Business Park and other Port properties in the cities of Des Moines and SeaTac.

The Port completed its acquisition of the 42-mile Corridor from BNSF Railway in December 2009, as a key first step to preserve it in public ownership. The Corridor included an active freight segment (the “Freight Segment”) and a railbanked segment (the “Southern Segment”). To maximize the Corridor’s benefit to the entire region, the Port partnered with several local regional agencies to share the purchase and public ownership of the Southern Segment, subject to a Memorandum of Understanding dated November 5, 2009.

During 2010, a portion of the Southern Segment was sold to the City of Redmond for \$10,000,000 and an easement over the Corridor was sold to Puget Sound Energy for \$13,753,000. During 2012, a portion of the Southern Segment along with a transportation easement over the remaining Port-owned portion of the Southern Segment was sold to Sound Transit for \$13,752,000. Another portion of the Southern Segment was sold to the City of Kirkland in 2012 for \$5,000,000. During 2013, the remaining portion of the Southern Segment along with an easement over portions of the Freight Segment was sold to King County for \$13,897,000, net of the \$1,903,000 paid by King County in 2009 for a multipurpose easement. During 2014, the Port sold a portion of the Freight Segment (within Woodinville Corporate Limits and Bothell Corporate Limits) to the City of Woodinville. The sale closed in November 2015 for \$1,100,000. No gain or loss was recorded on this sale. In March 2016, the Port completed the sale of the remaining portions of the Corridor and any improvements located in Snohomish County, including the Snohomish River Bridge to Snohomish County for \$3,500,000. The Port recorded a loss on the sale of these capital assets of \$4,602,000 in 2016.

In January 2015, the Port agreed to sell cranes, No. 70, 71, and 72, and the related spare parts to SSA Terminals, LLC and SSA Containers, Inc., the current tenant at Terminal 18, pursuant to the terms of the Third Amendment to the Crane Agreement. On January 1, 2016, the Port granted the NWSA a license for its exclusive use, operation and management of certain facilities, including the collection of revenues while ownership of the licensed facilities remains with the Port. On February 7, 2017, the Managing Members of the NWSA adopted a resolution declaring the cranes and related spare parts surplus for the Port’s purposes and authorized the sale in accordance with the terms of the agreement entered in 2015. The Port estimates a loss of \$1,100,000 will be reported on the sale of these capital assets in 2017, along with the Port’s 50% share of the associated sales tax.

NOTE 4. ACCOUNTING FOR LEASES

The Port enters into operating leases with tenants for the use of properties, including Maritime Division cruise terminals and maritime portfolio, Aviation Division space and land rentals with minimum annual guarantees, and Economic Development Division commercial and industrial properties. As the leased properties involved are in part used by internal Port operations, it is not reasonably determinable to segregate the value of the assets associated with producing minimum rental income from the value of the assets associated with an entire facility. For the years ended December 31, 2016, 2015, and 2014, the Port recognized contingent rent of \$280,620,000, \$265,570,000, and \$260,343,000, respectively. Under certain lease agreements, contingent rent, which comes primarily from concessions and airline agreements, provides for an additional payment to the Port beyond the fixed rent. Contingent rent is based on the tenant's operations, including but not limited to usage, revenues, or volumes.

Minimum future rental income on noncancelable operating leases on Maritime terminals, Airport facilities and Economic Development properties for the years ended December 31 are as follows (in thousands):

2017	\$ 99,544
2018	78,127
2019	71,019
2020	61,638
2021	55,869
Thereafter	<u>270,400</u>
Total	<u>\$ 636,597</u>

Effective June 2003, the Port entered into a lease agreement with SeaTac Fuel Facilities LLC in a fuel system lease whereby the members are some of the commercial air carriers currently operating at the Airport. The lessee payments of facilities rent are made directly to a trustee in the amounts and at the times required to pay the principal and premium, if any, and interest on the Special Facility Revenue Bonds issued to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. The fuel system is intended to be the exclusive system for storage and delivery to commercial air carriers of jet aircraft fuel at the Airport. The lease, which represents an unconditional obligation of the lessee, extends until the later of July 31, 2033, or the repayment of the bonds. SeaTac Fuel Facilities LLC was created by a consortium of airlines operating at the Airport for the purpose of entering the lease and managing the fuel hydrant system. The future rental income is based on debt service requirements which are as follows: \$7,024,000 for 2017, \$7,023,000 for 2018, \$7,022,000 for 2019, \$7,022,000 for 2020, \$7,022,000 for 2021, and \$75,903,000 for the years thereafter; these amounts are not included in the schedule above. All special facility lease revenues are restricted and are to be used solely for debt service on the bonds and not for Port operations.

NOTE 5. LONG-TERM DEBT

The Port's long-term debt outstanding as of December 31, 2016 consists of the following (in thousands):

Bond type (by Bond issue)	Coupon rates (%)	Maturity dates	Beginning balance	Principal payments and refundings	Issuance	Ending balance
Revenue bonds:						
First lien:						
Series 2003 A	5.25	2019-2021	\$ 36,600	\$	\$	\$ 36,600
Series 2004	5.75	2017	1,945	1,030		915
Series 2007 A	3.75-5	2016	27,880	27,880		
Series 2007 B	4.05-5	2016	154,820	154,820		
Series 2009 A	5.25	2027-2028	20,705			20,705
Series 2009 B-1	5.74-7.264	2017-2036	273,635	1,980		271,655
Series 2009 B-2	0 *	2025-2031	22,000			22,000
Series 2011 A	4	2017	4,115	2,005		2,110
Series 2011 B	5	2017-2026	88,380	4,700		83,680
Series 2016 A	3-5	2017-2019			19,565	19,565
Series 2016 B	3-5	2019-2032			124,380	124,380
Series 2016 C	1-3.32	2017-2032			6,180	6,180
Total			<u>630,080</u>	<u>192,415</u>	<u>150,125</u>	<u>587,790</u>
Intermediate lien:						
Series 2005 C	5	2016	8,170	8,170		
Series 2006	4.75-5	2016	124,625	124,625		
Series 2010 A	4	2017	2,160	1,060		1,100
Series 2010 B	4-5	2017-2040	215,380	4,485		210,895
Series 2010 C	5	2017-2024	126,660	11,470		115,190
Series 2012 A	3-5	2017-2033	333,170	9,755		323,415
Series 2012 B	3-5	2017-2024	138,455	13,020		125,435
Series 2012 C	2.062	2017	23,010	15,960		7,050
Series 2013	4.5-5	2022-2029	127,155			127,155
Series 2015 A	3-5	2018-2040	72,010			72,010
Series 2015 B	5	2017-2035	284,440	12,435		272,005
Series 2015 C	5	2017-2040	226,275	800		225,475
Series 2016	4-5	2025-2030			99,095	99,095
Total			<u>1,681,510</u>	<u>201,780</u>	<u>99,095</u>	<u>1,578,825</u>
Subordinate lien:						
Series 1997	0.73 **	2022	72,055	7,115		64,940
Series 1999 A	5.5	2017-2020	56,255	3,080		53,175
Series 2008	0.73 **	2033	192,725	8,230		184,495
Commercial paper						
	0.7	2017	38,655	9,000		29,655
Total			<u>359,690</u>	<u>27,425</u>		<u>332,265</u>
Revenue bond totals			<u>\$ 2,671,280</u>	<u>\$ 421,620</u>	<u>\$ 249,220</u>	<u>\$ 2,498,880</u>

(Continued)

* Capital Appreciation Bonds have a zero coupon rate. The approximate maximum yield to maturity is 7.4%.

** Variable interest rates as of December 31, 2016.

Bond type (by Bond issue)	Coupon rates (%)	Maturity dates	Beginning balance	Principal payments and refundings	Issuance	Ending balance
General obligation bonds:						
Series 2004 C	5.25	2017-2019	\$ 12,640	\$ 2,925	\$	\$ 9,715
Series 2011	5.25-5.75	2017-2025	54,000	4,335		49,665
Series 2013 A	4-5	2021-2023	27,630			27,630
Series 2013 B	0.92-2.77	2017-2025	54,275	9,865		44,410
Series 2015	4-5	2017-2040	156,990	4,790		152,200
Total			<u>305,535</u>	<u>21,915</u>		<u>283,620</u>
Passenger facility charge revenue bonds:						
Series 1998 A	5.5	2019	31,020			31,020
Series 2010 A	5	2017-2023	79,770			79,770
Series 2010 B	5	2016	12,450	12,450		
Total			<u>123,240</u>	<u>12,450</u>		<u>110,790</u>
Fuel Hydrant special facility revenue bonds:						
Series 2013	3.45-5	2017-2033	82,640	3,180		79,460
Total			<u>82,640</u>	<u>3,180</u>		<u>79,460</u>
Bond totals			<u>3,182,695</u>	<u>459,165</u>	<u>249,220</u>	<u>2,972,750</u>
Unamortized bond premium (discount)—net			<u>178,786</u>			<u>203,434</u>
Total debt			3,361,481			3,176,184
Less current maturities of long-term debt						
First lien revenue bonds			(16,870)			(19,090)
Intermediate lien revenue bonds			(74,410)			(68,430)
Subordinate lien revenue bonds			(41,735)			(41,900)
General obligation bonds			(21,915)			(22,605)
Passenger facility charge revenue bonds			(12,450)			(13,220)
Fuel Hydrant special facility revenue bonds			(3,180)			(3,325)
Total current maturities of long-term debt			<u>(170,560)</u>			<u>(168,570)</u>
Long-term debt			<u>\$ 3,190,921</u>			<u>\$ 3,007,614</u>

(Concluded)

Revenue Bonds— Revenue Bonds are payable from and secured solely by a pledge of net revenues of the Port as defined in the Port’s bond resolutions. The pledge of net revenues is broadly applied, but certain revenues that are separately pledged or restricted from availability to pay revenue bond debt service are excluded; examples include PFCs, CFCs, SeaTac fuel facility rent, and Stormwater Utility revenue. The Port has established a lien upon net revenues, consisting of a First Lien, Intermediate Lien, and Subordinate Lien. By Washington State law, the Port cannot use its tax levy to pay debt service on Revenue Bonds, but can use it to pay operating expenses, thereby increasing net operating revenues available to pay revenue bond debt service.

In August 2016, the Port issued \$150,125,000 in Series 2016ABC First Lien Revenue Refunding Bonds. Series 2016A First Lien bonds, \$19,565,000, were used to partially refund the outstanding Series 2007A First Lien Revenue Bonds. Series 2016B and 2016C, \$124,380,000 and \$6,180,000, respectively, were used to fully refund the outstanding Series 2007B First Lien Revenue Bonds. A portion of each bond Series was also used to pay the costs of issuing the bonds and to contribute to the First Lien Common Reserve Fund. The bonds have coupon rates ranging from 1% to 5% with maturities ranging from 2017 to 2032. The interest on the Series 2016 First Lien Bonds is payable on April 1 and October 1 of each year, commencing on October 1, 2016. Certain maturities of Series 2016BC Bonds are subject to optional redemption by the Port prior to their scheduled maturities. Series 2016A First Lien Bonds are not subject to redemption prior to their scheduled maturities. The economic gain resulting from the 2007AB refunding transaction was \$35,797,000, while the Port also decreased its aggregate debt service payments by \$42,184,000 over the life of the refunding bonds.

In August 2016, the Port also issued \$99,095,000 in Series 2016 Intermediate Lien Revenue Refunding Bonds, which were used to fully refund the outstanding Series 2006 Intermediate Lien Revenue Refunding Bonds and to pay the costs of issuing the bonds. The bonds have coupon rates ranging from 4% to 5% with maturities ranging from 2025 to 2030. The interest on the Series 2016 Intermediate Lien Bonds is payable on February 1 and August 1 of each year, commencing on February 1, 2017. Certain maturities of Series 2016 Intermediate Lien Bonds are subject to optional redemption by the Port prior to their scheduled maturities. The economic gain resulting from the 2006 Intermediate Lien refunding transaction was \$30,566,000, while the Port also decreased its aggregate debt service payments by \$38,322,000 over the life of the refunding bonds.

In September 2016, the Port made early principal payments of \$7,115,000 and \$8,230,000 to outstanding Subordinate Lien Variable Rate Demand Bonds (“VRDB’s”), Series 1997 and Series 2008, respectively.

In September 2016, the Port also made an early principal payment of \$2,745,000 to the Series 2005C Intermediate Lien Revenue Refunding Bonds. A loss of \$51,000 was recognized on the early extinguishment of debt and reported as nonoperating other (expense) income—net in the Statement of Revenues, Expenses, and Changes in Net Position.

In August 2015, the Port issued \$582,725,000 in Series 2015ABC Intermediate Lien Revenue and Refunding Bonds. Series 2015A, \$72,010,000, and 2015C, \$226,275,000, are being used to pay for or reimburse costs of capital improvements to Airport facilities, and to capitalize a portion of the interest on the 2015A and 2015C Bonds. Series 2015B, \$284,440,000, were used to fully refund the Series 2005A Intermediate Lien Revenue and Refunding Bonds. A portion of each bond Series was also used to pay the costs of issuing the bonds and to contribute to the Intermediate Lien Reserve Account. The bonds have coupon rates ranging from 2% to 5% with maturities ranging from 2016 to 2040. The interest on the Series 2015A and Series 2015C Bonds is payable on April 1 and October 1 of each year, commencing on April 1, 2016. The interest on the Series 2015B Bonds is payable on March 1 and September 1 of each year, commencing on March 1, 2016. Certain maturities of Series 2015ABC Bonds are subject to optional redemption prior to their scheduled maturities, and certain maturities of the Series 2015A and Series 2015C are also subject to mandatory sinking fund redemption. The economic gain resulting from the 2005A Intermediate Lien refunding transaction was \$42,320,000, while the Port also decreased its aggregate debt service payments by \$55,005,000 over the life of the refunding bonds.

In September 2015, the Port made early principal payments of \$36,775,000 and \$7,990,000 to outstanding Subordinate Lien VRDB’s, Series 1997 and Series 2008, respectively.

Capital Appreciation Revenue Bonds—During July 2009, the Port issued \$22,000,000 in Series 2009B-2 Taxable Capital Appreciation Revenue Bonds. Interest on the 2009B-2 Bonds is compounded semiannually, but is payable only upon maturity. As of December 31, 2016 and 2015, the accreted value of the Series 2009B-2 Taxable Capital Appreciation Revenue Bonds was \$37,833,000 and \$35,181,000, respectively, and the ultimate accreted value of \$83,600,000 will be reached at final maturity in 2031.

Subordinate Lien Variable Rate Demand Bonds—Included in long-term debt are two Subordinate Lien VRDB's, Series 1997 and Series 2008, which contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the Port's remarketing or paying agents. Variable rate interest for these bonds was determined through a weekly remarketing process in which the remarketing agent re-sets the rate based on market supply and demand for the bonds.

- *Series 1997 VRDB*—In 1997, the Port issued \$108,830,000 in Series 1997 Subordinate Lien Revenue Bonds that have a final maturity date of September 1, 2022. The bonds are subject to mandatory tender for purchase and to optional redemption prior to their scheduled maturity. The proceeds of the issuance were used to pay a portion of the costs of acquisitions of the Port's marine facilities and to pay costs of issuing the Series 1997 Bonds. The bonds bear interest at a weekly rate, and are subject to purchase on demand with seven days' notice and delivery to the Port's remarketing agent, currently Morgan Stanley & Co., Inc., who receives an annual fee of 0.065% of the outstanding principal amount of the bonds.

On January 14, 2011, the Port entered into a letter of credit ("LOC") reimbursement agreement with Bank of America in the amount of \$110,082,000. In December 2015, the Port extended the LOC with Bank of America through January 15, 2019. The Port is required to pay a quarterly facility fee for the LOC at a rate of 0.39% per annum based on the size of the commitment, which as of December 31, 2016 has decreased to \$65,687,000 as the Port continues to make early principal payments on the bonds. If a long-term debt rating to any Subordinate Lien Parity Bonds assigned by S&P, Moody's or Fitch is lowered, the facility fee will increase for credit ratings below A2/A.

If the remarketing agent is unable to resell any bonds that are "put" within six months of the "put" date and the Port has not replaced the LOC or converted the bonds, the Port has a takeout agreement with Bank of America to convert the bonds to an installment loan payable in 10 equal semiannual installments and bearing an interest rate of no less than 8.5%.

- *Series 2008 VRDB*—In 2008, the Port issued \$200,715,000 in Series 2008 Subordinate Lien Revenue Refunding Bonds that has a final maturity date of July 1, 2033. The bonds are subject to mandatory tender for purchase and to optional redemption prior to their scheduled maturity. The proceeds of the issuance were used to fully refund Series 2003C Subordinate Lien Revenue Bonds and to pay the costs of issuing the Series 2008 Bonds. The bonds bear interest at a weekly rate, and are subject to purchase on demand with seven days' notice and delivery to the Port's remarketing agent, currently Morgan Stanley & Co., Inc., who receives an annual fee of 0.065% of the outstanding principal amount of the bonds.

On June 1, 2013, the Port entered into a LOC agreement with Bank of Tokyo-Mitsubishi UFJ ("Bank of Tokyo") in the amount of \$204,212,000. In April 2016, the Port extended the LOC with Bank of Tokyo through June 2, 2020. The Port is required to pay a quarterly facility fee for the LOC in the amount of 0.45% per annum based on the size of the commitment, which as of December 31, 2016 has decreased to \$187,710,000 as principal payments have been made on the bonds. If a long-term debt rating to any Subordinate Lien Parity Bonds assigned by S&P, Moody's or Fitch is lowered, the facility fee will increase for credit ratings below A2/A-.

If the remarketing agent is unable to resell any bonds that are "put" within six months of the "put" date, the Port has a takeout agreement with Bank of Tokyo to convert the bonds to an installment loan payable in equal quarterly installments over a five-year period and bearing an interest rate no less than 8.5%.

There were no borrowings drawn against either LOC during 2016 and 2015, and therefore there were no outstanding obligations to either LOC provider at December 31, 2016 and 2015.

Commercial Paper—The Commission authorized the sale of Subordinate Lien Revenue Notes (“commercial paper”) in an aggregate principal amount not to exceed \$250,000,000 for the purpose of financing and refinancing capital improvements within the Port, for working capital, and for paying maturing revenue notes of the same series and/or reimbursing the credit providers for advances made. Commercial paper advances outstanding totaled \$29,655,000 and \$38,655,000 at December 31, 2016 and 2015, respectively. Commercial paper advances are included in current maturities of long-term debt on the Statement of Net Position.

General Obligation Bonds—GO Bonds are limited tax general obligation of the Port. The Port has statutory authority to levy non-voted property taxes for general purposes and to pay debt service on its limited tax general obligation bonds. The Port has covenanted to make annual levies of ad valorem taxes in amounts sufficient, together with other legally available funds, to pay the principal of and interest on GO Bonds as they shall become due. GO bond holders do not have a security interest in particular revenues or assets of the Port.

During March 2015, the Port issued \$156,990,000 in Series 2015 Limited Tax GO and Refunding Bonds, which were used to fund the Port’s first contractual payment in the amount of \$120,000,000 to WSDOT for the SR 99 Alaskan Way Viaduct Replacement Program, partially refund the outstanding Series 2006 Limited Tax GO Refunding Bonds, and pay the costs of issuing the bonds. The bonds have coupon rates ranging from 4% to 5% with maturities ranging from 2016 to 2040. The interest on the Series 2015 GO and Refunding Bonds is payable on June 1 and December 1 of each year, commencing on June 1, 2015. Certain maturities of Series 2015 GO and Refunding Bonds are subject to optional redemption prior to their scheduled maturities. The economic gain resulting from the refunding was \$11,030,000, while the Port also decreased its aggregate debt service payments by \$12,760,000 over the life of the Refunding Bonds.

In March 2017, the Port issued \$127,345,000 in Series 2017 Limited Tax GO Bonds, which were used to reimburse the Port and provide long-term funding for the Port’s final 2016 contractual payments, totaling \$147,700,000, to WSDOT for the SR 99 Alaskan Way Viaduct Replacement Program, and pay the costs of issuing the bonds. The bonds have coupon rates of 5% with maturities ranging from 2018 to 2042. The interest on the Series 2017 GO Bonds is payable on July 1 and January 1 of each year, commencing on July 1, 2017. Certain maturities of the Series 2017 GO Bonds are subject to optional redemption by the Port prior to their scheduled maturities.

PFC Revenue Bonds—PFC Bonds are special fund obligations of the Port payable solely from, and secured by, a pledge of PFC revenues imposed by the Airport. The bond proceeds are used to finance or refinance eligible capital projects at the Airport. Neither the full faith and credit of the Port nor the taxing power of the Port is pledged for the payment of the principal of or interest on PFC Bonds. PFC Bonds are not secured by a lien on properties or improvements at the Airport nor by a pledge of other revenues derived by the Port.

Fuel Hydrant Special Facility Revenue Bonds—In May 2003, the Port issued Fuel Hydrant Special Facility Revenue Bonds in the amount of \$121,140,000 to pay for all or a portion of the costs of the acquisition, design, and construction by the Port of jet aircraft fuel storage and delivery facilities at the Airport. In June 2013, the Port issued \$88,660,000 in Series 2013 Fuel Hydrant Special Facility Revenue Refunding Bonds, which were used to fully refund the outstanding Series 2003 Fuel Hydrant Special Facility Revenue Bonds, and to pay the costs of issuing the bonds.

The Port undertook the development of the fuel system to lower the cost of fuel service at the Airport, improve Airport safety by reducing the need for fuel trucks to operate on the airfield, and address environmental concerns created by the original fuel system. This fuel hydrant facility was fully operational in 2006. The fuel facility is leased for 40 years (including two five-year option periods) to SeaTac Fuel Facilities LLC (“Lessee”), a limited liability company formed by a consortium of airlines for the purpose of providing jet fuel storage and distribution at the Airport. The Port owns the system and the Lessee will oversee day-to-day management. The Lessee is obligated to collect the fuel system fees and to make monthly rent payments including a base rent for the land to the Port and facilities rent to Wells Fargo Bank Northwest, National Association (“Trustee”).

Facilities rent is established at an amount sufficient to pay semiannual debt service, replenish any deficiency in the debt service reserve fund, and pay other fees associated with the bonds, including the Trustee fee. In addition, the Lessee has provided a guaranty and a security agreement to the Trustee, securing the Lessee's obligation to pay principal and interest on the bonds.

Proceeds from the bonds are held by the Trustee. At December 31, 2016 and 2015, there were \$9,404,000 and \$9,519,000, respectively, of Fuel Hydrant Special Facility Revenue Bonds proceeds and rent payments held for debt service reserve fund and debt service payments. The unspent bond proceeds were reported as current restricted cash and cash equivalents and restricted long-term investments. Additional information on the investment of the unspent bond proceeds of the Fuel Hydrant Special Facility Revenue Bonds can be found in Note 2 in the accompanying notes to the financial statements.

Fuel Hydrant Special Facility Revenue Bonds in the amount of \$76,135,000 and \$79,460,000, respectively, are included in long-term debt as of December 31, 2016 and 2015.

Arbitrage Rebate—The Port monitors the existence of any rebatable arbitrage interest income associated with its tax-exempt debt. The rebate is based on the differential between the interest earnings from the investment of the bond proceeds and the interest expense associated with the respective bonds. Each outstanding bond issue has potential arbitrage rebatable earnings; however, management estimates indicated that no arbitrage rebate liability existed as of December 31, 2016 and 2015.

Capitalized Interest—Interest expense costs capitalized were \$4,649,000 and \$3,936,000 as of December 31, 2016 and 2015, respectively.

Schedule of Debt Service—Aggregate annual payments on Revenue Bonds, GO Bonds, PFC Bonds, Fuel Hydrant Special Facility Revenue Bonds and commercial paper outstanding at December 31, 2016 are as follows (in thousands):

	Principal	Interest	Total
2017	\$ 168,570	\$ 136,083	\$ 304,653
2018	143,680	129,679	273,359
2019	152,445	122,864	275,309
2020	148,415	115,637	264,052
2021	153,940	108,360	262,300
2022-2026	779,118	445,305	1,224,423
2027-2031	650,177	299,933	950,110
2032-2036	623,845	99,566	723,411
2037-2041	152,560	15,145	167,705
Total	<u>\$ 2,972,750</u>	<u>\$ 1,472,572</u>	<u>\$ 4,445,322</u>

NOTE 6. CONDUIT DEBT

The Port has conduit debt obligations totaling \$74,725,000 at December 31, 2016 and 2015, which are not a liability or contingent liability of the Port. The Port has not recorded these obligations, or the related assets, on the accompanying financial statements, as the Port has no obligation for the outstanding bonds beyond what is provided in the leasing arrangements.

Since 1982, the Port, through its blended component unit, the IDC, has issued tax-exempt nonrecourse revenue bonds to finance industrial development of transshipment and manufacturing facilities within the corporate boundaries of the Port. These revenue bonds are secured by revenues derived from the industrial development facilities funded by the revenue bonds and leased to the IDC. No ad valorem tax levy revenues or other revenues of the Port (other than the IDC lease revenues) are pledged to pay the debt service on the bonds, and no liens (other than the IDC properties) are pledged as collateral for the debt.

NOTE 7. LONG-TERM LIABILITIES

The following is a summary of the net pension liability, environmental remediation liability, bonds interest payable, other postemployment benefits obligation, accrued election expense, unearned revenues as well as lease securities and other activities which make up the Port’s long-term liabilities for the years ended December 31 (in thousands):

	Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term portion
2016						
Net pension liability	\$ 95,548	\$ 19,982	\$ (7,934)	\$ 107,596	\$	\$ 107,596
Environmental remediation liability	54,840	17,611	(17,363)	55,088	12,707	42,381
Bonds interest payable	13,181	2,651		15,832		15,832
Other postemployment benefits obligation	9,687	1,538	(801)	10,424		10,424
Accrued election expense	844	1,009	(764)	1,089	1,089	
Unearned revenues	284		(284)			
Lease securities and other	16,817	1,467	(13,178)	5,106		5,106
Total	<u>\$ 191,201</u>	<u>\$ 44,258</u>	<u>\$ (40,324)</u>	<u>\$ 195,135</u>		
2015						
Net pension liability	\$ 74,585	\$ 27,027	\$ (6,064)	\$ 95,548	\$	\$ 95,548
Environmental remediation liability	59,256	11,481	(15,897)	54,840	6,411	48,429
Bonds interest payable	10,715	2,466		13,181		13,181
Other postemployment benefits obligation	9,478	1,013	(804)	9,687		9,687
Accrued election expense	1,744	1,308	(2,208)	844	844	
Unearned revenues	2,489		(2,205)	284	284	
Lease securities and other	16,194	3,343	(2,720)	16,817		16,817
Total	<u>\$ 174,461</u>	<u>\$ 46,638</u>	<u>\$ (29,898)</u>	<u>\$ 191,201</u>		

NOTE 8. ENTERPRISE FUND PENSION PLANS

Substantially, all of the Port’s full-time and qualifying part-time employees participate in one of the following statewide public employee retirement plans administered by the Washington State Department of Retirement Systems (“DRS”). The State Legislature establishes and amends laws pertaining to the creation and administration of all public employee retirement systems.

Public Employees’ Retirement System (“PERS”)

Plan Description—PERS’ retirement benefit provisions are contained in Chapters 41.34 and 41.40 RCW. PERS is a cost-sharing, multiple-employer retirement system composed of three separate pension plans for membership purposes. PERS Plan 1 and PERS Plan 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component. Participants who joined PERS by September 30, 1977 are Plan 1 members. Plan 1 is closed to new entrants. Those joining thereafter are enrolled in Plan 2 or Plan 3.

PERS is composed of and reported as three separate plans for accounting purposes. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as the terms of the plans define. Therefore, Plan 2/3 is considered a single plan for accounting purposes.

Retirement benefits are financed by employee and employer contributions and investment earnings. All plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under PERS Plans, annual cost-of-living allowances are linked to the Seattle Consumer Price Index (“CPI”) to a maximum of 3% annually.

Vesting—Both PERS Plans 1 and Plan 2 members are vested after the completion of 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service, or after 5 years of service if 12 months of that service are earned after age 44, and are immediately vested in the defined contribution portion of their plan.

Benefits Provided—PERS Plan 1 retirement benefits are determined as 2% of the member’s average final compensation (“AFC”) times the member’s years of service, capped at 60%. AFC is the average of the member’s 24 consecutive highest-paid service credit months. Plan 1 members are eligible for retirement from active status at any age after 30 years of service, at age 55 with at least 25 years of service or at age 60 with 5 years of service. Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

PERS Plans 2/3 retirement benefits are determined as 2% of the member’s AFC times the member’s years of service for Plan 2 and 1% of the member’s AFC for Plan 3. AFC is the monthly average of the member’s 60 consecutive highest-paid service credit months. PERS Plan 2/3 has no cap on years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by a factor that varies according to age for each year before age 65.

Contributions—Each biennium, the Washington State Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. The PERS Plan 1 member contribution rate is established by statute. The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary (“OSA”) to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to

address the PERS Plan 1 unfunded actuarial accrued liability. PERS Plan 3 members can choose their contribution from six contribution rate options ranging from 5% to 15%. Once an option has been selected, the employee contribution rate choice is irrevocable unless the employee changes employers. All employers are required to contribute at the level established by the legislature.

The PERS Plans required contribution rates (expressed as a percentage of covered payroll), excluding an administrative expense of 0.18% from the employer contribution rate, for the year ended December 31, 2016 were as follows:

	Effective date	PERS Plan 1	PERS Plan 2	PERS Plan 3
Port	Jan 1 to Dec 31	11.00 %	11.00 %	11.00 %
Plan member	Jan 1 to Dec 31	6.00	6.12	varies

For the year ended December 31, 2016, the Port’s employer contributions, excluding administrative expense, made to the PERS Plan 1, and PERS Plan 2/3 were \$164,000, and \$10,979,000, respectively.

Law Enforcement Officers’ and Fire Fighters’ Retirement System (“LEOFF”)

Plan Description—LEOFF’s retirement benefit provisions are contained in Chapters 41.26 and 41.45 RCW. LEOFF is a cost-sharing, multiple-employer retirement system comprised of two separate defined benefit pension plans for both membership and accounting purposes. Participants who joined LEOFF by September 30, 1977, are Plan 1 members. LEOFF Plan 1 was closed to new entrants. Those joining thereafter are enrolled in LEOFF Plan 2. Membership includes all full-time local law enforcement officers and fire fighters.

Retirement benefits are financed from employee and employer contributions, investment earnings, and legislative appropriation. The legislature, by means of a special funding arrangement, appropriates money from the State General Fund to supplement the current service liability and fund the prior service costs of the LEOFF Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

Both plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Under LEOFF Plan 2, annual cost-of-living allowances are linked to the Seattle CPI to a maximum of 3% annually.

Vesting—Both LEOFF Plans’ members are vested after completion of five years of eligible service.

Benefits Provided—LEOFF Plan 1 retirement benefits are determined per year of service and are calculated as a percentage of Final Average Salary (“FAS”) as follows:

Terms of service	Percentage of FAS
5 to 9 years	1.0 %
10 to 19 years	1.5
20 or more years	2.0

FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the

consecutive highest-paid 24 months' salary within the last 10 years of service. Members are eligible for retirement with five years of service at age 50.

LEOFF Plan 2 retirement benefits are calculated using 2% of the member's FAS times the member's years of service. FAS is the monthly average of the member's 60 consecutive highest-paid service credit months. Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire before age 53 receive reduced benefits. If the member has at least 20 years of service and is age 50 to 52, the reduction is 3% for each year before age 53. Otherwise, the benefits are actuarially reduced for each year before age 53.

Contributions—LEOFF Plan 1 is fully funded, and no further employer or employee contributions have been required since June 2000. Each biennium, the LEOFF Plan 2 Retirement Board has a statutory duty to set the employer and employee contribution rates for LEOFF Plan 2, based on the recommendations by the OSA, to fully fund the LEOFF Plan 2. All employers are required to contribute at the level established by the legislature.

The LEOFF Plans required contribution rates (expressed as a percentage of covered payroll), excluding an administrative expense of 0.18% from the employer contribution rate, for the year ended December 31, 2016 were as follows:

	Effective date	LEOFF Plan 2 (Fire fighters)	LEOFF Plan 2 (Police officers)
Port	Jan 1 to Dec 31	5.05 %	8.41 %
Plan member	Jan 1 to Dec 31	8.41	8.41

For the year ended December 31, 2016, the Port's employer contribution made, excluding administrative expense, to the LEOFF Plan 2, was \$1,663,000.

Pension Asset/Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At December 31, 2016, the amount recognized by the Port as its proportionate share of the net pension asset (liability), the related State support for LEOFF Plan 2 only, and the total portion of the net pension asset (liability) that was associated with the Port were as follows (in thousands):

	PERS Plan 1	PERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2
Port's proportionate share of the net pension (liability) asset	\$ (44,426)	\$ (51,569)	\$ 761	\$ 5,967
State's proportionate share of the net pension asset associated with the Port				3,890
Total	<u>\$ (44,426)</u>	<u>\$ (51,569)</u>	<u>\$ 761</u>	<u>\$ 9,857</u>

The net pension asset (liability) was measured as of June 30, 2016, and the total pension asset (liability) used to calculate the net pension asset (liability) was determined by an actuarial valuation as of June 30, 2015. The Port's proportion of the net pension asset (liability) was based on a projection of the Port's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, and the State support for LEOFF Plan 2 only, actuarially determined.

The Port's proportionate shares of contributions were measured at June 30 as follows:

	PERS Plan 1	PERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2
2016	0.83 %	1.02 %	0.07 %	1.03 %
2015	<u>0.87</u>	<u>1.09</u>	<u>0.07</u>	<u>1.07</u>
Decrease from 2015 to 2016	<u>(0.04)%</u>	<u>(0.07)%</u>	<u>0.00 %</u>	<u>(0.04)%</u>

For the year ended December 31, 2016, the Port recognized \$595,000 of operating revenue for support provided by the State for LEOFF Plan 2, along with the following pension expense (in thousands):

	PERS Plan 1	PERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2
Pension expense	\$ (50)	\$ 7,372	\$ (105)	\$ 1,534

At December 31, 2016, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	PERS Plan 1	PERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2
Deferred outflows of resources				
Differences between expected and actual experience	\$	\$ 2,746	\$	\$ 818
Changes of assumptions		533		22
Net difference between projected and actual earnings on pension plan investments	1,119	6,311	77	2,144
Changes in proportion and differences between Port contributions and proportionate share of contributions		1,596		311
Port contributions subsequent to the measurement date	<u>2,391</u>	<u>3,023</u>		<u>795</u>
Total deferred outflows of resources	<u>\$ 3,510</u>	<u>\$ 14,209</u>	<u>\$ 77</u>	<u>\$ 4,090</u>
Deferred inflows of resources				
Differences between expected and actual experience	\$	\$ 1,702	\$	\$
Changes of assumptions				
Net difference between projected and actual earnings on pension plan investments				
Changes in proportion and differences between Port contributions and proportionate share of contributions		1,969		169
Total deferred inflows of resources	<u>\$</u>	<u>\$ 3,671</u>	<u>\$</u>	<u>\$ 169</u>

Deferred outflows of resources related to Port contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability or an increase of the net pension asset in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized as pension expense as follows (in thousands):

Years ended December 31,	PERS Plan 1	PERS Plan 2/3	LEOFF Plan 1	LEOFF Plan 2
2017	\$ (275)	\$ 230	\$ (16)	\$ (9)
2018	(275)	37	(16)	(9)
2019	1,027	4,379	67	1,792
2020	642	2,869	42	1,246
2021				106
Total	<u>\$ 1,119</u>	<u>\$ 7,515</u>	<u>\$ 77</u>	<u>\$ 3,126</u>

Actuarial Assumptions—The total pension asset (liability) was determined by an actuarial valuation as of June 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the *OSA’s 2007-2012 Experience Study Report*. Additional assumptions for subsequent events and law changes are current as of 2015 actuarial valuation report.

- **Inflation**—A 3% total economic inflation and a 3.75% salary inflation were used.
- **Salary increases**—In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Mortality**—Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.
- **Investment rate of return**—The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best-estimate of expected future rates of return (expected returns, net of pension plan investment expense, but including inflation) are developed for each major asset class by the Washington State Investment Board (“WSIB”). Those expected returns make up one component of WSIB’s Capital Market Assumptions (“CMAs”). The CMAs contain three pieces of information for each class of assets the WSIB currently invests in: (1) expected annual return, (2) standard deviation of the annual return, and (3) correlations between the annual returns of each asset class with every other asset class.

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The OSA selected a 7.5% long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered CMAs and simulated expected returns the WSIB provided.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2016 were summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Fixed income	20 %	1.7 %
Tangible assets	5	4.4
Real estate	15	5.8
Global equity	37	6.6
Private equity	23	9.6
Total	<u>100 %</u>	

The inflation component used to create the above table is 2.2% and represents WSIB's most recent long-term estimate of broad economic inflation.

- Discount rate**—The discount rate used to measure the total pension asset (liability) was 7.5% for all plans. Contributions from plan members and employers are assumed to continue to be made at contractually required rates (including PERS Plans 2/3 employers whose rates include a component for the PERS Plan 1 unfunded actuarial accrued liability), and contributions from the State are made at current statutorily required rates. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of 7.5% on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset (liability).

Sensitivity of the Port's Proportionate Share of the Net Pension Asset (Liability) to Changes in the Discount Rate—The following presents the Port's proportionate share of the net pension asset (liability) calculated using the discount rate of 7.5%, as well as what the Port's proportionate share of the net pension asset (liability) would be if it were calculated using a plus or minus 1% of the current discount rate (in thousands):

	1% Decrease (6.5%)	Current discount rate (7.5%)	1% Increase (8.5%)
PERS Plan 1	\$ (53,573)	\$ (44,426)	\$ (36,554)
PERS Plans 2/3	(94,948)	(51,569)	26,845
LEOFF Plan 1	452	761	1,025
LEOFF Plan 2	(16,732)	5,967	23,074

Payables to the PERS and LEOFF Plans

At December 31, 2016, the Port reported a payable of \$282,000, \$369,000, and \$123,000 for the outstanding amount of the required contributions to PERS Plan 1, PERS Plans 2/3, and LEOFF Plan 2, respectively. These payables were reported under payroll and taxes payable in the Statement of Net Position.

Pension Plan Fiduciary Net Position

The pension plans' fiduciary net positions are determined on the same basis used by the pension plans. DRS financial statements have been prepared in conformity with GAAP. The retirement plans are accounted for in pension trust funds using the flow of economic resources measurement focus and the accrual basis of

accounting. Plan member contributions are recognized as revenues in the period in which contributions are earned. Employer contributions are recognized when they are due. Benefits and refunds are recognized when due and payable according to the terms of the plans. The WSIB has been authorized by statute (Chapter 43.33A RCW) as having the investment management responsibility for the pension funds. Investments are reported at fair value, and unrealized gains and losses are included as investment income in the Statement of Changes in Fiduciary Net Position of the DRS Comprehensive Annual Financial Report. Interest and dividend income is recognized when earned, and capital gains and losses are recognized on a trade-date basis. Purchases and sales of investments are also recorded on a trade-date basis.

Detailed information about PERS' and LEOFF's fiduciary net position is available in the separately issued DRS financial report. A copy of this report may be obtained at:

Department of Retirement Systems
P.O. Box 48380
Olympia, WA 98504-8380
www.drs.wa.gov

NOTE 9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to pension benefits as described in Note 8, the Port provides other postemployment benefits (“OPEB”).

Plan Descriptions—The Port administers and contributes to two single-employer defined benefit plans: (1) LEOFF Plan 1 Members’ Medical Services Plan and (2) Retirees Life Insurance Plan. Under State statute RCW 41.26.150, the Port is required to pay for retired LEOFF Plan 1 members’ medical services expenses. Under the Port’s life insurance contract, eligible retired employees are provided with life insurance coverage for a death benefit up to \$25,000. The Port can establish and amend benefit provisions of the life insurance OPEB plan. There are no separate OPEB plan related financial reports issued.

Funding Policy and Annual OPEB Costs—For the LEOFF Plan 1 Members’ Medical Services Plan, the State establishes and may amend the contribution requirements of plan members and the Port. The contribution requirements of the Retirees Life Insurance Plan are established and may be amended by the Port. The Port’s annual OPEB cost for the current year and the related information for each plan are as follows (in thousands):

	LEOFF Plan 1 Members' Medical Services Plan ^(a)	Retirees Life Insurance Plan
Contribution rates:		
Port	Pay-as-you-go	Pay-as-you-go
Plan members	n/a	n/a
Annual required contribution	\$ 550	\$ 689
Interest on net OPEB obligation	288	100
Adjustment to annual required contribution		(89)
Annual OPEB costs	<u>838</u>	<u>700</u>
Contribution made	<u>(475)</u>	<u>(326)</u>
Increase (Decrease) in net OPEB obligation	363	374
Net OPEB obligation beginning of year	<u>7,189</u>	<u>2,498</u>
Net OPEB obligation end of year	<u>\$ 7,552</u>	<u>\$ 2,872</u>

(a) As the LEOFF Plan 1 Members’ Medical Services Plan has less than 100 plan members, the Port elected to use the Alternative Measurement Method to estimate the annual required contribution.

The schedule of employer contributions at December 31 are as follows (in thousands):

Years ended December 31,	Annual OPEB costs	Employer contributions	Percentage contributed	Net OPEB obligation
LEOFF Plan 1 Members' Medical Services Plan				
2016	\$ 838	\$ 475	56.7 %	\$ 7,552
2015	342	491	143.6	7,189
2014	585	479	81.9	7,338
Retirees Life Insurance Plan				
2016	\$ 700	\$ 326	46.6 %	\$ 2,872
2015	671	313	46.6	2,498
2014	625	308	49.3	2,140

Funding Status—As of December 31, 2016, 2015, and 2014, using the Alternative Measurement Method, the actuarial accrued liability for LEOFF Plan 1 Members' Medical Services Plan benefits was \$7,552,000, \$7,189,000, and \$7,338,000, respectively, all of which was unfunded.

For the Retirees Life Insurance Plan, the most recent actuarial valuation data and the two preceding actuarial valuation data with funding progress were as follows (in thousands):

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Funded ratio	Unfunded AAL (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
January 1, 2015	\$	\$ 8,819	%	\$ 8,819	\$ 102,798	8.6 %
January 1, 2013		8,547		8,547	83,831	10.2
January 1, 2011		7,613		7,613	71,108	10.7

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment rate of return, payroll growth rate and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions—Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the LEOFF Plan 1 Members' Medical Services Plan, the following simplified assumptions were made when the Alternative Measurement Method was used:

- **Mortality**—Life expectancies were based on mortality tables from the National Vital Statistics Reports, Volume 65, No. 8, November 28, 2016. The Life Table for Males: U.S. 2012 was used.

- *Healthcare cost trend rate*—The expected rate of increase in healthcare expenditure was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 6.0% was used initially, but was changed slightly to an average rate of 5.8% after seven years.
- *Health insurance premiums*—2017 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.
- *Investment rate of return*—A rate of 4% was used, which is an estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits.
- *Inflation rate*—No explicit inflation rate assumption was used as this underlying assumption was already included in the investment rate of return.

Additionally, the unfunded actuarial accrued liability is not amortized as the LEOFF Plan 1 Members' Medical Services Plan is closed to new entrants and all of the plan members have retired.

For the Retirees Life Insurance Plan, as of January 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability is determined by the independent actuary using the Projected Unit Credit actuarial cost method. The actuarial assumptions included a 4% investment rate of return, which is an estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits. No explicit inflation rate assumption was used as this underlying assumption was already included in the investment rate of return. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30-year open period, assuming payroll growth of 3.5% per year.

NOTE 10. ENVIRONMENTAL REMEDIATION LIABILITIES

The Port has identified a number of contaminated sites on Aviation, Maritime, and Economic Development properties and facilities that must be investigated for the presence of hazardous substances and remediated in compliance with Federal and State environmental laws and regulations. Some Port facilities may require asbestos abatement, and some properties owned or operated by the Port may have unacceptable levels of contaminants in soil, sediments and/or groundwater. In some cases, the Port has been designated by the Federal government as a Potentially Responsible Party ("PRP"), and/or by the State government as a "Potentially Liable Person" for the investigation and cleanup of properties owned by the Port or where the Port may have contributed to site contamination. Although the Port may not bear ultimate liability for the contamination, under Federal and State law, the Port is presumptively liable as the property owner, and it is often practically and financially beneficial for the Port to take initial responsibility to manage and pay for the cleanup. In each of these matters, the Port is cooperating with the notifying agency and taking appropriate action with other parties to investigate and remediate environmental damage or contamination. Currently, it is not possible to determine the full extent of the Port's liability in these matters.

Lower Duwamish Waterway Superfund Site (the "Site")—The Port is one of many PRPs at the Site and is a member of the Lower Duwamish Waterway Group, along with King County, the City of Seattle and the Boeing Company, that, among other remedial actions, funded the Remedial Investigation and Feasibility Study ("RI/FS"). The RI/FS study was substantially completed and the Port's share of RI/FS costs through 2016 was \$15,719,000. In November 2014, the Environmental Protection Agency ("EPA") released a Record of Decision ("ROD") for the Site cleanup remedy. The ROD included a cleanup cost estimate of \$342 million (present value discounted at 2.3% based on a study completed in 2012); the current value (not discounted) is \$395 million. EPA's current value for the remedy ranges from \$277 million to \$593 million. EPA acknowledged there is significant uncertainty as to the accuracy of this estimate. A more accurate estimate will not be available until after completion of an extensive sampling and design effort. This project will result in additional cleanup efforts as a result of future regulatory orders.

In November 2012, the EPA issued general notification letters to over 200 parties informing them of their potential liability for the Lower Duwamish Waterway cleanup. The Lower Duwamish Waterway Group, who were the parties to the RI/FS Administrative Order on Consent invited some of those parties to participate in a confidential alternative dispute resolution process led by a neutral allocator (the “allocation process”) to resolve their respective shares of past and future costs. As of December 31, 2016, the allocation process is ongoing. Parties participating in the allocation process will share the cost of the allocator and the process. The estimated recoveries to reduce the amount of liability are unknown at this time. As of December 31, 2016, the outstanding environmental remediation liability recorded for this Site was \$6,798,000.

The Port has in place a procedure consistent with current accounting rules to recognize liabilities for environmental cleanups, to the extent that such liabilities can be reasonably estimated. As of December 31, 2016 and 2015, the Port’s environmental remediation liabilities were \$55,088,000 and \$54,840,000, respectively, based on reasonable and supportable assumptions, measured at current value using the expected cash flow technique. The Port’s environmental remediation liabilities do not include cost components that are not yet reasonably measurable. The Port’s environmental remediation liabilities will change over time due to changes in costs of goods and services, changes in remediation technology, and changes in governing laws and regulations.

In many cases, the Port has successfully recovered Port-incurred investigation and cleanup costs from other responsible parties. The Port will continue to seek appropriate recoveries in the future. As of December 31, 2016 and 2015, the environmental remediation liabilities were reduced by \$18,016,000 and \$13,818,000, respectively, for estimated unrealized recoveries.

NOTE 11. CONTINGENCIES

The Port is a defendant in various legal actions and claims. Although certain lawsuits and claims are significant in amount, the final dispositions are not determinable, and in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or results of operations of the Port. In some cases, the Port has provided adequate contingent liability.

Amounts received or receivable under grants-in-aid programs are subject to audit and adjustment by the granting agency. Any disallowed claims, including amounts already received, may constitute a liability of the Port. The amount, if any, of expenditures that may be disallowed cannot be determined at this time, although the Port expects such amounts, if any, to be insignificant.

On January 1, 2015, the Port established a stormwater utility pursuant to RCW 53.08.040, RCW 53.08.043, and other statutes. The utility serves Port-owned land located within the City of Seattle (the “City”) limits as defined in the Port Stormwater Utility Charter approved by a resolution of the Port Commission on November 25, 2014. In November 2016, the City and the Port entered into an Interlocal Agreement (the “ILA”) pursuant to Chapter 39.34 RCW and approved by the City Council and Port Commission to serve as the operating agreement between the two utilities. In consideration for the City’s release and settlement of all potential claims and other benefits to the Port that the City provided in the ILA, the Port paid the City \$3,993,000 in December 2016. This amount was recognized as operating expense in the Statement of Revenues, Expenses, and Changes in Net Position.

NOTE 12. COMMITMENTS

The Port has made commitments for acquisition and construction as of December 31 as follows (in thousands):

	2016
Funds committed:	
Aviation	\$ 160,037
Economic Development	2,667
Corporate	1,024
Maritime	812
Stormwater Utility	70
Total	<u>\$ 164,610</u>

As of December 31, 2016, the Port also made commitments of \$1,608,000 for acquisition and construction for the NWSA. However, this amount was not included in the schedule above as the Port expects to be reimbursed by the NWSA once construction expenditure is incurred for the NWSA.

In addition, as of December 31, 2016, funds authorized by the Port, but not yet committed for all divisions amounted to \$515,431,000.

NOTE 13. JOINT VENTURE

In August 2015, the ports of Seattle and Tacoma joined forces to unify management of marine cargo facilities and business to strengthen the Puget Sound gateway and attract more marine cargo and jobs to the region by creating the NWSA, a separate governmental entity established as a Port Development Authority, similar to Public Development Authorities formed by cities and counties.

The NWSA is governed equally by the Managing Members who are acting through its home port’s elected commissioners. The citizens of Pierce and King Counties each elect a five-member Port Commission to govern the ports of Tacoma and Seattle every four years, on a staggered basis. Each home port will remain a separate legal entity, independently governed by its own elected commissioners. Each home port has granted the NWSA a license for the NWSA’s exclusive use, operation and management of certain facilities, including the collection of revenues. Ownership of the licensed facilities remains with the home ports, not with the NWSA. As of December 31, 2016, land, facilities, and equipment—net of accumulated depreciation licensed to the NWSA by the Port was \$838,181,000. The related depreciation expense was \$19,396,000 for 2016. The NWSA is intended to support the credit profiles of both ports, and its financial framework will preserve both home ports’ commitment to financial strength and fiscal stewardship. The home ports are committed to ensure existing bond pledges and covenants will not be negatively affected. Outstanding bonds will remain obligations of each individual home port. As of December 31, 2016, the Port’s total debt on licensed assets was \$424,246,000. To maintain the rights of each home port’s existing bondholders, the charter prohibits the NWSA from issuing debt. The NWSA has its own annual operating budget and five-year capital investment plan. The home ports contribute to capital construction projects subject to the Managing Member approval. Capital funding does not come from working capital.

On January 1, 2016, the NWSA became a separate legal entity to be accounted for as a joint venture. Accordingly, the Port transferred \$12,867,000 in cash with the related assets and liabilities, primarily lease securities and customer advances, to the NWSA as the opening balance for the formation of the new entity. Additionally, the Port transferred \$25,500,000 of cash for working capital, \$13,500,000 of cash for capital construction, and \$7,887,000 of construction work in progress (that started in the Port but will be completed by the NWSA) to the NWSA for its 50% share in the entity. The reduction of cash and construction work in

progress was offset by an increase in the investment in joint venture, reflected as a noncurrent asset in the Port's Statement of Net Position as of January 1, 2016. During 2016, the Port's equal share of capital construction expenditures was \$14,570,000, of which \$7,030,000 was unpaid and reported as related party payable—joint venture in the Port's Statement of Net Position as of December 31, 2016.

A summarized Statement of Net Position of the NWSA as of December 31 and its Statement of Revenues, Expenses, and Changes in Net Position for the year ended December 31 were as follows (in thousands):

	2016
Total assets	\$ 203,720
Total liabilities	<u>72,583</u>
Total net position	<u>\$ 131,137</u>
Operating revenues	\$ 195,170
Operating expenses	<u>79,732</u>
Operating income before depreciation	115,438
Depreciation	532
Nonoperating income—net	<u>8,262</u>
Increase in net position	<u>\$ 123,168</u>

A copy of the NWSA financial report may be obtained at:

The Northwest Seaport Alliance
P.O. Box 2985
Tacoma, WA 98401-2985

The home ports share the NWSA's change in net position and distribution of operating cash equally. The Port's 50% share of the NWSA's change in net position is presented in the Port's Statement of Revenues, Expenses, and Changes in Net Position as joint venture income. Distribution of operating cash from the NWSA is generally received in the following month. The Port's receivable for cash distributions earned through December 31, 2016 was \$10,440,000.

The Port's investment in the joint venture as of December 31 was as follows (in thousands):

	2016
Working capital	\$ 25,500
Capital construction	28,070
Construction work in progress	7,887
50% share of the NWSA's changes in net position	61,584
Distribution of operating cash	<u>(57,982)</u>
Total investment in joint venture	<u>\$ 65,059</u>

A broad spectrum of support services such as maintenance, security, public affairs, capital development, procurement, labor relations, environmental planning, information technology, finance and accounting are provided by service agreements between the NWSA and the home ports during the start-up and transition period as the NWSA continues to ramp up its efforts in building the back office infrastructure and staffing open positions. Costs for these services are charged by the home ports to the NWSA based on agreed upon methodologies including direct charge and allocation. In 2016, Port provided support services to the NWSA totaled \$8,545,000, of which \$87,000 related to support services receivable outstanding as of December, 31,

2016. The support services receivable and the cash distribution receivable totaling \$10,527,000 were presented as related party receivable –joint venture in the Port’s Statement of Net Position as of December 31, 2006.

NOTE 14. BUSINESS INFORMATION

The Enterprise Fund’s major business activities and operations consist of Airport facilities, Maritime terminals, Economic Development properties, and the Stormwater Utility established and effective on January 1, 2015 for Port-owned properties located within the City of Seattle. Indirect costs have been allocated to Airport facilities, Maritime terminals, and Economic Development properties using various methods based on estimated hours of work, expenses, full-time equivalent positions, and other factors. The Port’s operating revenues are derived from various sources. Aviation’s operating revenues are derived primarily from its airline agreements, concession agreements, and other business arrangements. Maritime’s operating revenues are principally derived from the leasing of Maritime terminal facilities, recreational marinas, and industrial fishing terminals. Economic Development’s operating revenues are primarily derived from the event centers as well as the leasing of commercial and industrial real estate. The Stormwater Utility’s operating revenues are primarily derived from collecting stormwater utility fees from tenants.

For the year ended December 31, 2016, Stormwater Utility operating revenue was \$4,751,000, of which \$651,000 and \$423,000 were from internal stormwater utility charges on vacant properties owned by the Port for the Maritime Division and the Economic Development Division, respectively. As such, operating revenues for the Stormwater Utility of \$1,074,000 and the associated amount of operating expenses for the Maritime and Economic Development Divisions were eliminated in the Statement of Revenues, Expenses, and Changes in Net Position. For the year ended December 31, 2016, Stormwater Utility operating expense, depreciation expense and operating income before depreciation was \$1,710,000, \$879,000, and \$3,041,000, respectively.

Operating revenues, excluding the Stormwater Utility’s operating revenues, as reflected in the Statement of Revenues, Expenses, and Changes in Net Position, from the Port’s major customers for the years ended December 31 are as follows (in thousands):

	2016	2015	2014
Aviation Division:			
Revenues	\$ 173,154	\$ 161,650	\$ 138,436
Number of major customers	2	2	2
Maritime Division:			
Revenues	\$ 16,660	\$ 19,168	\$ 12,960
Number of major customers	2	2	1
Economic Development Division:			
Revenues	\$ 1,882	\$ 1,905	\$ 1,674
Number of major customer	1	1	1
Total:			
Revenues	\$ 191,696	\$ 182,723	\$ 153,070
Number of major customers	5	5	4

Two major customers represented 28.9% of total Port’s operating revenues in 2016 and 2015 and one major customer represented 17.5% of total Port’s operating revenues in 2014. For Aviation, the revenues from its two major customers accounted for 37.2%, 38.2%, and 34.1% of total Aviation operating revenues in 2016, 2015, and 2014, respectively. For Maritime, the revenues from its two major customers accounted for 32.8% and 40.6% of total Maritime operating revenues in 2016 and 2015, respectively. The revenues from one major customer accounted for 29.6% of total Maritime operating revenues in 2014. For Economic Development, the

revenues from its major customer accounted for 11.8%, 10.5%, and 10.3% of total Economic Development operating revenues in 2016, 2015, and 2014, respectively.

Operating revenues, excluding the Stormwater Utility's operating revenues, as reflected in the Statement of Revenues, Expenses, and Changes in Net Position, from the Port's major sources for the years ended December 31 are as follows (in thousands):

	2016	2015	2014 (Restated)
Aviation Division:			
Terminal	\$ 141,549	\$ 138,836	\$ 137,435
Airfield	88,311	73,386	77,014
Public parking	69,540	63,059	57,127
Airport dining and retail	56,348	51,607	46,954
Rental car	37,082	33,851	32,496
Customer facility charges	12,122	12,663	13,608
Ground transportation	12,803	8,809	8,333
Commercial properties	9,195	7,922	6,638
Utilities	7,233	7,000	6,736
Operating grants and contract revenues	941	394	301
Other	30,132	25,365	19,062
Total Aviation Division operating revenues	<u>\$ 465,256</u>	<u>\$ 422,892</u>	<u>\$ 405,704</u>
Maritime Division:			
Cruise operations	\$ 15,422	\$ 14,414	\$ 12,993
Maritime portfolio	10,255	9,983	9,662
Recreational boating	10,255	9,736	9,433
Fishing and operations	9,108	8,457	7,866
Grain terminal	5,382	4,685	3,785
Other	388	(7)	(6)
Total Maritime Division operating revenues	<u>\$ 50,810</u>	<u>\$ 47,268</u>	<u>\$ 43,733</u>
Economic Development Division:			
Conference and event centers	\$ 8,022	\$ 10,396	\$ 8,957
Other	7,881	7,768	7,293
Total Economic Development Division operating revenues	<u>\$ 15,903</u>	<u>\$ 18,164</u>	<u>\$ 16,250</u>

Operating expenses, excluding the Stormwater Utility's operating expenses but including internal charges from Stormwater Utility on vacant properties owned by the Port for the Maritime and Economic Development Divisions, as reflected in the Statement of Revenues, Expenses, and Changes in Net Position, from the Port's major functions by Division for the years ended December 31 are as follows (in thousands):

	2016	2015	2014 (Restated)
Aviation Division:			
Operations and maintenance	\$ 190,857	\$ 174,750	\$ 169,637
Administration	51,247	45,648	42,438
Law enforcement	19,122	17,742	16,097
Total Aviation Division operating expenses	<u>\$ 261,226</u>	<u>\$ 238,140</u>	<u>\$ 228,172</u>

(Continued)

	2016	2015	2014 (Restated)
Maritime Division:			
Operations and maintenance	\$ 27,957	\$ 25,411	\$ 24,177
Administration	8,203	4,057	3,709
Law enforcement	4,107	3,975	3,634
Total Maritime Division operating expenses	<u>\$ 40,267</u>	<u>\$ 33,443</u>	<u>\$ 31,520</u>
Economic Development Division:			
Operations and maintenance	\$ 16,921	\$ 18,169	\$ 21,603
Administration	4,042	870	1,760
Law enforcement	172	167	18
Total Economic Development Division operating expenses	<u>\$ 21,135</u>	<u>\$ 19,206</u>	<u>\$ 23,381</u>

(Concluded)

Statement of Revenues, Expenses, and Changes in Net Position by Division, excluding the Stormwater Utility, for the years ended December 31 are as follows (in thousands):

	2016	2015	2014 (Restated)
Aviation Division:			
Net operating income before depreciation	\$ 204,030	\$ 184,752	\$ 177,532
Depreciation	<u>122,499</u>	<u>120,826</u>	<u>123,579</u>
Operating income	<u>81,531</u>	<u>63,926</u>	<u>53,953</u>
Nonoperating income (expense):			
Ad valorem tax levy revenues			4,732
Passenger facility charge revenues	85,570	79,209	69,803
Customer facility charge revenues	24,715	23,540	19,889
Fuel hydrant facility revenues	6,992	6,957	6,935
Noncapital grants and donations	1,706	1,637	1,679
Investment income—net	6,875	6,396	7,399
Revenue bonds, capital appreciation bond, and fuel hydrant special facility revenue bonds interest expense	(94,581)	(96,957)	(95,017)
PFC revenue bonds interest expense	(5,251)	(5,584)	(5,906)
Public expense	(3,395)	(340)	(3,183)
Environmental income (expense)—net	2,272	(46)	232
Other (expense) income—net	(2,880)	(24,843)	5,136
Total nonoperating income (expense) —net	<u>22,023</u>	<u>(10,031)</u>	<u>11,699</u>
Income before capital contributions	<u>103,554</u>	<u>53,895</u>	<u>65,652</u>
Capital contributions	<u>17,973</u>	<u>22,317</u>	<u>12,933</u>
Increase in net position in Aviation Division	<u>\$ 121,527</u>	<u>\$ 76,212</u>	<u>\$ 78,585</u>

(Continued)

	2016	2015	2014 (Restated)
Maritime Division:			
Net operating income before depreciation	\$ 10,543	\$ 13,825	\$ 12,213
Depreciation	<u>17,351</u>	<u>16,935</u>	<u>16,543</u>
Operating loss	<u>(6,808)</u>	<u>(3,110)</u>	<u>(4,330)</u>
Nonoperating income (expense):			
Ad valorem tax levy revenues	11,572	14,143	21,105
Noncapital grants and donations	2,175	923	5,633
Investment income—net	1,397	2,611	3,706
Revenue bonds interest expense	(1,415)	(11,088)	(11,947)
General obligation bonds interest expense	(844)	(6,397)	(8,384)
Public expense	(203)	225	(583)
Environmental expense—net	(1,801)	(5,243)	(9,895)
Other expense—net	<u>(2,265)</u>	<u>(346)</u>	<u>(583)</u>
Total nonoperating income (expense)—net	<u>8,616</u>	<u>(5,172)</u>	<u>(948)</u>
Income (loss) before capital contributions	<u>1,808</u>	<u>(8,282)</u>	<u>(5,278)</u>
Capital contributions	<u> </u>	<u>308</u>	<u>1,847</u>
Increase (decrease) in net position in Maritime Division	<u>\$ 1,808</u>	<u>\$ (7,974)</u>	<u>\$ (3,431)</u>
Economic Development Division:			
Net operating loss before depreciation	\$ (5,232)	\$ (1,042)	\$ (7,131)
Depreciation	<u>3,682</u>	<u>3,420</u>	<u>3,560</u>
Operating loss	<u>(8,914)</u>	<u>(4,462)</u>	<u>(10,691)</u>
Nonoperating income (expense):			
Ad valorem tax levy revenues	3,642	8,401	5,133
Noncapital grants and donations	26	27	1,341
Investment income—net	53	63	97
Revenue bonds interest expense	(132)	(1,967)	(1,945)
General obligation bonds interest expense	(289)	(625)	(1,091)
Public expense	(2,143)		
Environmental (expense) income—net	(751)	2,401	521
Other (expense) income—net	<u>(6,400)</u>	<u>1,655</u>	<u>39</u>
Total nonoperating (loss) income—net	<u>(5,994)</u>	<u>9,955</u>	<u>4,095</u>
(Loss) Income before capital contributions	<u>(14,908)</u>	<u>5,493</u>	<u>(6,596)</u>
Capital contributions	<u>135</u>	<u>34</u>	<u>1,107</u>
(Decrease) Increase in net position in Economic Development Division	<u>\$ (14,773)</u>	<u>\$ 5,527</u>	<u>\$ (5,489)</u>

(Concluded)

As reflected in the Statement of Net Position, total assets, excluding the Stormwater Utility assets and total debt, excluding Series 2015 GO Bond related to the SR 99 Viaduct expense, as of December 31, by Division are as follows (in thousands):

	2016	2015
Aviation Division:		
Current, long-term, and other assets	\$ 832,605	\$ 905,315
Land, facilities, and equipment—net	3,883,932	3,938,334
Construction work in progress	<u>194,490</u>	<u>99,338</u>
Total Aviation Division assets	<u>\$ 4,911,027</u>	<u>\$ 4,942,987</u>
Total Aviation Division debt	<u>\$ 2,512,721</u>	<u>\$ 2,643,792</u>
Maritime Division:		
Current, long-term, and other assets	\$ 133,758	\$ 286,043
Land, facilities, and equipment—net	406,734	419,067
Construction work in progress	<u>9,296</u>	<u>1,636</u>
Total Maritime Division assets	<u>\$ 549,788</u>	<u>\$ 706,746</u>
Total Maritime Division debt	<u>\$ 105,137</u>	<u>\$ 118,861</u>
Economic Development Division:		
Current, long-term, and other assets	\$ 37,165	\$ 82,605
Land, facilities, and equipment—net	119,513	129,736
Construction work in progress	<u>2,441</u>	<u>639</u>
Total Economic Development Division assets	<u>\$ 159,119</u>	<u>\$ 212,980</u>
Total Economic Development Division debt	<u>\$ 17,000</u>	<u>\$ 19,348</u>

NOTE 15. WAREHOUSEMEN’S PENSION TRUST FUND

In late 2002, the Port terminated all warehousing operations at Terminal 106 following the departure of the principal customer who operated the facility. Prior to closing the warehouse, the Port had provided pension and health benefits to represented employees under a collective bargaining agreement with Local #9 of the International Longshore and Warehouse Union. The benefits were administered by two separate trusts, the Warehousemen’s Pension Trust and the Local #9 Health and Welfare Trust. The Port made quarterly contributions to each trust in an amount sufficient to provide the required contractual benefits and the trusts were jointly administered by trustees appointed by both Local #9 and the Port.

Upon expiration of the contract with Local #9, the Port ceased making contributions to the Health and Welfare Trust and provided employees with the ability to maintain their health coverage by self-paying premiums through the Port’s health care plan. The Port also ceased making contributions to the Warehousemen’s Pension Trust.

On May 25, 2004, the Port became the sole administrator for the Warehousemen’s Pension Plan and Trust (the “Plan”) and commenced contributions to the Plan. The Plan is a governmental plan maintained and operated solely by the Port as a single-employer defined benefit plan.

Since its closing in 2002, the Warehouseman’s Pension Plan became a frozen plan, where no new members were accepted. The only members of the Plan are retirees and beneficiaries receiving benefits as well as terminated members who have a vested right to a future benefit under the Plan.

Summary of Significant Accounting Policies

Basis of Accounting—The financial statements are prepared using the accrual basis of accounting. Port contributions are recognized in the period in which the contributions are made. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Investments—Investments, 100% in mutual funds, are reported at fair value and classified as Level 1, using inputs from quoted prices in active markets for identical assets. Short-term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rates.

Plan Description

Plan Administration—The administration and operation of the Plan is vested in a three-member Board of Trustees from the Port. The Board of Trustees has the authority to amend this Plan as they may determine. However, an amendment may not decrease a Plan member’s accrued benefit.

The Plan provides that only service credited and compensation earned prior to April 1, 2004, shall be utilized to calculate benefits under the Plan. There are no separate financial statements of the Plan issued.

Membership of the Plan consisted of the following at December 31:

	2016	2015
Retirees and beneficiaries receiving benefits	145	144
Terminated plan members entitled to but not yet receiving benefits	38	45
Total	<u>183</u>	<u>189</u>

Vesting and Benefits Provided—The Plan provides normal, early and disability retirement benefits, as well as a preretirement death benefit or survivor annuity for a surviving spouse. The Plan provides a single life annuity and a 50% or 75% joint and survivor benefit for married participants. Retirement benefit amounts are calculated based on the number of years of credited service multiplied by a tiered monthly benefit rate established in the Plan document within a range of \$20 to \$100. For Plan members who terminated employment prior to January 1, 1992, normal retirement age with full benefit is 65 with at least five years of credited service. Effective January 1, 1992, normal retirement age with full benefit is 62 after completing five years or more of credited service. Plan members who are age 55 and have completed 10 years of credited service may elect an early retirement, with benefits reduced by a quarter of one percentage for each month the early retirement date precedes the normal retirement date. However, a Plan member with 30 years of credited service may retire at age 55 without a reduction in benefits. A Plan member who is disabled with 15 years of credited service is eligible for disability retirement. If the disabled Plan member is age 55, the disability retirement benefit shall be the normal retirement benefit, or the benefit shall be the normal retirement benefit earned to the disability retirement date, reduced by 5/12 of one percentage for each month the disability retirement date precedes the month the Plan member attains the age of 55.

Contributions—The Port agrees to maintain and contributes funds to the Plan in an amount sufficient to pay the vested accrued benefits of participating members and the beneficiaries when the benefits become due. Members do not make contributions. The Board of Trustees establishes the employer's contribution amount based on an actuarially determined contribution recommended by an independent actuary.

Investments

Investment Policy—The Plan's investment policy in regard to the allocation of the invested assets is established and may be amended by the Board of Trustees. The policy allows the Plan to invest in contracts with insurance companies that are rated no lower than A by at least two major rating agencies. The Plan is allowed to invest in commercial paper with A1/P1 rating. Certificates of deposit or banker's acceptances can only be purchased from domestic banks with net worth in excess of \$2 billion and which satisfy tier 1 and tier 2 capital requirements. Bank deposits or short-term investment accounts must be maintained by the Plan's custodian. Repurchase agreements can only be entered with Federal Reserve reporting dealers and maintained in accordance with Federal Reserve guidelines. Only U.S. registered mutual funds or ERISA-qualified commingled funds whose investment strategies and governing documents have been reviewed and approved by the Board of Trustees can be purchased. The Plan's investment policy allows for 30% plus or minus 5% of the portfolio to be invested in domestic equities securities, 30% plus or minus 5% of the portfolio to be invested in international equities securities, and 40% plus or minus 5% of the portfolio to be invested in fixed income securities.

Interest Rate Risk—Interest rate risk is the risk that an investment's fair value decreases as market interest rate increases. In general, the longer the duration of an investment, the greater sensitivity of its fair value to changes in market interest rates. Through its investment policy, the Plan manages its exposure to fair value losses from increasing interest rates by investing in a diversified portfolio of index fund and professionally managed mutual funds. For the fixed income mutual funds, the Plan manages its exposure to change in interest rates by investing in intermediate-term bonds. As of December 31, 2016 and 2015, the average duration for Vanguard Bond Market Index Fund was 6.0 years and 5.7 years, respectively. As of December 31, 2016 and 2015, the average duration for Dodge and Cox Fixed Income Fund was 4.2 years and 4.1 years, respectively.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The risk is measured by the assignment of rating by nationally recognized rating agencies. As of December 31, 2016 and 2015, the Vanguard Bond Market Index Fund was rated at three stars by Morningstar Credit Ratings, LLC. As of December 31, 2016 and 2015, the Dodge and Cox Fixed Income Fund was rated at four stars by Morningstar Credit Ratings, LLC.

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Plan had \$2,589,000 and \$2,542,000 in international equity mutual funds that were invested in foreign securities as of December 31, 2016 and 2015, respectively.

Rate of Return—For the year ended December 31, 2016 and 2015, the annual money-weighted rate of return on the Plan investments, net of investment expense, was 6.3% and (1.2)%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

Net Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources

The Port’s net pension liability related to the Warehousemen’s Pension Plan was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and the Port’s net pension liability for this Plan was \$11,601,000. For the year ended December 31, 2016, the Port recognized pension expense of \$2,116,000. At December 31, 2016, total deferred outflows of resources resulting from the net difference between projected and actual earnings on pension plan investments was \$558,000. The Plan will recognize \$200,000 annually for years 2017 through 2018, \$153,000 for 2019, and the remaining balance of \$4,000 in 2020 as future pension expense.

The components of the net pension liability at December 31, 2016, were as follows (in thousands):

Total pension liability	\$ 20,662
Plan fiduciary net position	(9,061)
Net pension liability	<u>\$ 11,601</u>
Plan fiduciary net position as a percentage of total pension liability	43.9%

Changes in Net Pension Liability

Changes in the Port’s net pension liability for the Warehousemen’s Pension Plan for the current year were as follows (in thousands):

	Total pension liability	Plan fiduciary net position	Net pension liability
Interest expense	\$ 1,255	\$	\$ 1,255
Employer contributions		1,500	(1,500)
Net investment income		554	(554)
Difference between expected and actual experience	105		105
Changes of assumptions	1,044		1,044
Benefit payments	(2,093)	(2,093)	
Administrative expense		(45)	45
Professional fees		(41)	41
Net changes	<u>311</u>	<u>(125)</u>	<u>436</u>
Balances at beginning of year	<u>20,351</u>	<u>9,186</u>	<u>11,165</u>
Balances at end of year	<u>\$ 20,662</u>	<u>\$ 9,061</u>	<u>\$ 11,601</u>

Actuarial Assumptions—The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the Entry Age Normal Cost Method and the following actuarial assumptions, applied to all periods included in the measurement:

- **Mortality**—Life expectancies were based on the RP-2014 Combined Mortality Table for Males and Females with blue collar adjustment. Margin for future mortality improvement is accounted for by projecting mortality rates using Scale MP-2016.
- **Investment rate of return**—A rate of 6.5% was used, which is the long-term expected rate of return on the Plan’s investment, net of plan investment expense and including inflation. This rate was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were adopted by the Plan’s Board of Trustees after considering input from the Plan’s investment consultant and actuary.

For each major asset class that is included in the Plan’s target asset allocation as of December 31, 2016, these best estimates are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Domestic equities mutual fund	30 %	4.0 %
International equities mutual fund	30	4.4
Domestic fixed income mutual fund	40	0.7
Total	<u>100</u> %	

- **Discount rate**—A single discount rate of 6.5% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on the Plan’s investments at 6.5% and the tax-exempt municipal bond rate on an index of 20-year general obligation bonds with an average AA credit rating at 3.8%. The projection of cash flows used to determine this single discount rate assumed the employer contributions will be made at the actuarially determined contribution rates in accordance with the Port’s long-term funding policy. Based on these assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on the Plan’s investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate—The following presents the net pension liability of the Plan, calculated using the discount rate of 6.5%, as well as what the net pension liability would be if it were calculated using a plus or minus 1% of the current discount rate (in thousands):

	1% Decrease (5.5%)	Current discount rate (6.5%)	1% Increase (7.5%)
Net pension liability	\$ 13,421	\$ 11,601	\$ 10,043

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PORT OF SEATTLE'S PROPORTIONATE SHARE OF NET PENSION ASSET/LIABILITY ("NPA/NPL") ENTERPRISE FUND PENSION PLANS

Last Three Fiscal Years ^(a)
(in thousands)

	2016	2015	2014
PERS Plan 1			
Port's proportion of the NPL	0.83 %	0.87 %	0.84 %
Port's proportionate share of the NPL	<u>\$ 44,426</u>	<u>\$ 45,557</u>	<u>\$ 42,385</u>
Port's covered-employee payroll	\$ 1,440	\$ 1,504	\$ 1,606
Port's proportionate share of the NPL as a percentage of its covered-employee payroll	3085.14 %	3029.06 %	2639.17 %
Plan fiduciary net position as a percentage of the total pension liability	57.03 %	59.10 %	61.19 %
PERS Plan 2/3			
Port's proportion of the NPL	1.02 %	1.09 %	1.04 %
Port's proportionate share of the NPL	<u>\$ 51,569</u>	<u>\$ 38,826</u>	<u>\$ 21,060</u>
Port's covered-employee payroll	\$ 95,817	\$ 96,416	\$ 89,966
Port's proportionate share of the NPL as a percentage of its covered-employee payroll	53.82 %	40.27 %	23.41 %
Plan fiduciary net position as a percentage of the total pension liability	85.82 %	89.20 %	93.29 %
LEOFF Plan 1			
Port's proportion of the NPA	0.07 %	0.07 %	0.07 %
Port's proportionate share of the NPA	<u>\$ 761</u>	<u>\$ 883</u>	<u>\$ 881</u>
Port's covered-employee payroll	n/a	n/a	n/a
Port's proportionate share of the NPA as a percentage of its covered-employee payroll	n/a	n/a	n/a
Plan fiduciary net position as a percentage of the total pension asset	123.74 %	127.36 %	126.91 %
LEOFF Plan 2			
Port's proportion of the NPA	1.03 %	1.07 %	1.04 %
Port's proportionate share of the NPA	\$ 5,967	\$ 11,018	\$ 13,815
State's proportionate share of the NPA associated with the Port	<u>3,890</u>	<u>7,285</u>	<u>9,026</u>
Total	<u>\$ 9,857</u>	<u>\$ 18,303</u>	<u>\$ 22,841</u>
Port's covered-employee payroll	\$ 22,343	\$ 22,322	\$ 20,753
Port's proportionate share of the NPA as a percentage of its covered-employee payroll	44.12 %	82.00 %	110.06 %
Plan fiduciary net position as a percentage of the total pension asset	106.04 %	111.67 %	116.75 %

(a) This schedule is presented prospectively starting fiscal year ended 2014, coinciding with the implementation and restatement of GASB Statement No. 68.

SCHEDULE OF PORT OF SEATTLE CONTRIBUTIONS

ENTERPRISE FUND PENSION PLANS ^(a)

Last Three Fiscal Years ^(b)

(in thousands)

	2016	2015	2014
PERS Plan 1			
Contractually required contribution	\$ 164	\$ 146	\$ 137
Contributions in relation to the contractually required contribution	<u>(164)</u>	<u>(146)</u>	<u>(137)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
Port's covered-employee payroll	\$ 1,490	\$ 1,474	\$ 1,515
Contributions as a percentage of covered-employee payroll	11.01 %	9.91 %	9.04 %
PERS Plan 2/3			
Contractually required contribution	\$ 10,979	\$ 9,761	\$ 8,243
Contributions in relation to the contractually required contribution	<u>(10,979)</u>	<u>(9,761)</u>	<u>(8,243)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
Port's covered-employee payroll	\$ 99,808	\$ 98,556	\$ 91,306
Contributions as a percentage of covered-employee payroll	11.00 %	9.90 %	9.03 %
LEOFF Plan 2			
Contractually required contribution	\$ 1,663	\$ 1,596	\$ 1,478
Contributions in relation to the contractually required contribution	<u>(1,663)</u>	<u>(1,596)</u>	<u>(1,478)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
Port's covered-employee payroll	\$ 23,911	\$ 22,624	\$ 21,022
Contributions as a percentage of covered-employee payroll	6.95 %	7.05 %	7.03 %

(a) Law Enforcement Officers' and Fire Fighters' Retirement System ("LEOFF") Plan 1 is fully funded, and no further employer or employee contributions have been required since June 2000.

(b) This schedule is presented prospectively starting fiscal year ended 2014, coinciding with the implementation and restatement of GASB Statement No. 68.

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
WAREHOUSEMEN'S PENSION TRUST FUND**

Last Three Fiscal Years ^(a)
(in thousands)

	2016	2015	2014
Total pension liability			
Interest expense	\$ 1,255	\$ 1,306	\$ 1,384
Difference between expected and actual experience	105		(512)
Changes of assumptions	1,044		
Benefit payments	(2,093)	(2,079)	(2,091)
Net change in total pension liability	311	(773)	(1,219)
Total pension liability—beginning	20,351	21,124	22,343
Total pension liability—ending	<u>\$ 20,662</u>	<u>\$ 20,351</u>	<u>\$ 21,124</u>
Plan fiduciary net position			
Employer contributions	\$ 1,500	\$ 1,500	\$ 1,500
Net investment income	554	(116)	408
Benefit payments	(2,093)	(2,079)	(2,091)
Administrative expense	(45)	(46)	(45)
Professional fees	(41)	(57)	(66)
Net change in plan fiduciary net position	(125)	(798)	(294)
Plan fiduciary net position—beginning	9,186	9,984	10,278
Plan fiduciary net position—ending	<u>\$ 9,061</u>	<u>\$ 9,186</u>	<u>\$ 9,984</u>
Net pension liability			
Total pension liability—ending	\$ 20,662	\$ 20,351	\$ 21,124
Plan fiduciary net position—ending	(9,061)	(9,186)	(9,984)
Net pension liability—ending	<u>\$ 11,601</u>	<u>\$ 11,165</u>	<u>\$ 11,140</u>
Plan fiduciary net position as a percentage of total pension liability	43.9%	45.1%	47.3%
Covered payroll ^(b)	n/a	n/a	n/a

(a) This schedule is presented prospectively starting fiscal year ended 2014, coinciding with the implementation of GASB Statement No. 67 in fiscal year 2014.

(b) Annual covered payroll was not applicable as the operation was terminated in 2002.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
WAREHOUSEMEN'S PENSION TRUST FUND ^(a)
 Last Ten Fiscal Years
 (in thousands)

Years ended December 31,	Actuarially determined contribution ^(b)	Actual contribution	Contribution (excess) deficiency
2016	\$ 1,147	\$ 1,500	\$ (353)
2015	1,118	1,500	(382)
2014	1,201	1,500	(299)
2013	1,304	1,500	(196)
2012	1,456	1,500	(44)
2011	1,412	1,500	(88)
2010	1,505	1,500	5
2009	1,659	1,500	159
2008	1,290	1,500	(210)
2007	1,325	1,500	(175)

(a) Annual covered payroll was not applicable as the operation was terminated in 2002.

(b) Prior to 2014, the Annual Required Contribution ("ARC") amounts are presented for the Actuarially Determined Contributions.

SCHEDULE OF INVESTMENT RETURNS
WAREHOUSEMEN'S PENSION TRUST FUND
 Last Three Fiscal Years ^(a)

Years ended December 31,	Annual money-weighted rate of return, net of investment expense
2016	6.3 %
2015	(1.2)
2014	4.1

(a) This schedule is presented prospectively starting fiscal year ended 2014, coinciding with the implementation of GASB Statement No. 67 in fiscal year 2014.

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
WAREHOUSEMEN'S PENSION TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions—The actuarially determined contribution rates in the schedule are calculated as of December 31, 2015 for the year of 2016. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	19 years as of January 1, 2016
Asset valuation method	Market value
Investment rate of return	6.5%
Discount rate	6.5%
Retirement age	100% assumed retirement at earliest eligibility age—age 55 for members with at least 10 years of service and age 62 for members with less than 10 years of service.
Mortality	RP-2000 Blue Collar Combined Healthy Mortality Table projected to 2020 with Scale AA
Other information	There were no benefit changes during the year. Employer contributions are determined such that contributions will fund the projected benefits over a closed 19 year funding period as of January 1, 2016.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE NORTHWEST SEAPORT ALLIANCE

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The Northwest Seaport Alliance

Financial Report
December 31, 2016

The Northwest Seaport Alliance Financial Report

**For The Year Ended
December 31, 2016**

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Independent Auditor's Report

The Managing Members
The Northwest Seaport Alliance
Tacoma, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of The Northwest Seaport Alliance (the NWSA) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which, collectively, comprise the NWSA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to NWSA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of NWSA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NWSA as of December 31, 2016, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information: Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RSM US LLP

Tacoma, Washington
March 24, 2017

The Northwest Seaport Alliance

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED DECEMBER 31, 2016

INTRODUCTION

The Northwest Seaport Alliance (NWSA) Management Discussion and Analysis (MD&A) of financial activities and performance introduces the NWSA's 2016 financial statements, a Port Development Authority. NWSA management prepared this MD&A and readers should consider it in conjunction with the financial statements and the notes thereto. Since 2016 is the first year of operations for the NWSA, prior year comparative data is limited.

The notes are essential to a full understanding of the data contained in the financial statements. This report also presents information about the formation of the NWSA and certain required supplementary financial information.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: MD&A, the basic financial statements and the notes to the financial statements. The financial statements include: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows.

The statement of net position presents information on all of the NWSA's assets and liabilities, with the difference between the assets, liabilities, reported as net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial position of the NWSA is improving or deteriorating. The statement of revenues, expenses and changes in net position shows how the NWSA's net position changed during the year. These changes are reported in the period in which the underlying event occurs, regardless of the timing of related cash flows.

The NWSA's operations began January 1, 2016. Since 2016 is the first year of financial operations, comparative financial statements are not presented. However, in future years, when prior year information is available, a comparative analysis of revenues and expenses and changes in net position will be presented.

Formation of The Northwest Seaport Alliance

The ports of Seattle and Tacoma (the home ports) joined forces in August 2015, forming the NWSA to unify management of marine cargo facilities and business to strengthen the Puget Sound gateway and attract more marine cargo and jobs to the region.

The NWSA is a special purpose governmental entity established as a Port Development Authority (PDA), similar to Public Development Authorities formed by cities and counties. The PDA is governed by the home ports as equal members (each a "Managing Member" and collectively, "Managing Members") with each home port acting through its elected commissioners. As approved, the charter for the NWSA ("Charter") may be amended only by mutual agreement of the Managing Members. Each port will remain a separate legal entity, independently governed by its own elected commissioners. Each home port has granted to the NWSA a license for the NWSA's exclusive use, operation and management of certain facilities, but ownership of the licensed facilities remains with the home ports, not with the NWSA.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Membership Interests

The home ports made an initial contribution of certain cargo terminals and related marine cargo business activities to the NWSA through license agreements ("Licensed Properties"). Under these agreements, the NWSA was charged with managing the properties as an agent on behalf of the home ports. The initial contribution of each Managing Member to the NWSA was 50 percent as established with its Membership Interest (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA) with a revaluation review at the end of 2017. The revaluation review is to determine if material changes in cash flows from the Licensed Properties have occurred since the initial valuation. A change in the valuation of the cash flow forecasts of these facilities could result in a change in Membership Interests. The Managing Members shall approve any change in Membership Interest by vote, to include provision for addressing any change to distributions and allocations as a result of the change in Membership Interest. Changes in Membership Interest do not affect a Managing Member's voting rights under the Charter, as votes are not weighted by or otherwise determined by Membership Interest.

Financial Framework

The NWSA intends to support the credit profiles of both home ports, and its financial framework will preserve both ports' commitment to financial strength and fiscal stewardship. The NWSA distributes cash to each home port based on cash flow from operations, calculated pursuant to generally accepted accounting principles (GAAP). Cash distributions are to be made no less than quarterly based on each Managing Member's Membership Interest. Cash flow from operations will be distributed to home ports and not retained by the NWSA for funding capital investment.

The NWSA is responsible for capital investments, including renewal and replacement projects and new development. Such capital investments or post-formation assets will be treated as tenant improvements owned by the NWSA. Both home ports work cooperatively with the NWSA to develop an annual capital budget for approval by each Managing Member. Capital funding will be provided by joint contributions from the home ports. Each Managing Member must approve its capital contributions.

The Charter recognizes that each home port's respective share of revenues received by the NWSA with respect to the Licensed Properties has been or may be pledged in connection with the home port's bond obligations. Under the Charter, the Managing Members instruct the Chief Executive Officer (CEO) to manage the PDA in a prudent and reasonable manner in support of the home port's respective bond covenants. The home ports shall keep the CEO and the NWSA management informed of their respective bond obligations, and shall notify the other home port of any proposed change to such home port's governing bond resolutions as soon as practical before adoption. The Charter does not modify or alter the obligations of each home port with respect to its own bond obligations. The NWSA does not assume any obligations to the home ports' bondholders.

With respect to bonds of each home port that were outstanding at the time of the formation of the NWSA, the Managing Members shall establish and maintain a requirement for the NWSA to calculate and establish a minimum level of change in net position from the NWSA equal to the amount required for the home ports to meet their bond rate covenants in effect at the time of formation of the NWSA ("Bond Income Calculation," initially calculated to be \$90 million). The Managing Members shall require the Bond Income Calculation to be reviewed annually as part of the NWSA budget process and the Managing Members may adjust the Bond Income Calculation so long as it does not cause any home port to fail to comply with its rate covenant in effect at the time of formation of the NWSA. The NWSA may not take any action that reasonably would reduce NWSA income below the minimum level established by the Bond Income Calculation unless each Managing Member separately votes to approve that action. Such a vote by each Managing Member must occur even if the action is within the CEO's delegated authority. The Bond Income Calculation is subject to adjustment, including reductions from payment or refunding of bonds outstanding at the time of the formation of the NWSA.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Initial Funding

Each home port provided an initial contribution for working capital of \$25.5 million, for a total initial working capital funding of \$51 million. Working capital cannot be redirected to fund Capital Construction as defined in the Charter.

Future needs will be evaluated during the annual budget process or if the working capital reserve should decline below a target minimum established by the Managing Members. Managing Members each must vote affirmatively to approve additional working capital contributions.

Each home port provided an initial Capital Construction contribution of \$13.5 million (totaling \$27 million), equal to the budgeted five-year capital improvement plan cash forecast needs for 2016. The home ports also provided \$16.8 million noncash construction in process for capital projects that started in the home port and will be completed by the NWSA.

Financial Position Summary

The statement of net position presents the financial position of the NWSA. The statement includes all of the NWSA's assets and liabilities. Net position serves as an indicator of the NWSA's financial position. The NWSA's current assets consist primarily of cash and cash equivalents, investments and accounts receivable.

The NWSA's operations began January 1, 2016. Since 2016 is the first year of financial operations, comparative financial statements are not presented. However in future years, when prior year information is available, a comparative analysis of revenues and expenses and changes in net position will be presented.

Statement of Net Position (dollars in thousands):

Current assets	\$	119,740
Capital assets, net		80,532
Other assets		3,447
Total assets	\$	203,719
Current liabilities	\$	58,927
Other long-term liabilities		13,655
Total liabilities	\$	72,582
Net investment in capital assets	\$	80,532
Unrestricted		50,605
Total net position	\$	131,137

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The NWSA's total net position was \$131.1 million at December 31, 2016. Of this amount, \$80.5 million is the net investment in capital assets and \$50.6 million is unrestricted and can be used to finance operating activities. The NWSA's net investment in capital assets represents capital assets for the NWSA's terminal and real estate facilities.

Statement of Revenues, Expenses and Changes in Net Position (dollars in thousands):

Operating revenues	\$	195,170
Operating expenses		(80,264)
Interest income		755
Net decrease in the fair value of investments		(328)
Other non-operating income, net		7,835
Capital contributions from managing members		7,969
		<hr/>
Increase in net position	\$	131,137
		<hr/> <hr/>

The NWSA operates three major business lines:

Container business: International and domestic container cargo is a core business segment for the NWSA. As one of the northernmost gateways on the U.S. West Coast, the Pacific Northwest has long been the primary hub for waterborne trade with Alaska, as well as a major gateway for trans-pacific trade. The gateway's on-dock and near-dock intermodal rail yards, along with international and domestic rail services to the U.S. Midwest, are an integral part of the container business.

Non-container business: Comprised of breakbulk (roll on and roll off also known as RoRo), bulk and auto cargoes. Aside from handling agricultural and mining equipment and other rolling stock, the NWSA's South Harbor is designated as a strategic military port for transport of military cargoes. Auto customers include Kia, Mazda and Mitsubishi. Auto Warehousing Company (AWC), a tenant, is the largest auto processor on the U.S. West Coast.

Real estate business: Focused on non-terminal industrial and commercial properties and facilities that complement the container and non-container businesses and offer a broad range of services for the NWSA's international and domestic customers including warehousing, distribution, manufacturing and marine services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The fiscal year ended December 31, 2016, is the first year of financial operations for the NWSA; hence, comparative financial information is limited. A summary of revenue by business lines for the year ended December 31, 2016, is presented in the following table: (dollars in thousands)

Revenue:	
Container	\$ 163,711
Non-container	20,013
Real estate	11,446
Total revenue	<u><u>\$ 195,170</u></u>

Operating expenses totaled \$80.3 million for the year ended December 31, 2016. Depreciation expense of \$0.5 million is the depreciation for assets procured and constructed by the NWSA beginning January 1, 2016. Depreciation expense for assets on licensed properties that were in service on January 1, 2016, remains a home port expense. The major components of operating expense are presented in the following table (dollars in thousands):

Operating expenses:	
Operations	\$ 40,367
Maintenance	14,592
Administration	18,317
Security	4,231
Environmental	2,225
Depreciation	532
Total operating expenses	<u><u>\$ 80,264</u></u>

The resulting net operating income for 2016 was \$114.9 million. The net non-operating income for 2016 was \$8.3 million primarily due to facility stormwater improvements constructed by the tenant on Terminal 18 for \$7.8 million. The above resulted in a change in net position of \$123.2 million.

Net Position

The net position reflects the investments received from the home ports, and the NWSA's earnings and distributions to Managing Members. The net position is presented as follows (dollars in thousands):

Beginning balance, January 1, 2016	\$ -
Contributions - working capital from Managing Members	51,000
Contributions - capital construction from Managing Members	56,140
Contributions - capital construction in process (noncash) from Managing Members	16,793
Change in net position from NWSA	123,168
Distributions to Managing Members	(115,964)
Ending balance, December 31, 2016	<u><u>\$ 131,137</u></u>

Capital assets: The NWSA was initially funded with \$27 million to support a five-year capital improvement plan. Additional Capital Construction contributions to support the capital improvement plan must be approved by the Managing Members. Such requested contributions will be reviewed at least annually as part of the budget process or may occur during the year when major projects are authorized by the Managing Members.

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

In 2016, each Managing Member authorized additional Capital Construction contributions for pier, backlands, gate improvements and two additional cranes to support an amended lease agreement at the South Harbor. The total estimated project cost for the crane purchase and pier improvements is \$159.6 million and will be funded by the home ports during the project life cycle.

The NWSA’s investment in capital assets, net of depreciation, for its business activities as of December 31, 2016, amounted to \$80.5 million. This investment in capital assets also referred to as post-formation assets may include buildings, improvements, machinery and equipment, and construction in process. The Charter restricts the purchase of land. See Note 3 for additional information. Major capital spending in 2016 is presented below (dollars in thousands):

Pier 4 redevelopment	\$	32,002
Terminal 5 modernization design		6,289
Crane acquisition		4,889
Terminal 18 stormwater upgrade		3,527
Facility and building improvements		6,562
Rail improvements		1,514
Machinery and equipment		1,239

REQUEST FOR INFORMATION

The Northwest Seaport Alliance designed this financial report to provide our citizens, customers, investors and creditors with an overview of the NWSA’s finances. If you have questions or need additional information please visit our website at <http://www.nwseaportalliance.com> or contact: Chief Financial Officer, P.O. Box 2985, Tacoma, Washington, 98401-2985, Telephone 800-657-9808.

Financial Statements

The Northwest Seaport Alliance

Statement of Net Position

December 31, 2016

(Dollars in Thousands)

Assets	
Current assets:	
Cash and cash equivalents	\$ 21,818
Investments, at fair value	68,985
Trade accounts receivable, net of allowance for doubtful accounts	11,108
Related-party receivable - Managing Members	15,584
Prepayments and other current assets	2,245
Total current assets	119,740
Capital assets:	
Buildings	4,706
Improvements	14,322
Machinery and equipment	1,314
Construction in process	60,722
Total cost	81,064
Less accumulated depreciation	532
Net property and equipment	80,532
Other assets	3,447
Total noncurrent assets	83,979
Total assets	\$ 203,719

See notes to financial statements.

The Northwest Seaport Alliance

Statement of Net Position

December 31, 2016

(Dollars in Thousands)

Liabilities and Net Position

Current liabilities:

Accounts payable and accrued liabilities	\$	16,488
Related-party payable - Managing Members		41,381
Payroll and taxes payable		1,058
Total current liabilities		<u>58,927</u>

Noncurrent liabilities:

Security deposits and other liabilities		<u>13,655</u>
Total noncurrent liabilities		<u>13,655</u>

Total liabilities	\$	<u>72,582</u>
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Net investment in capital assets	\$	80,532
Unrestricted		<u>50,605</u>
Total net position	\$	<u>131,137</u>

See notes to financial statements.

The Northwest Seaport Alliance

Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2016
(Dollars in Thousands)

<hr/>	
Operating revenues:	
Property rentals	\$ 195,170
Total operating revenues	<u>195,170</u>
Operating expenses:	
Operations	40,367
Maintenance	14,592
Administration	18,317
Security	4,231
Environmental	2,225
Total before depreciation	<u>79,732</u>
Depreciation	532
Total operating expenses	<u>80,264</u>
Operating income	<u>114,906</u>
Non-operating revenues (expenses):	
Interest income	755
Net decrease in the fair value of investments	(328)
Other non-operating income, net	7,835
Total non-operating income, net	<u>8,262</u>
Increase in net position, before capital contributions	123,168
Capital contributions	7,969
Increase in net position	<u>\$ 131,137</u>

See notes to financial statements.

The Northwest Seaport Alliance

Statement of Cash Flows

Year Ended December 31, 2016

(Dollars in Thousands)

Cash flows from operating activities:	
Cash received from customers	\$ 186,291
Cash paid to suppliers, longshore labor and employees	(36,069)
Cash paid to homeports for support services	(34,257)
Cash held for customer deposits	1,042
Net cash provided by operating activities	117,007
Cash flows from non-capital financing activities:	
Cash received from Managing Members for working capital	51,000
Cash received from Managing Members - customer deposits, lease liabilities	15,762
Cash distributions to Managing Members	(95,084)
Net cash used by non-capital financing activities	(28,322)
Cash flows from capital and related financing activities:	
Cash received from Managing Members for capital construction	40,556
Acquisition and construction of capital assets	(38,856)
Net cash provided by capital and related financing activities	1,700
Cash flows from investing activities:	
Purchases of investments	(99,162)
Proceeds from sales and maturities of investment securities	30,000
Interest received on investments	595
Net cash used in investing activities	(68,567)
Net increase in cash and cash equivalents	21,818
Cash and cash equivalents:	
Beginning of year	-
End of year	\$ 21,818

(Continued)

The Northwest Seaport Alliance

Statement of Cash Flows (Continued) Year Ended December 31, 2016 (Dollars in Thousands)

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 114,906
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	532
Changes in assets and liabilities:	
Increase in accounts receivable	(10,685)
Increase in prepayments and other current assets	(1,816)
Increase in accounts payable and accrued liabilities	6,830
Increase in related-party payable	4,271
Increase in lease securities and customer deposits	1,957
Increase in payroll and taxes payable	1,012
Total adjustments and changes	<u>2,101</u>
Net cash provided by operating activities	<u><u>\$ 117,007</u></u>
Non-cash investing and financing activities:	
Capital asset additions and other purchases financed with accounts payable	\$ 17,574
Capital construction in process contributed by the Managing Members	\$ 16,792
Contributions receivable from Managing Members for capital construction	\$ 15,584
Contributions received for capital assets - tenant improvements	\$ 7,842
Distributions payable to Managing Members	\$ (20,880)
Decrease in fair value of investments	\$ (328)

See notes to financial statements.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting entity: The ports of Seattle and Tacoma formed The Northwest Seaport Alliance (NWSA), a special purpose governmental entity established as a Port Development Authority (PDA), with an effective date of August 4, 2015 (the "Effective Date"). The PDA was formed pursuant to a provision in Title 53 Revised Code of Washington (RCW) that grants ports that meet certain criteria the authority to create a separate PDA, similar to public development authorities created by Washington cities and counties. Each Port Commission is a Managing Member of the NWSA. Each port will remain a separate legal entity, independently governed by its own elected commissioners. As formed, the NWSA is to continue for an indefinite term until dissolution. As approved, the Charter for the NWSA may be amended only by mutual agreement of both ports as the NWSA's Managing Members. On January, 1, 2016, the NWSA became a separate legal entity.

The State Legislature granted qualifying ports the authority to create a PDA for the management of maritime activities and to allow ports to act cooperatively and use financial resources strategically, while remaining separate entities and complying with federal regulations. Pursuant to the PDA statute, if a PDA is created jointly by more than one port district, the PDA must be managed by each port district as a member, in accordance with the terms of the statute and the Charter. Any port district that creates a PDA must oversee the affairs, operations, and funds of the PDA to correct any deficiency, and ensure the purposes of each program undertaken are reasonably accomplished. The statute permits a PDA, in managing maritime activities of a port district or districts, to own and sell real and personal property; to enter into contracts, to sue and be sued; to loan and borrow funds; to issue bonds, notes, and other evidences of indebtedness; to transfer funds, real or personal property, property interests, or services; and to perform community services related to maritime activities managed by the PDA. As discussed below, the statute allows, but the Charter prohibits, the NWSA to issue bonds, borrow funds, or enter into other debt instruments. By statute, PDAs do not have the power of eminent domain or the power to levy taxes or special assessments. In transferring real property to a PDA, the port district or districts creating the PDA must impose appropriate deed restrictions necessary to ensure the continued use of the property for the public purpose for which the property is transferred.

The NWSA is governed by its Managing Members, with each Managing Member acting pursuant to the Charter through its elected commissioners. The Managing Members appointed a Chief Executive Officer who is responsible for hiring staff and entering into service agreements with the Managing Members as needed. Staff is comprised of certain Port of Tacoma and former Port of Seattle employees assigned either in full or in part to work in roles in the NWSA. In addition, both Managing Members may provide services through support service agreements with a portion of staff time allocated to and reimbursed by the NWSA.

Effective January 1, 2016, the revenues and expenses associated with Licensed Properties were accounted for and reported by the NWSA. The initial funding of working capital and capital construction and subsequent earnings and cash distributions are presented on the statement of net position. Additional information about the formation of the NWSA is presented in the MD&A.

The home ports agreed to share investments, earnings and cash distributions on a 50/50 basis. The home ports initial contribution of Licensed Properties to the NWSA was 50 percent (based on the value of the contributed facilities using cash flow forecasts for each parcel that went to the NWSA). The initial cash investment totaling \$78 million, of which \$51 million funded Working Capital and \$27 million funded Capital Construction projects, were shared equally. The home ports contributed an additional \$16.8 million of non-cash work in process capital projects that started in the home port and will be completed by NWSA for an opening investment of \$94.8 million.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The NWSA distributes cash to each home port on cash flow from operations, calculated pursuant to GAAP. Cash distributions are to be made no less than quarterly based on each Managing Member's percentage of total shares; however, during 2016 cash distributions have been generally made in the following month after the amount due was determined. The investment in joint venture activity is presented on the statement of net position.

Nature of business: The PDA is used to account for the general operations of the NWSA as more fully described below.

The NWSA is authorized by Washington law to provide and charge rentals, tariffs and other fees for docks, wharves and similar harbor facilities, including associated storage and traffic handling facilities, for waterborne commerce. The NWSA may also provide freight and passenger terminals and transfer and storage facilities for other modes of transportation, including air, rail and motor vehicles.

Measurement focus, basis of accounting and presentation: The financial statements of the NWSA have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The NWSA is accounted for on a flow of economic resources measurement focus and the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

The accounting records of the NWSA are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09, Revised Code of Washington. The NWSA also follows the Uniform System of Accounts for Port Districts in the state of Washington.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements. Significant estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates made by the NWSA include depreciation and environmental liabilities. Actual results could differ from those estimates.

Significant risks and uncertainties: The NWSA is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, federal, state and local government regulations, and changes in law.

The formation of the NWSA is intended to reduce pricing competition between the home ports by creating a unified gateway, to allow for coordination regarding customer relationships, to improve capacity utilization between the home ports, and to rationalize strategic capital investments. The formation of the NWSA may or may not successfully address these risks, and may create new risks, including the risks associated with a new joint venture funded by the Managing Members with equal Membership Interests, and reliance on the financial strength of the home ports to fund future capital expenditures and shortfall in working capital.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The Charter requires that the NWSA maintain the Bond Income Calculation and not to take any action that would reasonably reduce its income below this minimum net operating income level unless each Managing Member votes separately to approve that action. This minimum net operating level was established based on the amount required at formation of the NWSA for the Managing Members to meet their then current bond rate covenants, and may not always reflect the amount required to meet bond rate covenants on a going-forward basis.

If net operating income before depreciation of the NWSA is not sufficient for either home port to be in compliance with a rate covenant (as described in each Managing Member's governing bond resolutions in effect as of the Effective Date), then: (i) upon that Managing Member's request, the NWSA shall hire an independent third-party consultant to perform analysis and make recommendations for actions needed to achieve bond covenant compliance; (ii) if the consultant recommends an action that the NWSA is unwilling, unable or refuses to undertake, either Managing Member can require dissolution of the NWSA following the dispute resolution process even if within the "Initial Period" (as defined in the Charter, "the expiration of 20 years following the NWSA's formation"); and (iii) the NWSA shall have at least four months to respond, act and or dissolve following its receipt of the consultant's recommended action, unless a shorter time is required by the applicable bond covenants.

The NWSA selected as its Chief Executive Officer, the Chief Executive Officer of the Port of Tacoma, who may serve in those dual roles for up to five years. It is possible that the dual role may pose a real or perceived conflict of interest.

Cash and cash equivalents: Cash represents cash and demand deposits. The NWSA maintains its cash in bank deposit accounts, which are covered by the Public Deposit Protection Commission of the state of Washington. All short-term investments with a maturity of three months or less at the date of purchase are considered cash equivalents.

Trade accounts receivable: Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts at December 31, 2016, was \$3.1 million.

Investments: Investments are stated at fair value which is the price that would be received in an orderly transaction between market participants at the measurement date. The NWSA also has investments in the state Local Government Investment Pool (LGIP). The LGIP is similar to a money market fund recognized by the Securities and Exchange Commission. The LGIP invests in U.S. Agency Securities, Repurchase Agreements, U.S. Treasury Securities, Interest Bearing Bank Deposits, and Certificates of Deposit. The investments are limited to high-quality obligations with limited maximum and average maturities. These investments are valued at amortized cost. Interest income on investments is recognized as earned. Interest income and changes in the fair value of investments are recognized on the statement of revenues, expenses and changes in net position. The NWSA's general policy is to not hold more than 20 percent of its holdings in any one investment. See Note 2 for further information.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Capital assets and depreciation: The NWSA has an annual operating budget and a five-year capital improvement plan. Capital assets are recorded at cost. Donated assets are recorded at acquisition value on the date donated.

The NWSA's policy is to capitalize all asset additions greater than \$20,000 and with an estimated life of more than three years. Depreciation is computed on the straight-line method. The following lives are used:

	<u>Years</u>
Buildings and improvements	10-75
Machinery and equipment	3-20

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Regular monthly reviews are completed and costs relating to projects ultimately constructed are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed when the project is abandoned.

Net position: Net position consists of net investment in capital assets, restricted and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation which was \$80.5 million at December 31, 2016. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the NWSA or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. There were no restrictions on net position at December 31, 2016. The unrestricted component of net position is the net amount of the assets less liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position and was \$50.6 million at December 31, 2016.

Retentions payable: The NWSA enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the NWSA. The NWSA's policy is to pay the retention due only after completion and acceptance have occurred. Retentions payable totaled \$44,000 at December 31, 2016. Retentions payable are included in accounts payable and accrued liabilities on the accompanying statement of net position.

Federal and state grants: The NWSA may receive federal and state grants as reimbursement for construction of facilities and other capital projects. These grants are included in capital contributions on the accompanying statement of revenues, expenses and changes in net position.

Employee benefits: The NWSA accrues unpaid vacation and sick leave benefit amounts as earned and payable upon termination. These benefits are accrued at current rates of compensation. Accrued vacation and sick leave are included in payroll and taxes payable and amounted to \$399,000 and \$171,000, respectively, at December 31, 2016. Vacation and sick leave paid in 2016 was \$311,000 and \$153,000, respectively. The estimated total amount of vacation and sick leave expected to be paid in 2017 is \$320,000 and \$157,000, respectively.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

The NWSA provides health care benefits for eligible employees through the voluntary employees' beneficiary association (VEBA) which is a tax-exempt health and welfare trust and through the health reimbursement arrangement (HRA) plan. The plan is closed to employees not covered by collective bargaining agreements hired on or after April 1, 2013. The plans require the NWSA to contribute \$217 per month to the VEBA accounts of eligible employees. The NWSA contributed \$87,000 to eligible employee VEBA accounts in 2016.

Pensions: The NWSA's full-time and qualifying part-time employees participate in the cost-sharing, multiple-employer public employee defined benefit retirement plans administered by the Washington State Department of Retirement Systems (DRS). The employer of record for the DRS is the Port of Tacoma for the year ended December 31, 2016. In 2016 the NWSA made all required contributions directly to DRS for its employees. On January 1, 2017, the NWSA established a separate account with DRS and will be an employee of record and will record its share of pension liability.

Environmental remediation costs: The NWSA environmental remediation policy requires accrual of pollution remediation obligation amounts when: (a) one of the following specific obligating events is met and (b) the amount can be reasonably estimated. Obligating events include: imminent endangerment to the public; permit violation; NWSA named as party responsible for sharing costs; NWSA named in a lawsuit to compel participation in pollution remediation; or commenced or legally obligated to commence pollution remediation. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the NWSA's pollution remediation obligation. Costs incurred for pollution remediation obligations are typically recorded as non-operating environmental expenses unless the expenditures relate to the NWSA's principal ongoing operations, in which case they are recorded as operating expenses. Costs incurred for pollution remediation obligations can be capitalized if they meet specific criteria. Capitalization criteria include: preparation of property in anticipation of a sale; preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated; performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment; or acquisition of property, plant and equipment that have a future alternative use not associated with pollution remediation efforts.

The NWSA licenses property from the home ports for its operations. Remediation costs associated with contamination on Licensed Properties that occurred before the formation of the NWSA shall remain the responsibility of the home port in which the Licensed Property is located. Remediation costs associated with redevelopment on Licensed Properties shall be the responsibility of the NWSA. At December 31, 2016, the NWSA has determined that there is no environmental remediation liability to be recognized.

Lease securities: Under the terms of certain Licensed Property lease agreements, the NWSA's customers or tenants are required to provide security in the event of delinquencies in rent payment, default, or other events defined in these agreements. The security amounts are determined by lease terms. The NWSA held \$12.9 million in lease securities at December 31, 2016, and this amount is presented in security deposits and other liabilities on the statement of net position.

Operating and non-operating revenues and expenses: Terminal services and property rental revenues are charges for use of the NWSA's facilities and are reported as operating revenue. Other revenues generated from non-operating sources are classified as non-operating.

Operating expenses are costs primarily related to the terminal services and property rental activities. Interest expense and other expenses incurred not related to the operations of the NWSA's terminal and property rental activities are classified as non-operating.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements: In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this statement is to establish general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. The NWSA adopted this standard and included the prescribed disclosures in Note 11, Fair Value Measurements.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The NWSA adopted this standard and included the prescribed disclosures in Note 2, Deposits and Investments.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. NWSA is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported and this statement establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. NWSA is currently evaluating the effect of the adoption of this standard on its financial statements and related disclosures.

Note 2. Deposits and Investments

Discretionary deposits: The NWSA's cash and cash equivalents of \$21.8 million at December 31, 2016, were deposited in qualified depositories as required by state statute. Deposits in excess of federal depository insurance coverage are covered by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority under chapter 39.58 RCW. Currently, all public depositories with the state fully collateralize uninsured public deposits at 100 percent.

Investments: State of Washington statutes authorize the NWSA to invest in direct obligations of the U.S. Government, certificates of deposit, bankers' acceptances, repurchase agreements, commercial paper and certain municipal bonds. These investments must be placed with or through qualified public depositories of the state of Washington.

Risks:

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The NWSA's investment guideline is to maximize investment return while preserving liquidity. To the extent possible, the NWSA will attempt to match its investments with anticipated cash flow requirements using the specific-identification method.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Credit risk: Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The LGIP is an external investment pool, as defined by the GASB.

Custodial credit risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the NWSA will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. To minimize this risk, the NWSA's policy requires that all security transactions are settled "delivery versus payment." This means that payment is made simultaneously with the receipt of the security. These securities are delivered to the NWSA's safekeeping bank. With the exception of the Washington State LGIP, the NWSA's investment securities are registered, or held by the NWSA or its agent in the NWSA's name. The certificates of deposit are covered by the PDPC. The PDPC is a statutory authority under Chapter 39.58 RCW. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC by requiring banks and thrifts to pledge securities as collateral.

In 2016, the NWSA adopted GASB 79, *Certain External Investment Pools and Pool Participants*, due to the NWSA's participation in the LGIP. The LGIP manages a portfolio of securities that meet the maturity, quality, diversification and liquidity requirements set forth by the GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities to minimize both market and credit risk. LGIP participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer of any contribution or withdrawal over \$1 million no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for \$1 million or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than \$1 million when notification is made between 9 a.m. and 10 a.m., at the sole discretion of the Office of the State Treasurer. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds.

The table below identifies the types of investments, concentration of investments in any one issuer, and maturities of the NWSA investment portfolio as of December 31, 2016 (dollars in thousands):

Investment Type	Maturities (in Years)				Percentage of Total Portfolio
	Fair Value	Less than 1	1-3	More than 3	
Federal Home Loan Bank	\$ 8,952	\$ -	\$ -	\$ 8,952	13.0%
Federal Home Loan Mortgage Corporation	3,006	-	3,006	-	4.4%
Federal National Mortgage Association	6,988	-	6,988	-	10.1%
Municipal Bonds	9,274	3,345	-	5,929	13.4%
State Local Investment Pool *	40,765	40,765	-	-	59.1%
Total investments	<u>\$ 68,985</u>	<u>\$ 44,110</u>	<u>\$ 9,994</u>	<u>\$ 14,881</u>	<u>100.0%</u>
Percentage of total portfolio		<u>63.9%</u>	<u>14.5%</u>	<u>21.6%</u>	<u>100.0%</u>

* Investments in Washington State Local Investment Pool are valued at amortized cost.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

The table below identifies the credit risk of the NWSA's Investment portfolio as of December 31, 2016 (dollars in thousands):

Investment Type	Fair Value	Moody's Equivalent Credit Ratings					No Rating
		A1	Aa3	Aa2	Aa1	Aaa	
Federal Home Loan Bank	\$ 8,952	\$ -	\$ -	\$ -	\$ -	\$ 8,952	\$ -
Federal Home Loan Mortgage Corporation	3,006	-	-	-	-	3,006	-
Federal National Mortgage Association	6,988	-	-	-	-	6,988	-
Municipal Bonds	9,274	1,331	4,399	2,000	1,544	-	-
State Local Investment Pool *	40,765	-	-	-	-	-	40,765
Total	\$ 68,985	\$ 1,331	\$ 4,399	\$ 2,000	\$ 1,544	\$ 18,946	\$ 40,765

* Investments in Washington State Local Investment Pool. The fair value of the investments is the same as the amortized cost of the pool shares.

Note 3. Capital Assets

The following capital asset activity took place during 2016 (dollars in thousands):

	Beginning of Year	Additions	Transfers	Retirements and Other	End of Year
Capital assets not being depreciated:					
Construction in process	\$ -	\$ 73,222	\$ (12,500)	\$ -	\$ 60,722
Total capital assets not being depreciated	-	73,222	(12,500)	-	60,722
Capital assets being depreciated:					
Buildings	-	-	4,706	-	4,706
Improvements	-	7,842	6,480	-	14,322
Machinery and equipment	-	-	1,314	-	1,314
Total capital assets being depreciated	-	7,842	12,500	-	20,342
Less accumulated depreciation:					
Buildings	-	(156)	-	-	(156)
Improvements	-	(173)	-	-	(173)
Machinery and equipment	-	(203)	-	-	(203)
Total accumulated depreciation	-	(532)	-	-	(532)
Net, capital assets being depreciated	-	7,310	12,500	-	19,810
Net, capital assets	\$ -	\$ 80,532	\$ -	\$ -	\$ 80,532

The Northwest Seaport Alliance

Notes to Financial Statements

Note 4. Risk Management

The NWSA is exposed to various risks of loss principally related to torts. To limit its exposure, the NWSA purchases a Special Liability Insurance Program (SLIP). The SLIP provides commercial general liability, public officials' errors and omissions, employment practices liability and non-owned and hired automobile liability subject to limits of \$10 million per occurrence. No deductible under the SLIP exceeds \$10,000. A separate crime policy is also purchased. As further protection, the NWSA is named as Additional Insured under the Port of Tacoma and the Port of Seattle liability policies, both of which purchase coverage to limits of \$150 million.

The NWSA is self-insured for its regular medical coverage. The liability for unpaid medical claims totaling \$105,000 at December 31, 2016, is included in payroll and taxes payable on the accompanying statement of net position and is expected to be paid in 2017. Excess loss coverage has been purchased through an outside provider to limit individual loss to \$110,000. Self-insured claim activity for December 31, 2016, is as follows (dollars in thousands):

Claims liability, beginning of year	\$	-
Claims reserve		735
Payments on claims		(630)
Claims liability, end of year	\$	<u>105</u>

The NWSA self-insures for workers' compensation losses subject to a \$1.25 million self-insured retention as a Named Insured under the Port of Tacoma's excess workers' compensation policy. There was no accrual for claims incurred as of December 31, 2016.

Note 5. Lease Commitments

The NWSA leases land, office space and other equipment under operating leases that expire through 2020. Future Minimum lease payments under non-cancellable operating leases are as follows (dollars in thousands):

Years ending December 31:		
2017	\$	780
2018		780
2019		780
2020		520
Total minimum payments required	\$	<u>2,860</u>

Total rent expense under non-cancellable operating leases for the year ended December 31, 2016, was \$720,000.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 5. Lease Commitments (Continued)

The NWSA, as a lessor (via licensing agreements with the home ports), leases land and facilities under terms of 1 to 50 years. In addition, some properties are rented on a month-to-month basis. Future minimum rents receivable under non-cancellable operating leases and subleases are as follows (dollars in thousands):

Years ending December 31:	
2017	\$ 104,377
2018	90,803
2019	88,586
2020	87,375
2021	83,844
Thereafter	886,429
Total minimum future rents	<u>\$ 1,341,414</u>

Licensed assets of the home ports and NWSA assets held for rental and leasing purposes for the year ended December 31, 2016, are as follows (dollars in thousands):

Land	\$ 659,650
Buildings, improvements and equipment, net	617,661
Total, net of accumulated depreciation	<u>\$ 1,277,311</u>

Note 6. Pension Plans

The NWSA's full-time and qualifying part-time employees participate in the cost-sharing, multiple-employer public employee defined benefit retirement plans administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit retirement plans (PERS). The NWSA employees remained on the Port of Tacoma payroll through December 31, 2016, and participated in PERS under the Port of Tacoma. The NWSA made all required contributions directly to DRS during 2016. On January 1, 2017, the NWSA established a separate account with DRS.

Historical trend and other information regarding each plan are presented in the Washington State Department of Retirement Systems comprehensive annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Communications Unit
P. O. Box 48380
Olympia, WA 98504-8380
Internet Address: www.drs.wa.gov

The Northwest Seaport Alliance

Notes to Financial Statements

Note 6. Pension Plans (Continued)

Contributions: The required contribution rates, expressed as a percentage of covered payrolls, as of December 31, 2016, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	11.18%	11.18%	11.18%**
Employee	6.00%	6.12%	***

* The employer rates include the employer administrative expense fee of 0.18% for 2016

** Plan 3 defined benefit portion only

*** Rate selected by PERS 3 members, 5% minimum to 15% maximum

Both the NWSA and the employees made the required contributions. The NWSA's required contribution for December 31, 2016, was \$564,000.

Note 7. Deferred Compensation Plans

The NWSA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all NWSA employees, permits them to defer a portion of their salary until future years. In accordance with GASB authoritative guidance, accounting and reporting for Internal Revenue Code Section 457 deferred compensation plans, employee assets are not reflected in the NWSA's financial statements.

The NWSA established a profit sharing plan for non-represented employees in accordance with Internal Revenue Code Section 401. The plan provides for an annual contribution to each eligible employee's 401 account based on the NWSA meeting financial targets. The minimum contribution of \$100 or a maximum contribution of 4 percent of total salaries of eligible employees will be made annually to the 401 accounts. In addition to the employer contribution, eligible employees may defer a portion of their salary until future years. The NWSA did not contribute to the plan in 2016.

Both plans are fully funded and held in outside trusts. The fund is not available to employees until termination, retirement, death or unforeseeable emergency.

Note 8. Commitments and Contingencies

Commitments: The NWSA has entered into separate contractual agreements for terminal maintenance, infrastructure improvements, environmental projects, and professional services. At December 31, 2016, the remaining commitments amounted to \$479,000. During NWSA's start-up period, the Port of Tacoma acting as an agent for the NWSA per support services agreements issued contracts on behalf of the NWSA. The remaining commitments on these contracts was \$591,000 at December 31, 2016, and will be reimbursed by the NWSA.

The NWSA agreed to purchase support services from both home ports during NWSA's startup and transition period. See Note 10, Related-Party Transactions, for additional information.

Contingencies: The NWSA is named as a defendant in various other lawsuits incidental to carrying out its function. The NWSA believes its ultimate liability, if any, will not be material to the financial statements.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 9. Major Customers

Operating revenues for the year ended December 31, 2016, of \$195.2 million included \$151.5 million, or 78 percent of operating revenue from 10 customers, three of these customers individually accounted for 10 percent or more of operating revenues, and in aggregate, 40 percent of operating revenues. Receivables from the 10 significant customers totaled \$8.2 million, or 75 percent of total trade receivables.

Note 10. Related-Party Transactions

As more fully described in the MD&A and Note 1, Summary of Significant Accounting Policies, the NWSA entered into licensing agreements with each home port for the exclusive use, operation and management of certain facilities or Licensed Properties. These licensing agreements generated 100 percent of NWSA revenues in 2016.

Support services agreements: The NWSA entered into support services agreements with the home ports to receive support services during NWSA's start-up and transition period as the NWSA works to setup its back office infrastructure and staff positions. The support services received by the NWSA include finance, human resources, information technology, public affairs, risk management, capital construction and environmental project management and contracting, equipment and facilities maintenance, security, and office infrastructure. During 2016, support services paid by NWSA to the home ports totaled \$38.1 million. The expenses are included in operating expenses on the accompanying statement of revenues, expenses and changes in net position.

The NWSA entered into support services agreements with the Port of Tacoma to provide the Port of Tacoma executive management, commercial, environmental and planning support services. In 2016, support services provided to the Port of Tacoma by NWSA amounted to \$1.1 million. The amount of operating expenses on the accompanying statement of revenues, expenses and changes in net position are net of the charges to the Port of Tacoma. The NWSA did not enter into agreements to provide support services to the Port of Seattle.

Related-party receivable and payable: During 2016, the NWSA generally repaid the home ports for support services in the following month, after the amount due was determined. At December 31, 2016, \$20.6 million was payable to the home ports and is presented on the statement of net position as related-party payable - Managing Members.

The NWSA distributes cash flow from operations, calculated pursuant to GAAP to the home ports. During 2016, cash distributions have been generally made in the following month, after the amount due was determined. At December 31, 2016, \$20.8 million was payable to the home ports and is presented on the statement of net position as related-party payable - Managing Members.

The NWSA was initially funded with \$27 million to support a five-year capital improvement plan. During 2016, each Managing Member authorized additional Capital Construction contributions primarily for pier, backlands, gate improvements and two additional cranes to support an amended lease agreement at the South Harbor totaling \$16.8 million. The \$16.2 million approved Capital Construction contributions will be funded by the home ports as the NWSA incurs spending on the approved projects. The home ports generally funded the capital construction spending made in the following month, after the amount receivable was determined. At December 31, 2016, \$15.6 million was receivable from the home ports and is presented on the statement of net position as related-party receivable - Managing Members.

Additionally, the NWSA CEO also serves as the CEO of the Port of Tacoma. The CEO will serve in dual roles through the transition period or until a new Port of Tacoma CEO is hired in late 2017.

The Northwest Seaport Alliance

Notes to Financial Statements

Note 11. Fair Value Measurements

In 2016, the NWSA adopted GASB issued Statement No. 72, *Fair Value Measurement and Application*. The guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the NWSA performs a detailed analysis of the assets and liabilities that are subject to the guidance. The NWSA's fair value measurements are evaluated by an independent third-party vendor. The third-party vendor uses a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Level 1 inputs are quoted prices in active markets for identical assets assessed at the measurement date. An active market for the asset is a principal market in which transactions for the asset are open to many and occur with sufficient frequency and volume. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers (some brokered markets, for example), or in which little information is released publicly. The NWSA does not have any Level 3 assets or liabilities at December 31, 2016.

The table below presents the balances of assets and liabilities measured at fair value by level within the hierarchy at December 31, 2016 (dollars in thousands):

	Level 1	Level 2	Total
Investments:			
Federal Home Loan Bank	\$ -	\$ 8,952	\$ 8,952
Federal Home Loan Mortgage Corporation	-	3,006	3,006
Federal National Mortgage Association	6,988	-	6,988
Municipal Bonds	2,384	6,890	9,274
Total investments	\$ 9,372	\$ 18,848	\$ 28,220

APPENDIX C

REPORT OF THE INDEPENDENT CONSULTANT

(SEE ATTACHED)

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W J A D V I S O R S
AVIATION MANAGEMENT
CONSULTANTS



Appendix C

Report of the Independent Consultant

on the proposed issuance of

Port of Seattle
Intermediate Lien Revenue Bonds
Series 2017C-D

July 14, 2017

Prepared for

Port of Seattle | Seattle, Washington

Prepared by

WJ Advisors LLC | Denver, Colorado

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July 14, 2017

Mr. Dan Thomas
Chief Financial Officer
Port of Seattle
Pier 69
2711 Alaskan Way
Seattle, Washington 98121

Re: Report of the Independent Consultant on the Proposed Issuance of Port of Seattle
Intermediate Lien Revenue Bonds, Series 2017C and Series 2017D

Dear Mr. Thomas:

WJ Advisors LLC is pleased to submit this Report of the Independent Consultant (the Report) on the proposed issuance of Intermediate Lien Revenue Bonds, Series 2017C and Series 2017D (the Series 2017C-D Bonds), by the Port of Seattle (the Port). The Port currently owns, operates, manages, and maintains Seattle-Tacoma International Airport (the Airport) and other Port businesses, including cruise terminals, recreational and commercial marinas, stormwater utilities, and various commercial and industrial properties (the Other Port Businesses). The Port continues to own containerized cargo terminals, but now licenses their management and operation to the Northwest Seaport Alliance (the Seaport Alliance). The Seaport Alliance is a port development authority jointly formed in 2015 by charter (the Charter) between the Port of Seattle and the Port of Tacoma.

This Report was prepared to determine if forecast Available Intermediate Lien Revenues from 2017¹ through 2022, referred to in this Report as the Forecast Period, would be sufficient to meet the requirements of the Intermediate Lien Rate Covenant pursuant to the Intermediate Lien Master Resolution (No. 3540, as amended), taking into account the proposed issuance of the proposed Series 2017C-D Bonds and, as described later in this letter, all future revenue bonds that the Port estimates would be issued during the Forecast Period (Future Revenue Bonds), with the exception of potential refunding bonds as discussed later in this Report.

WJ Advisors LLC and its subconsultants reviewed Port-prepared forecasts of activity and the associated financial forecasts, including, as discussed later in this Report, forecasts of the Port's share of Seaport Alliance net income. We also reviewed the Seaport-Alliance-prepared forecasts of activity and net income for the properties licensed to the Seaport Alliance by the Port and the Port of Tacoma.

The results and key findings of our review are summarized in this letter and described more fully in the following three sections of this Report: Port Overview and Financial Forecasts, Attachment 1—Airline Traffic and Financial Forecasts of the Airport, and Attachment 2—Overview of Seaport Alliance and Other Port Businesses and Associated Financial Forecasts. The Report should be read in its entirety for an understanding of the financial forecasts and the underlying assumptions.

¹ The Port's Fiscal Year ends December 31.

Mr. Dan Thomas
July 14, 2017

Capitalized terms in this Report are used as defined in the First Lien Master Resolution (No. 3059, as amended), as amended, the Intermediate Lien Master Resolution, as amended; and/or the Signatory Airline Lease and Operating Agreement (the Airline Agreement). Please refer to the front of the Official Statement for the Series 2017C-D Bonds for additional information regarding the capitalized terms used in this Report.

PORT CAPITAL PROGRAM

The Port has a Capital Program for 2017 through 2022 (the 2017-2022 Capital Program), which is estimated to cost approximately \$3.4 billion, including approximately \$2.9 billion for improvements to Airport facilities, approximately \$151.8 million of improvements to Seaport Alliance facilities, and approximately \$313.1 million for improvements to facilities that are part of Other Port Businesses.

The Port's 2017-2022 Capital Program is based, in part, on the existing and anticipated business environment, forecasts of demand for Port facilities, available resources, the priorities of the organization, and the Port's obligated or expected capital contributions to the Seaport Alliance.

Approximately \$416.8 million of 2017-2022 Capital Program costs is expected to be financed with proceeds from the sale of the proposed Series 2017C-D Bonds and approximately \$1.5 billion in other costs in the 2017-2022 Capital Program are expected to be financed with the net proceeds from the sale of Future Revenue Bonds. According to the Port, Future Revenue Bonds², if issued, would include a combination of Intermediate Lien Revenue Bonds and Subordinate Lien Revenue Bonds.

Other sources of funds for the 2017-2022 Capital Program include, but are not limited to, customer facility charge (CFC) revenues, federal grants, passenger facility charge (PFC) revenues, prior bond proceeds, Port tax levy funds, and Port cash. As discussed later in this Report, approximately \$66.6 million in 2017-2022 Capital Program project costs are not currently funded by the Port and those projects would only be undertaken and funded if certain operating forecasts and funded targets are exceeded during the Forecast Period.

PROPOSED SERIES 2017C-D BONDS

The proposed Series 2017C Bonds are expected to be issued with fixed interest rates as Intermediate Lien Revenue Bonds with an expected term of approximately 25 years. The proposed Series 2017D Bonds are also expected to be issued with fixed interest rates as Intermediate Lien Revenue Bonds with an expected term of approximately 10 years. Intermediate Lien Parity Bonds are payable from Available Intermediate Lien Revenues, as described in the Intermediate Lien Master Resolution.

² The Port is under no obligation to issue Future Revenue Bonds or to issue them on the lien described above.

Mr. Dan Thomas
July 14, 2017

According to the Port, the net proceeds from the sale of the proposed Series 2017C-D Bonds are to be used to fund approximately \$416.8 million of 2017-2022 Capital Program costs, satisfy the debt service reserve fund requirements for the proposed Series 2017C-D Bonds, fund capitalized interest, and pay certain costs related to the issuance of the proposed Series 2017C-D Bonds.

The Port may refund certain other outstanding Port revenue bonds during the Forecast Period, such as the refunding of the Series 2009A First Lien Bonds and a portion of the Series 2009B-1 First Lien Bonds through the issuance of the Series 2017A Intermediate Lien Refunding Revenue Bonds and the Series 2017B Intermediate Lien Refunding Revenue Bonds. See the later section of this Report entitled “2017 Refunding Bonds” for additional information. Changes in debt service, including any savings, from the Port’s potential refunding of any series of bonds are not included in the financial forecasts presented in this Report.

As described below, certain assumptions formed the basis for the Port’s financial forecasts presented in this Report in connection with the proposed issuance of the proposed Series 2017C-D Bonds and the potential issuance of Future Revenue Bonds. Those assumptions were used to (1) forecast operating revenues from airline rentals, rates, fees, and charges (herein referred to as rates and charges) at the Airport and other sources of Port revenue, (2) forecast operating expenses, and (3) estimate debt service requirements, net of capitalized interest.

FINANCIAL PERFORMANCE

The Port accounts for its annual financial results according to generally accepted accounting principles for governmental enterprises, and uses those results to present, among other things, operating and non-operating revenues and expenses (prior to depreciation) in its comprehensive annual financial report and operating budget. For consistency with the reporting of financial information by the Port, the financial forecasts presented in this Report are shown for operating revenues and operating expenses.

To demonstrate compliance with the Intermediate Lien Rate Covenant during the Forecast Period, certain adjustments have been made to operating revenues and operating expenses to determine “Gross Revenue” and “Operating Expenses,” respectively, pursuant to the definition of each term under the First Lien Master Resolution.

Mr. Dan Thomas
July 14, 2017

In addition to including certain non-operating revenues and expenses, the following annual adjustments to operating revenues were made to determine Gross Revenue:

Exclude from Gross Revenue (reduce)

- *All CFC revenues and all Stormwater Utility revenues.* A portion of annual CFC revenue is shown in the Port's financial statements as operating revenues and the other portion is shown as non-operating revenues. Despite the different categorizations used, all CFC revenues are excluded from Gross Revenue. Stormwater Utility revenues are pledged to the payment of stormwater utility operating expenses and capital costs only. Stormwater Utility revenues are excluded from the definition of Gross Revenue and are not pledged to the payment of debt service on Intermediate Lien Parity Bonds.
- *All capital grants from the Seaport Alliance.* Capital grants cannot be used to pay revenue bond debt service and as a result, are excluded from Gross Revenue.

Include in Gross Revenue (add back)

- *Approximately 50.0% of annual Seaport Alliance depreciation.* In 2016, the Port recognized as operating revenue its 50.0% share of 2016 Seaport Alliance net income, which in the Port's financial statements, is equal to Seaport Alliance operating revenues less expenses and depreciation. Depreciation is not included in the definition of Operating Expenses under the First Lien Master Resolution. Because the Port's share of Seaport Alliance net income is reported as operating revenue, approximately 50.0% of annual Seaport Alliance depreciation is added back in determining Gross Revenue.

The following annual operating expenses (prior to depreciation) are excluded in determining Operating Expenses:

- *Stormwater Utility expenses paid from Stormwater Utility operating revenues, as discussed above.*
- *Operating expenses paid from CFC revenues.*
- *Operating expenses that may be paid from any remaining Tax Levy revenues, but only after General Obligation debt service is first paid.*

Gross Revenue and Operating Expenses are used to determine Available Intermediate Lien Revenues, which are equal to Gross Revenue less Operating Expenses less the payment of all debt service, reserve requirements, and other costs associated with First Lien Bonds. Available Intermediate Lien Revenues are used to determine compliance with the Intermediate Lien Rate Covenant.

Mr. Dan Thomas
July 14, 2017

Under the Intermediate Lien Master Resolution, the Port agrees at all times to establish, maintain and collect rentals, tariffs, rates, fees, and charges in the operation of all of its businesses as long as any Intermediate Lien Revenue Bonds are Outstanding to produce in each fiscal year:

- Available Intermediate Lien Revenues as First Adjusted at least equal to 1.10 times of the Amount Due (Test #1); and
- Available Intermediate Lien Revenues as Second Adjusted at least equal to 1.25 times of the Amount Due (Test #2).

Debt service coverage results are only shown for Test #1 in this Report, as it is the more restrictive of the two tests.

The sections that follow provide an overview of recent Port financial results and the key assumptions used to forecast operating revenues and operating expenses, which, after the adjustments described above, result in forecast Gross Revenue and Operating Expenses. The forecast of Gross Revenue and Operating Expenses as well as the forecast of Available Intermediate Lien Revenues are presented later in this Report for demonstrating compliance with the Intermediate Lien Rate Covenant.

Operating Revenues

The amount of operating revenues by major revenue source in 2016 is shown on Figure 1; Figure 2 presents the percentage of operating revenues by major revenue source for the same year.

In 2016, operating revenues were approximately \$598.5 million. Of that amount, the Airport accounted for 77.7% of operating revenues, Other Port Businesses accounted for 12.0% of operating revenues, and revenue from the Seaport Alliance accounted for 10.3% of operating revenues.

Operating revenues from airline rates and charges at the Airport were approximately \$244.2 million in 2016, accounting for 40.8% of total operating revenues; the second largest source of Port operating revenues was approximately \$221.0 million in nonairline revenue at the Airport, accounting for 36.9% of operating revenues, followed by all other operating revenues of approximately \$133.3 million, accounting for 22.3% of operating revenues, including operating revenues from property of the Port that is licensed to the Seaport Alliance.

Mr. Dan Thomas
July 14, 2017

Figure 1
AMOUNT OF 2016 OPERATING REVENUES
Port of Seattle

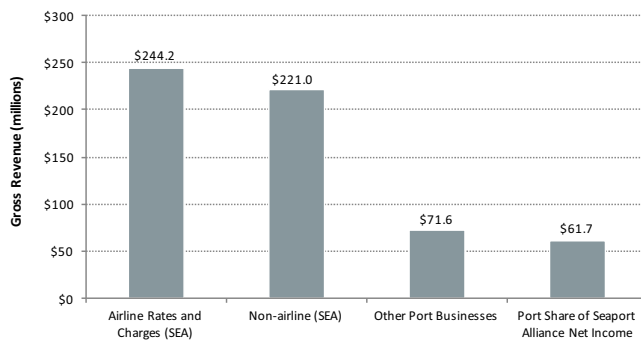
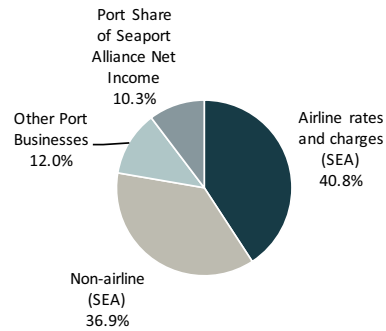


Figure 2
PERCENTAGE OF 2016 OPERATING REVENUES
Port of Seattle



Note: SEA = Seattle-Tacoma International Airport.
Source: Port of Seattle records.

Revenue from passenger airline rates and charges at the Airport is based on: (1) the number of gates and square footage used or leased by airlines as well as the number of enplaned passengers and landed weight of the airlines serving the Airport and (2) the rates and charges in effect each year and calculated by the Port pursuant to the Signatory Lease and Operating Agreement (Airline Agreement).

The Airline Agreement is scheduled to expire on December 31, 2017. The Port is currently in negotiations with the airlines operating at the Airport to, among other things, continue the methodology for the annual recalculation of airline rates and charges and to potentially revise the basis for assigning gates at the Airport to each airline. As of the date of this Report, it is the Port’s expectation that the airline rate-making methodology in the new Airline Agreement will be substantially similar to that in the existing Airline Agreement during the Forecast Period, either through an extension of the existing Airline Agreement, execution of a new Airline Agreement, or setting rates by resolution³. Any agreed-upon changes to the annual assignment of gates to each airline are not expected to change the annual amount of gate revenue earned by the Port.

Major sources of nonairline revenue at the Airport include: public parking, car rentals, and in-terminal concessions. In 2016, revenue from Other Port Businesses largely consisted of revenues from maritime (non-container) operations and leases, including, but not limited to, grain exports, cruise ship terminal operations and marinas.

³ Rates by resolution has already been approved by the Port Commission.

Mr. Dan Thomas
July 14, 2017

Revenue received from the Seaport Alliance in 2016 represents the Port's share of Seaport Alliance net income, which, as discussed later in this Report, is equal to the Port's 50.0% "membership interest" in the Seaport Alliance, which is in effect at least through the end of 2017, and which may be re-evaluated at that point.

Total operating revenues are forecast by the Port to increase an average of approximately 6.1% per year from \$598.5 million in 2016 to \$851.4 million in 2022.

Key assumptions used by the Port to forecast operating revenues from Airport operations include the following:

- Continued economic growth in Seattle and the greater Seattle area as well as continued increases in the number of enplaned passengers using the Airport during the Forecast Period. Enplaned passengers at the Airport are forecast to increase approximately 1.9% per year from 2016 to 2022, which compares to an average annual increase of 6.8% per year from 2011 through 2016.
- Higher airline rates and charges at the Airport calculated pursuant to the rate-making methodology in the Airline Agreement, as well as the Port's continued ability under the Airline Agreement to include in the airline rate base additional operating expenses, debt service and other costs associated with existing facilities and completed projects in the 2017-2022 Capital Program that are allocable to airline cost centers.
- Continuation of the airline rate-making methodology and other business arrangements in the existing Airline Agreement, which would produce similar Airport financial performance following the scheduled expiration of the Airline Agreement on December 31, 2017.
- Continued growth in nonairline revenues at the Airport, including the introduction of new public parking products and features, transportation network companies (e.g., Uber, Lyft), and in-terminal concessions.

Key assumptions used by the Port to forecast all other operating revenues include the following, which are more fully described later in this Report:

- The Port would continue to receive 50.0% of Seaport Alliance net income. The 50.0% Port share is consistent with the Port's "membership interest" in the Seaport Alliance in 2017.
- The amount of the Port's share of Seaport Alliance net income is forecast to decline from 2016 to 2017 as a result of several factors, including a one-time lease payment in 2016 and higher budgeted operating expenses and depreciation in 2017. From 2017 through 2022, the amount of the Port's share of Seaport Alliance net income is forecast to increase at an average annual rate of 1.8% per year.

Mr. Dan Thomas
 July 14, 2017

- Occupancy rates for industrial properties would remain steady during each year of the Forecast Period (consistent with historical trends) and rentals would increase at a rate consistent with the provisions in certain long-term industrial property agreements between the Port and its tenants.
- The Port will continue to receive revenues from existing leases in the cruise terminals, grain terminal and other non-Airport properties. As those existing leases expire during the Forecast Period, the Port will renew those leases or execute new leases that will produce similar financial performance.

Operating Expenses

The amount of operating expenses for the Airport and Other Port Businesses in 2016 is shown on Figure 3, which includes allocated indirect expenses of the Port; Figure 4 presents the percentage of operating expenses for the Airport and Other Port Businesses for the same year.

In 2016, operating expenses were approximately \$325.3 million. Of that amount, the Airport accounted for 80.3% of the total, and Other Port Businesses accounted for 19.7% of total operating expenses.

Operating expenses of the Port for the properties licensed to the Seaport Alliance are the responsibility of the Seaport Alliance and are not included in annual operating expenses of the Port.

Figure 3
**AMOUNT OF OPERATING EXPENSES
 IN 2016**
 Port of Seattle

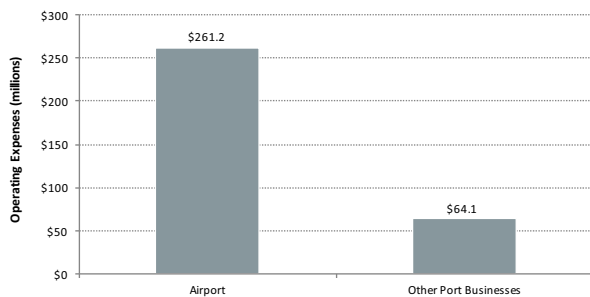
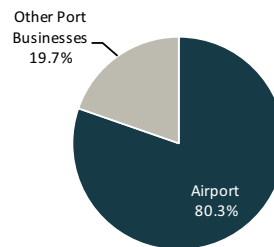


Figure 4
**PERCENTAGE OF OPERATING EXPENSES
 IN 2016**
 Port of Seattle



Source: Port of Seattle records.

Mr. Dan Thomas
July 14, 2017

Operating expenses are forecast by the Port to increase an average of approximately 6.1% per year from \$325.3 million in 2016 to \$463.7 million in 2022. Key assumptions used by the Port to forecast operating expenses include the following:

- Airport operating expenses would increase an average of 6.1% per year from 2016 through 2022, primarily related to increased payroll and contracted services costs associated with recent and forecast growth in passenger traffic at the Airport.
- Allowances were included for additional operating expenses during the Forecast Period related to the completion of certain projects in the 2017-2022 Capital Program.
- Operating expenses for Other Port Businesses would increase an average of approximately 5.9% per year from 2016 through 2022, primarily related to increasing maintenance costs and corporate costs, and certain Economic Development Division initiatives.

Debt Service

In 2016, debt service on Intermediate Lien Parity Bonds payable from Available Intermediate Lien Revenues totaled approximately \$146.5 million, before certain offsets discussed immediately below.

The Port receives CFC revenues and PFC revenues, which are not included in the definition of Gross Revenue under the Intermediate Lien Master Resolution, but can be used by the Port to pay debt service on a portion of Intermediate Lien Revenue Bonds. Under certain circumstances, such amounts used to pay debt service may be added to Available Intermediate Lien Revenues or deducted from debt service on Intermediate Lien Revenue Bonds. Such uses were assumed in the financial forecasts prepared by the Port and are discussed more fully in the section of this Report titled "Customer Facility Charges".

Debt service on all Intermediate Lien Parity Bonds, including the proposed Series 2017C-D Bonds, is estimated to increase from \$146.5 million in 2016 to \$287.1 million in 2022, before any offsets and net of capitalized interest. Increases in debt service are attributable to the addition and structuring of the proposed Series 2017C-D Bonds and the Future Revenue Bonds.

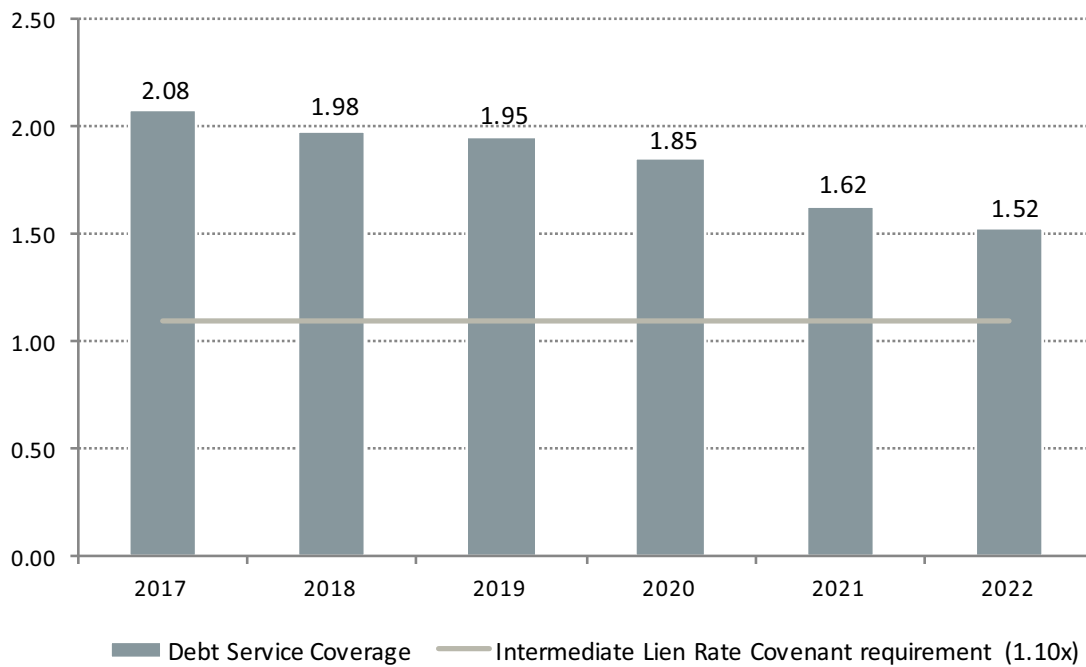
DEBT SERVICE COVERAGE

This Report presents forecast operating revenues and operating expenses and the adjustments necessary to determine forecast Gross Revenue and Operating Expenses pursuant to the First Lien Master Resolution. Gross Revenue and Operating Expenses are used to calculate Available Intermediate Lien Revenues for purposes of determining compliance with the Intermediate Lien Rate Covenant. Debt service coverage under the Intermediate Lien Rate Covenant is calculated by dividing Available Intermediate Lien Revenues by debt service on all Intermediate Lien Parity Bonds.

Mr. Dan Thomas
 July 14, 2017

As shown on Figure 5, debt service coverage in each year of the Forecast Period exceeds the 1.10 times minimum coverage requirement under the Intermediate Lien Rate Covenant for Available Intermediate Lien Revenues as First Adjusted (Test #1).

Figure 5
FORECAST DEBT SERVICE COVERAGE ON INTERMEDIATE LIEN REVENUE BONDS
 Port of Seattle



Note: Based on Available Intermediate Lien Revenues as First Adjusted (Test #1), includes estimated debt service on the proposed Series 2017C-D Bonds and Future Revenue Bonds that the Port estimates would be issued during the Forecast Period. Changes in debt service, including any savings, from outstanding Port revenue bonds that the Port may refund during the Forecast Period have not been included in the financial forecasts presented in this Report.

Source for debt service: Port of Seattle.

ASSUMPTIONS UNDERLYING THE FINANCIAL FORECASTS

The accompanying financial forecasts are based on information and assumptions provided by Port management. The forecasts reflect Port management’s expected course of action during the Forecast Period and, in management’s judgment, present fairly the expected financial results of the Port. Those key factors and assumptions that are significant to the forecasts are set forth in “Background, Assumptions, and Rationale for the Financial Forecasts,” which should be read in its entirety for an understanding of the forecasts and the underlying assumptions. In our opinion, the assumptions underlying the financial forecasts of the Airport, the financial forecasts of the Port’s share of Seaport Alliance net income, and the financial performance of Other Port Businesses provide a reasonable basis for the forecasts.

Mr. Dan Thomas
July 14, 2017

However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there will be differences between the forecast and actual results, and those differences could be material. Neither WJ Advisors LLC nor any person acting on its behalf makes any warranty, express or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in this Report. We have no responsibility to update this Report for events and circumstances occurring after the date of the Report.

We appreciate the opportunity to serve as the Port's Independent Consultant in connection with this proposed financing.

Respectfully submitted,

WJ Advisors LLC

WJ Advisors LLC

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**BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS**

Port of Seattle

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PORT OVERVIEW AND FINANCIAL FORECASTS

OVERVIEW

The Port of Seattle (the Port) is a municipal corporation of the State of Washington and is governed by a five-member commission (the Commission) elected by the voters of King County (boundaries coterminous with the Port) for terms of 4 years. The Commission sets policy and provides direction to the Port's Executive Director who, with other executive staff, implements policies and administers the day-to-day activities of the Port. The Port is a special purpose government that is legally separate and fiscally independent of other State and local governments. The Port uses an Enterprise Fund to account for its operations and financial activities.

The Port currently owns, operates, manages, and maintains Seattle-Tacoma International Airport (the Airport) and other Port businesses (Other Port Businesses), including maritime (non-container) operations, grain exports, cruise ship terminal operations, commercial and recreational marinas, and certain industrial and commercial properties.

The Port is responsible for the delivery and completion of projects at the Airport and Other Port Businesses and provides technical and contracting services in support of Port business plans and infrastructure needs. The Port provides engineering, project management, and construction functions as well as centralized contracting and procurement functions.

On August 4, 2015, the Port and the Port of Tacoma jointly formed the Northwest Seaport Alliance (Seaport Alliance) to unify management and operation of both ports' marine cargo businesses. The Seaport Alliance was formed as a port development authority (PDA) – a jointly owned, governmental entity –but each port retains its existing governance structure, ownership of existing assets under Seaport Alliance management, and obligation to repay debt to its bondholders.

Attachment 2 to this Report provides additional information regarding container operations that are now under the management and operation of the Seaport Alliance. See the Official Statement for the Series 2017C-D Bonds for additional information about the legal framework of the Seaport Alliance.

Airport

Through its Aviation Division, the Port operates and manages the Airport, which accounted for 77.7% of total Port operating revenues in 2016. According to statistics compiled by the Bureau of Transportation Statistics, the Airport was the 9th busiest large-hub airport in the United States (U.S.) in 2016 in terms of total enplaned passengers.

In 2016, approximately 22.8 million passengers enplaned at the Airport representing an 8.0% increase from 2015 in the number of enplaned passengers. Approximately 15.8 million of the 22.8 million of enplaned passengers at the Airport were origin or destination (O&D) passengers representing a 7.4% increase from 2015 in the number of O&D passengers. The percentage of O&D passengers was approximately 69.4% in 2016 and 69.8% in 2015.

From 2011 through 2016, the number of enplaned passengers at the Airport increased at an average annual rate of 6.8% per year. During the same period, the average annual rates of growth by the two busiest and all other passenger airlines at the Airport were as follows:

- 6.5% for Alaska Airlines, including Horizon Air, a wholly owned subsidiary of Alaska Airlines Group, Inc., and Virgin America, which was acquired by Alaska in December 2016. Horizon Air provides regional and commuter service for Alaska Airlines. Alaska Airlines was the busiest airline at the Airport in terms of the number of enplaned passengers in 2016.
- 19.8% for Delta Air Lines, including its regional affiliate airlines. Delta Air Lines was the second busiest airline at the Airport in terms of the number of enplaned passengers in 2016.
- 1.6% for all other domestic and international airlines at the Airport.

The increase in the number of enplaned passengers from 2011 to 2016 is based, in part, on the economic growth in the greater Seattle area, the build-up of domestic and international service by Delta Air Lines, increased airline competition, and relatively flat average airfare levels at the Airport, all of which is discussed later in this Report.

In 2016, Alaska Airlines and Horizon Air enplaned approximately 11.4 million of the 22.8 million total enplaned passengers at the Airport, or approximately 49.8% of total Airport enplaned passengers. With the enplaned passengers of Virgin America, which Alaska Airlines acquired in December 2016, the total number of enplaned passengers on Alaska, Horizon, and Virgin America would have been 11.6 million or approximately 51.1% of total Airport enplaned passengers in 2016.

With the acquisition of Virgin America, Alaska Airlines has significantly increased its presence at the two largest airports on the West Coast, Los Angeles International Airport and San Francisco International Airport.

Prior to the acquisition of Virgin America, the five largest airports (as measured by scheduled departing seats in 2016) in the route network of Alaska Airlines, including Horizon Air, were: Seattle-Tacoma International Airport (30.4% of total scheduled seats on Alaska Airlines), Portland International Airport (10.7%), Ted Stevens Anchorage International Airport (5.0%), Los Angeles International Airport (5.0%), and San Diego International Airport (3.0%).

Following the acquisition of Virgin America, the five largest airports (as measured by scheduled departing seats in 2017) for Alaska Airlines, including Horizon Air and Virgin America, are as follows: Seattle-Tacoma International Airport (24.6%), Portland International Airport (9.1%), San Francisco International Airport (8.0%), Los Angeles International Airport (7.8%), and Ted

Stevens Anchorage International Airport (3.8%). According to statistics compiled by Airports Council International-North America, Los Angeles International Airport was the 3rd busiest large-hub airport and San Francisco International Airport was the 7th busiest large-hub airport in the United States in 2015 in terms of total passengers.

The second busiest airline at the Airport, measured by enplaned passengers, was Delta Air Lines and its regional airline affiliate with 4.7 million enplaned passengers, or approximately 20.5% of total enplaned passengers in 2016. The Airport was the 8th busiest in Delta's route network from 2014 through 2016, up from 15th in 2012 and 11th in 2013, measured by the number of scheduled departing seats.

The Airport occupies approximately 2,500 acres of land and is located approximately 12 miles from downtown Seattle. Other airports in the region that currently have scheduled airline service include Vancouver International Airport in British Columbia (139 road miles from downtown Seattle), Portland International Airport (173 road miles from downtown Seattle), and Spokane International Airport in eastern Washington (280 road miles from downtown Seattle).

The Airport has three parallel runways that are between 8,500 feet and 11,900 feet long. Passenger terminal facilities consist of a central terminal building and four concourses (Concourse A, B, C, and D). In addition, two smaller terminals, the North and South Satellite Terminals, are served from the central terminal via an underground people mover system. The Airport has 69 gates with passenger loading bridges plus 17 ground load positions. Concourse A has 12 gates, Concourse B has 15 gates, Concourse C has 7 gates plus 14 ground load positions, and Concourse D has 10 gates. The North Satellite Terminal has 11 gates plus 3 ground load positions and the South Satellite Terminal has 14 gates. International processing facilities are located in the South Satellite Terminal.

The Airport's eight-story parking garage is connected to the central terminal via sky bridges on the fourth floor of the garage and at one end is connected to a light rail station, which provides service to downtown Seattle. The Port also provides public parking spaces in a remote lot operated by a third party.

The Airport has a consolidated rental car facility (ConRAC) that is served to and from the central terminal building via a common shuttle bus system. All on-Airport rental car operations are located in the ConRAC.

The Airport also has facilities for commercial airline aircraft parking, air cargo, general aviation, and aircraft maintenance activities.

Additional information about the Airport is provided in Attachment 1 to this Report, which should be read in its entirety.

Other Port Businesses

Other Port Businesses properties and facilities accounted for 12.0% of total Port operating revenues in 2016, and include the following:

- Cruise terminals at Pier 66 and Pier 91.
- Industrial properties of the Port that are leased to operators of fishing, charter and excursion, tug and barge businesses.
- Commercial and industrial real estate, recreational marinas, industrial fishing terminals, and developable property.
- Stormwater utilities on the Port's non-Airport properties.

Attachment 2 to this Report, which should be read in its entirety, provides additional information on the Other Port Businesses as well as the Seaport Alliance.

PORT TAX LEVY AND GENERAL OBLIGATION BONDS

The Port has statutory authority under State of Washington law to levy property taxes (the Tax Levy) on taxable property within the boundaries of the Port district to provide funds for general purposes of the Port, including establishment of a capital improvement fund for capital improvements and for the payment of debt service on the Port's general obligation bonds. The boundaries of the Port district are the same as the boundaries of King County. The Port's general obligation bonds are backed by the full faith and credit of the Port, including the Tax Levy. The total amount of the Port's outstanding general obligation bonds is restricted by statutory limitations based on the total assessed value of property within the Port's boundaries.

The Port is not permitted to use Tax Levy proceeds to pay debt service on any of its revenue bonds, including the proposed Series 2017C-D Intermediate Lien Bonds. The Port is permitted to apply the portion of the Tax Levy remaining after the payment of the Port's general obligation bond debt service to pay operating expenses and as an adjustment to operating expenses in the calculation of debt service coverage on the Port's revenue bonds.

The Port currently expects to use the 2017 Tax Levy to (1) pay the annual cost of debt service on outstanding general obligation bonds, (2) fund the cost of regional transportation projects, (3) fund the cost of certain environmental remediation projects, (4) pay the cost of certain capital projects associated with the Port's real estate holdings, (5) pay the cost of various economic initiatives, and (6) pay the cost of certain environmental initiatives.

Annual increases in the maximum allowable Tax Levy are currently restricted by statute to the lesser of (1) inflation or (2) 1.0%, plus, in either case, an adjustment for new construction. If inflation is less than 1.0%, then a 1.0% annual increase in the maximum allowable Tax Levy is permitted with approval by a supermajority of the Commission. The maximum allowable Tax Levy for 2017 is approximately \$99.0 million. The Tax Levy for 2017 was set at \$72.0 million, which has been approximately the same amount in recent years and was assumed to remain constant during the Forecast Period (through 2022).

PORT 2017-2022 CAPITAL PROGRAM

The Port develops a comprehensive capital program to invest in the acquisition, development, and maintenance of long-term assets to meet the waterborne and transportation needs of the region and to serve its customers. The Port's capital program and the estimated cost of the program is based in part on the existing and anticipated business environment, forecast demand for Port facilities, available resources, the priorities of the Port, the Port's capital contributions to the Seaport Alliance, and increases in costs due to inflation, the latter of which is important given recent and projected growth in the greater Seattle area economy. The Port endeavors to develop reasonable cost estimates for its projects. However, actual costs may be higher or lower than the amounts included in the 2017-2022 Capital Program. According to the Port, the Seattle construction market has experienced growth in construction costs that may change the cost of certain projects.

The Port's current capital program is for 2017 through 2022 (the 2017-2022 Capital Program) and includes capital projects for all Port businesses as well as obligated or expected capital contributions to the Seaport Alliance. The 2017-2022 Capital Program and related costs are presented on Exhibit A and are estimated to cost approximately \$3.4 billion, which includes approximately \$66.6 million of the project costs that are related to non-Airport projects in the 2017-2022 Capital Program that would be undertaken and funded by the Port during the Forecast Period if certain operating forecasts and funding targets are exceeded.

The discussion that follows provides an overview of the entire \$3.4 billion 2017-2022 Capital Program, including the \$66.6 million of project costs that may or may not be funded and spent by the Port during the Forecast Period.

The 2017-2022 Capital Program projects are categorized as follows:

- **Series 2017C-D Projects.** The Series 2017C-D Projects are Airport projects to be funded in part with the net proceeds of the proposed Series 2017C-D Bonds. The proposed Series 2017C-D Projects are estimated to cost approximately \$416.8 million and include a new International Arrivals Facility, the North Seattle-Tacoma Airport Renovation expansion program, Concourse D hardstand holdroom project, utility improvements, operating equipment technology, and miscellaneous renewal and replacement projects.
- **Other Capital Program Projects.** Other Capital Program Projects include allowances for projects in Airport, other Port facilities and obligated or expected capital contributions to the Seaport Alliance. Other Capital Program Projects are estimated to cost approximately \$2.9 billion.

Airport Projects in 2017-2022 Capital Program

As shown in Exhibit A, total Airport Capital Program projects are estimated to cost approximately \$2.9 billion. Certain projects in the 2017-2022 Capital Program for the Airport are related to the expected growth in aviation activity over the longer-term, including, but not limited to:

- **North Satellite expansion program**, which is being developed in collaboration with Alaska Airlines, the busiest airline at the Airport in terms of enplaned passengers in 2016. This project is estimated to be fully available for its intended use in 2021 and will result in the renovation of existing North Satellite facilities, and the addition of eight new gates in the North Satellite. Other aspects of the project, including vertical circulation improvements and the renovation of the baggage systems supporting the North Satellite have been completed.
- **New international arrivals facility**, which would be located on the east side of Concourse A to expand processing and passenger capacity. When fully available for its intended use in late 2019, the new international arrivals facility will be the only facility of its kind at the Airport. When the new international arrivals facility is ready in late 2019, existing international processing facilities in the South Satellite Terminal will be changed such that sterile corridors will connect gates in the South Satellite Terminal to the new international arrivals facility.
- **Concourse D hardstand terminal**, which would be located on the east side of Concourse D and would include the construction of a new approximate 33,000 square foot building for passenger processing.
- **Utility improvements**, which would be a dual standby power facility that would provide stand-by power if there is an unexpected loss of power at the Airport.

As permitted under the Airline Agreement, the Port has included operating expenses, debt service, and amortization charges in forecast airline rates and charges for each phase of a project in the 2017-2022 Airport Capital Program that is ready and available for its intended use.

As discussed more fully in Attachment 1, certain projects in the Airport Capital Program are subject to Majority-In-Interest (MII) disapproval of the airlines under the Airline Agreement.

Where applicable, Signatory Airline disagreement with any project subject to MII approval can delay a project between 6 and 12 months, but not prevent the Port from proceeding with the same project and including in the annual calculation of airline rates and charges at the Airport the debt service, amortization, or Operating Expenses associated with the completed project.

The Aviation Division of the Port is in the process of finalizing a sustainable airport master plan (SAMP) that presents future infrastructure improvements to accommodate the long-term growth in enplaned passengers, maintain and enhance the Airport's place as a premier international airport, and fulfill its mission as an economic engine for the greater Seattle area. The sustainable master plan document is currently expected to be completed by mid-2019, and will provide a long-term blueprint for the future development of the Airport over the next 20 years.

The SAMP may include a new terminal, an automated people mover, and other significant projects and investments. Based on preliminary estimates, SAMP may cost in excess of \$10 billion for a 10- to 20-year period.

Other Projects in 2017-2022 Capital Program

As shown in Exhibit A, other non-Airport projects in the 2017-2022 Capital Program are estimated to cost approximately \$464.9 million, and include:

- Approximately \$313.1 million of projects for Other Port Businesses, including upgrades, improvements and renewal and replacement efforts at Port cruise terminals, recreational and commercial marinas, and various commercial and industrial properties.
- Approximately \$151.8 million of obligated or expected capital contributions by the Port to the Seaport Alliance, which represents the Port's 50.0% share of Seaport Alliance estimated capital expenditures.

FUNDING THE PORT 2017-2022 CAPITAL PROGRAM

The Port finances capital projects with a combination of revenue bonds, including the proposed Series 2017C-D Bonds, and various other sources of funding that are specific to certain Port businesses.

Except for approximately \$66.6 million in project costs that would be undertaken and funded by the Port during the Forecast Period only if certain operating forecasts and funding targets are exceeded, the Port expects to fund the 2017-2022 Capital Program using the funding sources shown in Exhibit A, as discussed below. The total funding sources in this section are equal to approximately \$3.3 billion, which is equal to the \$3.4 billion 2017-2022 Capital Program less the \$66.6 million in project costs as described above. The discussion of funding sources below is organized from largest to smallest major funding source, after first describing the proposed Series 2017C-D Bonds.

The Port incorporated certain assumptions into the financial forecasts presented in this Report in connection with the completion of projects in the 2017-2022 Capital Program, the issuance of the proposed Series 2017C-D Bonds, and the potential issuance of Future Revenue Bonds during the Forecast Period, which results in additional (1) operating revenues, (2) operating expenses, and (3) debt service, net of capitalized interest.

Proposed Series 2017C-D Bonds

The Port issues revenue bonds on different liens to fund certain Port capital projects.

The Port currently has outstanding First Lien Bonds, Intermediate Lien Parity Bonds, and Subordinate Lien Parity Bonds, which include Commercial Paper Notes. The proposed Series 2017C-D Bonds are being issued pursuant to the provisions of the Intermediate Lien Master Resolution and related series resolutions.

The proposed Series 2017C-D Bonds are expected to have fixed interest rates and are to be issued to:

- Fund approximately \$416.8 million of Series 2017C-D Project costs and pay capitalized interest on this portion of the proposed Series 2017C-D Bonds.
- Fund a deposit to satisfy the Intermediate Lien Reserve Requirement with respect to the proposed Series 2017C-D Bonds.
- Pay the costs of issuance, including underwriters' discount and financing, legal, and other costs for the proposed Series 2017C-D Bonds.

Future Revenue Bonds

The proceeds of Future Revenue Bonds are expected to be used to:

- Fund approximately \$1.5 billion of Other Capital Program Project costs and pay capitalized interest on Future Revenue Bonds.
- Fund deposits to satisfy the debt service reserve fund requirements with respect to the Future Revenue Bonds.
- Pay the costs of issuance for Future Revenue Bonds.

The Port has assumed that the net proceeds of Future Revenue Bonds would include a combination of Intermediate Lien Revenue Bonds and Subordinate Lien Revenue Bonds to fund portions of Airport project costs.

For the financial forecasts in this Report, it was assumed that the Port would issue Future Revenue Bonds to complete the Other Capital Program Projects, but there is no assurance that the Port will issue the Future Revenue Bonds, issue the Future Revenue Bonds on the liens assumed in the financial forecasts, or complete the Other Capital Program Projects.

Port Cash

The Port expects to use approximately \$614.8 million of internally generated cash derived from the operations of all of its divisions to fund certain costs of the 2017-2022 Capital Program projects.

Passenger Facility Charge Revenue

The Port imposes and uses the revenues from a \$4.50 passenger facility charge (PFC) at the Airport. PFC revenues are first used by the Port to pay debt service on outstanding PFC Bonds. After paying debt service on outstanding PFC Bonds, the Port uses any remaining PFC revenues for any combination of the following purposes: (1) to fund certain FAA-approved, PFC-eligible Airport project costs on a pay-as-you-go basis and (2) to pay debt service associated with bonds used to fund other FAA-approved PFC-eligible project costs at the Airport. The Port currently

expects to use approximately \$269.9 million of PFC revenues to fund a portion of the costs of certain Airport projects in the 2017-2022 Capital Program (on a pay-as-you-go basis).

Federal Grants

Federal grants received by the Port include (1) federal grants under the Airport Improvement Program (AIP), which provides discretionary and entitlement grants for eligible airport projects, (2) Transportation Security Administration (TSA) grants, and (3) U.S. Department of Transportation (DOT) Investment Generating Economic Recovery grants.

The Port currently receives annual AIP entitlement grants based on (1) levels of funding authorized and appropriated by U.S. Congress for the program, (2) the number of passengers and amount of cargo at the Airport, and (3) a 75% reduction in entitlement grants because of the Port's \$4.50 PFC. The Port also receives AIP discretionary grants for specific projects pursuant to grant applications for such funding and FAA discretionary grant awards, which are a function of the amounts authorized and appropriated by Congress and the FAA's prioritization of competing projects at the nation's airports.

The AIP is currently funded through Federal Fiscal Year 2017, which ends September 30, pursuant to the FAA Extension, Safety and Security Act of 2016 (the 2016 Act). The 2016 Act came after the FAA Modernization and Reform Act of 2012 (the 2012 Act). For the 5-year period prior to the passage of the 2012 Act, there were 23 short-term extensions of the FAA's funding authority.

The Port expects to use approximately \$203.6 million of federal grants to fund certain costs of 2017-2022 Capital Program projects, including approximately \$100.0 million of TSA grants for the Airport's baggage optimization project, approximately \$93.0 million of AIP grants for other Airport projects, and approximately \$10.0 million for the Port's share of a U.S. DOT grant.

If the assumed amount of federal grants awarded to the Port is reduced, such reduction could (1) increase by a corresponding amount the share of the 2017-2022 Capital Program that the Port would need to fund from other non-AIP sources, (2) result in decreases in the 2017-2022 Capital Program, or (3) extend the timing for completion of certain projects in the 2017-2022 Capital Program.

AIP grants and TSA grants received by the Port for capital projects are not defined as Gross Revenue under the First Lien Master Resolution, the Intermediate Lien Master Resolution, or the Subordinate Lien Bond Resolution and do not secure the payment of any of the Port's First Lien Parity Bonds, Intermediate Lien Parity Bonds, or Subordinate Lien Parity Bonds.

Tax Levy

The Port expects to use approximately \$162.1 million of revenues from the Tax Levy as a source of funds for the Other Port Businesses portion of the 2017-2022 Capital Program.

Existing Series 2015 Bond Proceeds

The Port expects to use approximately \$133.3 million in existing proceeds from the sale of the Series 2015 Bonds.

2017 REFUNDING BONDS

The Port may refund certain other outstanding Port revenue bonds during the Forecast Period, including the Series 2009A First Lien Bonds and a portion of the Series 2009B-1 First Lien Bonds (Refunded Bonds) through the issuance of the Series 2017A Intermediate Lien Refunding Revenue Bonds and the Series 2017B Intermediate Lien Refunding Revenue Bonds, respectively (Refunding Bonds).

If the Refunding Bonds are issued, the Port expects that the likely structure of the Refunding Bonds (increased principal payments in earlier years, shortening the average maturity compared to the Refunded Bonds) will result in debt service payments that more closely match Port-prepared forecast CFC revenues during the Forecast Period. A portion of forecast CFC revenues will be used to pay debt service on the Refunding Bonds. As likely structured, the refunding is expected to result in total interest cost savings as compared to the Refunded Bonds, but from 2020 through 2022 the Refunding Bonds will also increase debt service as compared to the Refunded Bonds.

WJ Advisors LLC reviewed the potential Refunding Bonds debt service structure, which was prepared by Piper Jaffray & Co, the financial advisor to the Port, the expected use of forecast CFC revenues to pay the Refunding Bond debt service, and the change in forecast Intermediate Lien Debt Service coverage in comparison to the forecast of Intermediate Lien Debt Service coverage assuming that the Refunding Bonds were not issued and the Refunded Bonds remained outstanding.

Based on separate Port-prepared forecasts of Intermediate Lien Debt Service coverage that includes the Refunding Bonds (not presented in this Report), WJ Advisors LLC found no material change to the forecast of Intermediate Lien Debt Service coverage presented in this Report. Therefore, for purposes of the financial forecasts presented in this Report, the Series 2009A First Lien Bonds and the Series 2009B-1 First Lien Bonds are assumed to remain outstanding and no debt service savings or other changes resulting from the potential refunding of the Series 2009A First Lien Bonds and/or portions of the Series 2009B-1 First Lien Bonds through the issuance of the Series 2017A Intermediate Lien Refunding Revenue Bonds and the Series 2017B Intermediate Lien Refunding Revenue Bonds, respectively, have been included in the financial forecasts.

OPERATING REVENUES

Exhibit B presents historical and forecast operating revenues for the Port. In 2016, total operating revenues of the Port were approximately \$598.5 million, including:

- \$465.2 million in operating revenues at the Airport, representing approximately 77.7% of total operating revenues of the Port.
- \$71.6 million in operating revenues for Other Port Businesses, representing approximately 12.0% of total operating revenues of the Port.
- \$61.7 million in operating revenues from the net income of the Seaport Alliance, representing approximately 10.3% of total operating revenues of the Port.

For the most recent 5-year period from 2011-2016, operating revenues of the Port increased an average of approximately 4.4% per year, from \$483.2 million in 2011 to \$598.5 million in 2016.

From 2011 through 2016, operating revenues at the Airport, the largest source of revenue for the Port, increased from \$350.7 million in 2011 to \$465.2 million in 2016, representing an average annual increase of 5.8% per year. During the same period of time, enplaned passengers at the Airport, which affects the annual amount of revenue from, but not limited to, public parking, rental car companies, and in-terminal concessions, increased approximately 6.8% per year.

Operating revenues from Other Port Businesses and the Port's 50.0% share of Seaport Alliance net income increased from \$132.4 million in 2011 to \$133.3 million in 2016, representing an average annual increase of 0.1% per year. 2016 was the first full year of the Seaport Alliance as well as the Port's share of Seaport Alliance net income.

The forecast of operating revenues for the Airport was based on the following key assumptions, which are discussed further in Attachment 1:

- Continued economic growth in Seattle and the greater Seattle area as well as continued increases in the number of enplaned passengers using the Airport during the Forecast Period. Increases in the numbers of enplaned passengers at the Airport of 1.9% from 2016 through 2022. Connecting passengers are forecast by the Port to increase at a slightly higher average rate of 2.0% per year as compared to the average rate of growth in originating passengers of 1.8% per year.
 - U.S. Gross Domestic Product growth will average approximately 2.1% per year from 2017 through 2022, based on projections by IHS Global Insight as reported in *FAA Aerospace Forecasts, Fiscal Years 2017-2037*.
 - The population and economy of the Airport service region will grow at the projected rates set forth in Table 1 of this Report.
 - The Airport will continue to be a principal connecting hub for Alaska Airlines and the market with the greatest amount of seat capacity offered by Alaska Airlines.

- The Airport will continue to be used by Delta Air Lines as an international gateway airport.
- Competition among the airlines serving the Airport will ensure the continued availability of competitive airfares.
- Higher airline rates and charges at the Airport calculated pursuant to the rate-making methodology in the Airline Agreement, which is scheduled to expire on December 31, 2017, as well as the Port's ability under the Airline Agreement to include in the airline rate-base certain higher operating expenses, debt service and other costs associated with existing facilities and completed projects in the 2017-2022 Capital Program that are allocable to airline cost centers.
- Continuation of the existing airline rate-making methodology and other business arrangements, including airline revenue-sharing, that would produce similar Airport financial performance following the scheduled expiration of the Airline Agreement on December 31, 2017.
- Continued growth in nonairline revenues at the Airport, resulting from
 - Forecast increases in numbers of originating and enplaned passengers.
 - Allowances for inflation of 2.0% per year through 2018, and 2.5% thereafter through 2022 (the last year of the Forecast Period).
 - The introduction of new public parking products and features at the Airport.
 - Assumed decreases in rental car transactions and rental car privilege fees paid to the Airport in 2017, which is expected by the Port to be offset by increased revenues from ground transportation companies such as Uber and Lyft that serve the Airport.
 - Continued performance of in-terminal concessions.
- In addition, as non-airline agreements expire, the Port would implement new business arrangements that would produce similar financial results during the Forecast Period.

The forecast of operating revenues for the Other Port Businesses and the Seaport Alliance was based on the following key assumptions:

- The Port will continue to earn revenues from its cruise terminal tenants; the Port will renew the existing lease or enter into a new cruise terminal lease that would produce similar levels of financial performance.
- Occupancy rates for industrial and commercial properties that are part of Other Port Businesses would remain the same and revenues from the same properties would increase at 2.5% per year, similar to the rates of growth in longer-term leases.

- The Port would continue to receive 50.0% of Seaport Alliance net income, which is consistent with its “membership interest” in the Seaport Alliance in 2017.
- The amount of the Port’s operating revenue from the Seaport Alliance net income is forecast to decline from 2016 through 2017 as a result of several factors, including a one-time lease payment in 2016 associated with Terminal 18 as well as higher budgeted Seaport Alliance operating expenses and depreciation.

From 2017 through 2022, the amount of the Port’s share of Seaport Alliance net income is forecast to increase at an average annual rate of 1.8% per year, which annual rate of growth assumes, among other things, that the Port will not receive any revenues from Terminal 5 and Seaport Alliance depreciation will increase each year of the Forecast Period as assets are ready and available for their intended use.

Operating revenues are forecast to increase from \$598.5 million in 2016 to \$851.4 million in 2022, representing an average increase of 6.1% per year.

OPERATING EXPENSES

Exhibit C presents historical and forecast operating expenses for the Port. In 2016, total operating expenses of the Port were \$325.3 million, including:

- \$261.2 million in operating expenses at the Airport, accounting for 80.3% of total operating expenses of the Port.
- \$64.1 million in operating expenses for Other Port Businesses, accounting for 19.7% of total operating expenses of the Port.

The percentage of total operating expenses for the Airport and Other Port Businesses in 2016 is affected by a number of factors, including most importantly, the formation of the Seaport Alliance in 2015, which transferred operation and maintenance responsibilities to the Seaport Alliance on all properties licensed to the Alliance. In 2014, the year prior to the formation of the Seaport Alliance, operating expenses at the Airport accounted for approximately 74.6% of total Port operating expenses as compared to 80.3% of total operating expenses in 2016.

For the most recent 5-year period from 2011-2016, operating expenses of the Port increased an average of approximately 4.0% per year, from \$267.4 million in 2011 to \$325.3 million in 2016. During the same period, operating expenses of the Airport increased from \$191.9 million in 2011 to \$261.2 million in 2016, representing an average annual increase of 6.4% per year. As discussed in Attachment 1 to this Report, the number of enplaned passengers at the Airport increased an average of 6.8% per year from 2011 through 2016. The number of annual enplaned passengers at an airport is typically an important factor in determining the amount of operating expenses required to operate, maintain and enhance airport facilities. At the Airport, operating expenses expressed per enplaned passenger were \$11.70 in 2011 and \$11.46 in 2016, representing an average annual decrease of (0.4%) per year.

All other operating expenses decreased from approximately \$75.5 million in 2011 to approximately \$64.0 million in 2016, representing an average annual decrease of (3.3%) per year. The decrease is due, in part, to the transfer of operation and maintenance responsibilities of Port properties licensed to the Seaport Alliance in 2015.

The forecasts of operating expenses for the Port were based on the following key assumptions:

- Airport operating expenses would increase an average of 6.1% per year during the Forecast Period.
- Airport operating expenses expressed per enplaned passenger would increase an average of 4.2% per year. The forecast rate of increase in operating expenses per enplaned passenger is related to (1) increased payroll and contracted services costs to support recent and forecast rates of growth in passenger traffic and (2) the relatively conservative forecast rate of growth in enplaned passengers at the Airport during the Forecast Period (an average annual increase of 1.9% per year) as compared to the actual rate of growth in the number of enplaned passengers from 2011 through 2016 (6.8% per year).
- Allowances for additional Airport operating expenses as new Airport facilities in the 2017-2022 Capital Program are available for their intended use during the Forecast Period.
- The Port currently expects operating expenses associated with Other Port Businesses to increase by 5.9% per year.

Total operating expenses are forecast to increase from \$325.3 million in 2016 to \$463.7 million in 2022, representing an average increase of 6.1% per year.

DEBT SERVICE

Exhibit D presents actual and estimated debt service, net of capitalized interest, associated with outstanding and future First Lien Parity Bonds and Intermediate Lien Parity Bonds, including the proposed Series 2017C Bonds.

Assumptions related to debt service on the proposed Series 2017C-D Bonds and all Future Revenue Bonds provided by the Port include a fixed interest rates of approximately 4.6% to 5.6% and bond amortization periods of between 10 and 25 years.

The Port may refund certain other outstanding Port revenue bonds during the Forecast Period. Debt service savings, if any, from the Port's potential refunding of any series of bonds are not included in the financial forecasts presented in this Report.

APPLICATION OF REVENUES

As discussed earlier, this Report presents forecast operating revenues and operating expenses and the adjustments necessary to determine forecast Gross Revenue and Operating Expenses pursuant to the First Lien Master Resolution. The forecast application of Gross Revenue to the various funds and accounts under the First Lien Master Resolution and the Intermediate Lien Master Resolution is shown on Exhibit E.

Pursuant to the Intermediate Lien Master Resolution and the First Lien Master Resolution, all Gross Revenue must be deposited in the Revenue Fund, which includes a number of accounts held by the Treasurer of the Port. The Chief Financial Officer of the Port is the Port's Treasurer.

The Revenue Fund must be held separate and apart from all other funds and accounts of the Port. Gross Revenue deposited in the Revenue Fund is to be applied by the Port as follows:

- To pay operating expenses not paid from other sources (such as the general purpose portion of Tax Levy).
- To make all payments, including sinking fund payments, required to be made into the debt service account(s) of any redemption fund to pay the principal of and premium, if any, and interest on any First Lien Bonds.
- To make all payments required to be made into any reserve account(s) to secure the payment of any First Lien Bonds.
- To make all payments required to be made into any other revenue bond redemption fund and debt service account or reserve account created therein to pay and secure the payment of principal and interest on any revenue bonds or other revenue obligations of the Port having a lien upon Net Revenues and money in the Revenue Fund junior and inferior to the lien thereon for the payment of principal and interest on any First Lien Bonds, but prior to the lien thereon of the Intermediate Lien Parity Bonds.
- To make necessary payments into any bond fund or debt service account created to pay the debt service on the Intermediate Lien Parity Bonds and without duplication, to make Net Payments due with respect to any Parity Derivative Product secured by a pledge of and lien on Available Intermediate Lien Revenues on an equal and ratable basis with Outstanding Intermediate Lien Parity Bonds.
- To make all required payments into the Intermediate Lien Reserve Account.
- To make necessary payments into any bond fund or debt service account created to pay the debt service on Reserved Lien Revenue Bonds to pay the principal of and interest on Reserved Lien Revenue Bonds.
- To make all required payments into any reserve account(s) securing Reserved Lien Revenue Bonds.

- To make necessary payments into any bond fund or debt service account created to pay the debt service on the Subordinate Lien Parity Bonds, including but not limited to the Subordinate Lien Bond Fund to pay the principal of and interest on the Subordinate Lien Parity Bonds.
- To make all payments to reserve account(s), if any, securing Subordinate Lien Parity Bonds.
- To make all required payments into the Repair and Renewal Fund pursuant to the terms of the First Lien Master Resolution to maintain any required balance therein.
- To retire by redemption or purchase any outstanding revenue bonds or other revenue obligations of the Port as authorized in the various resolutions of the Commission authorizing their issuance or to make necessary additions, betterments, improvements, and repairs to or extension and replacements of the Facilities or any other lawful Port purposes.

DEBT SERVICE COVERAGE

This Report presents forecast operating revenues and operating expenses, and the adjustments necessary to determine forecast Gross Revenue and Operating Expenses, both of which are used to calculate Available Intermediate Lien Revenues for purposes of determining compliance with the Intermediate Lien Rate Covenant. Debt service coverage under the Intermediate Rate Covenant is calculated by dividing Available Intermediate Lien Revenues by debt service on all Intermediate Lien Parity Bonds.

Exhibit F presents forecast net revenues and the calculation of debt service coverage for Intermediate Lien Parity Bonds.

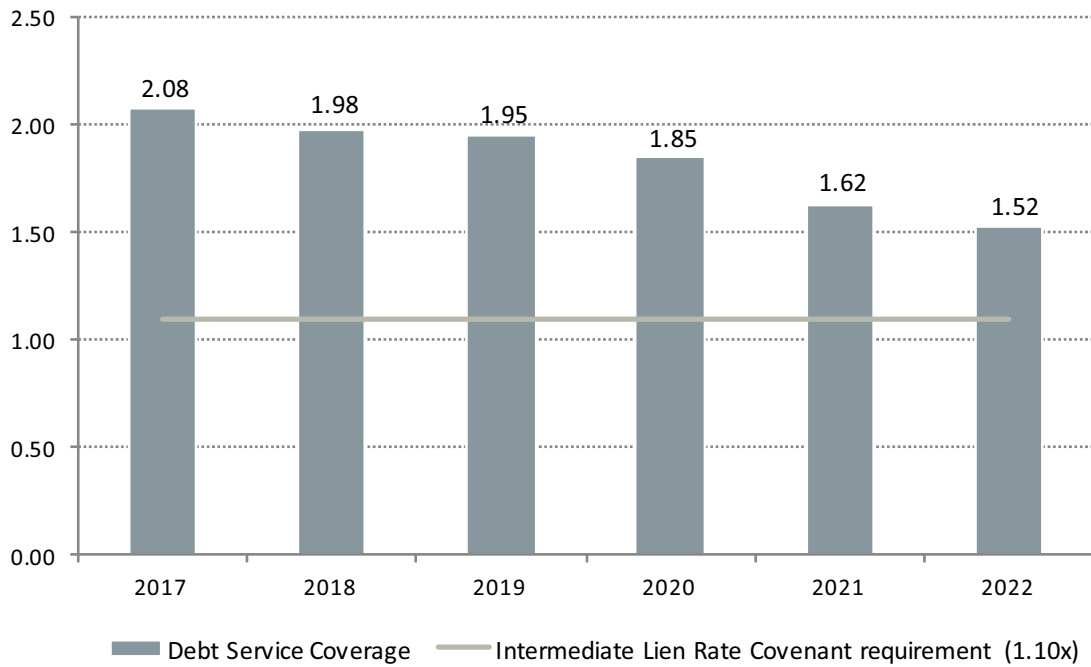
Under the Intermediate Lien Master Resolution, the Port has covenanted that, for so long as any other Intermediate Lien Parity Bonds remain outstanding, the Port will at all times establish, maintain, and collect rentals, tariffs, rates, fees and charges in the operation of all of its businesses that will produce in each fiscal year:

- Available Intermediate Lien Revenues as First Adjusted at least equal to 1.10 times of the Amount Due (Test #1) and
- Available Intermediate Lien Revenues as Second Adjusted at least equal to 1.25 times of the Amount Due (Test #2).

Please refer to the section of the Official Statement for the Series 2017C-D Bonds titled “Intermediate Lien Rate Covenant” for additional information.

As shown on Figure 6, debt service coverage in each year of the Forecast Period exceeds the 1.10 times minimum requirement under the Intermediate Lien Rate Covenant for Available Intermediate Lien Revenues as First Adjusted (Test #1), the more restrictive of the two tests.

Figure 6
FORECAST DEBT SERVICE COVERAGE ON INTERMEDIATE LIEN PARITY BONDS
 Seattle-Tacoma International Airport



Note: Based on Available Intermediate Lien Revenues as First Adjusted (Test #1), includes estimated debt service on the proposed Series 2017C-D Bonds and Future Revenue Bonds that may be issued during the Forecast Period. Changes in debt service, including any savings, from outstanding Port revenue bonds that the Port may refund during the Forecast Period have not been included in the financial forecasts presented in this Report.

Sources for debt service: Port of Seattle.

Exhibit A

PORT 2017-2022 CAPITAL PROGRAM - ESTIMATED COSTS AND FUNDING SOURCES

Port of Seattle
(in thousands)

PORT 2017-2022 CAPITAL PROGRAM	Estimated Total Cost (a)	Airport	Seaport Alliance (b)	Other Port Businesses	Total
Series 2017C-D Projects (Airport) (c)	\$ 416,811	\$ 416,811	\$ -	\$ -	\$ 416,811
Other Capital Program Projects	2,956,051	2,491,098	151,844	313,109	2,956,051
Total 2017-2022 Capital Program	\$ 3,372,862	\$ 2,907,909	\$ 151,844	\$ 313,109	\$ 3,372,862
Percentage of Total	100%	86%	5%	9%	100%
 Non-Airport project deferrals (d)	 \$ (66,566)				
Total After Deferrals	\$ 3,306,296				
 ANTICIPATED FUNDING SOURCES					
Series 2017C-D Bond Proceeds	\$ 416,811				
Future Revenue Bond Proceeds	1,503,972				
Existing 2015 Bond Proceeds	133,254				
Port Net Income and Operating Funds	614,833				
PFC Funds	269,928				
CFC Funds	1,800				
Federal Grants (e)	203,575				
Tax Levy	162,123				
Total Funding Sources	\$ 3,306,296				

Notes: Columns may not add to totals shown because of rounding.

(a) Includes costs associated with design, construction cost inflation, program management, and contingency.

(b) Represents the Port's 50% funding responsibility for Seaport Alliance capital improvement program.

(c) The Series 2017C-D Projects include the International Arrivals Facility, the North Satellite Project, Concourse D hardstand holdroom, utility improvements, and miscellaneous renewal and replacement projects.

(d) Represents the estimated cost of non-Airport (i.e., Seaport Alliance and Other Port Businesses) projects expected to be deferred to beyond the Forecast Period based on current operating forecasts and funding targets. Actual project deferrals will depend on whether or not certain financial targets are met.

(e) Includes approximately \$93.0 million of FAA Airport Improvement Program grants; approximately \$100.0 million of TSA grants; and approximately \$10.0 million for the Port's share of the approximately \$20.0 million U.S. DOT Transportation Investment Generating Economic Recovery (TIGER) grant.

Source: Port of Seattle.

Exhibit B

OPERATING REVENUES (a)

Port of Seattle
Fiscal Years Ending December 31
(in thousands, except as noted)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by Port management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Reference	Calculation	Actual	Forecast					
			2016	2017	2018	2019	2020	2021	2022
AIRPORT									
Airline Revenues (b)	Exhibit G		\$ 244,235	\$ 270,565	\$ 300,271	\$ 352,420	\$ 384,143	\$ 433,537	\$ 446,602
Nonairline Revenues	Exhibit H		221,021	228,110	237,108	241,611	254,492	258,842	265,305
Total Airport operating revenues		[A]	\$ 465,256	\$ 498,675	\$ 537,379	\$ 594,032	\$ 638,635	\$ 692,379	\$ 711,907
Annual % Change				7.2%	7.8%	10.5%	7.5%	8.4%	2.8%
Average annual increase (decrease) 2016 to 2022									7.3%
Passenger Airline Revenues (c)	Exhibit G	[B]	\$ 230,231	\$ 254,457	\$ 280,085	\$ 331,046	\$ 361,952	\$ 410,339	\$ 423,084
Enplaned Passengers	Exhibit G	[C]	22,796	23,480	24,654	24,859	25,065	25,273	25,483
Passenger Airline Payments per Enplaned Passenger (in dollars)		[D]=[B]/[C]	\$ 10.10	\$ 10.84	\$ 11.36	\$ 13.32	\$ 14.44	\$ 16.24	\$ 16.60
SEAPORT ALLIANCE (d)									
Annual % Change	Table 24	[E]	61,584	46,708	44,328	55,109	54,120	51,144	51,144
Average annual increase (decrease) 2016 to 2022				-24.2%	-5.1%	24.3%	-1.8%	-5.5%	0.0%
OTHER PORT BUSINESSES									
Annual % Change	Table 24	[F]	71,627	72,815	75,303	78,200	82,312	85,240	88,312
Average annual increase (decrease) 2016 to 2022				1.7%	3.4%	3.8%	5.3%	3.6%	3.6%
Total operating revenues		[G]=[A+E+F]	\$ 598,467	\$ 618,198	\$ 657,010	\$ 727,341	\$ 775,066	\$ 828,763	\$ 851,362
Annual % change				3.3%	6.3%	10.7%	6.6%	6.9%	2.7%
Average annual increase (decrease) 2016 to 2022									6.1%

Notes: Columns may not add to totals shown because of rounding.

(a) As shown on Exhibit F, certain adjustments are made to operating revenues reflected on this Exhibit B in order to calculate Gross Revenue under the First Lien Master Resolution and Intermediate Lien Master Resolution.

(b) After revenue sharing. See the "Airline Revenues" section in Attachment 1 of this report for more information about the Airline Agreement.

(c) Passenger Airline Revenues are a subset of the Airline Revenues line above.

(d) This reflects the Port's 50% share of the Seaport Alliance Net Income, which the Port accounts for as operating revenues. See the Port's 2016 audited financial statements and Attachment 2 of this report for additional information.

Source: Port of Seattle.

Exhibit C

OPERATING EXPENSES (a)

Port of Seattle
Fiscal Years Ending December 31
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by Port management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Reference	Actual	Forecast					
		2016	2017	2018	2019	2020	2021	2022
AIRPORT OPERATING EXPENSES	Exhibit I	\$ 261,226	\$ 301,387	\$ 313,864	\$ 326,925	\$ 341,860	\$ 358,599	\$ 373,164
Annual % Change			15.4%	4.1%	4.2%	4.6%	4.9%	4.1%
Average annual increase (decrease) 2016 to 2022								6.1%
OTHER PORT BUSINESSES OPERATING EXPENSES	Table 24	64,059	82,692	84,183	83,507	85,470	87,978	90,565
Annual % Change			29.1%	1.8%	-0.8%	2.4%	2.9%	2.9%
Average annual increase (decrease) 2016 to 2022								5.9%
Total operating expenses (b)		\$ 325,285	\$ 384,079	\$ 398,047	\$ 410,431	\$ 427,331	\$ 446,576	\$ 463,729
Annual % Change			18.1%	3.6%	3.1%	4.1%	4.5%	3.8%
Average annual increase (decrease) 2016 to 2022								6.1%

Notes: Columns may not add to totals shown because of rounding.

(a) Includes direct operating expenses and allocated administrative operating expenses. As shown on Exhibit F, certain adjustments are made to operating expenses reflected on this Exhibit C in order to calculate Operating Expenses under the First Lien Master Resolution and the Intermediate Lien Master Resolution.

(b) The Port recognizes 50% of Seaport Alliance Net Income (Seaport Alliance revenues less expenses) as operating revenues in Exhibit B. As such, Seaport Alliance operating expenses are not included in the calculation of total operating expenses in this exhibit.

Source: Port of Seattle.

Exhibit D

DEBT SERVICE

Port of Seattle

Fiscal Years Ending December 31

(in thousands)

Calculation	Actual	Forecast					
	2016	2017	2018	2019	2020	2021	2022
FIRST LIEN REVENUE BOND DEBT SERVICE							
Outstanding (a)	\$ 52,320	\$ 52,422	\$ 51,767	\$ 63,721	\$ 56,518	\$ 57,387	\$ 43,993
Future	-	-	-	-	-	-	-
Total First Lien Revenue Bond Debt Service	[A] \$ 52,320	\$ 52,422	\$ 51,767	\$ 63,721	\$ 56,518	\$ 57,387	\$ 43,993
INTERMEDIATE LIEN REVENUE BOND DEBT SERVICE							
Outstanding (b)	\$ 146,518	\$ 137,811	\$ 138,509	\$ 131,649	\$ 133,993	\$ 147,822	\$ 153,439
Planned Series 2017C-D Bonds (a)(c)	-	-	13,432	30,255	45,430	45,430	45,430
Future (d)	-	-	-	17,995	46,980	80,499	88,188
Total Intermediate Lien Revenue Bond Debt Service	[B] \$ 146,518	\$ 137,811	\$ 151,941	\$ 179,899	\$ 226,403	\$ 273,751	\$ 287,057
SUBORDINATE LIEN REVENUE BOND DEBT SERVICE							
Outstanding	\$ 7,181	\$ 34,807	\$ 39,054	\$ 39,046	\$ 39,043	\$ 23,868	\$ 23,877
Future (d)	-	-	-	4,499	11,745	20,125	22,047
Commercial paper	1,767	2,927	3,093	3,495	3,474	3,454	3,433
Total Subordinate Lien Revenue Bond Debt Service	[C] \$ 8,949	\$ 37,735	\$ 42,147	\$ 47,039	\$ 54,262	\$ 47,447	\$ 49,357
Total Revenue Bond Debt Service	=[A]+[B]+[C] \$ 207,787	\$ 227,968	\$ 245,854	\$ 290,659	\$ 337,183	\$ 378,585	\$ 380,407

Notes: Columns may not add to totals shown because of rounding.

(a) For purposes of this Report, the planned refunding of certain outstanding Series 2009AB First Lien Bonds onto the Intermediate Lien (Series 2017C-D), which is expected to result in debt service savings, is not incorporated, nor are other potential future refundings.

(b) Net of debt service funded with existing Series 2015 Bond capitalized interest proceeds.

(c) Preliminary estimate of Series 2017C-D Bonds debt service (new money only) is based on 4.6%-5.6% interest rates, 10-year bond term for certain shorter-life projects and 25-year bond term for longer-life projects, required debt service reserve fund deposit, 1-1.5 years of capitalized interest, and estimated costs of issuance.

(d) Future Revenue Bonds debt service based on 5.6% interest rate, 25 year bond term, required debt service reserve fund deposit, 1-1.5 years of capitalized interest, and estimated costs of issuance.

Source: Port of Seattle.

Exhibit E

APPLICATION OF GROSS REVENUE

Port of Seattle
Fiscal Years Ending December 31
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by Port management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

Reference	Calculation	Forecast						
		2017	2018	2019	2020	2021	2022	
GROSS REVENUE								
	Operating revenues	Exhibit B	\$ 618,198	\$ 657,010	\$ 727,341	\$ 775,066	\$ 828,763	\$ 851,362
	Less: Stormwater utility revenues not available to pay revenue bond debt service		(4,955)	(5,153)	(5,360)	(5,574)	(5,797)	(6,029)
	Less: CFC revenues not available to pay revenue bond debt service	Exhibit H	(9,859)	(12,907)	(11,080)	(18,449)	(18,248)	(18,959)
	Plus: Depreciation of Seaport Alliance assets netted from operating revenues		1,263	3,531	5,871	6,839	6,851	6,851
	Less: Capital Grants from Seaport Alliance		(138)	(376)	(5,345)	(4,420)	-	-
	Plus: Non-operating revenue and expenses (net) (a)		(7,666)	(9,373)	(5,150)	(8,798)	(13,354)	(33,168)
	Gross Revenue	[A]	\$ 596,844	\$ 632,732	\$ 706,277	\$ 744,665	\$ 798,215	\$ 800,057
APPLICATION OF GROSS REVENUE								
	Operating expenses	Exhibit C	\$ 384,079	\$ 398,047	\$ 410,431	\$ 427,331	\$ 446,576	\$ 463,729
	Operating expenses paid from sources other than Gross Revenue		[C] (11,621)	(11,677)	(11,991)	(11,539)	(11,848)	(12,165)
	Tax Levy adjustment (b)		[D] (35,453)	(28,553)	(28,553)	(32,217)	(33,494)	(32,637)
	Operating Expenses		[E] = [B]+[C]+[D] \$ 337,005	\$ 357,816	\$ 369,887	\$ 383,575	\$ 401,234	\$ 418,927
Revenue Bond Debt Service								
	First Lien Revenue Bond Debt Service	Exhibit D	\$ 52,422	\$ 51,767	\$ 63,721	\$ 56,518	\$ 57,387	\$ 43,993
	Less: First Lien Debt Service paid with PFC Revenues		-	-	-	-	-	-
	Less: First Lien Debt Service paid with CFC Revenues		(22,815)	(24,422)	(26,058)	(18,492)	(18,492)	(18,492)
	Total First Lien Revenue Bond Debt Service paid from Gross Revenue		[F] \$ 29,608	\$ 27,344	\$ 37,663	\$ 38,027	\$ 38,896	\$ 25,501
	Intermediate Lien Revenue Bond Debt Service (c)	Exhibit D	\$ 137,811	\$ 151,941	\$ 179,899	\$ 226,403	\$ 273,751	\$ 287,057
	Less: Intermediate Lien Revenue Bond Debt Service paid with PFC Revenues		(27,040)	(27,040)	(27,040)	(52,174)	(52,733)	(53,292)
	Total Intermediate Lien Revenue Bond Debt Service paid from Gross Revenue		[G] \$ 110,771	\$ 124,901	\$ 152,859	\$ 174,229	\$ 221,018	\$ 233,764
	Subordinate Lien Bond Debt Service (d)	Exhibit D	\$ 37,735	\$ 42,147	\$ 47,039	\$ 54,262	\$ 47,447	\$ 49,357
	Less: Subordinate Lien Revenue Bond Debt Service paid with PFC Revenues (e)		(6,760)	(6,760)	(6,760)	(13,044)	(13,183)	(13,323)
	Total Subordinate Lien Revenue Bond Debt Service paid from Gross Revenue		[H] \$ 30,975	\$ 35,387	\$ 40,279	\$ 41,219	\$ 34,263	\$ 36,034
	Remaining Gross Revenue (f)		[I] 88,486	87,283	105,589	107,615	102,804	85,830
	Total application of Gross Revenue	=[E]+[F]+[G]+[H]+[I]	\$ 596,844	\$ 632,732	\$ 706,277	\$ 744,665	\$ 798,215	\$ 800,057

Notes: Columns may not add to totals shown because of rounding.

(a) Includes gain/loss on sale of assets, interest income, environmental expenses, operating grants, discount on amortization, and other miscellaneous adjustments.

The Port's forecast assumes non-operating expenses are higher than non-operating revenues during the Forecast Period.

(b) For purposes of calculating debt service coverage, Tax Levy amounts remaining after payment of General Obligation Bond debt service offset operating expenses. The Port is permitted, but not obligated, to pay operating expenses with Tax Levy amounts remaining after payment of General Obligation Bond debt service.

(c) Net of debt service funding with existing Series 2015 Bond capitalized interest proceeds. For purposes of this report, the planned refunding of certain outstanding Series 2009AB First Lien Bonds onto the Intermediate Lien (Series 2017C-D), which is expected to result in debt service savings, is not incorporated, nor are other potential future refundings.

(d) Subordinate Lien Bond debt service during the forecast period includes both scheduled debt service as well as an assumed annual amortization of principal on existing Subordinate Lien (variable rate) Bonds, which have bullet maturities in 2022 and 2033.

(e) Represents PFC's used toward Subordinate Lien Bond principal and interest amounts, as included in the Subordinate Lien Bond Debt Service line above. PFC's used toward early principal payments are excluded.

(f) Available to fund reserve accounts, fund Repair and Renewal Fund, retire revenue bond debt, make necessary improvements/repairs, or for any other lawful Port purpose.

Source: Port of Seattle.

Exhibit F

DEBT SERVICE COVERAGE
 Port of Seattle
 Fiscal Years Ending December 31
 (in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by Port management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Reference	Calculation	Forecast					
			2017	2018	2019	2020	2021	2022
Gross Revenue	Exhibit E	[A]	\$ 596,844	\$ 632,732	\$ 706,277	\$ 744,665	\$ 798,215	\$ 800,057
Operating Expenses	Exhibit E	[B]	337,005	357,816	369,887	383,575	401,234	418,927
Net Revenues available for First Lien Revenue Bond Debt Service		[C]=[A-B]	\$ 259,839	\$ 274,915	\$ 336,390	\$ 361,090	\$ 396,981	\$ 381,130
First Lien Revenue Bond Debt Service	Exhibit D	[D]	\$ 52,422	\$ 51,767	\$ 63,721	\$ 56,518	\$ 57,387	\$ 43,993
INTERMEDIATE LIEN REVENUE BONDS								
Available Intermediate Lien Revenues		[E]=[C-D]	\$ 207,417	\$ 223,149	\$ 272,669	\$ 304,571	\$ 339,594	\$ 337,137
Prior Lien Debt Service offset paid by CFC Revenues (a)		[F]	22,815	24,422	26,058	18,492	18,492	18,492
Adjusted Available Intermediate Lien Revenues		[G]=[E+F]	\$ 230,231	\$ 247,571	\$ 298,727	\$ 323,063	\$ 358,085	\$ 355,629
Intermediate Lien Revenue Bond Debt Service (b)	Exhibit D	[H]	\$ 137,811	\$ 151,941	\$ 179,899	\$ 226,403	\$ 273,751	\$ 287,057
Less: Intermediate Lien Revenue Bond Debt Service paid with PFC Revenues (c)		[I]	(27,040)	(27,040)	(27,040)	(52,174)	(52,733)	(53,292)
Total Intermediate Lien Revenue Bond Debt Service net of offsets		[J]=[H+I]	\$ 110,771	\$ 124,901	\$ 152,859	\$ 174,229	\$ 221,018	\$ 233,764
Intermediate Lien Revenue Bond Debt Service Coverage Ratio		=[G]/[J]	2.08	1.98	1.95	1.85	1.62	1.52
Required Intermediate Lien Revenue Bond Debt Service Coverage Ratio			1.10	1.10	1.10	1.10	1.10	1.10
Required Test #1 Ratio - Available Intermediate Lien Revenues as First Adjusted (d)			1.10	1.10	1.10	1.10	1.10	1.10

Notes: Columns may not add to totals shown because of rounding.

- (a) The Port receives certain revenues, including but not limited to PFC Revenues and CFC Revenues, that are not Gross Revenue but may be used to pay debt service on First Lien Revenue Bonds and Intermediate Lien Revenue Bonds. Under certain circumstances, such amounts used to pay debt service may be added to net revenues or deducted from debt service. This line reflects CFC Revenues that are being used to pay debt service associated with the Series 2009 First Lien Bonds, which are added to Available Intermediate Lien Revenues for purposes of calculating the Intermediate Lien debt service coverage ratio. The Port does not assume refunding of 2009AB bonds.
- (b) Does not incorporate planned Series 2017C-D Intermediate Lien Refunding Bonds expected to refund certain outstanding Series 2009AB First Lien Bonds. Series 2009AB First Lien Revenue Bond debt service (prior to the expected refunding) is incorporated.
- (c) The Port receives certain revenues, including but not limited to PFC Revenues and CFC Revenues, that are not Gross Revenue but may be used to pay debt service on First Lien Revenue Bonds and Intermediate Lien Revenue Bonds. Under certain circumstances, such amounts used to pay debt service may be added to net revenues or deducted from debt service. This line reflects PFC Revenues that are being used to pay Intermediate Lien Debt Service and are deducted from debt service.
- (d) Per the Intermediate Lien Rate Covenant, under Test #1, the required coverage ratio is 1.10 times debt service when Prior Lien Debt Service Offsets certified by the Port are included in the numerator. The Port has currently not pledged any debt service offsets.

Source: Port of Seattle.

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ATTACHMENT 1—AIRLINE TRAFFIC AND FINANCIAL FORECASTS OF THE AIRPORT

Report of the Independent Consultant

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AIRLINE TRAFFIC ANALYSIS

OVERVIEW OF AIRPORT ROLE

Seattle-Tacoma International Airport (the Airport) has an important role in the national, State, and local air transportation systems. In 2016, the Airport was the 9th busiest large-hub airport in the United States in terms of the total number of enplaned passengers⁴. In addition to its large origin and destination (O&D) passenger base, the Airport is the busiest connecting passenger hub for Alaska Airlines and is a growing connecting passenger hub for Delta Air Lines.

Large Origin-Destination Passenger Base

The Airport's large O&D passenger base is related to the population of the region served by the Airport, the strength of the local economy, and the attractiveness of the Seattle Metropolitan Area (defined later) as a tourist destination. The passenger base of both leisure and business travelers in the Airport service region supports the local and connecting hub operations of Alaska Airlines and Delta Air Lines. In 2016, approximately 13.1 million domestic originating passengers used the Airport, making Seattle the 9th busiest O&D passenger market⁵ in the United States, as shown on Figure 7.

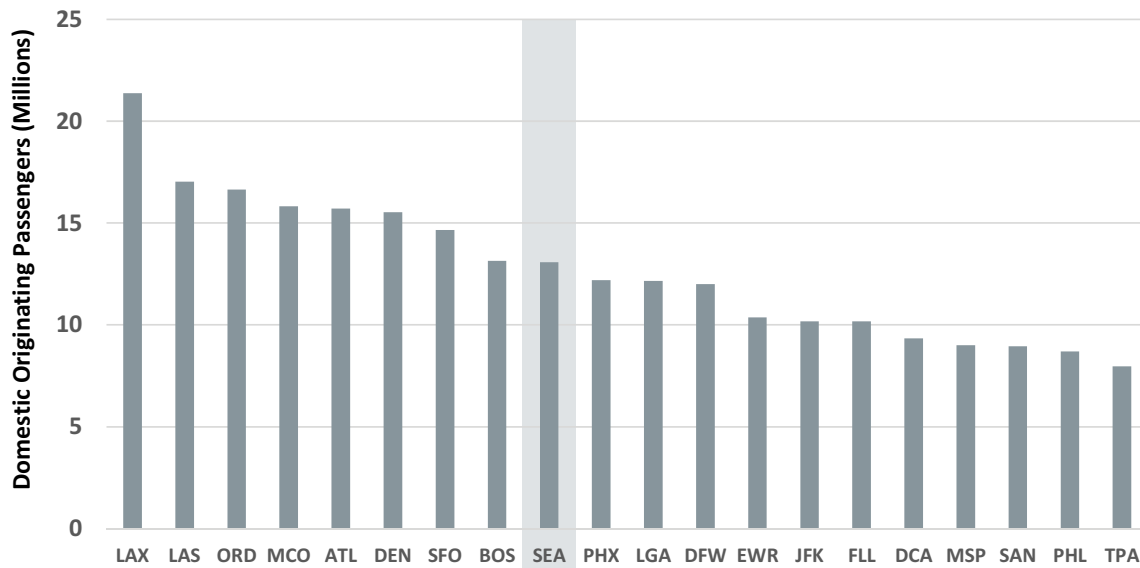
Primary Commercial Service Airport in the Greater Seattle Area

Seattle-Tacoma International Airport occupies approximately 2,500 acres of land about 12 miles from downtown Seattle. The Airport is the primary airport serving the Seattle Metropolitan Area, which includes King County, Snohomish County, and Pierce County, as shown on Figure 8. Most of this area is located within a 1.5-hour drive from the Airport. Other airports in the region that currently have scheduled airline service include Vancouver International Airport in British Columbia (139 road miles from downtown Seattle), Portland International Airport (173 road miles from downtown Seattle), and Spokane International Airport in eastern Washington (280 road miles from downtown Seattle).

⁴ Bureau of Transportation Statistics, accessed June 28, 2017.

⁵ U.S. Department of Transportation, O&D Survey via Database Products.

Figure 7
TOP 20 U.S. AIRPORTS FOR DOMESTIC ORIGINATING PASSENGERS
 2016



LAX = Los Angeles International Airport	LGA = LaGuardia Airport
LAS = Las Vegas McCarran International Airport	DFW = Dallas/Ft. Worth International Airport
ORD = Chicago O'Hare International Airport	EWR = Newark International Airport
MCO = Orlando International Airport	JFK = John F. Kennedy International Airport
ATL = Hartsfield-Jackson Atlanta International Airport	FLL = Ft. Lauderdale-Hollywood International Airport
DEN = Denver International Airport	DCA = Reagan Washington National Airport
SFO = San Francisco International Airport	MSP = Minneapolis-St. Paul International Airport
BOS = Boston Logan International Airport	SAN = San Diego International Airport
SEA = Seattle-Tacoma International Airport	PHL = Philadelphia International Airport
PHX = Phoenix Sky Harbor International Airport	TPA = Tampa International Airport

Source: U.S. Department of Transportation, O&D Survey via Database Products.

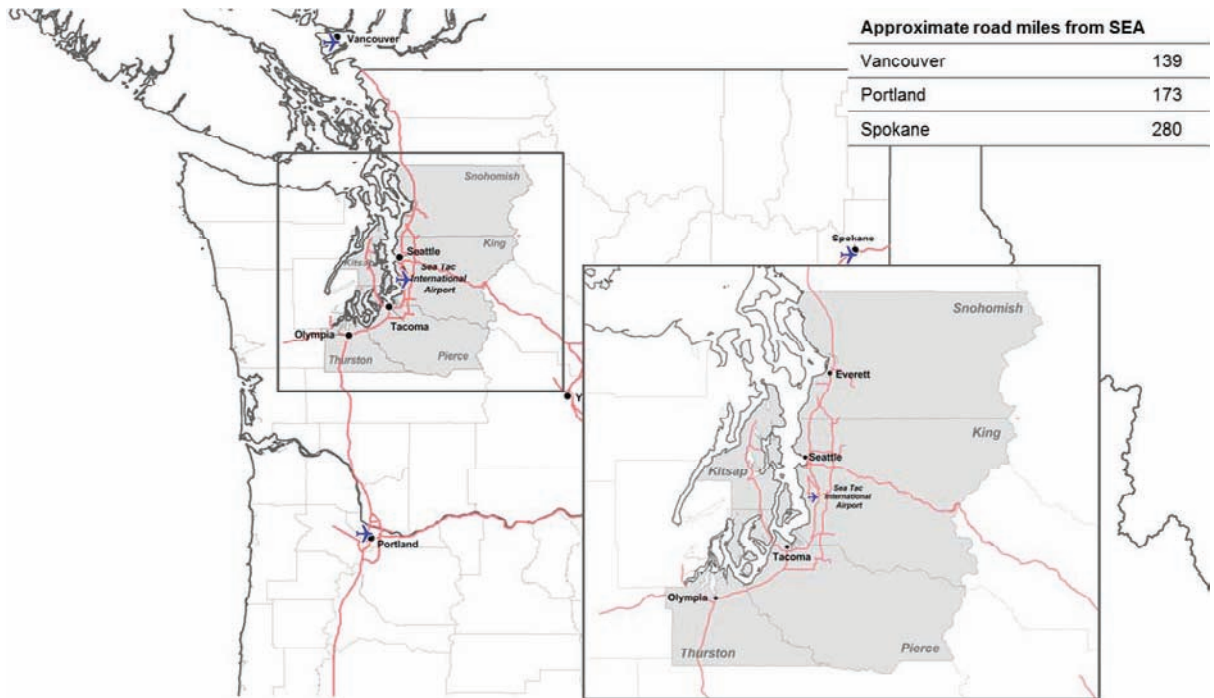
Several smaller airports with limited regional airline passenger air and cargo service are located in the greater Seattle area, including King County International Airport/Boeing Field, which is approximately 11 miles from the Airport and has service from all cargo and small commercial passenger airlines⁶. Another smaller airport in the greater Seattle area is Paine Field, which is located approximately 24 road miles north of downtown Seattle.

In 2017, a private airport developer entered into a lease with Snohomish County to develop facilities at Paine Field for commercial air service, including the financing and construction of an approximate 29,000 square foot passenger terminal with two gates and a surface public parking lot. According to certain reports, the project, if completed, would have peak capacity of 16 flights per day⁷.

⁶ <http://www.kingcounty.gov/depts/transportation/airport.aspx>

⁷ <http://www.seattletimes.com/business/boeing-aerospace/alaska-airlines-will-start-passenger-flights-from-everetts-paine-field/>

Figure 8
SEATTLE AIRPORT SERVICE REGION



In May 2017, Alaska Airlines—the busiest airline at the Airport as measured by enplaned passenger market share for at least the last 5 years—announced that it would start service at Paine Field in the fall of 2018 with nine daily departures on narrow body and regional jet aircraft. The nine daily departures, if started by Alaska at Paine Field, would be equal to approximately 3.0% of the total daily scheduled flights of Alaska Airlines (including Horizon and Virgin America) at Seattle-Tacoma International Airport in 2017.

The following sections of the airline traffic analysis present a review of (1) the economic basis for airline traffic at the Airport, including socioeconomic, local industry, and other factors that contribute to passenger and cargo demand; (2) airline traffic trends at the Airport, including airlines serving the Airport; enplaned passengers using the Airport; trends in enplaned, originating, and connecting passengers, including the role of the Airport in the route systems of Alaska Airlines and Delta Air Lines; and a review of air cargo activity at the Airport; (3) the key factors that will affect future airline traffic, both at the Airport and nationwide; and (4) forecasts of airline traffic at the Airport through 2022, including enplaned passengers.

ECONOMIC BASIS FOR AIRLINE TRAFFIC

The economy of an airport service region is a major factor affecting long-term airline traffic at the airport(s) serving the region. Generally, regions with large populations, high levels of employment, and high average per capita personal income will generate a high demand for airline travel. The demographics and economy of the region—as measured by changes in population, employment, and per capita personal income—as well as airline service and airfares—are typically the most important factors affecting O&D passenger demand at the airport(s) serving the region.

Historical Population, Employment, and Per Capita Personal Income

The Seattle Metropolitan Area is the major business center in the State of Washington and as of the date of this Report was one of the fastest growing regional economies in the United States (U.S.) In 2016, the Seattle Metropolitan Area accounted for 52.1% of Washington’s population and 59.4% of its nonagricultural employment. Seattle is ranked as the 3rd Best City for Jobs according to new research from Glassdoor⁸. Additionally, Seattle is ranked on Forbes’ 2016 list as the 4th Best Place for Business and Careers⁹ and the 1st Best Place for STEM (Science, Technology, Engineering and Mathematics) Professionals¹⁰. Seattle is also the fifth fastest growing U.S. city among the 50 most populous U.S. cities¹¹, as measured by the total change in population from July 1, 2015 to July 1, 2016.

Table 1 presents historical and projected population, nonagricultural employment, and per capita personal income in the Seattle Metropolitan Area, the State of Washington, and the United States for 1990 through 2022.

Population. As shown in Table 1, the population of the Seattle Metropolitan Area has historically increased at rates higher than those of the State of Washington and the national average. Population in the Seattle Metropolitan Area increased an average of 1.7% per year between 1990 and 2000, and 1.3% per year between 2000 and 2016. Population in the United States increased an average of 1.2% per year between 1990 and 2000, and 0.9% per year between 2000 and 2016.

⁸ <http://time.com/money/4339568/best-cities-for-jobs/>

⁹ <https://www.forbes.com/best-places-for-business/list/>

¹⁰ <https://www.forbes.com/sites/kevinmurnane/2017/01/12/wallethub-ranks-100-metro-areas-for-stem-professionals-from-best-to-worst/#54de3a167acc>

¹¹ U.S. Census Bureau, accessed June 2017.

Table 1
HISTORICAL AND PROJECTED SOCIOECONOMIC DATA
 Seattle Metropolitan Area, State of Washington, and United States 1990-2022

	Population (thousands)			Nonagricultural employment (thousands)			Per capita personal income (2009 USD)		
	Seattle Metropolitan Area	State of Washington	United States	Seattle Metropolitan Area	State of Washington	United States	Seattle Metropolitan Area	State of Washington	United States
Historical									
1990	2,579	4,903	249,623	1,649	2,766	135,361	33,649	29,782	29,082
2000	3,052	5,911	282,162	2,047	3,451	162,329	46,986	39,435	36,833
2010	3,449	6,743	309,330	2,150	3,692	170,399	47,397	41,509	39,622
2011	3,498	6,823	311,719	2,187	3,738	173,640	48,704	42,437	40,762
2012	3,554	6,897	314,103	2,254	3,823	176,459	52,017	44,595	41,714
2013	3,613	6,973	316,427	2,308	3,908	179,762	51,992	44,431	41,348
2014	3,673	7,063	318,907	2,374	4,008	183,523	54,466	46,135	42,523
2015	3,734	7,170	321,421	2,442	4,114	187,553	55,711	47,381	43,924
2016 (a)	3,781	7,257	324,161	2,483	4,182	190,368	56,508	47,903	44,637
Projected									
2017	3,832	7,349	327,168	2,523	4,251	193,184	57,180	48,534	45,308
2018	3,884	7,443	330,207	2,564	4,318	195,959	57,850	49,165	45,984
2019	3,936	7,538	333,280	2,604	4,385	198,718	58,527	49,803	46,671
2020	3,989	7,634	336,383	2,645	4,453	201,491	59,222	50,457	47,378
2021	4,043	7,731	339,515	2,686	4,521	204,280	59,914	51,108	48,082
2022	4,097	7,830	342,677	2,728	4,589	207,089	60,623	51,774	48,803
	Average annual percent increase (decrease)								
Historical									
2010-2011	1.4	1.2	0.8	1.7	1.2	1.9	2.8	2.2	2.9
2011-2012	1.6	1.1	0.8	3.1	2.3	1.6	6.8	5.1	2.3
2012-2013	1.7	1.1	0.7	2.4	2.2	1.9	0.0	(0.4)	(0.9)
2013-2014	1.7	1.3	0.8	2.9	2.6	2.1	4.8	3.8	2.8
2014-2015	1.7	1.5	0.8	2.9	2.6	2.2	2.3	2.7	3.3
2015-2016	1.3	1.2	0.9	1.7	1.7	1.5	1.4	1.1	1.6
1990-2000	1.7	1.9	1.2	2.2	2.2	1.8	3.4	2.8	2.4
2000-2016	1.3	1.3	0.9	1.2	1.2	1.0	1.2	1.2	1.2
1990-2016	1.5	1.5	1.0	1.6	1.6	1.3	2.0	1.8	1.7
Projected									
2016-2022	1.3	1.3	0.9	1.6	1.6	1.4	1.2	1.3	1.5

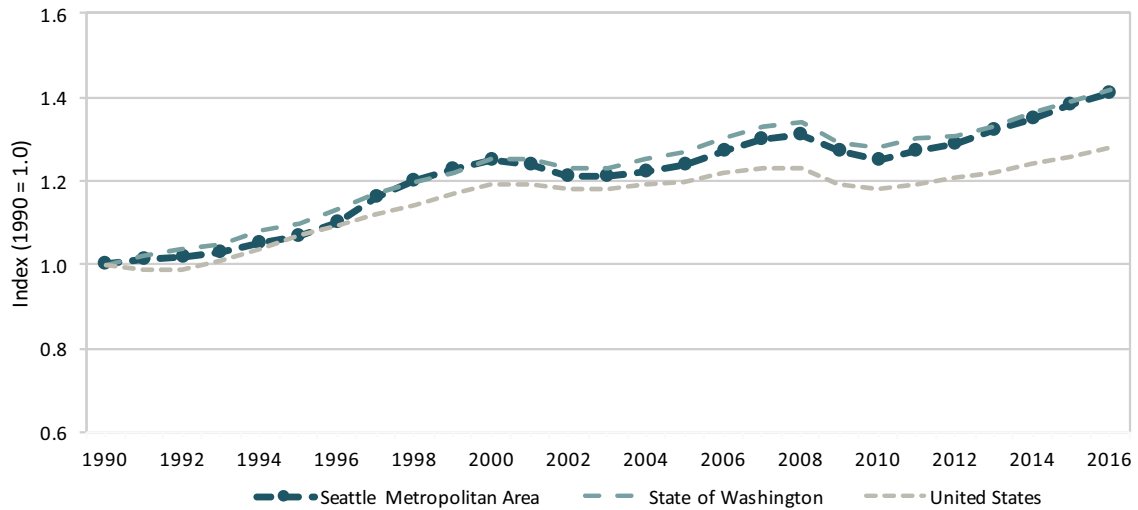
Note: The Seattle Metropolitan Area includes King County, Snohomish County, and Pierce County.

(a) 2016 is a preliminary estimate by Woods & Poole.

Source: Woods & Poole Economics, Inc. The Seattle-Tacoma-Bellevue area is the same as the Seattle Metropolitan Area.

Employment. Nonagricultural employment in the Seattle Metropolitan Area generally correlates with national employment trends, as shown in Table 1 and on Figure 9. Nonagricultural employment in the Seattle Metropolitan Area expanded during the 1990s, increasing an average of 2.2% per year between 1990 and 2000. Nonagricultural employment in the Seattle Metropolitan Area and the nation as a whole remained relatively unchanged between 2000 and 2010. Between 2010 and 2016, nonagricultural employment increased in the Seattle Metropolitan Area, the State, and the nation.

Figure 9
TRENDS IN NONAGRICULTURAL EMPLOYMENT

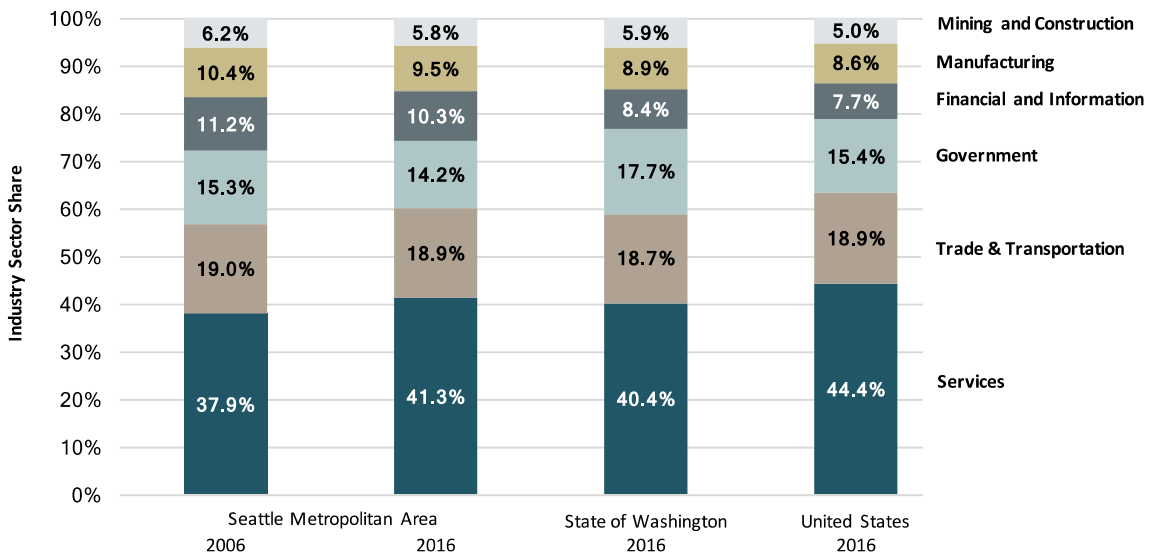


Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed March 2015.

Nonagricultural Employment by Industry Sector. Figure 10 shows the comparative distribution of nonagricultural employment by industry sector for the Seattle Metropolitan Area in 2006 and 2016, and for the State and the nation in 2016. Employment in services (41.3%)—including health, education, professional, business, and other services—and trade and transportation (18.9%) accounted for a combined 60.2% of total nonagricultural employment in the Seattle Metropolitan Area in 2016.

Major Employers. Table 2 lists the 25 largest employers in the State of Washington in 2016, most of which are located in the Seattle Metropolitan Area. The table reflects the diversity of the companies and organizations in the area and features some prominent and large employers. The Boeing Co., which anchors the area’s aerospace cluster, is the largest employer in the Seattle Metropolitan Area, as well as one of the largest exporters in the United States. Other major employers that are known worldwide include industry leaders Microsoft Corp., Amazon.com, Inc., and Starbucks Corporation, among others. The U.S. military is also a major employer in the Seattle Metropolitan Area – Joint Base Lewis-McChord and Navy Region Northwest rank second and third, respectively, among the area’s largest employers in 2016.

Figure 10
COMPARATIVE DISTRIBUTION OF EMPLOYMENT BY INDUSTRY SECTOR



Note: Columns may not add to 100.0% because of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed May 2017.

Per Capita Personal Income. Per capita personal income in the Seattle Metropolitan Area historically has exceeded that in the State of Washington and the nation, as shown in Table 1. Average per capita income in the Seattle Metropolitan Area in 2016 exceeded that of the State and the nation by 17.9% and 26.6%, respectively. Growth in passenger traffic at the Airport and the propensity to travel in a region are closely related to per capita personal income levels, as (1) income tends to reflect the level of education of the workforce, and a more highly educated workforce is likely to concentrate in occupations with a higher propensity to travel and (2) income growth translates into disposable income, which reflects the potential for growth in the number of trips per person.

Table 2
25 LARGEST EMPLOYERS IN 2015
 State of Washington

Rank	Company	Employees in Washington
1	The Boeing Co.	78,225
2	Joint Base Lewis-McChord (military base)	58,074
3	Navy Region Northwest (military base)	46,693
4	Microsoft Corp.	43,618
5	Amazon.com, Inc. <i>(a)</i>	24,000
6	University of Washington	23,639
7	Wal-Mart Stores, Inc. <i>(b)</i>	19,484
8	Providence Health & Services	17,669
9	Fred Meyer Stores	15,500
10	King County Government	13,800
11	Starbucks Corporation <i>(b)</i>	12,610
12	CHI Franciscan Health	11,847
13	Nordstrom, Inc.	10,867
14	Costco Wholesale Corp	10,500
15	City of Seattle	10,343
16	Swedish Medical Center First Hill	9,627
17	Fairchild Air Force Base (military base)	9,110
18	United States Postal Service	7,645
19	Alaska Air Group, Inc.	7,150
20	Group Health Cooperative	6,587
21	Seattle Public Schools	6,317
22	United Parcel Service	6,000
23	Washington State University	5,915
24	Target <i>(b)</i>	5,493
25	MultiCare Health System	4,741

(a) The number of Amazon employees was estimated based on the company's square footage.

(b) These companies do not provide full-time employee counts. The ranking figure includes full-time and part-time employees.

Source: Puget Sound Business Journal – Book of Lists 2017, as of July 22, 2016.

Visitors to Seattle

Visit Seattle, which serves as Seattle/King County's official destination marketing organization, commissioned Tourism Economics to prepare visitor statistics for the Seattle tourism market. Key statistics on Seattle/King County tourism for 2016 (the latest data available as of the date of this Report) were as follows:

- Visitors to Seattle/King County grew in 2016, with a 1.4% increase in overnight visitors to 20.0 million in 2016, while the number of overnight visitors to the State increased 3.1% to 39.4 million¹².
- Seattle/King County visitor spending reached \$7 billion in 2016, increasing 3.8% between 2015 and 2016. Visitor spending benefits many different businesses, including food and beverage, lodging, recreation, retail, and transportation.
- In 2016, domestic visitors to Seattle/King County accounted for 93% of total visitors, with 36.2 million. International visitors accounted for the remaining 7% (2.7 million).

Table 3 summarizes visitor activity statistics in the Seattle/King County areas in 2016 based on the Tourism Economics analysis.

Economic Outlook

The economic outlook for the Seattle Metropolitan Area, the State of Washington, the United States and the global economy forms a basis for forecast growth in airline traffic at the Airport. Both airline travel and the movement of cargo through the Airport depend on the economic linkages between and among the regional, State, national, and global economies. The economic and other assumptions underlying the forecasts of enplaned passengers are based on a review of regional, State, national, and global economic outlooks as well as an analysis of historical socioeconomic trends and airline traffic trends, as presented in the later section titled "Airline Traffic Trends."

¹² Washington's overnight visitor data is based on 2015 statistics.

Table 3
2016 VISITOR ACTIVITY AND EXPENDITURES
 Seattle/King County

Type and Number of Visitors		Visitor Expenditures	
Overnight Visitors	20.0 million (1.4% increase over the previous year)	Overnight Visitors	\$4.5 billion (6.4% increase over the previous year) (a)
Day Visitors	18.9 million	Total Visitor Expenditures	\$7 billion (3.8% increase over the previous year)
Total Visitors	38.9 million		
	Region	Domestic Expenditures	85%
		International Expenditures	15%
Domestic Visitors	93%		
International Visitors	7%		

Note: Percentage changes shown in parentheses are for 2015 compared with 2014.

Source: Tourism Economics for Visit Seattle, April 25, 2016. State Travel Impacts & Visitor Volume 2000-2015, April 27, 2016. Seattle Times.

(a) 2014 is the latest data available.

Seattle Metropolitan Area Economy. Recently, the Seattle Metropolitan Area economy has performed better than the overall U.S. economy, especially with respect to total employment and unemployment rates. For the month of March 2017, the Seattle Metropolitan Area unemployment rate was 3.7% compared with the national average of 4.6% as of the same time period¹³. King County, which has approximately 57.0% of the Seattle Metropolitan Area's population¹⁴ and includes the City of Seattle, had an unemployment rate of 3.1%. The other two counties in the Seattle Metropolitan Area, Snohomish County and Pierce County, had unemployment rates of 3.5% and 5.8%, respectively. Consumer price inflation remained above the national average, mainly as a result of growth in housing costs in the Seattle area; from February 2016 to February 2017, consumer prices increased 3.4% in the Seattle Metropolitan Area compared with 2.8% in the nation¹⁵. Economic forecasts for King County show continuing economic and employment growth as part of a maturing economic recovery, but at a slower rate¹⁶.

- **Population**—As stated earlier Seattle is the fifth fastest growing city among the 50 most populous U.S. cities. Woods & Poole Economics (W&P) forecasts annual population growth for the Seattle Metropolitan Area similar to that of the State, 1.3% per year, from 2016 to 2022.

¹³ U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov, accessed May 2017.

¹⁴ U.S. Census Population estimates, American FactFinder, accessed May 2017.

¹⁵ <http://www.erfc.wa.gov/forecasts/documents/rev20170316.pdf>

¹⁶ March 2017 King County Economic and Revenue Forecast, <http://www.kingcounty.gov/business/Forecasting.aspx>

- **Nonagricultural employment**—W&P also forecasts that growth in nonagricultural employment in the Seattle Metropolitan Area will be similar to that of the State, 1.6% from 2016 to 2022.

State of Washington Economy. According to the Washington State Economic and Revenue Forecast Council, more than 21,000 total nonfarm jobs were added in the State from November 2016 to February 2017, more than expected in the November Washington State forecast¹⁷. In the State’s November forecasts, a decline in aerospace employment was assumed. However, the decline turned out to be less than expected while other manufacturing industries grew more than expected. Though the aerospace employment decline was small in 2016, Boeing is expected to make significant job cuts in 2017. Washington exports decreased by (4.7%) in the fourth quarter of 2016, largely related to aerospace¹⁸.

- **Population**—W&P forecasts annual population growth of 1.3% in the State from 2016 to 2022 for the State of Washington.
- **Nonagricultural employment**—W&P forecasts nonagricultural employment growth of 1.6% in the State from 2016 to 2022.

National Economy. Using 1990 as an index year, Figure 11 shows changes in U.S. Gross Domestic Product (GDP) in 2009 dollars and numbers of enplaned passengers at the Airport and in the nation from 1990 through 2016. Over this period, changes in the number of enplaned passengers at the Airport has closely correlated with national passenger trends, although the Airport has outperformed the U.S. average over the period from 1990 to 2016. Changes in both national and local passenger traffic have closely correlated with changes in GDP since 1990, including decreases during the 2008-2009 and four earlier national economic recessions. From 1990 through 2016, U.S. GDP increased an average of 2.4% per year, while the numbers of enplaned passengers increased at annual averages of 2.3% in the nation and 4.3% at the Airport.

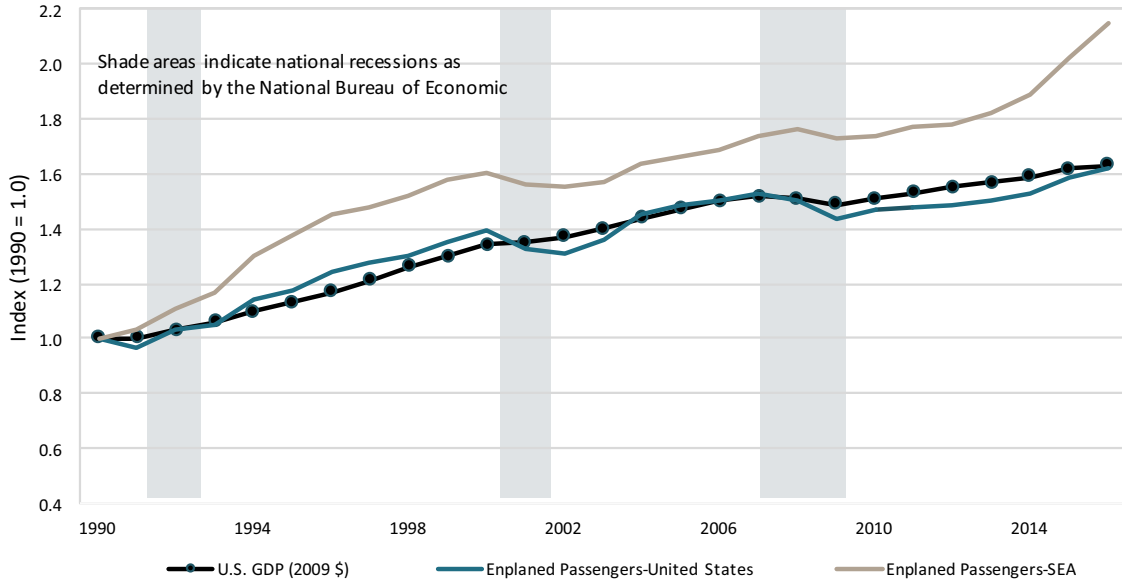
During the most recent economic recession, the number of enplaned passengers at the Airport increased 2.2% in 2008 and decreased (3.0%) in 2009. In comparison, the number of enplaned passengers in the United States decreased (3.1%) in 2008 and 5.1% in 2009, based on U.S. Department of Transportation (DOT) data. Traffic growth at the airport resumed in 2010, with a 1.0% increase in the number of enplaned passengers. Between 2010 and 2016, the number of enplaned passengers at the Airport increased at an average annual rate of 6.3% while the number of enplaned passengers at all airports in the United States increased at an average annual rate of 2.6%.

¹⁷ November was the previous forecast before March 2017 forecast was released.

¹⁸ <http://www.ercf.wa.gov/forecasts/documents/rev20170316.pdf>

The January 2017 Congressional Budget Office forecasts real U.S. GDP to increase 2.3% in calendar year 2017, and to slow to a rate of growth thereafter of 1.9% per year by 2020.

Figure 11
U.S. GROSS DOMESTIC PRODUCT AND ENPLANED PASSENGERS



Sources: U.S. GDP—U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed May 2017; enplaned passengers—T100, Port of Seattle, U.S. Department of Transportation, accessed May 2017, <http://www.transtats.bts.gov/DataElements.aspx?Data=1>

Global Economy. Globalization of the world economy has created linkages between national economies that relate not only to trade, but also to airline travel. The economic growth of world regions, in terms of GDP, is directly related to the growth in airline travel. Forecast GDP for world regions is shown in Table 4. In emerging economies with a growing middle class, such as Mexico, India, and China, growth in numbers of airline passengers has been significant. As countries and regions experience strong economic growth, the propensity to travel increases, resulting in more leisure travel by residents and more business travel within those areas and to the United States, including the Seattle Metropolitan Area.

Table 4
HISTORICAL AND FORECAST GROSS DOMESTIC PRODUCT GROWTH BY WORLD REGION

Origin-Destination Market	Average annual percentage increase in GDP (in billions of 2010 USD)	
	Historical 2010-2016	Forecast 2016-2037
Asia (a)	4.6%	3.9%
Atlantic (b)	1.6%	2.1%
Canada	2.0%	2.0%
Latin America (c)	1.6%	3.0%
United States	2.0%	2.1%
World	2.6%	2.8%

(a) Includes Asia, the Pacific Basin, Australia, and New Zealand.

(b) Includes Europe, the Middle East, and Africa

(c) Includes Mexico, Central America, the Caribbean, and South America.

Note: IHS Global Insight historical and forecast for United States, which is in billions of 2010 USD. Source: IHS Global Insight as reported in Federal Aviation Administration, Aerospace Forecasts, Fiscal Years 2017-2037, accessed May 2017

Risks to the Economic Outlook. Although both the short-term and mid- to long-term economic outlooks are favorable, there are risks that these projections/forecasts may not be achieved. Key risks to such achievement include the following:

- U.S. consumers may not be able to generate much spending growth as a result of a lack of growth in wages, persistent unemployment, or other factors.
- The recent decline in fuel prices could be reversed. Increases in fuel prices related to increasing global demand and political instability in oil producing countries would present a risk to continued economic recovery and growth.
- In the long term, the continuing deficits in the U.S. balance of payments as well as continuing large U.S. fiscal deficits could result in volatility in the currency markets, spending reductions, higher interest rates, and reduced access to credit, thereby presenting a risk to continued economic recovery and growth.
- A shift toward more protectionist economic policies in the U.S. and abroad could result in reduced cross-border trade and investment, thus lowering global growth.
- Non-economic factors such as political discord, terrorism and security concerns, and geopolitical tensions could dampen growth.

Economic Growth Factors. Factors expected to contribute to continued economic growth in the Seattle Metropolitan Area and associated increases in airline travel include (1) diversity in the economic base, which lessens its vulnerability to weaknesses in particular industry sectors; (2) the continued population growth of the Seattle Metropolitan Area; (3) an educated labor force able to support the development of knowledge-based and service industries; and (4) the strength of a number of the area’s leading businesses.

AIRLINE TRAFFIC TRENDS

The following sections present the airlines serving the Airport: a discussion of enplaned passengers at the Airport since 2011, passenger market shares of enplaned and originating passengers, and the role of the Airport in the route systems of Alaska Airlines and Delta Air Lines.

Airlines Serving the Airport

Table 5 lists the passenger airlines that served the Airport as of June 2017. As used in this Report and unless otherwise indicated, references to Alaska Airlines, Delta Air Lines, and other passenger airlines include passengers carried by each mainline airline’s regional airline partners, when the regional airlines operate flights under the name of mainline airlines. In addition, several all-cargo airlines, including Alaska Air Cargo, Cargolux, China Airlines Cargo, Eva Air Cargo, FedEx Express Freight, Korean Air Cargo, Kalitta Air Cargo, and Asiana Airlines Cargo provide service at the Airport as of June 2017.

Enplaned Passengers

Table 6 summarizes the numbers of enplaned passengers at the Airport from 2011 through 2016, organized by originating, connecting, and total enplaned passengers. The total number of enplaned passengers at the Airport increased an average of 6.8% per year for the period shown, with the number of originating and connecting passengers increasing at an average annual rate of 5.4% and 10.4% per year, respectively. From January 2017 through May 2017, the total number of enplaned passengers at the Airport increased 3.8% over the same period in the previous year. From January 2017 through May 2017, the total number of enplaned passengers increased 0.6% on Alaska Airlines¹⁹ and 10.9% on Delta Air Lines²⁰ in comparison to the same period in the previous year.

¹⁹ Unless otherwise noted, includes the aviation activity by Virgin America, which was acquired by Alaska in December 2016, as well as Horizon Air, a wholly-owned subsidiary of Alaska Airlines, and Skywest.

²⁰ Unless otherwise noted, includes the aviation activity of Compass, a regional/affiliate airline for Delta Air Lines. A small portion (5.0%) of passengers on Compass are flown for another airline at the Airport. To be consistent with how the Port reports data for Delta Air Lines, 100% of the Compass aviation activity is included with Delta Air Lines’ aviation activity.

Table 5
PASSENGER AIRLINES SERVING SEATTLE-TACOMA INTERNATIONAL AIRPORT
 June 2017

<i>Mainline/National</i>	<i>Foreign Flag</i>
Alaska Airlines	Air Canada
American Airlines	Air Canada Jazz
Delta Air Lines	All Nippon Airways
Frontier Airlines	Asiana Airlines
Hawaiian Airlines	British Airways
JetBlue Airways	Condor Flugdienst
Southwest Airlines	Emirates
Spirit Airlines	Eva Airways
Sun Country Airlines	Hainan Airlines
United Airlines	Icelandair
Virgin America	Korean Air
	Lufthansa German Airlines
	Virgin Atlantic
<i>Regional/Commuter</i>	Volaris
American Eagle	Xiamen Airlines
Compass Airlines	
Horizon Air	
SkyWest Airlines	

Source: OAG schedule Data, accessed May 2017.

Since 2011, the number of enplaned passengers at the Airport has increased, mainly as a result of increased economic activity in the Seattle Metropolitan Area, new international service, and competition between Alaska Airlines, which operates its primary hub at the Airport, and Delta Air Lines, which has established a smaller hub at the Airport that has been growing rapidly since 2009. Alaska Airlines operates primarily domestic flights at the Airport, along with some flights to Canada and Mexico. The share of total Airport passengers enplaned by Alaska Airlines, including Virgin America and Horizon, has varied between 51.9% and 53.6% from 2011 through 2016, while the share of Airport passengers enplaned by Delta increased from 11.5% to 20.5% over the same period.

From 2011 to 2016, Alaska Airlines increased its number of enplaned passengers at the Airport an average of 6.5% per year, and Delta increased its number of enplaned passengers at the Airport an average of 19.8% per year, but from a much smaller base. Alaska Airlines' growth rate at the Airport has been consistent with its system-wide growth rate over the same period of time. Delta's growth rate at the Airport has far exceeded its system-wide growth rate over the same period of time. Delta has added flights from the Airport to Asia and other international destinations along with domestic flights to connect passengers with their international flights.

Between 2015 and 2016, Alaska Airlines increased its number of enplaned passengers at the Airport 5.3% and Delta increased its number of enplaned passengers at the Airport 14.9%.

For Alaska Airlines, the number of originating passengers increased at a slightly lower rate (6.2%) than connecting passengers (6.9%) from 2011 to 2016. For Delta, the number of connecting passengers increased at a much higher rate (35.3%) than originating passengers (13.4%) during the same period of time.

Table 6
HISTORICAL ENPLANED PASSENGERS
Seattle-Tacoma International Airport

Year	Originating passengers	Connecting passengers	Enplaned passengers	Percent originating
2011	12,145,738	4,251,750	16,397,488	74.1%
2012	12,374,304	4,223,020	16,597,324	74.6
2013	12,875,850	4,500,466	17,376,316	74.1
2014	13,827,178	4,889,600	18,716,778	73.9
2015	14,725,955	6,382,801	21,108,756	69.8
2016	15,813,752	6,982,366	22,796,118	69.4
<u>Average annual percent increase (decrease)</u>				
2011-2012	1.9%	(0.7%)	1.2%	
2012-2013	4.1	6.5	4.7	
2013-2014	7.2	8.6	7.7	
2014-2015	6.6	30.0	12.8	
2015-2016	7.4	9.4	8.0	
2011-2016	5.4	10.4	6.8	

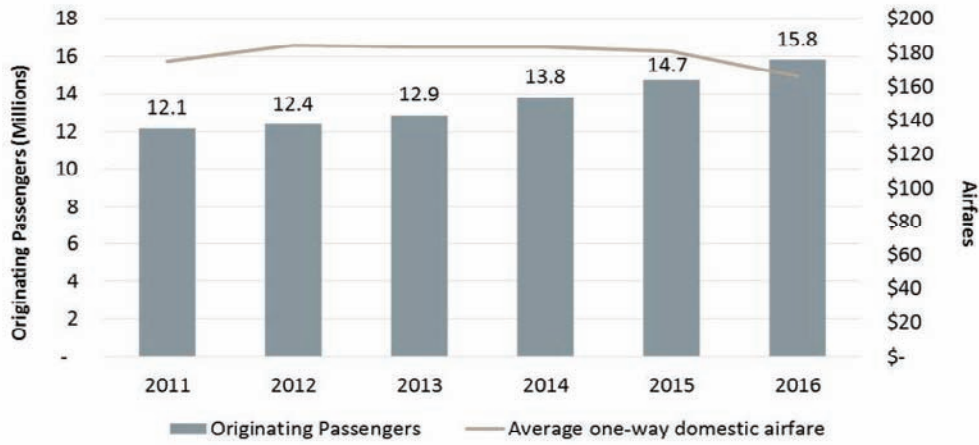
Note: Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

Source: Port of Seattle records.

As shown on Figure 12, the average Airport one-way domestic airfare was relatively stable between 2011 and 2015, but decreased in 2016. Average airfare data exclude ancillary fee revenue, such as baggage fees and reservation change fees, which have continued to increase since 2012. The Airport's average domestic airfare increased from \$175 in 2011 to \$184 in 2012, remained stable at \$183 in 2013 and 2014 then dropped to \$166 in 2016. During this same period, the average U.S. domestic airfare increased from \$172 in 2011 to \$178 in 2012, and then decreased to \$172 in 2016²¹.

²¹Source: U.S. Department of Transportation, O&D Survey via Database Products for average domestic airfares.

Figure 12
AIRFARES AND ORIGINATING PASSENGERS
 Seattle-Tacoma International Airport



Source: U.S. Department of Transportation, O&D Survey via Database Products; Port records.

The average annual decrease in domestic airfares from 2011 to 2016 was (1.0%) for the Airport and less than a 1.0% increase for the nation. The decrease in domestic airfares at the Airport since 2011 is likely a result of increasing airline competition at the Airport. Lower airfares are generally correlated with higher numbers of originating passengers.

Nonstop international service is provided from the Airport to Asia, Canada, Mexico, Europe, and the Middle East, and the Airport serves as a growing international gateway for Delta.

As shown in Table 7, the number of enplaned international passengers at the Airport has increased every year since 2011, and at a faster rate than the number of enplaned domestic passengers in every year but 2014. In 2016, enplaned international passengers accounted for 10.6% of the Airport’s total enplaned passengers, up from 9.0% in 2011. The number of international passengers using the Airport in 2017 is forecast to increase again as a result of additional new international flights scheduled to begin in the Summer and Fall of 2017. International passengers are important to the Port and to the region because they typically generate significant economic benefits.

The ongoing uncertainty regarding the proposed imposition of a ban on travel between certain countries and the United States could, over the long term, result in fewer international passengers at the Airport. As a result of the proposed Executive Order implementing the proposed travel ban, which has been issued multiple times, portions of which have either been halted by a federal judge, faced other legal challenges, or been approved to proceed for 90 days, all as of the date of this Report, it is currently unknown if a reduction in international passenger traffic at the Airport has already occurred or would occur during the Forecast Period as a result of the Executive Order.

As of the date of this Report, the Airport had no direct flights from any of the countries under the proposed ban. For the 12-month period ending November 2016 (the latest available data), the international markets served from the Airport, as measured by the number of international revenue enplaned passengers, were as follows: Asia (32.1%), Canada (31.5%), Europe (25.0%), the Middle East (7.0%), and Mexico (4.4%).

Table 7
HISTORICAL DOMESTIC AND INTERNATIONAL ENPLANED PASSENGERS
Seattle-Tacoma International Airport

Year	Domestic	International	Enplaned passengers	Percent international
2011	14,913,831	1,483,657	16,397,488	9.0%
2012	14,982,946	1,614,378	16,597,324	9.7
2013	15,604,129	1,772,187	17,376,316	10.2
2014	16,824,379	1,892,399	18,716,778	10.1
2015	18,944,106	2,164,650	21,108,756	10.3
2016	20,385,030	2,411,088	22,796,118	10.6
<u>Average annual percent increase</u>				
2011-2012	0.5%	8.8%	1.2%	
2012-2013	4.1	9.8	4.7	
2013-2014	7.8	6.8	7.7	
2014-2015	12.6	14.4	12.8	
2015-2016	7.6	11.4	8.0	
2011-2016	6.4	10.2	6.8	

Note: Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

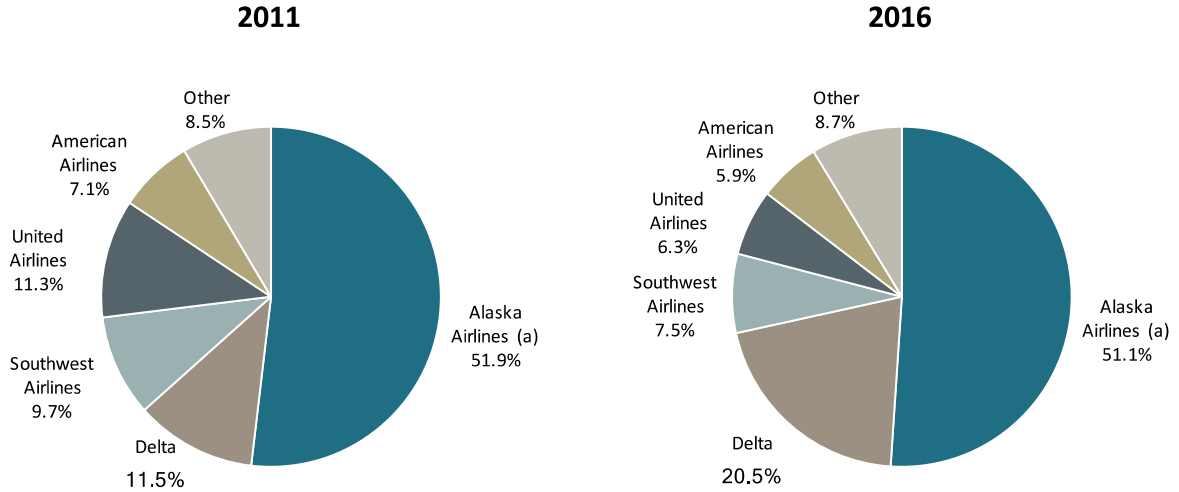
Source: Port of Seattle records.

Passenger Market Shares

Enplaned passenger market shares for the airlines serving the Airport are shown in Figure 13 and Table 8.

In 2016, Alaska Airlines (including Horizon and Virgin America) enplaned the largest share of passengers (51.1%) at the Airport, followed by Delta Air Lines (20.5%). The share of Airport passengers enplaned by Alaska Airlines decreased from 51.9% in 2011 to 51.1% in 2016, while Delta's enplaned passenger market share increased from 11.5% to 20.5% during the same period. Alaska Airlines has developed the Airport as its primary hub, while Delta continues to increase its departures and connecting flights at the Airport and, in both cases, this has resulted in a loss of enplaned passenger market shares for other major domestic airlines serving the Airport, as shown in Figure 13.

Figure 13
ENPLANED PASSENGER MARKET SHARES
 Seattle-Tacoma International Airport



Note: Includes regional/commuter affiliates.

(a) Includes data for Virgin America, which was acquired by Alaska Airlines in December 2016.

As shown in Table 8, the number of enplaned passengers at the Airport has increased each year since 2011. Increased numbers of enplaned passengers on Alaska Airlines, American Airlines Delta Air Lines, and Southwest Airlines has offset decreases by United Airlines, which has a lower number of enplaned passengers and market share at the Airport in 2016 as compared to results in 2011.

Table 8
HISTORICAL ENPLANED PASSENGERS BY AIRLINE
 Seattle-Tacoma International Airport

	2011	2012	2013	2014	2015	2016
Alaska Airlines (a)	8,504,321	8,724,640	9,319,044	9,932,349	11,052,618	11,639,112
Delta Air Lines	1,891,782	1,911,144	2,103,619	2,912,159	4,066,182	4,672,345
Southwest Airlines (b)	1,582,905	1,477,779	1,482,430	1,493,989	1,612,200	1,710,854
United Airlines	1,849,468	1,783,441	1,702,959	1,555,285	1,438,437	1,441,007
American Airlines (c)	1,167,599	1,222,628	1,265,485	1,252,582	1,306,521	1,353,126
Other	<u>1,401,413</u>	<u>1,477,692</u>	<u>1,502,779</u>	<u>1,570,414</u>	<u>1,632,798</u>	<u>1,979,674</u>
Total	16,397,488	16,597,324	17,376,316	18,716,778	21,108,756	22,796,118
	Percent of total					
Alaska Airlines (a)	51.9%	52.6%	53.6%	53.1%	52.4%	51.1%
Delta Air Lines	11.5	11.5	12.1	15.6	19.3	20.5
Southwest Airlines (b)	9.7	8.9	8.5	8.0	7.6	7.5
United Airlines	11.3	10.7	9.8	8.3	6.8	6.3
American Airlines (c)	7.1	7.4	7.3	6.7	6.2	5.9
Other	<u>8.5</u>	<u>8.9</u>	<u>8.6</u>	<u>8.4</u>	<u>7.7</u>	<u>8.7</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes: Includes enplaned passengers on each airline's regional/commuter affiliates.

Columns may not add to totals shown because of rounding.

(a) Includes activity of Virgin America, which was acquired by Alaska in December 2016.

(b) Includes activity of AirTran Airways, which merged with Southwest Airlines in May 2011.

(c) Includes activity of US Airways, which merged with American Airlines in April 2014.

Source: Port of Seattle records.

Originating Passengers

Table 9 shows originating passenger traffic at the Airport by airline for 2011 through 2016, as well as each airline's market share of total originating passengers. Originating passenger market share trends are similar to enplaned passenger market share trends. Alaska Airlines' and Delta Air Lines' share of originating passengers is lower than each airlines share of enplaned passengers at the Airport given the number of connecting passenger on each airline in comparison to all other domestic airlines at the Airport.

Table 9
HISTORICAL ORIGINATING PASSENGERS BY AIRLINE
 Seattle-Tacoma International Airport

	2011	2012	2013	2014	2015	2016
Alaska Airlines (a)	5,229,190	5,410,451	5,852,642	6,318,918	6,702,234	7,065,815
Delta Air Lines	1,471,831	1,540,465	1,629,971	2,076,473	2,488,161	2,765,289
United Airlines	1,578,315	1,531,187	1,459,243	1,414,270	1,358,652	1,357,032
Southwest Airlines (b)	1,550,396	1,469,623	1,472,571	1,484,587	1,606,071	1,704,952
American Airlines (c)	1,033,328	1,083,152	1,122,286	1,116,156	1,154,086	1,262,193
Other	<u>1,282,678</u>	<u>1,339,427</u>	<u>1,339,137</u>	<u>1,416,774</u>	<u>1,416,751</u>	<u>1,658,471</u>
Total	12,145,738	12,374,304	12,875,850	13,827,178	14,725,955	15,813,752
Percent of total						
Alaska Airlines (a)	43.1%	43.7%	45.5%	45.7%	45.5%	44.7%
Delta Air Lines	12.1	12.5	12.7	15.0	16.9	17.5
United Airlines	13.0	12.4	11.3	10.2	9.2	8.6
Southwest Airlines (b)	12.8	11.9	11.4	10.7	10.9	10.8
American Airlines (c)	8.5	8.8	8.7	8.1	7.8	7.9
Other	<u>10.6</u>	<u>10.8</u>	<u>10.4</u>	<u>10.3</u>	<u>9.6</u>	<u>10.5</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes: Includes enplaned passengers on each airline's regional/commuter affiliates.

Columns may not add to totals shown because of rounding.

The percentage of originating passengers for each airline was calculated using the U.S. DOT's O&D Survey via Database Products; those percentages were applied to the Port's enplaned passenger numbers to estimate originating and connecting passengers by airline each year. The originating percentage for Other was calculated on an aggregate basis for all of the remaining airlines operating at the Airport.

(a) Includes activity of Virgin America, which was acquired by Alaska in December 2016.

(b) Includes activity of AirTran Airways for all years, which merged with Southwest Airlines in May 2011.

(c) Includes activity of US Airways, which merged with American Airlines in April 2014.

Sources: Port of Seattle records; U.S. Department of Transportation, O&D Survey via Database Products.

Top Domestic Passenger Markets

Table 10 presents the Airport's top 20 domestic O&D passenger markets in 2016. Table 10 also shows the average daily scheduled seats on nonstop departures from the Airport to each of those markets in July 2017. Of the scheduled daily nonstop seats from the Airport in July 2017, 71.4% were to the top 20 markets listed on Table 10. Originating passengers in those markets represented 67.7% of the Airport's domestic originating passengers.

Table 10
TOP 20 DOMESTIC ORIGIN-DESTINATION PASSENGER MARKETS AND AIRLINE SERVICE
 Seattle-Tacoma International Airport
 2016, except as noted

Rank	Origin-destination market	Air miles from Seattle	Percent of originating passengers	July 2017 average daily seats
1	Los Angeles, California <i>(a)</i>	954	13.0%	7,487
2	San Francisco, California <i>(b)</i>	677	10.2%	7,373
3	Las Vegas, Nevada	866	4.4%	2,807
4	New York City, New York <i>(c)</i>	2,414	4.1%	2,991
5	Phoenix, Arizona	1,105	3.9%	2,514
6	San Diego, California	1,049	3.3%	1,811
7	Chicago, Illinois <i>(d)</i>	1,715	3.3%	3,467
8	Denver, Colorado	1,021	3.1%	3,046
9	Washington, DC <i>(e)</i>	2,299	3.0%	1,421
10	Dallas/Fort Worth, Texas <i>(f)</i>	1,657	2.4%	2,265
11	Sacramento, California	605	2.2%	1,892
12	Boston, Massachusetts	2,488	1.9%	1,268
13	Atlanta, Georgia	2,176	1.8%	2,081
14	Minneapolis/St. Paul, Minnesota	1,394	1.7%	2,241
15	Salt Lake City, Utah	687	1.7%	1,783
16	Spokane, Washington	222	1.7%	1,851
17	Anchorage, Alaska	1,444	1.6%	4,093
18	Honolulu, Hawaii	2,675	1.6%	978
19	Houston, Texas <i>(g)</i>	1,871	1.4%	1,577
20	Orlando, Florida	2,549	<u>1.4%</u>	<u>482</u>
	Cities listed		67.7%	53,428
	Other cities		<u>32.3%</u>	<u>21,451</u>
	All cities		100.0%	74,879

Note: Due to minor differences in how data are reported and used, the percentage of originating passengers for certain markets on this table are different than the results shown in the Official Statement for the Series 2017C-D Bonds.

(a) Los Angeles International, Bob Hope, LA/Ontario International, John Wayne (Orange County), and Long Beach airports.

(b) San Francisco, Oakland, and Mineta San Jose international airports.

(c) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.

(d) Chicago O'Hare and Midway international airports.

(e) Reagan Washington National, Baltimore/Washington International, and Washington Dulles International airports.

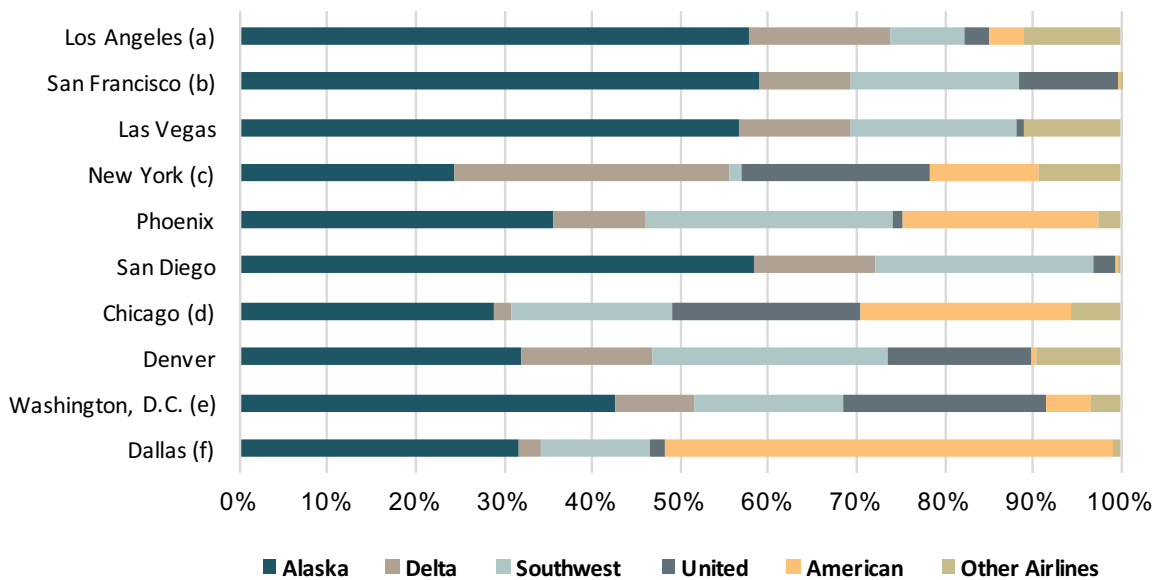
(f) Dallas/Fort Worth International Airport and Love Field.

(g) George Bush Intercontinental Airport/Houston and Houston William P. Hobby Airports.

Sources: Originating percentage: U.S. Department of Transportation, O&D Survey via Database Products of Airline Passenger Traffic, Domestic, for 2016; departures: OAG Schedule Data, accessed May 2017.

Figure 14 presents the airline shares of originating passengers to the Airport's top 10 O&D markets in 2016. Alaska Airlines accounted for the largest share of originating passengers to 8 of the Airport's top 10 markets: Los Angeles, San Francisco, Las Vegas, Phoenix, San Diego, Denver, Chicago and Washington, D.C. Delta accounted for the largest share of originating passengers to New York, where John F. Kennedy International Airport serves as a major Delta hub. United accounted for the second largest share of originating passengers to Washington, D.C., a United hub, after reducing domestic capacity in 2016. American accounted for just over half of total originating passengers from the Airport to Dallas Forth/Worth (Dallas), where American operates its busiest hub.

Figure 14
**AIRLINE SHARES OF DOMESTIC ORIGINATING PASSENGERS FOR
 TOP 10 MARKETS FROM SEATTLE**
 2016



Note: Includes regional/commuter affiliates. Alaska includes activity from Virgin America, which was acquired by Alaska in December 2016.

(a) Los Angeles International Airport LA/Ontario International, Bob Hope Airport (Burbank), John Wayne Airport (Orange County), and Long Beach airports.

(b) San Francisco, Mineta San Jose, and Oakland international airports.

(c) John F. Kennedy International, Newark Liberty International, and LaGuardia airports.

(d) Chicago O'Hare and Chicago Midway international airports.

(e) Washington Dulles International, Ronald Reagan Washington National, and Baltimore/Washington International Thurgood Marshall airports.

(f) Dallas/Fort Worth International Airport and Love Field.

Source: U.S. Department of Transportation, O&D Survey via Database Products, accessed May 2017.

New International Markets

Over the last several years, new international service has started at the Airport, as shown in Table 11. Delta’s increased focus on the Airport has resulted in new international flights to multiple regions, including Asia, Europe, Mexico, and Canada. Foreign flag carriers such as Xiamen Airlines, Hainan, and Volaris have also started new international service.

In July 2017, leisure-focused airlines Condor and Eurowings will introduce nonstop service to Munich and Cologne-Bonn, respectively. The new service from both airlines will be the Airport’s second and third destinations to Germany (Frankfurt was the first). Norwegian plans to introduce nonstop service to London Gatwick as of September 2017, and Virgin Atlantic, which is 49% owned by Delta, now provides service to London Heathrow, which service was previously provided by Delta.

Table 11
NEW INTERNATIONAL SERVICE AT SEATTLE-TACOMA INTERNATIONAL AIRPORT
 Seattle-Tacoma International Airport
 (2013-2017)

<u>Airline</u>	<u>Destination</u>	<u>Start of Service</u>	<u>Airline</u>	<u>Destination</u>	<u>Start of Service</u>
Delta	Shanghai	June 2013	Alaska Airlines	Cancun	November 2014
	Hong Kong	June 2014	Hainan	Shanghai	July 2015
	Seoul	June 2014	Volaris	Guadalajara	July 2016
	London Heathrow	April 2014	Xiamen	Shenzhen	October 2016
	Vancouver	June 2014	Virgin Atlantic	London Heathrow	April 2017
	Calgary	November 2014	Condor	Munich	July 2017
	Puerto Vallarta	January 2015	Eurowings	Cologne-Bonn	July 2017
	San Jose del Cabo	February 2015	Norwegian	London Gatwick	September 2017
	Cancun	January 2016	AeroMexico	Mexico City	November 2017
	Edmonton	January 2016			
	Victoria	April 2016			

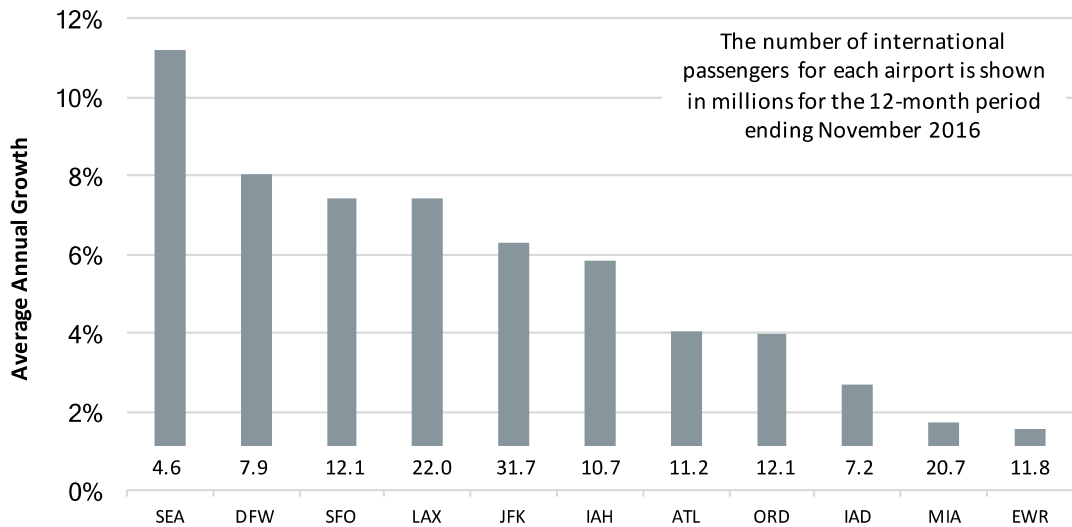
Note: Advance OAG Schedules.

Source: OAG Schedules Data, accessed May 2017.

Figure 15 presents the average annual increase in total international passengers (enplaned and deplaned) at the Airport and the ten busiest large-hub airports from January 2012 through November 2016 (the latest available data). The number of international passengers also shown for each airport (e.g., 4.6 million for the Airport) was used to determine the ten busiest large-hub airports for the 12-month period ending November 2016.

The Airport had the largest total increase in the growth of international passengers from 2012 through November 2016, followed by Dallas Fort Worth, San Francisco, Los Angeles, John F. Kennedy, and George Bush Houston Intercontinental international airports.

Figure 15
PERCENT INCREASE IN TOTAL INTERNATIONAL PASSENGERS AT CERTAIN LARGE HUB AIRPORTS
 (January 2012-November 2016)



The number of international passengers for each airport is shown in millions for the 12-month period ending November 2016

SEA = Seattle-Tacoma International Airport
 DFW = Dallas-Ft. Worth International Airport
 SFO = San Francisco International Airport
 LAX = Los Angeles International Airport
 JFK = John F. Kennedy International Airport

IAH = George Bush Intercontinental Airport
 ATL = Hartsfield-Jackson Atlanta International Airport
 ORD = Chicago O'Hare International Airport
 MIA = Miami International Airport
 EWR = Newark Liberty International Airport

Note: Scheduled service only.

Source: U.S. DOT, T100 Database via Database Products.

THE AIRPORT'S ROLE IN ALASKA AIRLINES' SYSTEM

Alaska Airlines Originating and Connecting Passengers

Table 12 shows the numbers of originating and connecting passengers for Alaska Airlines from 2011 through 2016, along with the estimated percentage of total originating passengers, which fluctuated from 60.6% to 63.6% during this period. In 2016, Alaska Airlines (including Horizon and Virgin America) was the 5th busiest airline in the U.S. with approximately 41.9 million enplaned passengers, based on data compiled by U.S. Department of Transportation. The 4th busiest airline in 2016 was United Airlines with approximately 145.0 million enplaned passengers.

As shown on Figure 16, Seattle-Tacoma International Airport accounts for the largest share of departing seats in the route system of Alaska Airlines, followed by Portland International, Los Angeles International, and San Francisco International airports. The number of departing seats by Alaska Airlines at these airports is a function of many factors, including local population and travel demand, geographic location, competitive factors, and airline strategy.

Table 12
HISTORICAL ENPLANED PASSENGERS—ALASKA AIRLINES
 Seattle-Tacoma International Airport

Year	Originating passengers	Connecting passengers	Enplaned passengers	Percent originating
2011	5,229,190	3,275,131	8,504,321	61.5%
2012	5,410,451	3,314,189	8,724,640	62.0
2013	5,852,642	3,466,402	9,319,044	62.8
2014	6,318,918	3,613,431	9,932,349	63.6
2015	6,702,234	4,350,384	11,052,618	60.6
2016	7,065,815	4,573,297	11,639,112	60.7
	<u>Average annual percent increase</u>			
2011-2012	3.5%	1.2%	2.6%	
2012-2013	8.2	4.6	6.8	
2013-2014	8.0	4.2	6.6	
2014-2015	6.1	20.4	11.3	
2015-2016	5.4	5.1	5.3	
2011-2016	6.2	6.9	6.5	

Note: The percentage of originating passengers for Alaska Airlines was calculated using the U.S. DOT O&D Survey via Database Products and applying the percentages to the Port's originating passenger numbers to estimate originating and connecting passengers by year. Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding. Alaska Airlines includes activity from Horizon Air and Virgin America.

Source: Port of Seattle records, U.S. Department of Transportation O&D Survey via Database Products.

Alaska Airlines' scheduled departing seats at the Airport increased approximately 11.5% between 2014 and 2015, and a further 6.4% between 2015 and 2016. The airline's seat capacity growth from the Airport includes (1) additional service to New York (Newark), Omaha, and Sun Valley, (2) new service to Oklahoma City, Raleigh-Durham, and Nashville, (3) plans to start new service to Dallas Love-Field, Wichita, Indianapolis, and San Luis Obispo, and (4) additional service to Atlanta in 2017. During each of these three years, Alaska Airlines increased its scheduled departing seats at the Airport by more than 4.0% per year, which demonstrates the importance of the Airport in Alaska Airlines' route system.

In recent years, Alaska Airlines has diversified its route structure at the Airport to include more longer-haul markets beyond the West Coast. Between 2012 and 2016, Alaska Airlines grew capacity to non-West Coast markets (outside of California, Washington, and Oregon) by 8.9% per year on average, almost double the rate of its West Coast capacity growth, which averaged 4.4% per year for the same period. As a result, the share of non-West Coast markets as a percent of Alaska Airlines' total capacity at the Airport increased from 51.0% to 55.0%.

Figure 16
SCHEDULED DEPARTING SEATS AT THE 10 BUSIEST AIRPORTS IN THE ALASKA AIRLINES' ROUTE NETWORK IN 2016

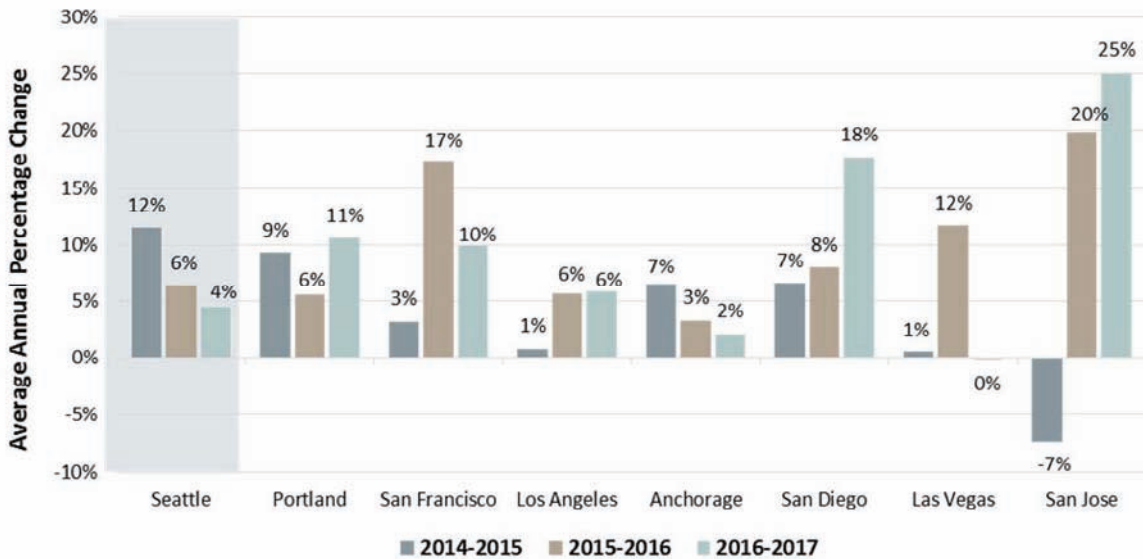


Source: OAG Schedule Data, accessed May 2017. Includes activity of Virgin America, which was acquired by Alaska in December 2016.

In December 2016, Alaska Airlines acquired Virgin America, whose largest airport as measured by the number of enplaned passengers is San Francisco International Airport. As of July 2017, Virgin America has a limited presence at Seattle-Tacoma International Airport, comprised of around 5 daily departures to San Francisco and 3 daily departures to Los Angeles. As a result, the expected route network consolidation between the two airlines is unlikely to have a meaningful impact on the Airport. Recent announcements from Alaska Airlines indicate that the merged airline's immediate focus will be on building seat capacity at Virgin America's busiest airports in California. In March 2017, Alaska and Virgin announced 13 new routes from San Francisco Bay Area airports, including San Francisco International Airport and Mineta San Jose International Airport²². Trends in scheduled departing seats for Alaska Airlines at the Airport and its busier airports (as measured by the number of scheduled departing seats) are shown on Figure 17.

²² <http://www.sfchronicle.com/business/article/Having-bought-Virgin-Alaska-Airlines-plans-big-10991020.php>

Figure 17
ALASKA AIRLINES CHANGE IN SCHEDULED DEPARTING SEATS



Source: OAG Schedule Data, accessed May 2017; Includes activity of Virgin America, which was acquired by Alaska Airlines in December 2016.

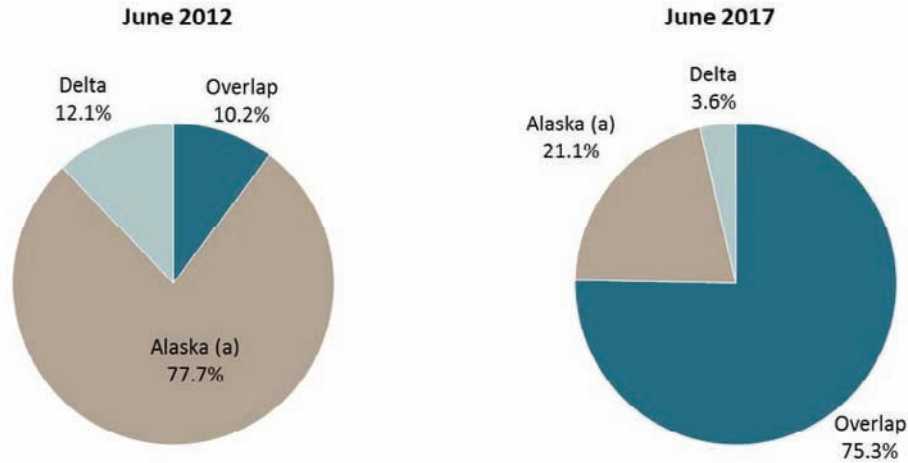
Route Overlap and Competition between Alaska Airlines and Delta Air Lines

The rapid expansion of service by Delta Air Lines at the Airport since 2012 continues to be an important development. As presented on Figure 18, by June 2017, 75.3% of total departing seats offered by Alaska Airlines and Delta Air Lines will occur in overlapping markets, compared with 10.2% in June 2012. In 2016, Alaska Airlines remained the dominant carrier, representing 51.1% of the Airport’s passenger traffic with enplanements growing 7.5% per year since 2012. Delta’s passenger traffic represented 20.5% of the Airport’s passenger traffic in 2016; the number of enplaned passengers on Delta Air Lines has increased approximately 25.0% since 2012.

On May 1, 2017, Delta ended its codeshare agreement with Alaska Airlines²³. Over the past few years, Delta and Alaska have significantly reduced the extent of their code-sharing at the Airport as Delta has added capacity and new markets. Delta and Alaska Airlines will retain an interline agreement, allowing them to continue offering customers ticketing and baggage connectivity. At the same time, Alaska Airlines has strengthened its cooperation with American Airlines through expanded code-sharing arrangements and reciprocal frequent flier benefits.

²³ <http://news.delta.com/delta-and-alaska-airlines-will-end-partnership-may-2017>

Figure 18
ALASKA AIRLINES AND DELTA AIR LINES NETWORK OVERLAP - DEPARTING SEATS
 Seattle-Tacoma International Airport



(a) Includes activity of Virgin America, which was acquired by Alaska in December 2016.

Source: OAG Schedule Data, accessed May 2017; includes Virgin America.

Note: Overlapping seats are defined as the departing seats flown by Alaska Airlines/Virgin America and Delta Air Lines in markets where both airlines provided service in the years shown.

As Alaska and Delta compete in an increasing number of markets served from the Airport, the risk increases that the amount of scheduled seats offered by both airlines may not be sustainable over the long term. Through 2016, however, both airlines continue to show strong growth at the Airport. Over the past five years, the significant scheduled seat capacity increases at the Airport by both Delta and Alaska Airlines have largely been absorbed by increasing passenger demand. As shown in Table 13, both airlines' average passenger load factors on domestic service at the Airport have declined only slightly and remain above both airlines' system-wide averages. Delta's average domestic load factor at the Airport has fallen three percentage points over the last 5 years, from 89.6% in 2011 to 86.6% in 2016, while Alaska Airlines experienced a slight increase in load factor over the same period, from 85.1% in 2011 to 85.6% in 2016. As described later in this Report and as shown on Table 16, the Port's forecast rate of growth in the number of enplaned passengers at the Airport assumes an average annual increase from 2016 through 2022 of approximately 1.9% per year, which is slightly above the forecast rate of growth in population for the Seattle Metropolitan Area and below the FAA's forecast rate of growth of 3.2% per year during the same years. Among other things, the forecast rate of growth by the Port does not assume continued increases in scheduled seat capacity by Alaska Airlines and/or Delta Air Lines.

Domestic passenger yield trends at the Airport for Delta and Alaska Airlines show that airline competition has not resulted in a degradation of fares. Delta’s average domestic yield, measured as revenue per mile flown, increased from 10.83 to 12.06 cents per mile between 2011 and 2016. Alaska Airlines’ yields at the Airport declined over the same period, from 13.81 to 12.80 cents per mile, which is consistent with the increase in the airline’s average distance flown, as longer stage lengths are typically associated with lower yields.

Table 13
HISTORICAL DOMESTIC LOAD FACTOR AND YIELDS – DELTA AND ALASKA AIRLINES
 Seattle-Tacoma International Airport
 (2011-2016)

Year	Delta		Alaska	
	Load Factor	Yield	Load Factor	Yield
2011	89.6%	10.83¢	85.1%	13.81¢
2012	91.2	11.40	86.6	14.62
2013	88.7	11.55	86.0	14.49
2014	88.0	12.50	85.7	14.23
2015	87.8	12.63	85.0	13.87
2016	86.6	12.06	85.6	12.80

Note: Alaska Airlines includes the activity of Virgin America, which was acquired by Alaska in December 2016.

Source: U.S. DOT O&D Survey via Database Products; U.S. DOT T-100 via Database Products.

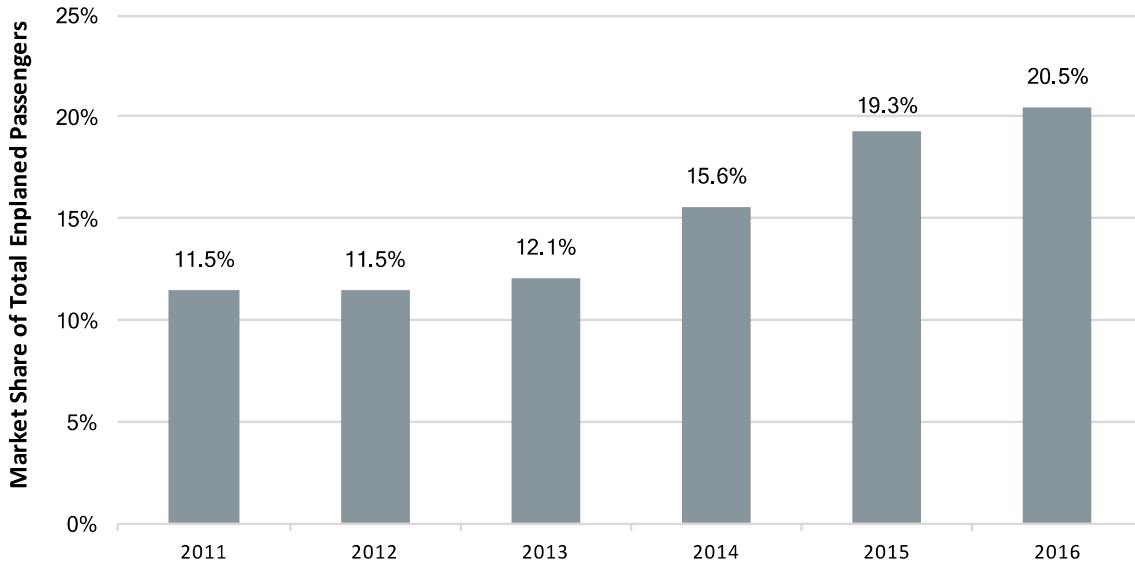
THE AIRPORT’S ROLE IN DELTA AIR LINES’ SYSTEM

Delta Air Lines was the second busiest airline at the Airport in 2016 with 4.7 million enplaned passengers compared with Alaska Airlines’ 11.6 million enplaned passengers²⁴. Delta overtook United as the second busiest airline at the Airport in 2011 and has increased its number of enplaned passengers at the Airport each year thereafter.

²⁴ Includes activity of Virgin America, which was acquired by Alaska Airlines in December 2016 and regional/commuter airlines.

Figure 19 shows the shares of enplaned passengers held by Delta Air Lines at the Airport. Since 2013, Delta has focused on increasing its activity at the Airport as well as developing the Airport as a hub and gateway to Asia. Delta’s scheduled seat capacity at the Airport increased by 40% between 2014 and 2015, and increased by 15% between 2015 and 2016. Between 2012 and 2016, Delta’s market share of Airport enplaned passengers increased from 11.5% to 20.5%.

Figure 19
DELTA AIR LINES MARKET SHARE OF ENPLANED PASSENGERS
 Seattle-Tacoma International Airport



Source: Port of Seattle records.

Delta Air Lines Originating and Connecting Passengers

Table 14 shows the changes in Delta’s originating and connecting passengers since 2011, along with the estimated percentage of originating passengers, which has decreased from 77.8% in 2011 to 59.2% in 2016, reflecting the Airport’s transition to a connecting hub in Delta Air Lines’ network.

Table 14
HISTORICAL ENPLANED PASSENGERS—DELTA AIR LINES
 Seattle-Tacoma International Airport

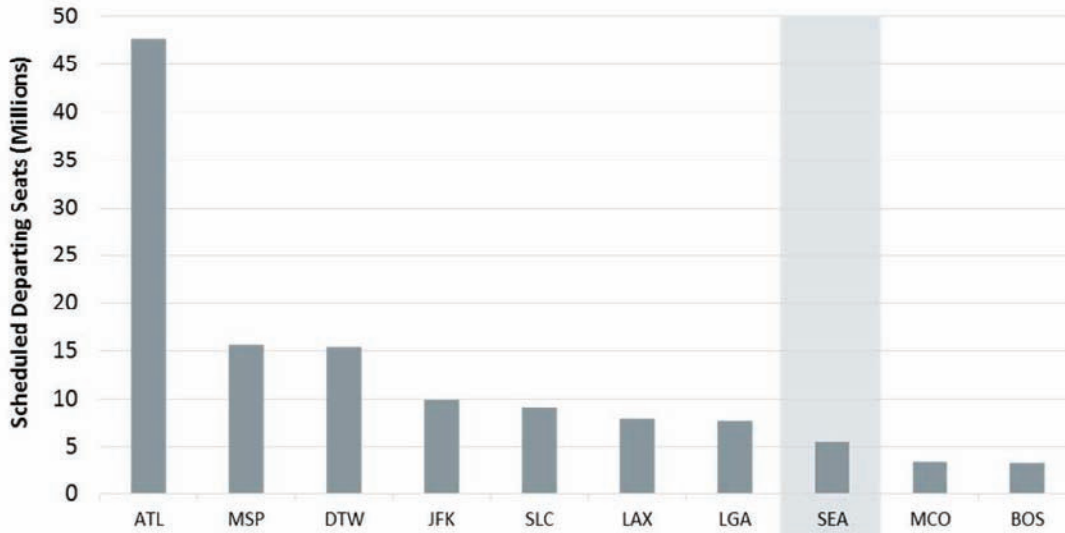
Year	Originating passengers	Connecting passengers	Enplaned passengers	Percent originating
2011	1,471,831	419,951	1,891,782	77.8%
2012	1,540,465	370,679	1,911,144	80.6
2013	1,629,971	473,648	2,103,619	77.5
2014	2,076,473	835,686	2,912,159	71.3
2015	2,488,161	1,578,021	4,066,182	61.2
2016	2,765,289	1,907,056	4,672,345	59.2
	<u>Average annual percent increase (decrease)</u>			
2011-2012	4.7%	(11.7%)	1.0%	
2012-2013	5.8	27.8	10.1	
2013-2014	27.4	76.4	38.4	
2014-2015	19.8	88.8	39.6	
2015-2016	11.1	20.9	14.9	
2011-2016	13.4	35.3	19.8	

Note: The percentage of originating passengers for Delta Air Lines was calculated using the U.S. DOT O&D Survey via Database Products and applying the percentage to the Port's originating passengers to estimate originating and connecting passengers by year. Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

Sources: Port of Seattle records, U.S. Department of Transportation O&D Survey via Database Products.

As shown in Figure 20, Seattle-Tacoma International Airport is the 8th busiest airport in Delta's route network in 2016, based on the number of scheduled departing seats, up from 15th in 2012 and 11th in 2013. The increasing importance of the Airport in Delta's route system is also demonstrated on Figure 21, which shows Delta's rapid growth in the number of scheduled seats at the Airport, with a 40% increase in 2015, a 15% increase in 2016, and a 5% increase in scheduled seats in 2017.

Figure 20
**SCHEDULED DEPARTING SEATS AT THE 10 BUSIEST AIRPORTS IN THE
 DELTA AIR LINES' ROUTE NETWORK IN 2016**



ATL = Hartsfield-Jackson Atlanta International Airport
 MSP = Minneapolis-St. Paul International Airport
 DTW = Detroit Metropolitan Wayne County Airport
 JFK = John F. Kennedy International Airport
 SLC = Salt Lake City International Airport

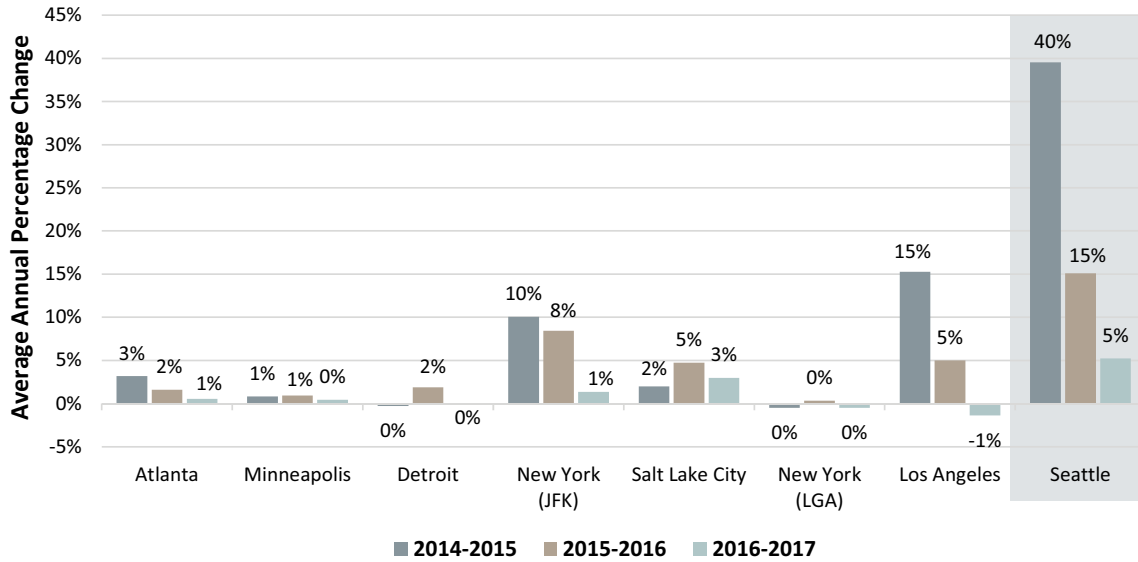
LAX = Los Angeles International Airport
 LGA = LaGuardia Airport
 SEA = Seattle-Tacoma International Airport
 MCO = Orlando International Airport
 BOS = Logan International Airport

Source: OAG Schedule Data, accessed May 2017.

In terms of the actual number of seats added by Delta in 2016, Seattle ranked third in Delta’s system with approximately 716,000 additional seats, after Atlanta with 747,000 additional seats and New York – John F. Kennedy International Airport with 768,000 additional seats²⁵. In 2016, Delta operated over eight times as many seats from Atlanta as from the Airport.

²⁵ Source: OAG Schedule Data, accessed May 2017.

Figure 21
DELTA AIR LINES CHANGE IN SCHEDULED DEPARTING SEATS



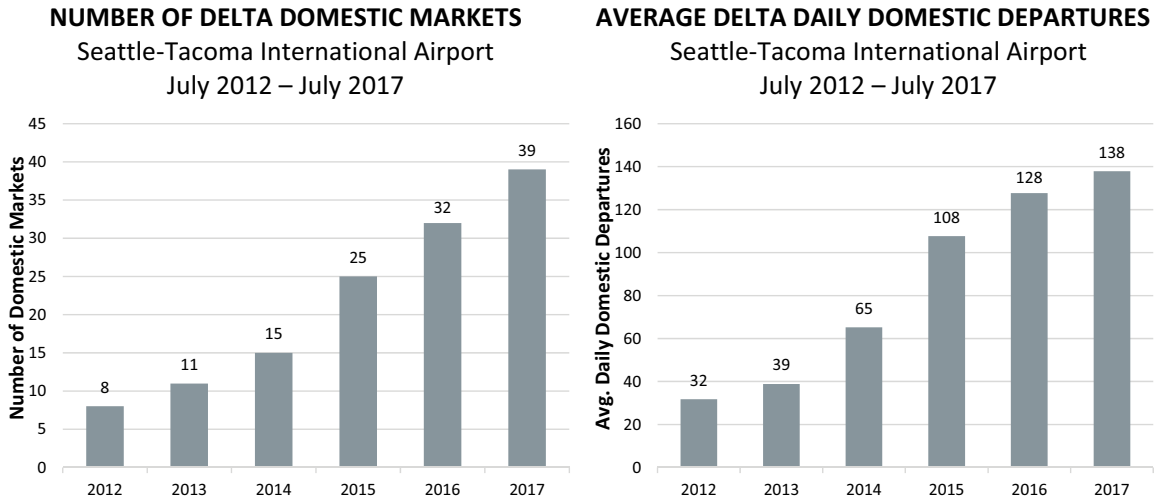
Source: OAG Schedule Data, accessed May 2017.

Delta’s Gateway to Asia

Over the past several years, Delta has added flights at the Airport to develop it as a main gateway to Asia. The Airport is the shortest distance from major Asian markets of any large U.S. airport gateway. In addition to adding new flights to Asia and other international destinations, Delta has added domestic flights from the Airport to support these new international flights.

In terms of domestic service, Delta significantly expanded its network at the Airport starting in 2012, growing from eight to 39 domestic markets by July 2017 and from 32 to 138 average daily domestic departures by July 2017, as shown on Figure 22.

Figure 22

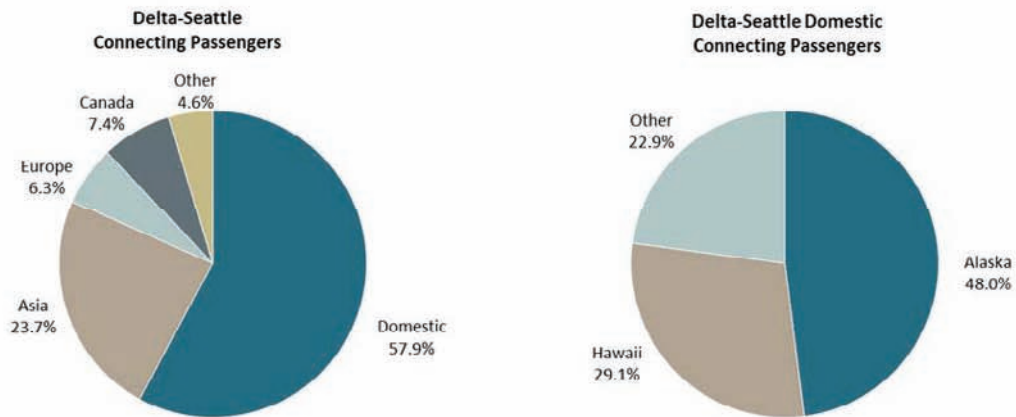


Source: OAG Schedule Data, accessed May 2017.

Figure 23 illustrates Delta’s focus on the Airport as a gateway to Asia, with the number of Delta passengers traveling between Asia and the U.S. accounting for 23.7% of Delta’s connecting traffic through the Airport. Figure 23 also illustrates that Delta’s domestic connections at the Airport are primarily to and from the states of Alaska (48.0%) and Hawaii (29.1%).

Figure 23

ORIGIN AND DESTINATION REGIONS FOR DELTA AIR LINES’ CONNECTING PASSENGERS USING SEATTLE-TACOMA INTERNATIONAL AIRPORT 2016



Note: Domestic Connecting Passengers includes domestic to domestic itineraries only.

Source: U.S. Department of Transportation, O&D Survey via Database Products.

SEAT CAPACITY CHANGES BY ALL AIRLINES

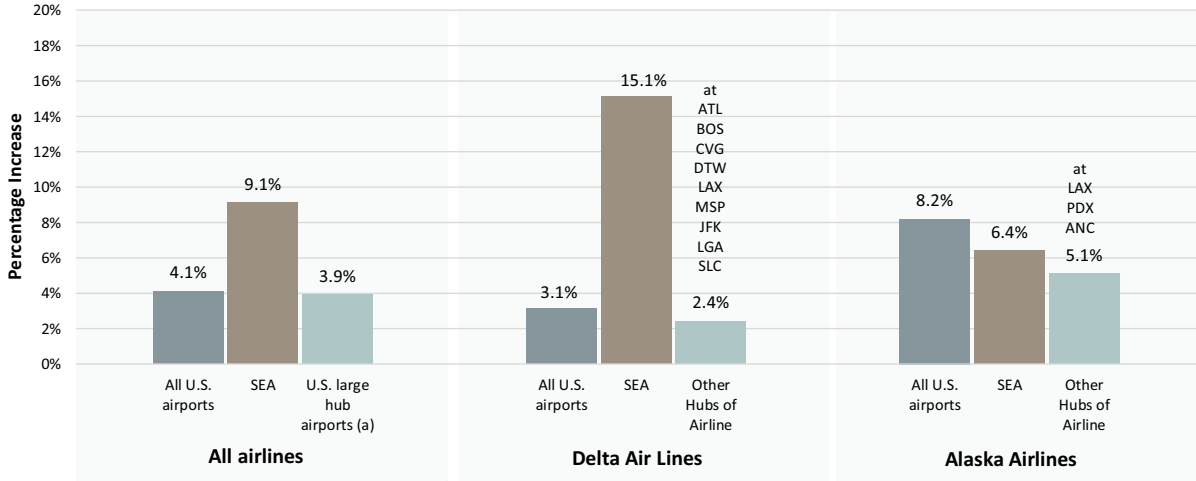
Figure 24 shows the percent change in scheduled seat capacity by the airlines serving the Airport between 2015 and 2016 at all U.S. airports, at the Airport, and at U.S. large hub airports. The changes are shown for all airlines serving the Airport and for Alaska Airlines and Delta Air Lines. Between 2015 and 2016, Alaska Airlines' system-wide growth was much greater than growth for the average U.S. airline, while Delta's system-wide growth was lower than that of the average growth for the U.S. airlines.

Figure 24 shows that between 2014 and 2016, seat capacity at the Airport grew much more quickly than the average for U.S. airports and the average for U.S. large hub airports. The Airport's growth has been driven primarily by capacity growth by both Alaska Airlines and Delta Air Lines.

Delta's seat capacity increased 3.1% at its U.S. airports between 2015 and 2016, but increased 15.1% at the Airport. Delta's growth at the Airport is from a relatively small base of seats in comparison with Delta's other hub airports. Although the number of seats added by Delta at the Airport only slightly exceeds the number added at its largest hubs, the increase – when measured on a percentage basis – is much greater than the percentage increases at Delta's other hubs. In contrast, Alaska Airlines' seat capacity growth at the Airport of 6.4% between 2015 and 2016 is more aligned with its network growth of 8.2% and with its airport hub growth of 5.1%, which reflects the large proportion of Alaska's system seat capacity at the Airport.

From January 2017 through May 2017, the total number of scheduled departing seats at the Airport is scheduled to increase by 2.6% over the same period in 2016 as a result of continued competition between Alaska Airlines and Delta Air Lines, and increased numbers of scheduled seats by both airlines: 2.1% for Alaska Air Lines and 5.0% for Delta Air Lines. During this period, Alaska increased its system wide seat capacity by 7.0%, and Delta slightly decreased its system wide seat capacity by (0.1%). U.S. airports experienced a 3.4% increase in seat capacity during this period.

Figure 24
YEAR-OVER-YEAR PERCENT CHANGE IN SCHEDULED SEAT CAPACITY
BY THE AIRLINES SERVING SEATTLE-TACOMA INTERNATIONAL AIRPORT
2015-2016



ATL = Hartsfield-Jackson Atlanta International Airport
 BOS = Logan International Airport
 CVG = Cincinnati/Northern Kentucky International Airport
 DTW = Detroit Metropolitan Wayne County Airport
 LAX = Los Angeles International Airport
 MSP = Minneapolis – St. Paul International Airport

JFK = John F. Kennedy International Airport
 LGA = LaGuardia Airport
 SLC = Salt Lake City International Airport
 SEA = Seattle-Tacoma International Airport
 PDX = Portland International Airport
 ANC = Ted Stevens Anchorage International Airport

(a) As defined by the Federal Aviation Administration.

Note: Percent changes in total scheduled departing seats (domestic and international). Alaska Airlines includes activity from Virgin America, which was acquired by Alaska in December 2016.

Source: OAG Schedule Data, accessed May 2017.

AIR CARGO ACTIVITY

Table 15 presents historical air cargo tonnage at the Airport for 2011 through 2016. Air cargo tonnage increased an average of 5.5% annually between 2011 and 2016, with 2014 and 2016 showing the strongest annual growth.

Table 15
HISTORICAL AIR CARGO
 Seattle-Tacoma International Airport (metric tons)

Year	Air Mail	Air Freight	Total	Average annual percent increase (decrease)
2011	45,308	234,586	279,893	(1.2%)
2012	46,300	237,310	283,609	1.3
2013	48,262	244,447	292,709	3.2
2014	51,758	275,481	327,239	11.8
2015	55,266	277,370	332,636	1.6
2016	57,326	309,105	366,431	10.2
<hr/> Average annual percent increase <hr/>				
2011-2016	4.8%	5.7%	5.5%	

Note: Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

Source: Port of Seattle records.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

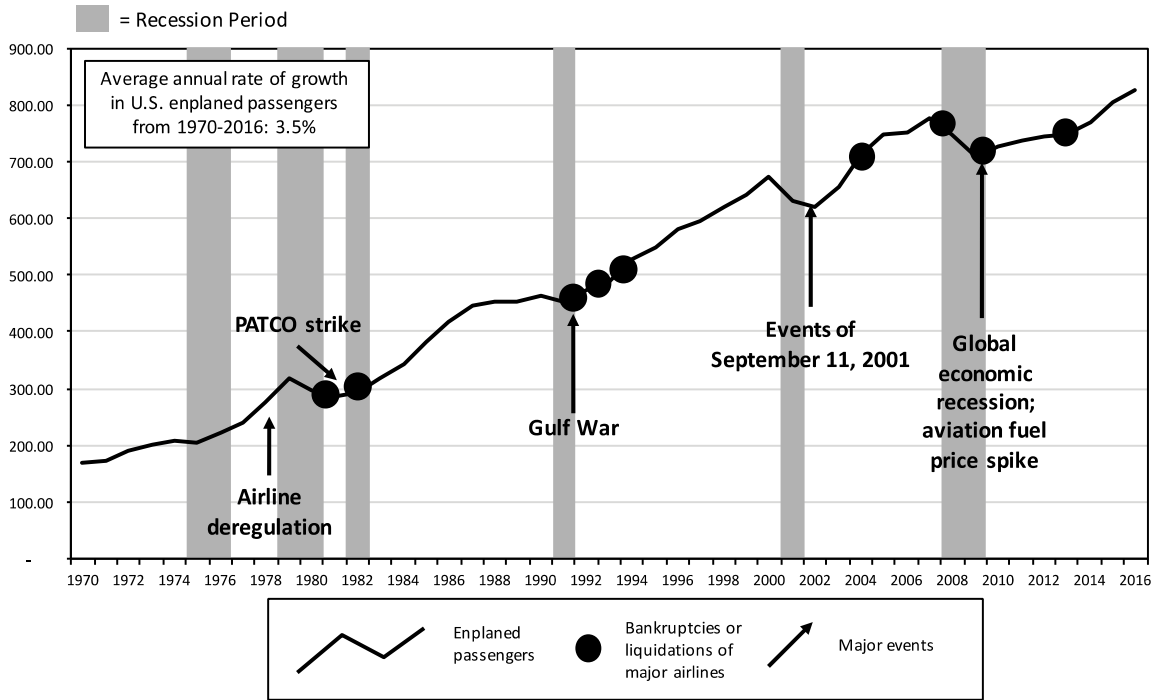
In addition to the demographics and economy of the Seattle Metropolitan Area, key factors that will affect future airline traffic at the Airport include:

- Economic conditions
- Airline Consolidation and Alliances
- Airline Capacity Discipline
- Low Cost Airline Growth
- Fuel Cost
- Aircraft Trends
- Capacity of the Airport

Economic Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. As illustrated on Figure 25, recessions in the U.S. economy in 2001 and 2008–2009 contributed to a reduction in airline travel in those years, likely as a result of high unemployment and reduced discretionary income. However, the aviation industry has recovered from prior recessions and passenger traffic has increased. From 1970 through 2016, the total numbers of domestic and international enplaned passengers in the United States increased an average of 3.5% per year.

Figure 25
U.S. TOTAL PASSENGER ENPLANEMENTS
 (in millions)



Source: Airlines for America (previously Air Transport Association).

The Airport has consistently rebounded from external events and periods of weak demand in aviation activity. After the events of September 11, 2001, similar to other airports across the United States, the Airport was affected by significant seat capacity reductions associated with airline bankruptcy reorganizations and sharply rising fuel prices. The global recession in 2008 and 2009 also resulted in declining airline travel demand and reduced traffic. The number of enplaned passengers at the Airport between 2011 and 2016 exceeded the number of enplaned passengers at the Airport during the recession in 2008 and 2009, in part as a result of a strong O&D market and continued growth in numbers of domestic and international passengers.

The major factors that continue to affect the airline industry and that are expected to influence airline service and traffic levels at the Airport during the Forecast Period are discussed below.

Airline Consolidation and Alliances

The events of September 11, 2001, and the difficult operating conditions caused by high fuel prices and global recession led to a number of airline bankruptcies and mergers over the past decade and a half. Between 2002 and 2011, all of the major U.S. network airlines (US Airways, United Airlines, Northwest Airlines, Delta Air Lines, and American Airlines) filed for Chapter 11 bankruptcy protection to reorganize and lower operating costs.

The U.S. airline industry has been consolidating, with many high profile mergers and acquisitions. Mergers among the U.S. network airlines have included: Delta and Northwest Airlines (October 2008), United and Continental Airlines (August 2010), and American and US Airways (December 2013). Other mergers included low-cost airline Frontier Airlines and regional airline Midwest Airlines in April 2010, Southwest and AirTran in April 2011, and Alaska Airlines and Virgin America (December 2016).

Airline consolidation has also progressed through the creation of global alliances and joint ventures. Airlines worldwide have increasingly sought to increase revenues, share costs, and expand the reach of their networks by developing international partnerships through multilateral alliances or joint ventures. Three major global alliances were created between 1997 and 2000: Star Alliance, SkyTeam, and oneworld. In recent years, antitrust immunity has been granted to a number of joint ventures within the global alliances, allowing airlines to more closely coordinate operations, including pricing, and increase cost savings in international markets.

As a result of airline mergers, seat capacity has become more concentrated among fewer airlines. The three largest U.S. network airlines, as measured by numbers of enplaned passengers (American, Delta, and United), currently have a presence at the Airport, as shown in Table 8, and as indicated in 2016: American Airlines (5.9%), Delta Air Lines (20.5%), and United Airlines (6.3%). Given the Airport's diverse air service market, strong O&D markets, and connecting operations, any future U.S. airline consolidation caused by bankruptcies or mergers is not anticipated to have a detrimental long-term effect on airline service at the Airport.

Airline Capacity Discipline

A new focus on capacity discipline among U.S. airlines emerged from the 2008-2009 national economic and financial crises. Nationally, the network airlines and the low-cost airlines have substantially reduced seat capacity, withdrawing service from less profitable and low passenger demand markets. Large-hub airports, such as Seattle-Tacoma International Airport, have experienced fewer declines in seat capacity as compared to smaller, regional markets across the United States, which have lost commercial service as a result. Airline emphasis has shifted from increasing market share to managing supply-and-demand on specific routes. Airlines are expected to maintain capacity discipline in the near term, emphasizing slower capacity growth and the use of right-sized aircraft to serve their markets.

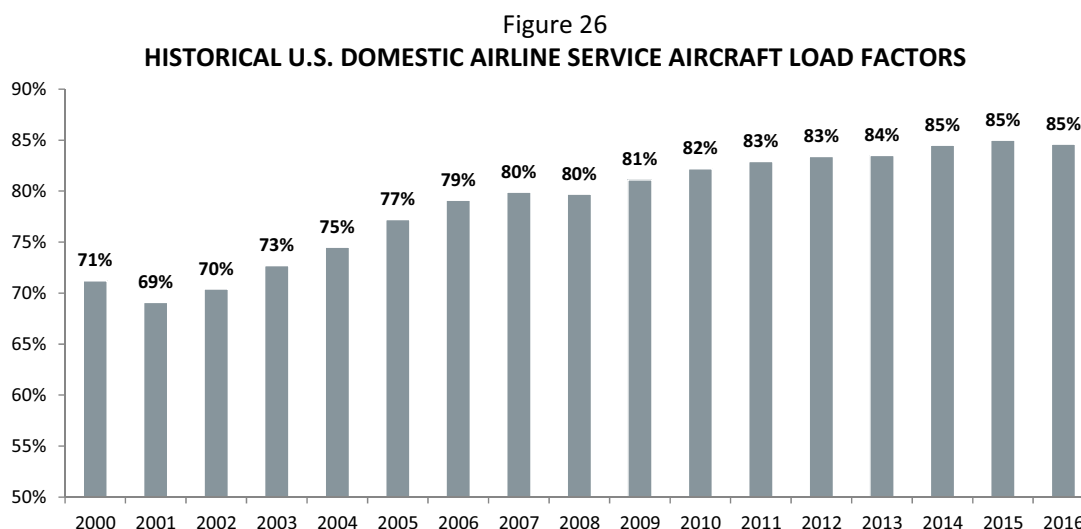
Seat capacity reductions in the U.S. in 2008 and 2009, as well as the airlines' current emphasis on seat capacity control, have resulted in an all-time high in passenger load factors.

Figure 26 shows the continuing upward trend in U.S. domestic airline aircraft load factors since 2000 for the nation. The average domestic airline aircraft load factor was approximately 71% in 2000. The decline in the average load factor in 2001 occurred as passenger traffic decreased faster than the airlines could adjust to the effects of September 11, 2001, by reducing capacity. Following 2001, load factors rose steadily to approximately 85% in 2016. In 2016, the system wide domestic load factor for Alaska Airlines (including Horizon Air), the busiest airline at the Airport as measured by enplaned passengers in 2016, was 84.6%. The system wide domestic

load factor for Delta Air Lines, the second busiest airline at the Airport as measured by enplaned passengers in 2016, was 85.1%.

From 2012 through 2016, the average domestic load factors at the Airport were slightly higher than the national averages for the same years.

Continued rising load factors reflect reduced capacity and better revenue management by the airlines.



Note: Includes scheduled airline service only.

Sources: U.S. Department of Transportation, T100 Onboard Data.

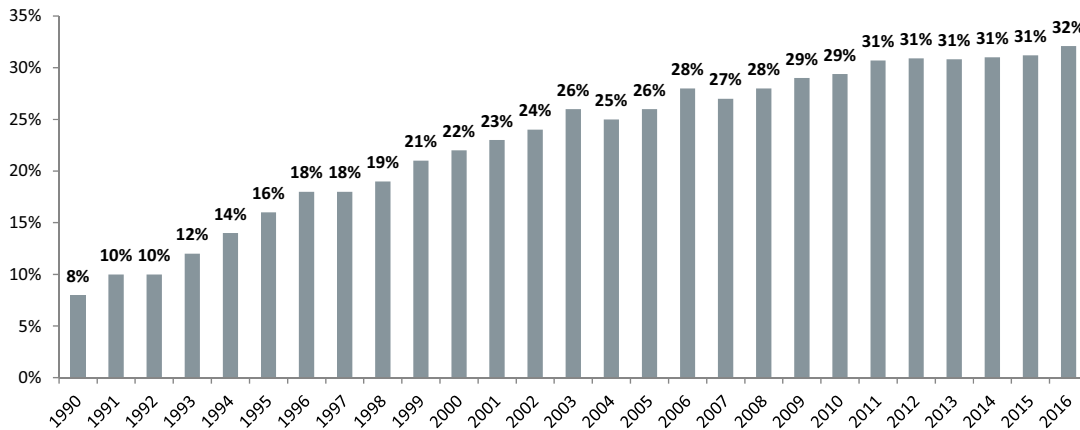
Low Cost Airline Growth

In the early 2000s, the U.S.-flag low-cost airlines expanded rapidly and increased their market share of passenger traffic in the U.S. The low-cost and ultra-low-cost airlines (collectively, the Low/Ultra-Low Cost Airlines), including Spirit Airlines, Frontier Airlines, JetBlue Airways, and Southwest Airlines popularized the no frills, low cost business model.

As shown on Figure 27, the Low/Ultra-Low Cost Airlines provided approximately 8% of U.S. domestic seat capacity in 1990. Through 2016, the low-cost airlines accounted for approximately 32% of overall U.S. domestic seat capacity. While rising fuel prices and the economic downturn forced network airlines to reduce domestic seat capacity and focus on more profitable international routes, the low-cost airlines increased their domestic market shares of passengers.

Between 2003 and 2009, the Low/Ultra-Low Cost Airlines (including AirTran Airlines, Allegiant Air, Frontier Airlines, JetBlue Airways, Southwest Airlines, Spirit Airlines, and Virgin America) added approximately 84 billion domestic seat miles to their route systems. In comparison, American (including US Airways), Delta, and United experienced a 20% average reduction in mainline domestic seat capacity over the same period, for a combined reduction of 85 billion domestic seat miles.

Figure 27
LOW-COST AIRLINE SHARES OF TOTAL U.S. DOMESTIC AIRLINE AIRCRAFT SEATS



Sources: Official Airline Guides schedules.

The continued growth in the Low/Ultra-Low Cost Airlines over the past decade was helped by the lower unit cost advantage they maintained over the network airlines, as a result of differences in network structure, overhead cost, and crew seniority. In more recent years, there have been fewer distinctions between the Low/Ultra-Low Cost Airlines and the network airlines. The lowering of the network airline cost structures and consolidation of airline networks has allowed the network airlines to compete more effectively with the Low/Ultra-Low Cost Airlines.

The Low/Ultra-Low Cost Airlines have also begun to actively analyze international expansion possibilities. JetBlue has built a strong presence in the Caribbean and Latin America, adding service to 31 markets. With the acquisition of AirTran, Southwest is now serving AirTran’s Caribbean and Mexican routes, becoming positioned for further international expansion.

At the Airport, enplaned passengers on Low/Ultra-Low Cost Airlines grew by 3.1% annually since 2010. In 2016, the low-cost airlines accounted for approximately 12% of domestic seats and 13% of domestic enplaned passengers at the Airport. In recent years, Southwest, Spirit, Frontier, and JetBlue all have continued to expand domestic service at the Airport. It is expected that the Low/Ultra-Low Cost Airlines will continue to increase domestic service at the Airport and also enter international markets in the coming years.

Fuel Cost Impacts

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Figure 28 shows the historical fluctuation in fuel prices since 2000. Beginning in 2003, fuel prices rapidly increased as a result of political unrest in Iraq and other oil-producing countries, as well as other factors influencing the demand for and supply of oil. In 2008, a spike in crude oil prices drove up jet fuel prices to an unprecedented high, forcing many airlines to introduce

fuel surcharges. Fuel prices fell sharply in the second half of 2008, but rose again in 2011.

The price of fuel increased to such high levels that fuel represented the largest operating expense for airlines, accounting for between 30% and 40% of expenses for most airlines in 2011 through 2014.

Since mid-2014, the average price of aviation fuel has decreased more than (50%), reflecting continued growth in U.S. oil production, strong global supply, and weakening outlooks for growth in the global economy and oil demand. Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term. Continued low fuel prices could result in dramatic changes in the aviation industry, such as lower airline operating costs potentially resulting in lower passenger ticket prices, which would likely result in increased travel demand. Higher profits and the ability to keep older, less fuel efficient aircraft in service may also contribute to increased aircraft seat capacity at a slightly greater rate than currently experienced. Nevertheless, there is widespread agreement that fuel prices will continue to be volatile and are likely to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies. As of April 2017, according to Bureau of Transportation Statistics, the average cost per gallon of jet fuel was \$1.65.

Figure 28
HISTORICAL AVIATION FUEL PRICES
U.S. Carriers Scheduled Service



Sources: U.S. Department of Transportation, Bureau of Transportation Statistics, Airline Fuel Cost and Consumption, January 2000 – June 2016, www.transtats.btv.gov.

Aircraft Trends

Between 2001 and 2007, many airlines transferred a number of less profitable routes to their regional airline partners in order to reduce costs. Trends at the Airport mirrored the national trend, with an increase in the number of regional aircraft operations.

Beginning with the fuel price spike in 2008, airlines have reduced the number of 50-seat regional jets in their fleets, which aircraft had been widely used as feeder aircraft for the

network airlines. Airlines such as Delta, United, and American are expected to ground or sell hundreds of these smaller regional jets in the coming years. In the face of volatile fuel prices, airlines continue to move toward the use of larger, more fuel efficient aircraft. Over the next decade, the network airlines will continue to upgrade their fleets with new, more fuel-efficient aircraft, potentially reducing the fuel efficiency advantage of the low-cost airlines.

The introduction of aircraft with new technology likely will result in new nonstop service around the world. Aircraft such as the next-generation Boeing 777s, the Boeing 787, and the Airbus A350 incorporate new airframe, engine, and wing designs for significant improvements in aircraft range and fuel efficiency. Entering commercial service in 2011, the Boeing 787 “Dreamliner” was the first commercial service aircraft made of lightweight composite carbon fiber material rather than aluminum, allowing for fuel savings of approximately 20% compared with jets of similar size. Despite delays in production and various initial in-service problems, the Boeing 787 has had incredible success and, according to Boeing, became the fastest-selling aircraft since its launch. The Airbus A350, a long-range twin-engine jetliner made primarily of composite materials, is a rival to the Boeing 787 that entered commercial service in January 2015. These new fuel-efficient aircraft are allowing airlines to profitably serve long-haul routes that were previously uneconomical using the Boeing 777, Boeing 747, Airbus A340 and other older long-range aircraft.

Currently, four airlines operate Boeing 787 aircraft on international services at the Airport: Hainan Airlines (Beijing and Shanghai), Xiamen Airlines (Shenzhen), ANA (Tokyo-Narita), and Virgin Atlantic (London-Heathrow). Norwegian will commence service to London-Gatwick with a Boeing 787 in September 2017, according to advanced airline schedules.

Capacity of the Airport

In addition to any future constraints that may be imposed by the capacity of the national air traffic control system, future growth in airline traffic at the Airport will depend on the provision of sufficient capacity at the Airport itself.

The Aviation Division of the Port is in the process of finalizing the SAMP that will include, among other things, a potential expansion of aviation-related infrastructure to accommodate the forecast long-term growth in enplaned passengers. Airport areas are reserved for long-term development plans to add gates to existing concourses and on new concourses. The Aviation Division expects the SAMP to be completed by mid-2019.

AIRLINE TRAFFIC FORECASTS

Table 16 presents historical and forecast numbers of originating, connecting, and enplaned passengers at the Airport from 2011 through 2022. The passenger forecasts were prepared by the Port and reflect Port management's expected course of action during the forecast period.

Assumptions Underlying the Forecasts

The Port's forecasts of airline traffic were developed by the Port taking into account analyses of the economic basis for airline traffic, airline traffic trends, and an assessment of the key factors that may affect future airline traffic, as discussed in earlier sections. In general, the Port assumed that, in the long term, changes in airline traffic at the Airport will occur as a function of growth in the population and economy of the Airport service region, growth in U.S. population and GDP, and changes in airline network strategies, including the role of the Airport as a connecting hub for Alaska Airlines and Delta Air Lines. The Port also assumed that continued development of airline service at the Airport will not be constrained by the availability of aviation fuel, long-term limitations in airline aircraft fleet capacity, limitations in the capacity of the air traffic control system or the Airport, or government policies or actions that restrict growth. Also considered in developing the forecasts were recent and potential developments in the national economy and in the air transportation industry as they have affected or may affect airline traffic at the Airport.

It was assumed that, during the Forecast Period:

- Sustained U.S. GDP growth will average 2.1% per year from 2016 through 2022, based on projections by IHS Global Insight as reported in *FAA Aerospace Forecasts, Fiscal Years 2017-2037*.
- The population and economy of the Airport service region will grow at the projected rates set forth on Table 1 of this Report.
- Aviation fuel prices will remain considerably lower than the record prices reached in mid 2008.
- A generally stable international political environment and safety and security precautions will ensure airline traveler confidence in aviation without imposing unreasonable inconveniences.
- There will be no major disruption of airline service or airline travel behavior caused by international hostilities or terrorist acts or threats.
- The Airport will continue to be the principal connecting hub for Alaska Airlines and be served by the greatest amount of seat capacity by Alaska Airlines.
- The Airport will continue to be used by Delta Air Lines as an international gateway airport.

- The airlines serving the Airport will be financially viable.
- Competition among the airlines serving the Airport will ensure the continued availability of competitive airfares.
- If started, any commercial air service at Paine Field would not be material as measured by scheduled daily departures.

Baseline Forecasts of Enplaned Passengers

Between 2016 and 2022, the number of passengers enplaned at the Airport is forecast by the Port to increase an average of 1.9% per year, to 25.5 million enplaned passengers in 2022.

In its most recent *Terminal Area Forecast* (TAF) for the Airport (2016 FAA TAF, accessed May 2017), the FAA forecasts an average increase of 3.1% per year in the number of enplaned passengers at the Airport between 2016 and 2022. The FAA uses a base year of 2015 for the forecast of enplaned passengers at the Airport. From 2016 to 2017, the FAA forecasts an increase of 6.4%, followed by increases ranging from 2.3% to 2.8% through 2022. Despite the different forecast rates of growth used by the Port and the FAA, the number of enplaned passengers in 2022 only varies by 1.0% when comparing the Port's and the FAA's forecast in that year.

WJ Advisors LLC and ICF reviewed the Port's forecast of aviation activity, including the underlying assumptions incorporated therein, and determined that they are reasonable for purposes of this analysis and in comparison with the forecasts of aviation activity prepared by the FAA for the Airport.

Table 16
AIRLINE TRAFFIC FORECASTS
 Seattle-Tacoma International Airport 2017-2022

The forecasts presented in this table were prepared by the Port using the information and assumptions given in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

Year	Enplaned passengers			Percent increase	Percent originating
	Originating	Connecting	Total		
Actual					
2011	12,145,738	4,251,750	16,397,488	4.0%	74.1%
2012	12,374,304	4,223,020	16,597,324	1.2%	74.6%
2013	12,880,078	4,496,238	17,376,316	4.7%	74.1%
2014	13,794,265	4,922,513	18,716,778	7.7%	73.7%
2015	14,725,955	6,382,801	21,108,756	12.8%	69.8%
2016	15,813,752	6,982,366	22,796,118	8.0%	69.4%
Forecast					
2017	16,342,000	7,138,000	23,480,000	3.0%	69.6%
2018	17,135,000	7,519,000	24,654,000	5.0%	69.5%
2019	17,252,000	7,607,000	24,859,000	0.8%	69.4%
2020	17,370,000	7,695,000	25,065,000	0.8%	69.3%
2021	17,489,000	7,784,000	25,273,000	0.8%	69.2%
2022	17,609,000	7,874,000	25,483,000	0.8%	69.1%
Average annual increase (decrease)					
2016-2022	1.8%	2.0%	1.9%		

Note: Totals might not equal the sum of component parts due to rounding. Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

Source: Port of Seattle.

AIRPORT FINANCIAL FORECASTS

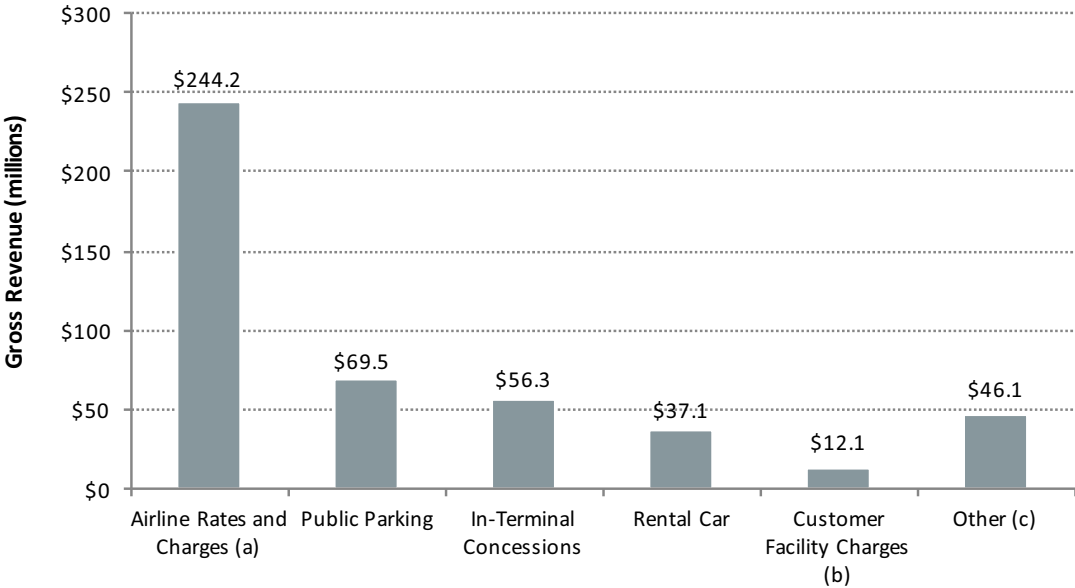
This section of Attachment 1 presents Port-prepared forecasts of operating revenues and operating expenses for the Airport. The forecasts reflect Port management’s expected course of action during the Forecast Period, and, in management’s judgment, present fairly the expected financial results of the Airport.

WJ Advisors LLC reviewed the Port’s financial forecasts for the Airport, including the methodologies and underlying assumptions incorporated therein, and determined that they are reasonable for purposes of this Report.

AIRPORT OPERATING REVENUES

Figure 29 presents major sources of Airport operating revenues, which amounted to approximately \$465.3 million in 2016.

Figure 29
MAJOR SOURCES OF AIRPORT OPERATING REVENUES IN 2016
 Seattle-Tacoma International Airport



Source: Port of Seattle records.
 (a) Includes passenger and cargo airline rates and charges, and is after revenue-sharing pursuant to the Airline Agreement. See the section of this Report titled “Airline Revenues” for information about revenue-sharing.
 (b) Reflects that portion of CFC revenues treated as operating revenues in Port financial statements.
 (c) Includes ground transportation, other revenues, and amortized lease incentives.

AIRLINE REVENUES

Overview

Exhibit G presents historical and forecast Airport airline revenues, in total and expressed on a per enplaned passenger basis.

In 2016, airline revenues (after revenue sharing, which is explained more fully below) were approximately \$244.2 million and accounted for 52.5% of total Airport operating revenues. Airline revenues after revenue sharing are forecast by the Port to increase to approximately \$446.6 million in 2022.

The Port entered into a Signatory Lease and Operating Agreement (the Airline Agreement) with various airlines (the Signatory Airlines) that serve the Airport. The term of the Airline Agreement extends from January 1, 2013 through December 31, 2017.

The Port is currently in negotiations with certain airlines operating at the Airport to, among other things, continue the methodology for the annual recalculation of airline rates and charges and potentially to revise the basis for assigning gates at the Airport to each airline. As of the date of this Report, it is the Port's expectation that these and other business arrangements will be substantially similar to the existing Airline Agreement during the Forecast Period, either through an extension of the existing Airline Agreement, a new Airline Agreement, or rates by resolution²⁶.

The Airline Agreement provides for, among other things, the use and lease of space at the Airport and the basis for calculating rates and charges paid by the airlines operating at the Airport each year, which is based on a combination of residual and commercial compensatory rate-making methodologies and cost recovery principles. The Airline Agreement also:

- Allows the Port to include a charge, as necessary, in the airline rate base to maintain total Airport debt service coverage at no less than 125%.
- Provides for revenue sharing with the Signatory Airlines equal to 50% of Airport net revenues (revenue less expenses) in excess of 1.25 times annual debt service. The Revenue Available for Sharing, if any, is to be distributed among all Air Carriers that were Signatory Airlines during the preceding Fiscal Year.
- Approved certain capital projects at the Airport, which allows the Port to include any of the following costs in airline rates and charges to the extent that the capital project is included in an airline cost center and is available for its intended use: operating expenses, debt service, and amortization.
- Includes procedures for Signatory Airline review of new projects to the extent that the new projects are not exempt from Signatory Airline review and approval. Certain types of projects are exempt, which include, but are not limited to, State and federal agency

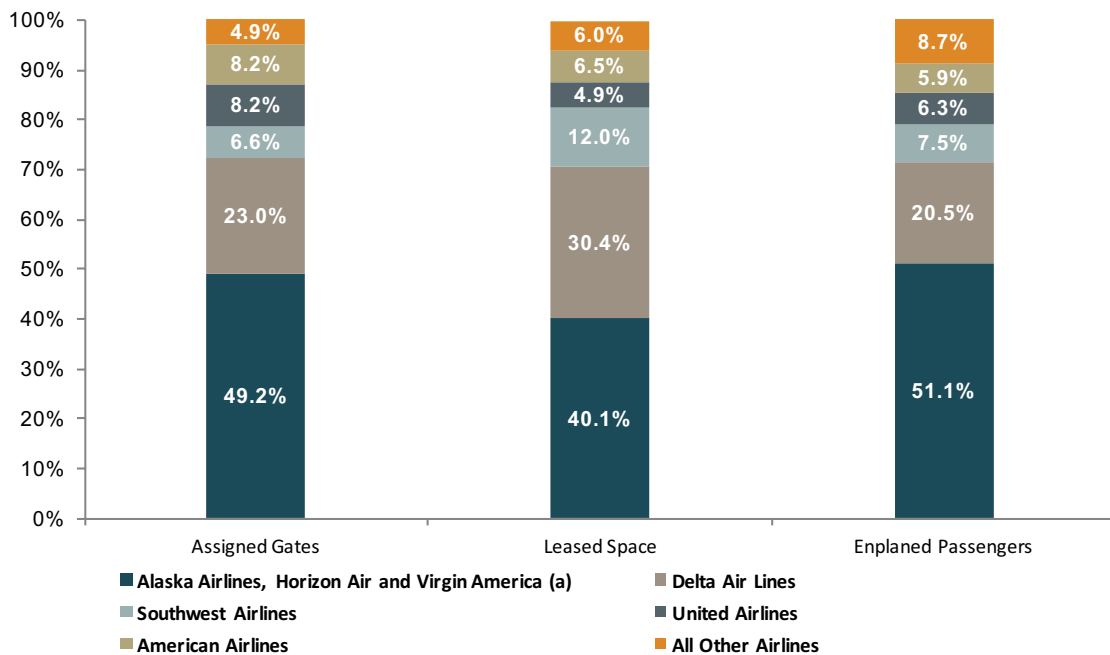
²⁶ Rates by resolution has already been approved by the Port Commission.

required projects, a project of an emergency nature, and projects required to make available additional terminal space or related facilities under certain conditions.

Signatory Airline review of projects at the Airport include previously approved project costs where the then-current cost of the project exceeds 110% of project costs that were approved and new projects that were not previously approved, or were not exempt. If an MII of the Signatory Airlines, which is defined in the Airline Agreement as 55% in number of the Signatory Airlines having 55% of Terminal Rents and Landing Fees paid by the Signatory Airlines, disapproves a project, the Port can proceed with the project at any point after 6 to 12 months following disapproval by the Signatory Airlines. The Port can include the operating and capital costs of the project in airline rates and charges when the project is completed and ready for its intended use.

The amount of revenues from airline rates and charges each year is a function of several factors, including the amount of space leased and the number of preferential gates assigned to the Signatory Airlines to support their aviation activity and operations at the Airport. Using actual 2016 data, Figure 30 provides a comparison of the market shares of assigned gates, leased space, and enplaned passengers for the five busiest airlines serving the Airport (ranked on the basis of market shares of enplaned passengers in 2016).

Figure 30
AIRLINE PERCENTAGES OF LEASED GATES, LEASED SPACE, AND ENPLANED PASSENGERS IN 2016
 Seattle-Tacoma International Airport



Note: Reflects actual December 2016 data for assigned gates and leased space, and actual January-December 2016 data for enplaned passengers. The data for Alaska Airlines includes Virgin America, which was acquired by Alaska in December 2016. Columns may not add to 100.0% because of rounding.
 Source: Port of Seattle records.

Collectively, the five busiest airlines were assigned approximately 95.2% of gates and the same airlines rent approximately 94.0% of total airline rented space at the Airport. Differences in the percentages of total enplaned passengers, leased space, and leased gates by airline on Figure 30 reflect individual airline decisions regarding facility and gate operating requirements.

Forecast of Airline Rates and Charges

Forecast revenues from airline rates and charges are presented in Exhibit H and are based on

- The cost recovery and rate-making principles in the Airline Agreements.
- Forecast operating expenses, debt service, and other costs allocable to airline cost centers and included in the annual calculation of airline rates and charges pursuant to the Airline Agreement. Debt service, net of capitalized interest, on the proposed Series 2017C-D Bonds allocable to airline cost centers is included.
- The assumption that the amount of airline leased space and number of assigned gates as of the date of this Report will remain constant throughout the Forecast Period.
- The assumption that when the Airline Agreement expires during the Forecast Period the Port will put in place business provisions and rate-making methodologies that would result in similar Airport financial results as provided under the existing Airline Agreement, either through an extension of the existing Airline Agreement, a new Airline Agreement, or rates by resolution.

Under the Airline Agreement, the Port can use non-airline revenue to reduce the cost of the Federal Inspection Services (FIS) Facility, which, when completed, would include the new international arrivals facility that is part of the 2017-2022 Capital Program.

The Port currently expects to use approximately \$200.0 million of Port cash to fund a portion of the cost of the new international arrivals facility, but does not currently expect to amortize the \$200.0 million in cash and include the amortized cost in the annual calculation of airline rates and charges at the Airport. If the amortized cost of this use of cash were included in whole or in part in the calculation of airline rates and charges, airline revenues and costs at the Airport would, all other factors being constant, be higher than the forecast amounts.

Forecast airline Landing Fees and Terminal rentals, which together accounted for approximately 94.1% of airline rates and charges at the Airport in 2016 (before revenue-sharing), are discussed below.

Landing Fees are calculated according to a cost-center residual rate-making methodology, under which the net requirements allocable to the Airfield Movement Area are recovered through Landing Fees assessed per 1,000--pound units of airline aircraft landed weight. Airfield Movement Area costs to be recovered through Landing Fees are expected to increase during the Forecast Period as airfield projects are completed and the Port begins to include related debt service and other costs of completed projects in the airline rate base.

Terminal Rental Rates are set to recover the Terminal Building Requirement calculated according to a commercial compensatory rate-making methodology. The Terminal Building Requirement is equal to the annual direct and indirect operating and capital costs of the Port that are allocable to the Terminal Building. The Terminal Building Requirement is multiplied by the ratio of airline rentable space to total rentable space, less any nonsignatory airline premiums paid in Terminal Rents.

The Terminal Building Requirement is distributed to four cost assignment groups: Group A (consisting of gates); Group B (consisting of ticket counters, baggage claim, baggage make-up, publicly-accessible offices, security checkpoint areas and VIP lounges); Group C (consisting of non-publicly-accessible offices); and Group D (consisting of closed storage space). The costs assigned to rented space in each of these four groups have certain relativities pursuant to the Airline Agreement, such as Group A space has a rental rate that is 2 times the rate for Group B space. Additional adjustments are made to each space group such that the Port does not bear any cost of vacant space associated with certain baggage makeup circulation space.

The Airline Agreement also provides for the annual recalculation of other airline rates and charges, including, but not limited to, an FIS fee for use of international arrival facilities, a gate rate and fee, a baggage claim rate, baggage system fees, and ticket counter rates. The Port does not bear any cost of vacancy in the following areas: gates, ticket counters, baggage make-up areas, and baggage claim areas.

Forecast Passenger Airline Revenue per Enplaned Passenger

Exhibit G presents historical and forecast airline revenues for Terminal Building rents, FIS fees, Landing Fees, and other airline fees prior to and after any revenue-sharing with the Signatory Airlines. Total passenger airline revenues after revenue sharing are forecast to be approximately \$230.2 million in 2016 and to increase to approximately \$423.1 million in 2022. Net passenger airline revenues (after revenue-sharing) per enplaned passenger are forecast to increase from approximately \$10.10 in 2016 to approximately \$16.60 in 2022.

NONAIRLINE REVENUES

Exhibit H presents actual and forecast Airport nonairline revenues. Nonairline revenues, which includes major sources of revenue from public parking, in-terminal concessions, and rental cars, were approximately \$221.0 million in 2016 and, based on the assumptions described below, are forecast by the Port to increase to approximately \$265.3 million in 2022, representing an average increase of 3.1% per year.

Public Parking

In 2016, the Port received approximately \$69.5 million in public parking revenues, accounting for 14.9% of Airport operating revenues.

The Port operates and manages an eight-floor parking garage adjacent to the terminal with approximately 13,000 public parking spaces. The Port also provides approximately 1,500

parking spaces in a remote lot operated by a third party. Additional off-Airport parking spaces are owned and operated by entities other than the Port.

The Port establishes and periodically adjusts parking rates in an attempt to maximize public parking revenues. As of the date of this Report, parking rates at the Airport range from \$4.00 per hour to \$37.00 per 24-hour period.

The Port's forecast of public parking revenues is based on (1) recent trends in public parking revenue per originating passenger, (2) forecast increases in the number of originating passengers at the Airport, (3) assumptions related to increases in public parking revenues per originating passenger starting in 2022, which was assumed to occur as a result of planned rate increases, (4) increases in the number of passengers parking at the Airport, given available public parking spaces, and (5) continuation of the parking coupon/deal program and implementation of new revenue-enhancing initiatives. These changes and new initiatives are estimated by the Port to account for between approximately 9.1% and 12.7% of total public parking revenue during the Forecast Period and are focused on increasing the number of public parkers at the Airport.

Public parking revenues are forecast to increase from approximately \$69.5 million in 2016 to approximately \$83.2 million in 2022, representing an average increase of 3.0% per year.

In-Terminal Concessions

In 2016, the Port received approximately \$56.3 million in revenues from in-terminal concessions, which accounted for 12.1% of Airport operating revenues.

The Port currently uses a direct leasing model for food and beverage, retail, and duty free services in the terminal. Since 2014, as part of a long-term dining and retail redevelopment program at the Airport, the Port has awarded new leases for food and beverage and retail services in three separate lease groups. Leases under Lease Group 1 and Lease Group 2 (described below) were executed in 2016. Lease Group 3 was awarded in June 2017, with leases expected to be executed later in 2017. The Port is in the process of identifying leasing opportunities for food and beverage and retail services under a future Lease Group 4.

Leases with terminal concessionaires are summarized as follows:

- **Food and Beverage Leases.** As part of Lease Group 1, the Port has a lease with Host International to operate 10 food and beverage locations in the terminal, that expires in 2023. Host pays the Port the greater of certain percentages of gross revenue (ranging from 12.0% to 15.0%) or a defined minimum annual guarantee (MAG) that increases an average of 8.0% each year. The Port also has a lease with Anton Airfoods for Anthony's Restaurant that expires on September 30, 2017 (after expiration, the lease for this restaurant site is expected to remain on holdover status until it is released for bid in late 2017). Anton Airfoods pays the Port a percentage of gross revenue (ranging from 8.0% to 12.0%).

Under Lease Group 2, the Port has 10-year leases with various food and beverage service companies (for four different food and beverage locations in the terminal), expiring between 2025 and 2027, where the companies pay the Port the greater of certain percentages of gross revenue (ranging from 8.0% to 20.0%) or a MAG equal to 85.0% of the prior year payment to the Port.

The Port expects that leases with food and beverage service companies under Lease Group 3 (for approximately 20 different food and beverage locations in the terminal) will have the same business terms as leases in Lease Group 2.

- **Retail Merchandise Leases.** As part of Lease Group 1, the Port has two separate agreements with the Hudson Group to operate 17 different convenience and specialty retail stores at the Airport. The agreements expire in 2022 and 2024. Under the agreements, the Hudson Group pays the Port a certain percentage of gross revenue (ranging from 9.0% to 19.0% depending on tiers of gross revenue and sales category) and the Hudson Group agreed to make certain investment in locations leased.

Under Lease Group 2, the Port has 8-year leases with various retail service companies (for four different retail locations in the terminal), expiring between 2022 and 2025, where the companies pay the Port the greater of certain percentages of gross revenue (ranging from 10.0% to 14.0%) or a MAG equal to 85.0% of the prior year payment to the Port.

The Port expects that leases with retail service companies under Lease Group 3 (for approximately 5 different retail locations in the terminal) will have the same business terms as leases in Lease Group 2.

- **Duty Free Agreement.** The Port currently has an agreement with Dufry North America, LLC, which expires on July 31, 2020, to provide certain duty free services at the Airport. Under the agreement, Dufry North America pays concession fees to the Port of between 28.0% and 37.0% of gross receipts.
- **Other Terminal Concessions.** The Port also leases other terminal concession space and receives payments associated with advertising. These other concessions accounted for revenues of approximately \$15.3 million in 2016.

The Port's forecast of in-terminal concession revenue is based on (1) recent trends in in-terminal concession revenues per enplaned passenger, (2) terms and conditions of existing terminal concession leases, (3) forecast increases in the number of enplaned passengers at the Airport, (4) Port-expected reductions in concession revenues for certain years resulting from the temporary closure of certain concession spaces due to the North Satellite expansion program, which is included in the 2017-2022 Capital Program, and (5) allowances for inflation of 2.0% per year through 2018, and 2.5% thereafter through 2022 (the last year of the Forecast Period). It was also assumed that as existing agreements expire during the Forecast Period, new agreements would be executed with similar terms and conditions and financial performance.

In-terminal concession revenues are forecast to increase from approximately \$56.3 million in 2016 to approximately \$62.4 million in 2022, representing an average increase of 1.7% per year.

Rental Car Concession Fees and Land Rentals

Rental car revenues include concession fees and space rentals and totaled \$37.1 million in 2016, accounting for approximately 8.0% of Airport operating revenues.

The Port has facility lease and concession agreements with 10 rental car companies that occupy and use space in the Airport ConRAC. The Port has agreements with the Avis Budget Group, Inc., which operates the Avis and Budget brands; Dollar Rent A Car; Enterprise Holdings, Inc., which operates the Enterprise, Alamo, and National brands; E-Z Rent-A-Car; Fox Rent A Car, Hertz Rent a Car; Payless Car Rental; Sixt rent a car, and Thrifty Car Rental.

The facility lease includes various provisions related to leasing space in the ConRAC, the common transportation system, and operating responsibilities for the facility. The facility lease agreement became effective in May 2012 and has a term of 30 years; provided, however, in the event that any bonds require a longer term, the term shall extend until the earlier of: (1) the date such bonds are repaid or (2) the date the condition requiring a longer term is either satisfied or waived.

The concession agreement includes, among other things, a concession fee payable to the Port equal to 10.0% of rental car gross revenues or the MAG, whichever is greater. Currently, the MAG is defined as 85.0% of the actual concession fee paid to the Port during the previous year or the initial year MAG, whichever is greater.

The forecasts of rental car revenues were based on the following assumptions:

- Forecast increases in the number of originating passengers at the Airport.
- Forecast decreases in rental car transactions per originating passenger resulting from increased passenger use of alternative modes of transportation, such as Uber and Lyft.
- Small increases in the average daily rate per rental car transaction.
- Allowances for inflation of 2.0% per year through 2018, and 2.5% thereafter through 2022 for land and other rentals.

Rental car revenues are forecast to decrease from approximately \$37.1 million in 2016 to approximately \$36.0 million in 2022, at an average decrease of (0.5%) per year.

Customer Facility Charges

Under Revised Code of Washington Section 14.08.120(7) (the CFC Act), the Port is authorized to impose and collect a CFC per rental car transaction day to pay certain authorized costs under the CFC Act, which are mostly related to operating and capital costs associated with the ConRAC and the common use transportation system that transports rental car customers

between the terminal and ConRAC. Under the CFC Act, there is no limit to the CFC rate, and the amount of the CFC is solely determined and adjusted by the Port.

The Port currently imposes and collects a CFC of \$6.00 per rental car transaction day, and uses CFC revenues consistent with permitted uses under the CFC Act. In the financial statements of the Port, annual CFC revenues used to pay operating expenses associated with the ConRAC are treated as operating revenues, and CFC revenues used to pay debt service associated with the ConRAC are treated as non-operating revenues. In 2016, the Port collected \$36.8 million in CFC revenues, of which \$24.7 million was used by the Port to pay debt service. The remaining \$12.1 million was reported as operating revenues.

The forecasts of CFC revenue were based on the following assumptions:

- Recent trends in the average length of stay of a rental car customer and the number of rental car transaction days at the Airport.
- The CFC rate will remain at \$6.00 per transaction day through 2021 and then increase to \$6.15 per transaction day in 2022.
- Forecast increases in the number of originating passengers at the Airport.
- Forecast increases in the number of transaction days, assuming that the length of stay of a rental car customer would remain unchanged during the Forecast Period.
- The Port would continue to (1) use a portion of CFC revenues to pay debt service on bonds issued to fund or refund the costs of the ConRAC and treat those revenues as non-operating revenues and (2) treat a portion of CFC revenues as operating revenues.

CFC revenues treated as operating revenues are equal to total CFC revenues less CFC revenues used to pay certain outstanding bond debt service, and are forecast to increase from approximately \$12.1 million in 2016 to approximately \$19.0 million in 2022. The outstanding bond debt service paid with CFC revenues is expected to fluctuate between 2017 and 2022, resulting in fluctuations in the remaining CFC revenues treated as operating revenue.

Other Nonairline Revenues

Major sources of other nonairline revenues include the following:

Aviation Properties. Aviation Properties revenues consist of revenues from commercial property leases and in-flight kitchen facilities. Aviation Properties revenues totaled approximately \$10.0 million in 2016. The forecast of aviation properties revenues were based on (1) the terms and conditions of leases between the Port and certain companies for the lease of land, (2) in-flight catering revenue per enplaned passenger remaining constant during the Forecast Period, and (3) for in-flight catering revenue, forecast increases in the number of enplaned passengers at the Airport.

Aviation Properties revenues are forecast to increase from \$10.0 million in 2016 to approximately \$16.0 million in 2022, an average increase of approximately 8.1% per year. The increase between 2016 and 2022 is primarily related to increases in in-flight catering revenues, increases in business park land rent, and other land rent increases.

Employee Parking. In 2016, the Port received approximately \$9.3 million in revenues from employee parking, which accounted for 2.0% of Airport operating revenues. Employee parking revenues are forecast to increase from \$9.3 million in 2016 to approximately \$9.4 million in 2022, at an average increase of 0.1% per year.

Other Ground Transportation. In 2016, the Port received approximately \$12.8 million in revenues from taxicab, limousine, transportation network companies (i.e. Uber and Lyft), and other ground transportation providers at the Airport, which accounted for 2.8% of Airport operating revenues. The Port has exclusive and nonexclusive agreements with numerous ground transportation companies that serve the Airport.

Other ground transportation revenues are forecast based on assumed increases in the number of other ground transportation trips and are forecast to increase from approximately \$12.8 million in 2016 to approximately \$20.7 million in 2022, representing an average increase of 8.3% per year.

Utilities. Utilities revenues are forecast to increase from approximately \$7.2 million in 2016 to approximately \$9.4 million in 2022.

AIRPORT OPERATING EXPENSES

Exhibit I presents historical Airport operating expenses for 2016 and forecast Airport operating expenses through 2022.

Airport operating expenses were forecast on the basis of the approved 2017 budget, assumed increases in costs as a result of inflation, forecast Airport aviation activity, the completion of planned expansion or construction of facilities, and other assumptions about Airport operations.

Specifically, the forecasts of Airport operating expenses reflect:

- An assumed 5.4% average annual rate of growth in existing Airport operating expenses.
- Increases in staff, payroll, and contracted services to support recent and forecast increases in passenger traffic at the Airport.
- Allowances for additional operating expenses from the completion of certain Airport projects in the 2017-2022 Capital Program during the Forecast Period. Those projects include, but are not limited to the baggage handling improvement project, the North Satellite renovation and expansion project, and the new international arrivals facility.
- Certain Port expenses allocated to the Airport.

Airport operating expenses are forecast to increase from \$261.2 million in 2016 to \$373.2 million in 2022, at an average increase of 6.1% per year.

Forecast 2017 Airport operating expenses were allocated to Airport cost centers by Airport management based on historical Airport operations, airport industry practices, provisions in the Airline Agreement and other considerations. Included in the allocation to each Airport cost center are Port indirect operating expenses allocated to the Airport.

The total operating expenses allocated to airline cost centers at the Airport are used to calculate airline rates and charges each year.

Exhibit G

AIRLINE REVENUES

Port of Seattle

Fiscal Years Ending December 31

(in thousands, except Passenger Airline Revenue per Enplaned Passenger)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by Port management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Calculation	Actual	Forecast					
		2016	2017	2018	2019	2020	2021	2022
AIRLINE REVENUES (SIGNATORY AND NONSIGNATORY AIRLINES)								
Terminal Building (a)		154,725	159,925	176,235	208,068	220,321	253,068	269,211
FIS		11,227	14,159	15,095	16,462	26,379	26,839	27,328
Landing Fees		92,388	106,422	110,411	117,473	121,044	124,949	124,097
Other Airfield Movement Area (b)		2,338	2,605	2,456	2,505	2,555	2,606	2,658
Airfield Apron Area		14,028	16,031	18,350	20,975	21,972	22,210	22,832
Airfield Commercial Area (c)		9,379	10,064	10,338	10,620	10,910	11,210	11,518
Other (d)		1,122	822	773	991	1,138	1,225	1,059
Total	[A]	\$ 285,206	\$ 310,028	\$ 333,658	\$ 377,094	\$ 404,320	\$ 442,107	\$ 458,703
Less: Revenue sharing (passenger airline share)	[B]	(36,552)	(34,947)	(32,570)	(24,103)	(19,726)	(8,387)	(11,849)
Less: Revenue sharing (cargo airline share)	[C]	(843)	(939)	(816)	(571)	(452)	(183)	(251)
Less: Adjustment for airline lease incentive (e)	[D]	(3,576)	(3,576)	-	-	-	-	-
Airline Revenues treated as operating revenues on Exhibit B	[E]=[A+B+C+D]	\$ 244,235	\$ 270,565	\$ 300,271	\$ 352,420	\$ 384,143	\$ 433,537	\$ 446,602
CALCULATION OF PASSENGER AIRLINE REVENUES PER ENPLANED PASSENGER								
Total Airline Revenues (before revenue sharing)	= [A]	\$ 285,206	\$ 310,028	\$ 333,658	\$ 377,094	\$ 404,320	\$ 442,107	\$ 458,703
Less: Non-Passenger Airline Revenues								
Cargo Landing Fees	[F]	(6,505)	(8,152)	(8,209)	(8,820)	(9,177)	(9,566)	(9,593)
Airfield Commercial Area revenues	[G]	(9,379)	(10,064)	(10,338)	(10,620)	(10,910)	(11,210)	(11,518)
Other Non-Passenger Airline Revenues (f)	[H]	(2,538)	(2,408)	(2,456)	(2,505)	(2,555)	(2,606)	(2,658)
Passenger Airline Revenues before revenue sharing	[I]=[A+F+G+H]	\$ 266,784	\$ 289,404	\$ 312,655	\$ 355,149	\$ 381,678	\$ 418,726	\$ 434,934
Less: Revenue sharing (passenger airline share)	= [B]	(36,552)	(34,947)	(32,570)	(24,103)	(19,726)	(8,387)	(11,849)
Passenger Airline Revenues	[J]=[I+B]	\$ 230,231	\$ 254,457	\$ 280,085	\$ 331,046	\$ 361,952	\$ 410,339	\$ 423,084
Total Enplaned Passengers	[K]	22,796	23,480	24,654	24,859	25,065	25,273	25,483
Passenger Airline Revenues per Enplaned Passenger	= [J]/[K]	\$10.10	\$10.84	\$11.36	\$13.32	\$14.44	\$16.24	\$16.60

Notes: Columns may not add to totals shown because of rounding.

(a) Includes bag system charges.

(b) Includes ID badging, certain hangar revenue, and certain general aviation revenue.

(c) Includes revenue from Airfield commercial properties, cargo operations, and fuel hydrant.

(d) Includes (1) passenger loading bridge charges and (2) adjustments for prior year airline rates and charges reconciliation.

(e) This reflects the straight-line amortization of \$17.9 million Airline Agreement lease incentive between 2013 through 2017.

(f) Primarily includes non-passenger airline fees from the Airfield Movement Area.

Source: Port of Seattle.

Exhibit H

NONAIRLINE REVENUES
Port of Seattle
Fiscal Years Ending December 31
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by Port management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual	Forecast					
	2016	2017	2018	2019	2020	2021	2022
NONAIRLINE REVENUES							
Aviation Properties	\$ 9,992	\$ 17,809	\$ 14,943	\$ 14,254	\$ 14,729	\$ 15,764	\$ 15,971
Landside							
Public Parking	\$ 69,540	\$ 72,346	\$ 76,081	\$ 77,249	\$ 78,490	\$ 79,792	\$ 83,227
Rental Cars	37,082	33,557	35,019	35,264	35,507	35,748	35,987
CFC revenues treated as operating revenues (a)	12,122	9,859	12,907	11,080	18,449	18,248	18,959
Employee Parking	9,329	9,480	8,599	8,801	9,013	9,232	9,356
Other Ground Transportation	12,803	14,377	18,434	19,816	20,258	20,461	20,666
Total Landside	\$ 140,876	\$ 139,619	\$ 151,040	\$ 152,210	\$ 161,718	\$ 163,480	\$ 168,196
Airport Dining & Retail							
Food & Beverage/Retail	\$ 34,810	\$ 35,664	\$ 35,152	\$ 37,987	\$ 39,947	\$ 40,931	\$ 41,941
Duty Free	6,265	6,853	7,208	7,559	7,925	7,930	7,930
Other Terminal Concessions (b)	15,272	12,672	11,396	11,729	11,991	12,258	12,532
Total Airport Dining & Retail	\$ 56,348	\$ 55,189	\$ 53,756	\$ 57,276	\$ 59,862	\$ 61,120	\$ 62,403
Utilities	\$ 7,233	\$ 7,118	\$ 8,713	\$ 8,897	\$ 9,091	\$ 9,272	\$ 9,378
Other Nonairline Revenues (c)	6,572	8,375	8,657	8,976	9,092	9,205	9,357
Total Nonairline Revenues	\$ 221,021	\$ 228,110	\$ 237,108	\$ 241,611	\$ 254,492	\$ 258,842	\$ 265,305
Annual % change		3.2%	3.9%	1.9%	5.3%	1.7%	2.5%
Average annual % change 2016 to 2022							3.1%

Notes: Columns may not add to totals shown because of rounding.

(a) Equal to total CFC revenues less CFC revenues used to pay debt service. CFC revenues used to pay debt service will vary from year-to-year depending on actual debt service payments.

(b) Includes advertising, nonairline space rentals, vending, foreign exchange, telephone, ATMs, and tenant marketing.

(c) Includes revenue from (1) international lounges (the Club at SEA) located in Concourse A and the South Satellite and (2) the Conference Center at Sea-Tac located near Port offices at the Airport.

Source: Port of Seattle.

Exhibit I

AIRPORT OPERATING EXPENSES
Port of Seattle
Fiscal Years Ending December 31
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by Port management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual	Forecast					
	2016	2017	2018	2019	2020	2021	2022
AIRPORT OPERATING EXPENSES							
Airport Operating and Maintenance Expenses	179,679	202,706	210,814	219,246	228,016	237,137	246,622
Expenses Associated with Future Capital Projects	-	-	421	945	2,841	6,019	6,480
Allocated Expenses from Other Divisions (a)	81,547	98,681	102,628	106,734	111,003	115,443	120,061
Total Airport (b)	\$ 261,226	\$ 301,387	\$ 313,864	\$ 326,925	\$ 341,860	\$ 358,599	\$ 373,164
Annual % change		15.4%	4.1%	4.2%	4.6%	4.9%	4.1%
Average annual % change 2016 to 2022							6.1%
SUMMARY BY COST CENTER							
Terminal Building (c)	\$ 107,891	\$ 116,579	\$ 121,625	\$ 126,525	\$ 133,532	\$ 141,887	\$ 147,734
FIS	6,372	9,170	9,536	9,943	10,341	10,754	11,184
Airfield Movement Area	64,413	76,568	79,631	83,058	86,243	89,693	93,281
Airfield Apron Area	7,046	8,770	9,121	9,621	10,006	10,406	10,822
Airfield Commercial Area	3,307	3,074	3,197	3,325	3,458	3,596	3,740
Other (d)	1,283	1,468	1,527	1,588	1,651	1,717	1,786
Nonairline	70,914	85,758	89,227	92,865	96,630	100,545	104,617
Total Airport (b)	\$ 261,226	\$ 301,387	\$ 313,864	\$ 326,925	\$ 341,860	\$ 358,599	\$ 373,164

Notes: Columns may not add to totals shown because of rounding.

(a) Includes expenses allocated to the Airport from the Port's Corporate and Economic Development divisions.

(b) Includes Port costs associated with operating the shuttle bus service between the ConRAC and the Airport terminal building; such costs are paid from CFC revenues treated as operating revenues as presented in Exhibit H.

(c) Includes baggage system, gate utilities, and airport operating systems.

(d) Includes passenger loading bridges.

Source: Port of Seattle.

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**ATTACHMENT 2—OVERVIEW OF SEAPORT ALLIANCE AND OTHER PORT BUSINESSES AND
ASSOCIATED FINANCIAL FORECASTS**

Report of the Independent Consultant

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OVERVIEW OF ACTIVITY LEVELS OF SEAPORT ALLIANCE AND OTHER PORT BUSINESSES AND ASSOCIATED FINANCIAL FORECASTS

This Attachment 2 presents an overview of the Port's non-Airport businesses, which include containers and other cargoes handled by the Northwest Seaport Alliance (Seaport Alliance) as well as Other Port Businesses, including maritime, economic development, and stormwater utility. This Attachment presents historical and forecast financial results for these non-Airport Businesses. Key assumptions developed by the Port and the Seaport Alliance, which were used to prepare forecast financial results, are also presented in this Attachment.

BST Associates, a subconsultant to WJ Advisors LLC, reviewed the Port's forecast of financial performance of the Port of Seattle and the Seaport Alliance, including the methodologies and underlying assumptions incorporated therein, and determined that they are reasonable for purposes of this Report.

DESCRIPTION OF SEAPORT ALLIANCE

In August 2015, the Port of Seattle and the Port of Tacoma jointly formed the Northwest Seaport Alliance, a port development authority (PDA) designed to unify the two ports' marine cargo terminal investments, operations, planning, and marketing to strengthen the competitiveness of the Puget Sound gateway and to attract more marine cargo and jobs to the region. Each Port has an initial 50.0% "membership interest" in the Seaport Alliance, which is in effect at least through the end of 2017, at which point a revaluation may occur.

The Seaport Alliance was formed to address increased competition and pressure to improve facilities and to achieve the following key objectives:

- Increase the competitive position of the facilities that would be operated and managed under the Seaport Alliance through unified customer relations.
- Create a unified approach to managing port facilities, creating operating and other efficiencies.
- Optimize capital investment in facilities at both ports based on key opportunities and the strategic use of assets.

Each port has granted to the Seaport Alliance a license for the PDA's exclusive use, operation, and management of certain facilities, including the collection of revenues. Ownership of the licensed facilities remains with the ports, not the PDA.

Assets licensed to the Seaport Alliance and their share of Seaport Alliance revenue in 2016 are as follows²⁷:

- Container terminals and related assets accounted for 84.7% of Seaport Alliance revenues.
- Non-container terminals (e.g., autos, breakbulk, liquid bulks) accounted for 9.8% of Seaport Alliance revenues.
- Other real estate accounted for 5.5% of Seaport Alliance revenues.

The Seaport Alliance is governed by its two Managing Members. Each Managing Member is represented by its Port Commission. Votes by the Managing Members require a simple majority from each commission. The Seaport Alliance has its own annual operating budget and five-year capital investment plan for Seaport Alliance facilities.

The ports remain responsible for their own debt and debt service; the Seaport Alliance is not permitted to borrow funds.

Revenue received from the Seaport Alliance in 2016 represents the Port's 50.0% share of Seaport Alliance net income.

See the Official Statement for the proposed Series 2017C-D Bonds for additional information about the legal framework of the Seaport Alliance.

DESCRIPTION OF OTHER PORT BUSINESSES

Through Other Port Businesses, the Port provides facilities for other cargo shipping operations, cruise terminals, recreational and commercial marinas and dockage, and various commercial and industrial properties.

OVERVIEW OF GLOBAL AND PACIFIC NORTHWEST CONTAINER MARKETS AND TRENDS

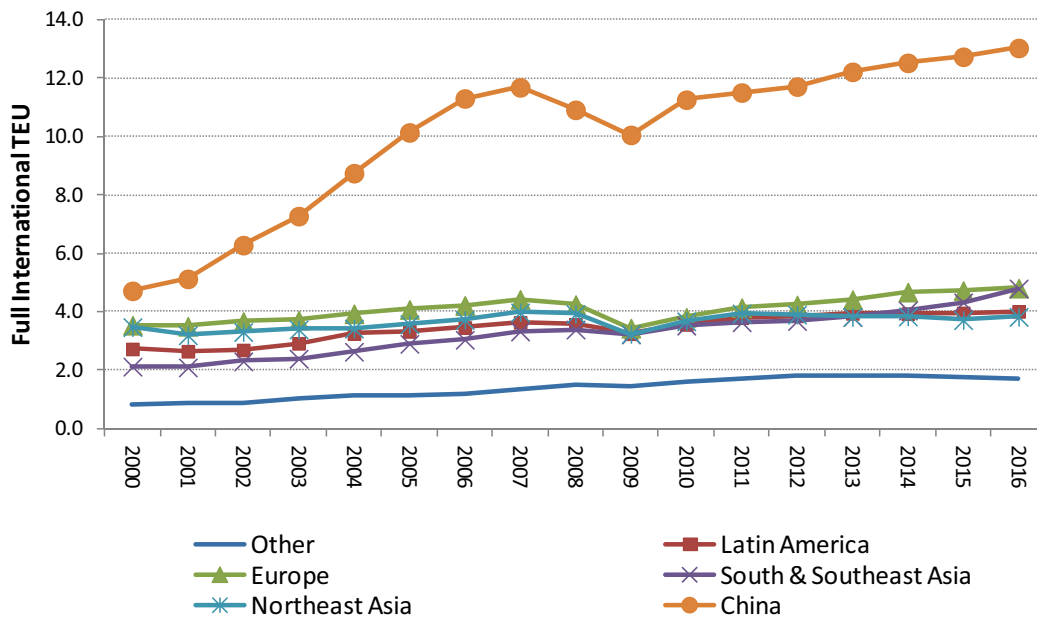
The Seaport Alliance handles cargo for domestic trade routes (Alaska, Hawaii and Intercoastal locations) and international trade routes, which consist mainly of trade with Asia, but also with Oceania, Europe and other international markets. International container traffic accounted for 79.1% of Seaport Alliance container volumes and domestic container traffic accounted for 20.9% of Seaport Alliance container volumes in 2016. International container traffic is reviewed in greater detail due to its relative size and because it is subject to more intense competition than domestic container traffic.

²⁷ Source: The Northwest Seaport Alliance 2017 Budget, page IV – 4.

As shown on Figure 31, the volume of full international containers moving through U.S. ports grew strongly from 2000 through 2007, prior to the beginning of the most recent recession. The recession had a major impact on container volumes, which dropped sharply between 2007 and 2009.

Container volumes recovered steadily from 2010 through 2014, surpassing the 2007 record volume in 2011 and continued to grow through 2016.

Figure 31
VOLUME OF INTERNATIONAL CONTAINERS
 U.S. Ports by World Region



Source: The JOC Group PIERS.

Most of the growth in international container volumes at U.S. ports since 2000 has been due to increasing trade with China. China accounted for less than 27.0% of the trade in 2000, but accounted for more than 40.5% in 2016. U.S.-China container volume grew from 4.7 million twenty-foot equivalent units (“TEUs”) in 2000 to 13.0 million TEUs in 2016. Northeast Asia (excluding China) volume grew from 3.5 million TEUs to 3.8 million TEUs, and accounted for 11.9% of the U.S. total in 2016. The volume from South and Southeast Asia increased faster than the volume from Northeast Asia, growing from 2.1 million TEUs to 4.8 million TEUs, accounting for 14.9% of the U.S. total in 2016. Other trading regions include Europe, which accounted for 14.9% of total volume in 2016, and Latin America/Caribbean, which accounted for 12.5% of volume in 2016.

The selection of a port by shippers and carriers depends upon the size of its local population/employment base as well as its access to inland markets. The cargo shipped inland is referred to as discretionary cargo, since this cargo can shift to other gateways at the discretion of shippers and carriers. Competition for inland markets is higher as the distance of

the market from the port increases. In regions where multiple ports serve a local/regional market area or when cargo is discretionary, several factors can determine a port's competitiveness. Shippers typically consider the reliability of service and the total cost (and time) of shipping from the point of origin to the final destination. Factors include rental rates for terminals and equipment, transit time, efficiencies of on-loading and off-loading, labor costs and productivity, intermodal costs and speed, and access to backhaul cargo. With the advent of ultra large container ships ("ULCS") vessels, there is increased pressure on ports to have the capacity to handle the larger volume of containers unloaded and loaded at an acceptable velocity inside and outside the terminal.

In terms of population and consumption, the Seaport Alliance's local market is small relative to the other U.S. West Coast gateways (i.e. the Los Angeles region and the San Francisco Bay Area). Less than half of the containers received at the Seaport Alliance are distributed within the local market area, and approximately 50% to 60% of imports from Asia are shipped by rail to inland destinations, such as the Midwest.

In California, approximately 55% to 65% of the import containers moving via the Ports of Los Angeles and Long Beach move by rail to inland destinations, but at the Port of Oakland only 20% to 30% of import containers move out of that region by rail.

In Western Canada, the Vancouver Fraser Port Authority (referred to in this Report as the Port of Vancouver) serves as the primary gateway for Asian cargo destined for all of Canada and it competes with the Seaport Alliance for imported Asian container traffic destined for the U.S. Midwest. Approximately 75% of total imports via the Western Canadian ports (Port of Vancouver and Port of Prince Rupert) move by intermodal rail service to inland markets in Canada and the U.S.

One of the most significant changes affecting selection of container ports is the deployment of ULCS. This trend has been developing for years, but accelerated recently, and is expected to continue into the future. In the 1970s, the largest containerships had a capacity of 1,800 TEUs. In the early 1980s, the largest ships had a capacity of 4,000 TEUs. By the mid-1990s, the largest ships reached 8,200 TEUs. The Maersk Triple E class vessels introduced in the mid-2000s, have a capacity of 18,000+ TEUs. The move toward even larger vessels continues, with orders for vessels with 24,000 TEUs of capacity.

The shift to larger vessels impacts ports in several ways. Most notably, alliances among carriers are expanding to increase the utilization of each vessel. The volume of cargo controlled by these alliances gives the carriers significant leverage in negotiating with ports and limits any individual carrier's reliance on a specific port or terminal. In addition, the adoption of the larger vessels has led to a reduction in the number of ports called on each voyage, and has increased the pressure on ports to improve terminal capability and productivity to reduce the time that ships spend in port.

To accommodate the new ULCS, the burden is placed on port operators to invest in:

- Linear berth space exceeding 2,600 feet for two ULCS berthed at the same time.
- Container cranes capable of accommodating the ULCS (with an outreach of 18 containers or more).
- On-dock rail of sufficient size to accommodate intermodal traffic generated by ULCS (24,000 feet of rail trackage).
- Sufficient water depth in navigation channels and at berth to accommodate a 51-foot draft.

The increased capacity of container ships coupled with slower growth in international container traffic has caused financial distress for container lines. During 2016, most container lines recorded negative net income. These conditions caused many changes, including bankruptcy (Hanjin Lines), financial restructuring (Hyundai), and mergers/acquisitions (CMA CGM acquired APL; Cosco acquired China Shipping, etc). International container carriers have also responded to the difficult circumstances by focusing on alliances to obtain targeted load factors, manage capacity and control operating costs. There are three mega-alliances that dominate the transpacific trade routes²⁸:

- 2M – includes Maersk Line, MSC and slot purchase agreements with Hamburg Süd and Hyundai.
- THE Alliance – includes Hapag-Lloyd, Yang Ming, MOL, NYK, UASC and K Line.
- Ocean Alliance – includes CMA CGM, COSCO, Evergreen, and OOCL

Collectively, members of these alliances account for 14 of the top 20 global container lines and control an estimated 78.6% of global container capacity. Carriers participating in alliances are in a better position to collaborate on vessel deployments and port rotations to leverage benefits from larger ships and to add or remove capacity in response to market conditions²⁹.

The impact of larger ships on the physical infrastructure of a port affect the following supply chain components: access channels (width and depth) and air draft (affecting ports limited by bridge heights above navigation channels), berth capabilities (depth alongside, length of berths, size and number of cranes), yard capacity (size of the terminal, type and amount of yard equipment), inland transportation (road and rail access) as well as the ability to expand all components needed to meet future demand.

The need for ULCS-ready container terminals has implications for ports competing for this type of traffic. Intermodal container volume from and to Asia is at risk given industry trends toward larger vessels, combined with a lack of adequate container terminal infrastructure in the ports of Seattle and Tacoma to handle them.

²⁸ Maersk Strategy and performance appendix – Q1 2017, Page 7.

²⁹ Ibid

The Seaport Alliance has three terminals (Terminal 18, Washington United and Pierce County terminals) that can accommodate ULCS with sufficient berth lengths and cranes to stevedore one ULCS vessel at a time, but lacks sufficient intermodal infrastructure necessary to efficiently move containers from the ports to inland rail-served markets.

ULCS vessels also could be accommodated at Terminal 5 and the General Central Peninsula Terminal (combining Husky Terminal with the Olympic Container Terminal). The Seaport Alliance is undertaking the following improvements as part of a strategic initiative to serve ULCS vessels:

- Reconfiguring Pier 4 on the General Central Peninsula to align with an adjacent pier to create one contiguous berth capable of serving two 18,000-TEU container ships. The improvements, which will support larger container cranes and vessels, are expected to be completed in 2018. The Seaport Alliance is planning to purchase eight super-post Panamax container cranes for the General Central Peninsula to serve ULCS vessels.
- In 2016, the Seaport Alliance completed a final Environmental Impact Statement for improvements to serve ULCS vessels at Terminal 5, but has not approved construction costs. For purposes of this Report, no construction costs have been included during the Forecast Period.

Other competing gateway ports (e.g. ports in Long Beach, Los Angeles, Oakland, Port of Vancouver, Port Rupert and Lazaro Cardenas, and ports in New York/New Jersey and Virginia) currently have terminals capable of efficiently handling multiple ULCS vessels concurrently, are actively enhancing their terminal infrastructure, and will be well positioned to capture intermodal market share from Puget Sound if the ports of Seattle and Tacoma do not invest in comparable capabilities for handling ULCS ships.

Future investments in expanded ULCS handling capacity may reduce the following risks:

- The Puget Sound gateway could continue to see reduced market share of intermodal imports that currently pass through its ports.
- Some marine terminal operators (“MTOs”) may propose terminating existing lease agreements and obligations.
- The Port could see a reduction in forecast fixed revenue from tenants.

BNSF Railway and the Union Pacific Railroad provide service to the Seaport Alliance’s nine on-dock and near-dock intermodal rail yards. In previous years, rail capacity was an issue for ports in the Pacific Northwest, but recent infrastructure improvements and operational changes resulted in improvements to weekly intermodal train velocity and terminal dwell time.

RECENT CONTAINER TRENDS AT THE NORTHWEST SEAPORT ALLIANCE

As shown on Table 17, between 2012 and 2016, container volumes moving through the Seaport Alliance (domestic and international routes) declined from 3.6 million TEUs in 2012 to 3.4 million TEUs in 2014 before regaining volumes to 3.6 million in 2016. Seaport Alliance container volumes posted a slight gain of 0.4% on an average annual basis between 2012 and 2016.

International containers, which accounted for 79.1% of total containers, increased at 0.7% per year from 2012 to 2016. Domestic containers, which comprise the remainder (20.9% or less) declined at an average annual rate of 0.9% per year. Domestic volumes were impacted by the decline of the price of crude oil, which reduced exploration and development in Alaska³⁰.

Table 17
SEAPORT ALLIANCE CONTAINER TREND
 All figures are in thousands

Component	Unit	2012	2013	2014	2015	2016	Average annual increase (decrease) 2012-16
International Containers (a)							
Imports	Metric Tons	10,996	10,221	10,083	10,455	10,889	(0.2%)
	Full TEUs	1,340	1,239	1,217	1,308	1,392	1.0
Exports	Metric Tons	12,229	12,411	11,352	10,975	12,485	0.5
	Full TEUs	975	984	908	872	984	0.2
Empty	TEUs	464	413	432	581	483	1.0
Total Intl. TEUs		2,778	2,635	2,557	2,761	2,859	0.7%
Domestic Containers (b)	TEUs	786	821	837	769	757	(0.9%)
Total Containers (c)	TEUs	3,564	3,456	3,394	3,529	3,616	0.4%
Percent TEUs							
Domestic		22.1%	23.8%	24.7%	21.8%	20.9%	
International		77.9%	76.2%	75.3%	78.2%	79.1%	

Note: Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

(a) Approximate weight per full 20-foot equivalent unit (TEU) at the Seaport Alliance is eight metric tons for import cargo and 13 metric tons for export cargo.

(b) Includes volumes handled by Seaport Alliance and non-Port facilities in Seattle's harbor. Includes full and empty containers.

(c) Total for the Seaport Alliance.

Source: Seaport Alliance.

³⁰ Alaska is the primary trading partner for domestic container trade via the Seaport Alliance terminals, accounting for 82% of domestic container trade for the period 2005-2015.

Container volumes increased 8.4% from January 2017 through May 2017 as compared to the same period in 2016. The total increase was the result of a 13.1% increase in international container traffic and a decrease of (8.1%) in domestic traffic.

Demand for Container Terminals

As shown on Table 18, the Seaport Alliance is the 5th largest port in US/Canada behind gateways in Los Angeles, Long Beach, New York/New Jersey and Savannah (which surpassed the Seaport Alliance in 2015). The 6th through 10th largest container ports are in Vancouver B.C., Hampton Roads, Oakland, Houston and Charleston.

Table 18
CONTAINER VOLUME AT NORTH AMERICAN PORTS 2012 to 2016

Rank 2016	Port	Total TEUs (millions)					Average annual increase (decrease) 2012-2016
		2012	2013	2014	2015	2016	
1	Los Angeles	8.1	7.9	8.3	8.2	8.9	2.4%
2	Long Beach	6.0	6.7	6.8	7.2	6.8	3.2
3	New York/New Jersey	5.5	5.5	5.8	6.4	6.3	3.4
4	Savannah	3.0	3.0	3.3	3.7	3.6	4.7
5	Seaport Alliance	3.6	3.5	3.4	3.5	3.6	0.4
6	Vancouver B.C.	2.7	2.8	2.9	3.1	2.9	1.8
7	Hampton Roads	2.1	2.2	2.4	2.5	2.7	6.5
8	Oakland	2.3	2.3	2.4	2.3	2.4	1.3
9	Houston	1.9	2.0	2.0	2.1	2.2	3.2
10	Charleston	1.5	1.6	1.8	2.0	2.0	7.1
	Average for ports listed	3.7	3.8	3.9	4.1	4.1	3.0%

Note: The list excludes container ports in Mexico and the Caribbean because these ports do not currently compete with the Seaport Alliance.

The calculated percent increase (decrease) may be different due to rounding. B.C. is British Columbia.

Sources: American Association of Port Authorities for 2010 to 2015 and individual ports for 2016.

The Seaport Alliance's market share of West Coast container traffic declined from 18.2% in 2000 to 14.1% in 2016, as shown on Table 19. The major reason for the decline at the Seaport Alliance was the loss of discretionary intermodal container traffic to ports in British Columbia and Southern California, which is reviewed in greater detail below.

Most of the West Coast growth between 2012 and 2016 occurred at ports in Southern California and in British Columbia. In Southern California, Los Angeles gained 779,000 TEUs during that period and Long Beach gained 730,000 TEUs. In British Columbia, Port of Vancouver gained 216,000 TEUs and Prince Rupert gained 172,000 TEUs. The Seaport Alliance gained only 51,000 TEUs during that period.

Table 19
WEST COAST CONTAINER TRENDS
(1,000 TEUs)

Year	West Coast					Seaport Alliance	
	Total Northwest (NW)			Other West Coast Ports (c)	Total	Percent of Total	
	Seaport Alliance (a)	Other Northwest (b)	Total Northwest			of Northwest	of West Coast
A	B	C = A+B	D	E = C+D	F = A/C	G = A/E	
2000	2,864	1,535	4,400	11,324	15,724	65.1%	18.2%
2012	3,564	3,484	7,048	16,572	23,620	50.6	15.1
2013	3,456	3,574	7,030	17,149	24,179	49.2	14.3
2014	3,394	3,729	7,123	17,762	24,885	47.6	13.6
2015	3,529	3,897	7,426	17,849	25,276	47.5	14.0
2016	3,616	3,710	7,326	18,239	25,565	49.4	14.1
Average annual percent increase							
2000-2012	1.8%	7.1%	4.0%	3.2%	3.4%		
2012-2016	0.4%	1.6%	1.0%	2.4%	2.0%		

Note: Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

(a) Includes public and private terminals in the Seattle Harbor.

(b) Other Pacific Northwest ports include Portland, Rainier, Everett, Vancouver, B.C., and Prince Rupert, B.C.

(c) Other West Coast Ports include Long Beach, Los Angeles, Oakland, San Diego, Port Hueneme, and San Francisco, among others.

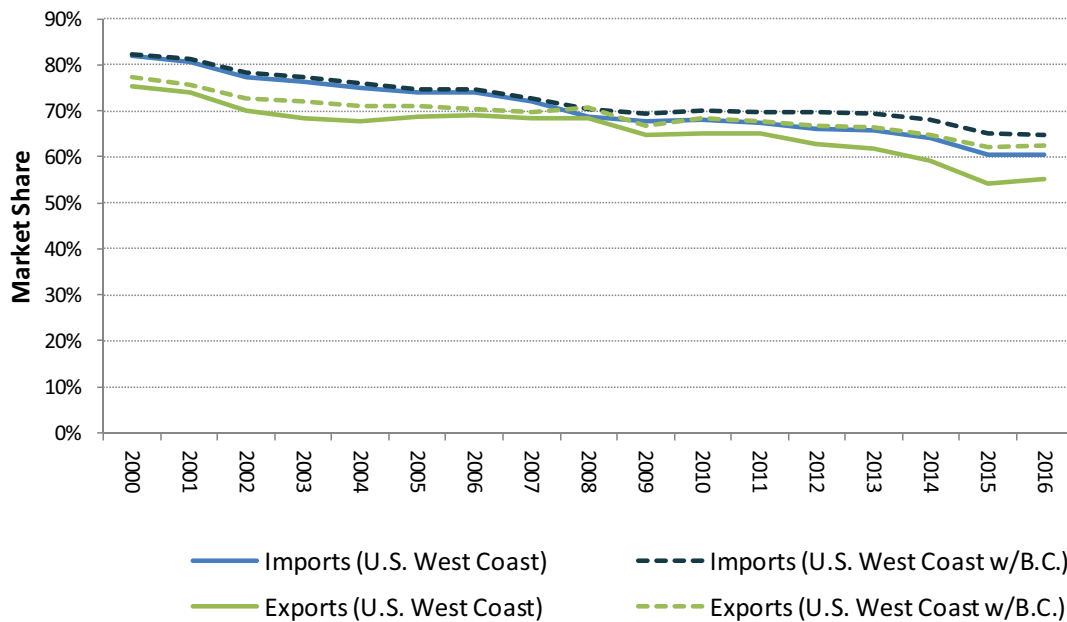
Sources: American Association of Port Authorities, Pacific Maritime Association, individual ports.

Prepared by: BST Associates.

West Coast ports handle the majority of containerized cargo that moves from Asia to the United States, but the U.S. West Coast market share has declined steadily since 2000 as ports on the East Coast, Gulf Coast, and British Columbia have attracted cargo from Asia. Between 2000 and 2016, the share of U.S.-Asia containerized imports that moved through U.S. West Coast ports declined from 81.9% to 60.3%, and the share of exports fell from 75.3% to 55.2%, as shown on Figure 32³¹.

U.S. East Coast market share of the U.S.-Asia import container trade grew from 17.4% in 2000 to 32.1% in 2016, U.S. Gulf Coast market share grew from 0.2% to 3.2%, and Western Canada market share grew from 0.5% to 4.5%. For containerized exports, the U.S. East Coast market share grew from 22.4% to 33.5%, U.S. Gulf Coast market share grew from 0.4% to 4.1%, and Western Canada market share grew from 1.9% to 7.1%.

Figure 32
WEST COAST SHARE OF ASIA-NORTH AMERICA CONTAINER MARKET
 With and Without Ports in British Columbia



Source: PIERS, IANA.

Prepared by: BST Associates.

Since the development of mini-landbridge service (i.e., ocean containers carried by rail), shippers on the East and Gulf Coasts have had some ability to choose between the relatively higher speed and higher cost of shipping via rail through West Coast ports, and the relatively lower speed and lower cost of all-water routings. Over time, much of the cargo that once moved to East and Gulf coasts via West Coast ports and rail has shifted to ports along the East and Gulf Coasts. The Seaport Alliance now handles very little intermodal cargo destined for the East and Gulf Coasts. Shippers sought to diversify their imports, adopting a four-corner

³¹ Container traffic between British Columbia and the US is provided by the Intermodal Association of North America. IANA measures units, which include full and empty containers. Eastbound units are full but westbound units include a significant number of empty containers.

strategy, which directs cargo to the closest port serving the inland region. High population growth rates in the southern states have also increased the efficiency of using southern ports as international gateways, and a significant number of import distribution centers have been developed near East and Gulf Coast ports to handle increasing volumes of containerized trade.

The main impediment to growth in the Asia to East/Gulf Coast container trade was the size and capacity of the Panama Canal. Construction of a third set of locks designed to handle vessels up to 13,000 TEUs was completed in mid-2016. The redevelopment of the Panama Canal so far has had a small effect on the diversion of containers to/from Asia away from West Coast ports to the East/Gulf coast ports.

The major competition for the Seaport Alliance is in service to the U.S. Midwest. West Coast ports remain competitive gateways for Asian cargo, but competition for inland cargo is also growing. The competition for cargo destined for Chicago and the upper Midwest has intensified due to services from Western Canada (Port of Vancouver and Port of Prince Rupert). The two main Canadian railroads, Canadian Pacific and Canadian National, both offer direct service from Western Canada to the Chicago area and beyond. The rail distance from Vancouver to Chicago is not substantially different than the distance from Puget Sound or California ports, and the ocean distance from Asia to Vancouver is essentially the same as from Asia to Seattle or Tacoma. Prince Rupert is a longer rail distance from Chicago, but a much shorter ocean distance. Since opening in 2008, the Prince Rupert container terminal has been very successful in attracting U.S. Midwest cargo.

Competition from other ports (primarily West Coast ports) is likely to constrain future growth at the Seaport Alliance, which is discussed in the container forecasts.

SEAPORT ALLIANCE FACILITIES

The Seaport Alliance is comprised of terminals and properties that are licensed by the Port of Seattle to the Seaport Alliance (designated as North Harbor) and by the Port of Tacoma (designated as South Harbor).

Container Terminals and Related Facilities

Approximately 84.7% of the revenue generated by the Seaport Alliance in 2016 was associated with container facilities. Most of the container terminals have leases that extend beyond the Forecast Period (ending 2022), as shown in Table 20. The exceptions are Terminal 5, APM Terminal (to be renamed West Sitcum) and OCT Terminal (to be renamed Tacoma Container Terminal), where leases expire in 2017 or 2018.

In the financial forecast presented later in this Report, the Seaport Alliance assumes that:

- The Foss Maritime lease at Terminal 5 will terminate in 2017 and Terminal 5 will remain vacant, except for incidental use, during the Forecast Period.
- Leases will be negotiated with replacement tenants at APM Terminal and OCT Terminal.

Non-Container Terminals and Industrial Properties

The Seaport Alliance also manages a number of other properties other than container terminals. Revenue from these terminals and properties were approximately 15.3% of the total revenue generated by the Seaport Alliance in 2016. Some of the properties are used for cargo operations, including: barge transport, tug operations, roll-on, roll-off autos and auto storages, breakbulk cargo, and log shipment and storage. Other properties are used for cargo support like storage and maintenance of containers, chassis tractors, and trailers, or are leased for other industrial purposes.

Table 20
CONTAINER FACILITY LEASES

	Port Owner	Primary Lease	Acres of Terminal Area	Lease Expiration
Terminal 5	Port of Seattle	Foss Maritime	185 (a)	2017
Terminal 18	Port of Seattle	SSA Terminals, LLC and SSA Containers, Inc. (b)	196	2039
Terminal 30	Port of Seattle	SSA Terminals (Seattle), LLC (c)	70	2039
Terminal 46	Port of Seattle	Terminals Investment Limited	88	2025
APM	Port of Tacoma	APM Terminals	135	2017 (d)
Husky	Port of Tacoma	International Transportation Services (ITS)	93	2046
OCT	Port of Tacoma	Ports America Washington	54	Month-to-month (e)
PCT	Port of Tacoma	Evergreen Marine Corporation	141	2024
WUT	Port of Tacoma	Washington United Terminals (WUT)	123	2028
TOTE	Port of Tacoma	Totem Ocean Trailer Express (TOTE)	48	2034

(a) Foss Maritime leased approximately 50 of the 185 acres at Terminal 5. The lease expired on June 30, 2017.

(b) The original lease named SSA Terminals, LLC and Stevedoring Services of America, Inc., as Lessees. Subsequent Lessee name changes from Stevedoring Services of America, Inc. to SSA Marine, Inc., and then to SSA Containers, Inc. were solely changes in identification and not in ownership or control. SSA Terminals is a wholly-owned subsidiary of SSA Containers, Inc. SSA Terminals, Inc. can be sole signer with consent from the Port.

(c) SSA Terminals (Seattle), LLC is a joint venture among SSA Seattle, LLC, China Shipping Terminals (USA), LLC, and Matson Seattle LLC.

(d) As of the date of this Report, the Seaport Alliance is in negotiations with a replacement tenant. This terminal is being renamed West Sitcum.

(e) The terminal is being renamed Tacoma Container Terminal.

Source: Port of Seattle; Port of Tacoma; Seaport Alliance.

FORECAST OF PORT CONTAINERIZED CARGO

Characterizing Cargo Volumes

The composition of container volumes passing through the Seaport Alliance is presented in Table 17. Domestic cargo, which are primarily shipments and receipts to/from Alaska, and international cargo (e.g., retail goods) that are imported for local consumption (e.g., retail goods) or as an input to local/regional production (e.g., manufactured products such as parts for Boeing airplanes) and outbound products generated by local/regional producers (e.g., agricultural products) are less susceptible to diversion to other ports because the transportation economics favor the Seaport Alliance.

The competition for discretionary cargo focuses on intermodal cargo volumes. As the distance from port to market increases, there are several other options for transporting containers. Imported containers that move to inland markets (primarily to/from the U.S. Midwest) accounted for approximately 18.0% of total container volume through the ports of the Seaport Alliance. If the inbound intermodal container traffic is diverted it could also impact some outbound shipments from the U.S. Midwest destined for Asia.

Key Factors Affecting Container Volume

Key factors that will affect future container volumes at the Seaport Alliance include: the relative price of transportation, levels of service, and the provision of state of the art container terminals and related transportation infrastructure.

The Seaport Alliance is discussing ways to improve service and pricing with the railroads. The cost of moving a container from ports in Vancouver and Prince Rupert to Chicago is estimated to be as much as \$250 to \$400 cheaper than shipping via the Seaport Alliance to Chicago based upon estimates provided by shippers³². Efforts are underway to mitigate the cost associated with the Harbor Maintenance Tax (HMT), which is estimated by the FMC to be approximately \$109 per container. Changes in Section 2106 improve the price differential, but even with full compensation for HMT there may still be a \$150 to \$300 per container additional cost for inland rail charges. This additional cost may be overstated when including savings associated with drayage between U.S. railroads in the Chicago area because the U.S. rail yards are closer to other rail yards and logistics centers than their Canadian counterparts. The Seaport Alliance is focusing on improving service in order to mitigate the cost differential³³.

³² Source: Pacific Northwest ports prep for alliance-operated mega –ships, Journal of Commerce, June 30, 2016.

³³ Ibid.

U.S. import traffic moving through British Columbia ports must remain in ocean containers (which are typically 20 feet, 40 feet and 45 feet long), but a growing share of container imports through Puget Sound ports are transloaded into domestic containers of 53 feet. Industry experts indicate that two 53-foot containers can hold the contents of three 40-footers,³⁴ which reduces the number of containers and can lead to a rail cost advantage for some shippers. TTX estimates that the share of imports via Puget Sound ports being transloaded into domestic containers has increased from 24.8% of the containerized intermodal imports in 2009 to 38.8% in 2016³⁵.

Another factor impacting container intermodal rates is the length of the intermodal trains and load factors. The Port of Seattle and the Port of Tacoma are working with BNSF and UPR to find ways to improve intermodal service, such as longer trains and improved service.

As a result of these factors, the cost differential may be lower between Puget Sound and British Columbia container ports but it is difficult to quantify because railroads do not report intermodal rail rates, which are confidential.

Some shippers have reportedly shifted intermodal cargo to competing ports as a result of service difficulties in 2014. It is uncertain whether U.S. West Coast ports will be able to attract lost cargo back from alternative gateways.

The Seaport Alliance will need to improve the ability of its container terminals to accommodate future ULCS vessels, and to meet the challenges from competing ports that are already planning or begun improvements to serve ULCS vessels. However, the costs of these improvements are dependent on longer-term interest from a private partner, such as a carrier, stevedore and/or tenant.

The date at which the improvements discussed above are required is uncertain. MSI, which conducted a study of the container fleet for the Port in October 2015 found: “MSI expects the transitions to larger ships to take place at a steady rate with 3.9k-5.2k the first to be largely phased out by 2016. The predominant vessels on the US West Coast transpacific trade lane is forecast to be 7.6-12k TEU until the upsizing to 12k + TEU vessels come into significant effect post 2022 due to a rapidly growing trend of that size in the order book and delivery schedules”³⁶. The requirement to service larger vessels is expected to occur beyond the Forecast Period. However, plans by tenants to secure adequate terminal space could occur during the Forecast Period. The Seaport Alliance is responding to these changes through its strategic plan.

Forecast of Container Volume at Pacific Northwest Ports

Given these challenging market conditions, it is likely that the share of the Seaport Alliance will continue to decline as a share of the Pacific Northwest (defined as the region from Prince Rupert to Portland). Additional diversions are forecast to reach 400,000 TEUs by 2022 (net

³⁴ Source: TTX 2016 Transload to Rail Report.

³⁵ Source: TTX 2016 Transload to Rail Report.

³⁶ Source: MSI, Source: Forecast for Container Trade and Container Fleet composition for the Port of Seattle, October 2015, page 25.

increase from 2016 actual to forecast 2022). Seaport Alliance container volumes are forecast to grow more modestly from continued diversions, with growth rates ranging from 1.1% (low) to 4.0% (high) per year from 2016 to 2022³⁷.

As shown on Table 21, Seaport Alliance management forecasts that container volumes will increase by 1.3% per year from 2016 to 2022, reaching 3.9 million TEUs in 2022. BST Associates has reviewed the Port forecast and finds it reasonable.

Table 21
SEAPORT ALLIANCE CONTAINER FORECAST (1,000 TEUS)

Year	International	Domestic (a)	Total
Actual			
2012	2,778	786	3,564
2013	2,635	821	3,456
2014	2,557	837	3,394
2015	2,760	769	3,529
2016	2,859	757	3,616
Forecast			
2017	2,791	680	3,471
2018	2,874	666	3,540
2019	2,960	653	3,613
2020	3,049	655	3,704
2021	3,141	658	3,799
2022	3,235	661	3,896
Average annual increase (decrease)			
2012-2016	0.7%	(0.9%)	0.4%
2016-2022	2.1%	(2.2%)	1.3%

Note: Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

(a) Includes domestic cargo at non-port terminals in the North Harbor.

Source: Seaport Alliance.

Non-Container Business: The non-container business (i.e., breakbulk, logs, dry and liquid bulk cargoes and autos) makes a small contribution to revenue, but diversifies the gateway's business portfolio. The Seaport Alliance jointly reports all cargo moving through the Ports of Seattle and Tacoma. All terminals that handle non-container cargo are licensed to the Seaport Alliance, except grain elevators (one to each Port).

³⁷ Source: Washington State Marine Cargo Forecast, 2017, BST Associates with assistance from IHS Global and MainLine Management.

The trends and forecasts of non-container cargoes are provided in Table 22.

- Seaport Alliance handles a variety of breakbulk products (i.e., agricultural/mining equipment and military cargoes et al). Breakbulk volumes declined from 2012 to 2016 but are forecast to increase to volume levels that occurred in 2012/2013. Under Seaport Alliance management’s forecasts, the Seaport Alliance market share of PNW breakbulk cargoes would average 9.1% to 10% from 2017 to 2022, which is similar to recent trends³⁸.

Table 22
NON-CONTAINER FORECAST (1,000 METRIC TONS)

Year	Break Bulk	Autos	Logs	Grain (a)	Liquid Bulks		Total
					Petroleum	Molasses	
Actual							
2012	304	204	342	7,517	621	75	9,062
2013	250	226	389	3,841	788	48	5,544
2014	253	252	277	7,548	998	50	9,379
2015	234	271	237	6,334	815	44	7,935
2016	181	246	177	7,691	685	44	9,025
Forecast							
2017	187	240	126	6,497	689	46	7,785
2018	187	228	--	6,497	690	48	7,650
2019	203	230	--	6,497	690	48	7,669
2020	221	232	--	6,497	690	48	7,689
2021	241	234	--	6,497	690	48	7,710
2022	262	237	--	6,497	690	48	7,734
Average annual increase (decrease)							
2012-2016	(12.1%)	4.9%	(15.2%)	0.6%	2.5%	(12.7%)	(0.1%)
2016-2022	6.3%	(0.7%)	(100.0%)	(2.8%)	0.1%	1.7%	(2.5%)

Note: Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

(a) The Seaport Alliance reports all non-containerized marine cargoes moving through public terminals in the North and South Harbors. However, the grain terminals in the North and South harbors are not licensed to the Seaport Alliance.

Source: Seaport Alliance.

³⁸ Shares of PNW (defined to include the Oregon and Washington sides of the Columbia River, Washington Coast and Puget Sound) cargo categories are based on the Washington State Marine Cargo Forecast, 2017, BST Associates with assistance from IHS Global and MainLine Management.

- Seaport Alliance serves several auto customers (Kia, Mazda, and Mitsubishi et al). Seaport Alliance projections for autos indicates a volume decline in 2017 and 2018 due to expected shifts in customer business. Under Seaport Alliance management's forecasts, the Seaport Alliance share of PNW auto volumes would average 19.8% from 2017 to 2022, which is slightly lower than recent trends.
- Log exports are expected to continue at a moderate level.
- Seaport Alliance bulk grain volumes fluctuate depending on harvest conditions and competition between terminals. Seaport Alliance forecasts that volumes will average 6.5 million tons (3.7 million metric tons in the North Harbor and 2.7 million metric tons in the South Harbor) from 2017 to 2022. This forecast indicates a slight decline in PNW market share.
- Liquid bulks (petroleum products and molasses) are also expected to remain relatively stable during the Forecast Period. Seaport Alliance liquid bulks are expected to decline from approximately 10.6% of non-crude liquid bulks in the PNW to approximately 7.1% during the Forecast Period.

BST Associates has reviewed assumptions and forecasts prepared by the Seaport Alliance and has determined that both are reasonable.

ACTIVITY AT OTHER PORT BUSINESSES

Other Port Businesses primarily include the Maritime Division, the Economic Development Division, and the Stormwater Utility.

Overview of Maritime Division

The Port's maritime business includes cruise terminals, grain exports, industrial properties (T91 and T106), certain commercial and recreational marinas, and maritime operations and security. This section reviews the largest segments of the Maritime Division: cruise operations, grain terminal and industrial properties.

Cruise

The Port owns cruise terminals at Pier 66 and Pier 91. Pier 66 is leased to Norwegian Cruise Line Holdings until 2030 and Pier 91 is leased to Cruise Terminals of America until 2019.

The cruise market in Seattle consists mainly of voyages to Alaska from May through September. The cruise passenger forecast on Table 23 shows that the Alaska cruise market (via Seattle and Vancouver B.C.) has grown from 1.6 million passengers in 2012 to 1.8 million in 2016, equal to average annual growth of 3.1%. The forecast for cruise passengers in the Alaska market assumes growth from 2.4% (low) to a high of 4.8% (high) per year from 2016 to 2030. Using the low forecast, the number of passengers is expected to grow to 2.1 million passengers by 2022. The cruise market is evenly divided between Seattle and Vancouver, B.C.

Port management expects an increase to 1.0 million cruise passengers in 2017 due to an increase in port calls, a smaller increase in 2018 (to 1.1 million passengers), and then remaining at this level through 2022. During the Forecast Period, the Port’s market share of cruise passengers would average 55.6% during the Forecast Period, which is slightly higher than the trend from 2012 through 2016 (53.5%). BST Associates has reviewed the Port of Seattle forecasts and finds them reasonable.

Grain

The Port owns a grain export elevator (Terminal 86) located near the north end of the Seattle Harbor, adjacent to Terminal 91. The grain terminal is leased to LDC Washington LLC (an entity within the Louis Dreyfus Commodities Group) through October 2034. The annual capacity of the terminal is estimated at 6.0 million metric tons.

The Port forecasts that Terminal 86 will export 3.7 million metric tons per year from 2017 through 2022. Unlike containers, revenue from bulk operations is directly tied to cargo throughput. Based on historical volumes handled at the terminal and on USDA forecasts, BST Associates has reviewed the Port forecast and finds it reasonable.

Table 23
PORT OF SEATTLE CRUISE PASSENGER FORECAST
(1,000s of Passengers)

Year	Seattle (a)	% PNW	PNW (b)
Actual			
2012	935	58%	1,601
2013	871	52%	1,683
2014	824	50%	1,636
2015	898	53%	1,703
2016	984	54%	1,810
Forecast			
2017	1,039	56%	1,854
2018	1,104	58%	1,899
2019	1,104	57%	1,944
2020	1,104	55%	1,991
2021	1,104	54%	2,039
2022	1,104	53%	2,088
<u>Average annual increase (decrease)</u>			
2012-2016	1.3%	(1.8%)	3.1%
2016-2022	1.9%	(0.5%)	2.4%

Note: Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

(a) Port of Seattle.

(b) PNW is defined as Seattle and Port of Vancouver.

Sources: Port of Seattle, Port of Vancouver and BST Associates.

Industrial Properties in the Maritime Division

Key tenants of other industrial properties include: Trident Seafood's, Marel, stevedoring companies, charter and excursion vessels, tug and barge companies, large fishing and commercial vessels, the United States Navy and other ships of state. Industry sectors served include marine transportation, heavy equipment fabrication, staging and transport, grain products, the commercial seafood industry, bunker and distillate fuels, tug and barge services, food processing and cold storage.

The Puget Sound's industrial market has been consistent and steady with high occupancy rates. This trend is expected to continue through the Forecast Period. Absorption of industrial space has outpaced the delivery of new space that supports the high occupancy (approximately 95.0%) and low vacancy (approximately 5.0%) that Port industrial properties have maintained³⁹.

Terminal 91. Terminal 91, which contains 8,502 feet of moorage on a 152-acre (62 hectare) site and includes two piers, is the largest non-containerized marine cargo facility owned by the Port and hosts the broadest diversity of non-containerized cargo uses. Terminal 91 supports vessels and uses such as moorage, loading supplies and unloading of fish/seafood products, and gear for fishing vessels and other commercial vessels bound to and from Alaska. Port staff executes leases, assigns moorage space and storage facilities to maximize the use of the terminal in the safest and most efficient manner. For example, some of the vessels that homeport at Terminal 91 during the winter months may utilize moorage space that is utilized by cruise ships during the cruise season. Barges are frequently moored at Terminal 91 since the facility is large enough to accommodate them.

Terminal 106 East. Terminal 106 East is located west of the Alaskan Way Viaduct as it returns to grade south of downtown Seattle and is leased to the Washington State Department of Transportation.

Maritime Operations and Security. Port Security is responsible for developing and implementing security plans and procedures at each of the Port facilities, to reduce the chance that the Port facilities will be involved in a maritime security incident. Port Security administers grants to pay for a portion of its operations.

Commercial and Recreational Marinas. The Commercial and Recreational Marinas Group manages, operates, and markets the water and landside assets at five marinas, offering moorage, storage, yards, and a variety of other products and services. The two commercial fishing moorage facilities (Fishermen's Terminal, Maritime Industrial Center) are home to the North Pacific Fishing Fleet and provide space for more than 600 commercial fishing vessels, commercial work vessels as well as recreational vessels. The three recreational marinas (Shilshole Bay Marina, Bell Harbor Marina, and Harbor Island Marina) provide facilities for more than 1,600 recreational, commercial fishing, and commercial pleasure vessels and, on an annual basis, more than 13,000 guest boaters. Landside facilities include a boatyard, retail restaurants, sailing clubs, yacht brokers and commercial office tenants.

³⁹ Sources: Port of Seattle, Q1 2017 Financial Performance Report, and Daily Journal of Commerce, Retailers, shippers push demand for industrial space, February 23, 2017

Stormwater Utility. In 2015, the Port established a stormwater utility for stormwater facilities on the Port’s non-Airport properties previously owned and maintained by the City of Seattle. The utility assesses fees to Port tenants and to the Seaport Alliance previously assessed by the City. All revenues collected by the utility are solely for the operation, maintenance and improvements of stormwater utilities.

Overview of Economic Development Division

The Economic Development Division encompasses Real Estate, Portfolio and Asset Management, Tourism, Real Estate Planning and Development, and Workforce Development and Small Business. The division includes the following properties and services:

- Real Estate assets located from Terminal 91 to Pier 2/CEM site in West Seattle. This includes various retail, office and industrial properties. CEM refers to the name of the previous owner.
- Conference and Event Center facilities include the Bell Harbor International Conference Center, the World Trade Center Seattle, Smith Cove Conference and Event Center and the Maritime Event Center.
- Real Estate Development and Planning plans and facilitates the development of selected real estate assets currently within its own portfolio and provides development expertise and support to the Maritime and Aviation Divisions. The team also identifies and evaluates new opportunities outside the Port’s current portfolio and completes other transactions related to Port assets.
- Port activities to ensure access to business opportunities for all small businesses, including minority and women owned businesses. Efforts include management of the Port’s Workforce Development Strategy, among other activities.
- Tourism is designed to help promote tourism in the region and through Port facilities.

FINANCIAL FORECASTS

The following section reviews the assumptions and financial forecasts for the Seaport Alliance and Other Port Businesses.

Seaport Alliance

During the Forecast Period, the Port assumes that it will continue to receive 50.0% of Seaport Alliance net income, which is consistent with its “membership interest” in the Seaport Alliance in 2017. Revenue to the Port from the Seaport Alliance is based on operating and non-operating revenue, net of all expenses including depreciation. See the Official Statement for the proposed Series 2017C-D Bonds for additional information about the Seaport Alliance.

The key assumptions used by the Seaport Alliance to forecast operating revenues are summarized below.

Seaport Alliance management assumes that activities in the container terminals will change as follows:

- Container terminal leases that expire before the end of the Forecast Period:
 - The interim lease by Foss Maritime at Terminal 5 terminates in 2017 and is not expected to be replaced during the Forecast Period. Revenues from Terminal 5 during the Forecast Period are equal to the annual payment to be made by the prior tenant under the terms of their lease termination.
 - The Seaport Alliance is currently in negotiations with a replacement tenant at APM and has entered into a month-to-month lease with a tenant at OCT. The 2017-2021 forecast, which was used for purposes of these specific assumptions, assumed that the APM revenue would continue at current levels, while revenues from OCT would decline.
- Other container leases (Terminal 18, Terminal 30, Terminal 46, Husky Terminal, Pierce County Terminal, Washington United Terminal and TOTE) will remain in effect pursuant to the terms of those leases. Usage patterns for the intermodal terminals will increase slightly with activity.

The Seaport Alliance's financial forecasts are through 2021. For purposes of this Report, it was assumed that the forecast results in 2022 are equal to the forecast results in 2021.

Operating revenues for containers (international and domestic terminals and intermodal yards) come from property rentals, sales of utilities, service charges, equipment rentals and other revenues. Operating revenues are expected to decline slightly in 2017 (as a result of the termination of the Foss Maritime lease at Terminal 5, among other factors). Seaport Alliance management forecasts that its operating revenue will increase steadily from 2017 through 2021:

- The negotiated lease payments from APL/NOL at Terminal 5 will continue.
- Lease and use rates at other container terminals and intermodal yards will increase pursuant to their respective leases and levels of activity.

Operating revenues for non-container terminals and real estate are expected to decline slightly in 2017 as a result of decreased terminal throughput and then increase through the end of the Forecast Period.

For the period 2016-2022, operating revenues from all Seaport Alliance sources are forecast to increase at an average annual rate of 0.5%.

Operating expenses of the Seaport Alliance include direct expenses associated with terminal operations and indirect expenses that are not forecast on a facility-by-facility basis. Certain expenses are variable, as they are tied to volumes of activity. In total, operating expenses of the Seaport Alliance are forecast to increase at an average annual rate of 4.5% per year from 2016 to 2022. Much of the forecast annual increase in operating expenses is due to depreciation as assets are ready and available for their intended use.

Table 24 reports the operating revenue to the Port from the Seaport Alliance. Revenue in 2016 included a one-time non-operating revenue from the tenant at Terminal 18; this payment is not expected to be repeated during the Forecast Period. The Seaport Alliance does include in its forecast of net income certain non-operating revenues such as grants, which are included in the forecast of operating revenue to the Port.

Other Port Businesses

This section reviews the assumptions and findings of the financial forecasts for the Port's Other Port Businesses, which are under the responsibilities of the following divisions of the Port: Maritime Division, Economic Development Division, and Stormwater Utility).

The key assumptions used by the Port of Seattle to forecast operating revenues associated with Other Port Businesses include the following:

Cruise Terminals. The Port's lease with Cruise Terminals of America (CTA) expires in 2019. It was assumed that the lease with the terminal operator will be renewed or that a new cruise terminal operator will be found and that the business terms of a renewed or new lease would be similar to terms in the existing lease.

Grain Terminal. The Port's lease with LDC Washington LLC extends beyond the Forecast Period. It was assumed that the lease will be maintained during each year of the Forecast Period.

Industrial and Commercial Properties. These properties have long-term leases as well as month-to-month leases. It was assumed that existing occupancy rates would continue through the Forecast Period and that lease rates would increase at 2.5% per year, similar to the rates in longer-term leases.

Commercial and Recreational Marinas. Leases were assumed to approximate existing levels of occupancy, and moorage and upland rates are assumed to increase based upon market conditions.

Economic Development. Economic development projects such as workforce development are generally funded by the Port's property tax receipts.

Summary of Forecast Operating Revenues and Operating Expenses

Table 24 summarizes the forecast of revenue from the Port of Seattle's share of Seaport Alliance net income as well as the forecast of operating revenues and operating expenses from Other Port Businesses.

Port of Seattle Revenue from Seaport Alliance. In 2016, the Port's share of net income from the Seaport Alliance was \$61.6 million (after depreciation and including a one-time non-operating revenue from the tenant at Terminal 18).

The Port's 50.0% share of Seaport Alliance net income is expected to decline from \$61.6 million in 2016 to approximately \$46.7 million in 2017, and then is forecast to increase to approximately \$51.1 million by 2021. For purposes of this Report, the Port has assumed that its 50.0% share of forecast Seaport Alliance net income in 2022 would be equal to the amount of net income forecast for 2021.

The decline in Port operating revenue from the Seaport Alliance from 2016 to 2017 is largely due to (1) a one-time payment in 2016 (but not 2017) from the tenant at Terminal 18, (2) a budgeted increase in operating expenses and depreciation from 2016 to 2017, and (3) a decline in revenues from Terminal 5.

From 2017 through 2022, the Port's operating revenue from Seaport Alliance net income is forecast to increase at an average annual rate of approximately 1.8% per year, which annual growth assumes, among other things, that the Port will continue not to receive any revenues from Terminal 5 and Seaport Alliance depreciation will increase each year of the Forecast Period as assets are ready and available for their intended use.

Port of Seattle Operating Revenues and Operating Expenses from Other Port Businesses. The increase in operating revenues for Other Port Businesses is forecast to come from leases associated with cruise terminals, grain terminal and industrial properties. As shown on Table 24, operating revenues for Other Port Businesses are forecast to increase from approximately \$71.6 million in 2016 to approximately \$88.3 million in 2022, representing an average increase of 3.6% per year.

Operating expenses are forecast by the Port of Seattle to increase from \$64.1 million in 2016 to \$90.6 million in 2022, representing an average increase of 5.9% per year. Much of the increase in operating expenses is due to forecast maintenance costs.

Port of Seattle Combined Net Income from Seaport and Other Port Businesses. The Port's combined net income from the Seaport Alliance and Other Port Businesses was \$69.2 million in 2016. Net income is forecast to fall to approximately \$36.8 million in 2017 and then increase to approximately \$48.9 million in 2022. From 2016 through 2022, net income is forecast to decrease at an average annual rate of (5.6%) per year.

Table 24
**FORECAST OPERATING REVENUES, OPERATING EXPENSES, AND NET OPERATING INCOME
 FROM SEAPORT ALLIANCE AND OTHER PORT BUSINESSES**
 (in thousands)

Year	Port operating revenues from Seaport Alliance (a)	Other Port Businesses Operating Revenues	Other Port Businesses Operating Expenses	Combined Net Operating Income
	[A]	[B]	[C]	[A+B-C]
Actual				
2016	\$61,584	\$71,627	\$64,059	\$69,152
Forecast				
2017	\$46,708	\$72,815	\$82,692	\$36,831
2018	44,328	75,303	84,183	35,448
2019	55,109	78,200	83,507	49,802
2020	54,120	82,312	85,407	50,961
2021	51,144	85,240	87,978	48,406
2022	51,144	88,312	90,565	48,891
Average annual rate of growth				
2016-2022	(3.0%)	3.6%	5.9%	(5.6%)

Note: Columns may not add to the totals shown or the calculated percent increase (decrease) may be different due to rounding.

(a) Represents the Port of Seattle's share of Seaport Alliance net income before capital contributions.

Sources: Seaport Alliance, Port of Seattle.

APPENDIX D

SUMMARY OF THE PORT'S TAXING POWER

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PORT'S TAXING POWER

Taxing Authority

The Port has statutory authority to levy property taxes within its boundaries (which are co-terminus with the boundaries of King County (the "County")) for general purposes of the Port, including the establishment of a capital improvement fund for future capital improvements and the repayment of unlimited tax and limited tax general obligation bonds of the Port, to finance certain industrial development activities and to fund special projects (the "Tax Levy"). In the County, property taxes are collected by the County's Department of Finance (the "County Treasurer") and distributed to the various taxing districts (including the Port) that levy *ad valorem* taxes upon taxable property within the County. See "TAX LEVY RATES, RECORDS AND PROCEDURES" below.

The Tax Levy may be imposed at a rate not to exceed \$0.45 per \$1,000 of assessed value of taxable property within the Port district, as described below under "Tax Levy." However, the Tax Levy is also subject to the 101 percent statutory limitation on annual increases described below under "Levy Limits." Thus, the maximum Tax Levy is determined by the first to be reached of the \$0.45 millage rate or the 101 percent statutory limitation. The Port's 2017 Tax Levy is budgeted to be \$72.0 million (an estimated millage rate of \$0.1533) as shown on Table D-1, entitled "Tax Levy Activity 2013–2017."

Levy Limits

Tax levies for port districts are subject to certain statutory limitations, but not to the tax levy limitations set by the State Constitution. The statutory limitation on annual increases in the dollar amount of regular property taxes is set forth in chapter 84.55 RCW, which limits the total dollar amount of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years, multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the greater of (i) the lesser of 101 percent or 100 percent plus inflation (the implicit price deflator for personal consumption for the United States); or (ii) any percentage up to 101 percent, if approved by a majority vote plus one vote of the governing body of the taxing district, upon a finding of substantial need. Because the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) that exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy amount. Decreases in the assessed value of all property in the taxing district could require a higher regular tax levy rate to produce the same total dollar amount. Chapter 84.55 RCW permits any taxing district, including the Port, to seek approval from the electors for a tax increase in excess of the levy limitation. In addition, chapter 84.55 RCW provides that, should the Port levy an amount less than the maximum allowed under the levy limitation in any year beginning in 1986, the Port may "bank" future levy capacity. If the Port banks levy capacity, the Port may levy taxes in any subsequent year in an amount up to the maximum that would have been allowed had it levied to the full extent of the levy limitation in each prior year.

Tax Levy

Pursuant to its statutory authority, the Port may impose the Tax Levy without a vote of the electors to pay debt service on its limited tax general obligation bonds (but not debt service on Port revenue bonds) and to fund general purposes of the Port, including capital expenditures and maintenance and operation expenses. For general purposes such as operating expenses and capital improvements, the Tax Levy may be imposed at a rate not to exceed \$0.45 per \$1,000 of assessed value of taxable property within the Port district, subject to the statutory limitations on annual increases in the dollar amount of the Tax Levy described above under "Levy Limits" and under "TAX LEVY RATES, RECORDS AND PROCEDURES—Assessed Value Determinations." For the purpose of paying limited tax general obligation bonds, the Tax Levy is not subject to the \$0.45 per \$1,000 rate limitation applicable to the general purpose portion of the Tax Levy, but is subject to the statutory limitations on annual increases in the dollar amount of the Tax Levy described above under "Levy Limits." The Commission determines the actual amount of the Tax Levy each year as part of the Port's business planning process described below.

Also as part of the Port's annual business planning process, the Commission provides guidance on and reviews the proposed uses of the Tax Levy. In addition to the payment of general obligation ("G.O.") bond debt service, the Port's current guidelines recommend that the Tax Levy be used to fund expenditures that do not have a sufficient

revenue source and that provide economic benefits to County residents. The Port expects the uses to include certain operating and capital costs of the Real Estate Division, certain environmental liabilities and regional transportation initiatives, including funding the remaining portion of the Port's contractual payment to the State for the replacement of the Alaskan Way Viaduct. The Port is authorized under state law to issue G.O. Bonds to refund Port revenue bonds, but has no current plans to do so.

TAX LEVY RATES, RECORDS AND PROCEDURES

Assessed Value Determinations

The County Assessor (the "Assessor") determines the value of all real property and certain personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties, such as utility and transportation properties, for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of the property's actual value. All real property is subject to revaluation at least every four years, although since 1995, the Assessor's policy has been to revalue residential property every year. Personal property (generally only personal property used in the operation of a business) is listed by the Assessor on a roll at its currently assessed value (based in part upon reports provided by the property owners), and the roll is filed in the Assessor's office. Not all property is subject to taxation. Washington statutes provide annual exemptions for property owned by numerous types of nonprofit entities and for farm and historical properties and provide exemptions or deferrals for certain retired or disabled persons whose incomes are below specified limits. In addition, certain improvements to real property are not taxed during the first three years after completion of the improvements. By October 15 of each year, the Assessor is required to file its annual revaluation report with the State Department of Revenue and by November of each year is required to provide its assessed value report to each taxing district that levies *ad valorem* taxes on property within the County, including the Port. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, are subject to further revision by the State Board of Tax Appeals. See "Tax Collection Procedures."

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The following table shows the assessed value for taxable property within the Port district for purposes of the Port's Tax Levy and the Port's maximum and total Tax Levies in years 2013 through 2017.

TABLE D-1

**RECENT TAX LEVY ACTIVITY
2013 – 2017**

Tax Year	Port District Assessed Value⁽¹⁾	Maximum Port Levy⁽²⁾	Total Port Tax Levy⁽¹⁾⁽³⁾	Total Port Tax Levy Rate⁽⁴⁾	General Obligation Bond Debt Service
2017	\$ 471,456,288,019	\$ 99,019,205	\$ 72,010,667	0.152741	\$ 36,546,581
2016	426,335,605,837	96,659,602	72,015,418	0.168917	34,524,417
2015	388,118,855,592	95,220,093	73,003,849	0.188097	30,948,152
2014	340,643,616,343	93,259,946	73,018,695	0.214355	68,900,328
2013	314,746,206,667	91,462,486	73,020,604	0.231998	39,345,781

⁽¹⁾ Unless otherwise noted, the amounts are sourced from the County's Annual Reports for the purposes of the tax levy collected in the year identified in the column titled "Tax Year."

⁽²⁾ Maximum amount that would be permitted to be collected within the statutory levy limitation, taking into account the Port's banked levy capacity. Amount is based on the assessed value provided in the County's Certification of Assessed Valuation, which may be different than the final assessed value provided in the County's Annual Report.

⁽³⁾ Tax Levy allocable for general purposes plus the tax levy allocable for limited tax G.O. bond debt service. The amount of Tax Levy receipts shown in Table D-2, entitled "Tax Collection Record, 2012-2016," was derived from the County's Receivables Summary but includes supplements and cancellations and may differ from the totals reported by the County (above) by an immaterial amount.

⁽⁴⁾ Per \$1,000 of assessed value. Derived from "Port District Assessed Value" and "Total Port Tax Levy" amounts above.

Sources: *King County Assessor's Office and Port of Seattle.*

Tax Collection Procedures

The Commission levies property taxes in specific dollar amounts. The rates for all taxes levied for all taxing districts in the County are determined, calculated and fixed by the Assessor, based upon the assessed value of the taxable property within the various taxing districts in the County. The Assessor extends the tax levied within each taxing district upon a tax roll, which contains the total amounts of taxes levied and to be collected, and assigns a tax account number to each tax lot. The tax roll is delivered to the County Treasurer, who is responsible for the billing and collection of taxes due for each account. Tax bills are required to be sent in February. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds \$50, one-half may be paid by April 30 and the balance no later than October 31 of that year. A penalty of three percent is assessed for taxes delinquent as of January 1 and a penalty of eight percent is assessed for taxes delinquent as of July 1. Interest, at a rate of 12 percent per annum, computed monthly on the full tax amount, is also assessed on delinquent tax bills.

The methods of giving notice of payment of taxes due, accounting for the money collected, dividing the taxes collected among the various taxing districts (including the Port), and giving notice of delinquency and collection procedures are all determined by detailed statutes. The lien for personal property taxes that have been levied by the Commission prior to filing of federal tax liens is prior to such federal tax liens. In all other respects, the lien for property taxes is prior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County Treasurer may commence foreclosure of a tax lien on real property after three years have passed since the first delinquency, but may not sell property eligible for deferral of taxes.

Tax Collection Records

The following table shows the Port's Tax Levy for 2012 through 2016 and the amount and percentages of the tax collected in the year due and as of December 31, 2016.

TABLE D-2
TAX COLLECTION RECORD
2012 – 2016

Year	Amount of Levy⁽¹⁾⁽²⁾	Amount Collected in Year Due	% Collected in Year Due	Amount Collected as of 12/31/2016⁽²⁾	% of Levy Collected as of 12/31/2016
2016	\$ 72,015,418	\$ 71,114,870	98.75	\$ 71,114,870	98.75
2015	73,003,847	72,082,049	98.74	72,791,444	99.71
2014	73,018,695	72,009,166	98.62	72,874,680	99.80
2013	73,020,604	71,931,975	98.51	72,990,877	99.96
2012	73,014,552	71,878,512	98.44	73,003,759	99.99

⁽¹⁾ The amount of the actual Tax Levy varies from the budgeted amounts shown in Table D-1 because of adjustments in assessed values and levy rates made by the County.

⁽²⁾ The amounts of Tax Levy receipts were derived from the King County Tax Receivables Summary but include supplements and cancellations and may differ from the totals reported by the County by an immaterial amount.

Source: Port of Seattle, from King County Tax Receivables Summary.

Principal Taxpayers

The following table lists the 10 largest taxpayers in the County and the assessed value of their property for the purposes of the Tax Levy for collection in 2017.

TABLE D-3
KING COUNTY LARGEST TAXPAYERS
TAX LEVY FOR COLLECTION IN 2017

Taxpayer	Assessed Value	Percent of Total Assessed Value
Microsoft	\$ 3,682,343,860	0.78%
Puget Sound Energy/Gas/Electric	2,426,875,733	0.51
The Boeing Company	2,100,461,749	0.45
Acorn Development LLC	1,891,471,230	0.40
Essex Property Trust	1,665,284,049	0.35
Alaska Airlines	1,056,243,140	0.22
Altus Group US Inc.	970,873,500	0.21
Union Square LLC	840,558,301	0.18
BRE Properties	812,346,515	0.17
AvalonBay Communities	799,071,215	0.17
Total assessed value of top 10 taxpayers	\$16,245,529,292	3.45
Total assessed value of all other taxpayers	455,210,758,727	96.55
Total assessed value for taxes due in 2017	\$471,456,288,019	100.00

Source: King County Department of Assessments.

OTHER PORT TAXING AUTHORITY

Voted Tax Levy for Unlimited Tax General Obligation Bonds

If general obligation bonds are approved by a vote of the electors, the Port may impose an excess levy to produce funds equal to the amount required to make principal and interest payments on unlimited tax general obligation

bonds. Such excess levy would not be subject to any current statutory limitations. The Port currently has no such unlimited tax general obligation bonds outstanding and none approved for issuance.

The Industrial Development Levy

For improvements within industrial development districts created by a port district, an additional \$0.45 per \$1,000 assessed value of taxable property within the Port district (the “Industrial Development Levy”) may be levied for up to 12 years. The Port levied the Industrial Development Levy for six years, but has not levied this tax for the seventh through twelfth years. To levy the Industrial Development Levy for the remaining six years, the Port would be required to publish notice of intent to impose such a levy not later than June 1 of the first year of the levy. If at least eight percent of voters who voted in the last gubernatorial election protest the levy within a 90-day period, a special election must be held and a majority of the voters of the Port district voting on the levy must approve the levy. The Washington State Legislature (the “Legislature”), in the 2015 legislative session, provided an additional multi-year levy option for port districts’ industrial development levy (RCW 53.36.160). Port districts, if they meet certain criteria, may levy the industrial development levy for up to three multi-year levy periods. Each multi-year levy period may exceed 20 years from the date of the first levy in that period. First and second year levy periods do not have to be consecutive, and first and second year levy periods may not overlap. The aggregate revenue that may be collected during each of the first and second year levy periods may not exceed the sum of: (i) \$2.72/\$1,000 of assessed value multiplied by the assessed valuation for taxes collected in the base year; plus (ii) the difference between (A) the maximum allowable amount that could have been collected under RCW 84.55.010 for the first six years of the collection period and (B) the amount calculated in (i). If a port district elects to use multi-year levy periods, the second multi-year levy period is subject to the potential election requirement described above.

The Port last levied the Industrial Development Levy in 1968 and has no current plans to levy all or any portion of the remaining Industrial Development Levy.

The Dredging Levy

With the approval of the majority of voters within the Port district, an additional \$0.45 per \$1,000 assessed value of taxable property within the Port district may be levied for dredging, canal construction, leveling, or filling (the “Dredging Levy”). The Port has never imposed the Dredging Levy.

DEBT INFORMATION

Port District General Obligation Debt Limitation

Under State law, the Port may incur G.O. indebtedness payable from *ad valorem* taxes in an amount not exceeding one-fourth of one percent of the value of the taxable property in the Port district without a vote of the electors. With the assent of three-fifths of the electors voting thereon, subject to a validation requirement, the Port may incur additional G.O. indebtedness, provided the total indebtedness of the Port at any time does not exceed three-fourths of one percent of the value of the taxable property in the Port district. The limit on incurring indebtedness does not apply to obligations payable from revenues (special funds) or assessments.

The following tables provide information regarding the outstanding general obligation debt of the Port.

TABLE D-4
OUTSTANDING GENERAL OBLIGATION DEBT⁽¹⁾

<u>Limited Tax General Obligation Bonds</u>	Final Maturity	Amount Outstanding (as of July 2, 2017)
Limited Tax General Obligation Refunding Bonds, 2004C	11/01/2019	\$ 9,715,000
Limited Tax General Obligation Refunding Bonds, 2011 (AMT)	12/01/2025	49,665,000
Limited Tax General Obligation Refunding Bonds, 2013A (Non-AMT)	11/01/2023	27,630,000
Limited Tax General Obligation Refunding Bonds, 2013B (Taxable)	11/01/2025	44,410,000
Limited Tax General Obligation and Refunding Bonds, 2015	06/01/2040	147,160,000
Limited Tax General Obligation Bonds, 2017	01/01/2042	127,345,000
Total Nonvoted General Obligation Debt		\$ 405,925,000
<hr/>		
<u>Unlimited Tax General Obligation Bonds</u>		
None		
Voted Bonds Total		\$ -0-
Total General Obligation Direct Debt of the Port		\$ 405,925,000

⁽¹⁾ As of July 2, 2017.
Source: Port of Seattle.

The following table reflects the estimated 2017 general obligation debt limit for the Port.

TABLE D-5
ESTIMATED DEBT LIMIT⁽¹⁾

Total Assessed Value (determined in 2016 for 2017 Tax Levy) ⁽²⁾	\$ 471,456,288,019
Debt Limit, Nonvoted Debt, Including Limited Tax General Obligation Bonds (0.25% of Value of Taxable Property)	1,178,640,720
Less: Outstanding Limited Tax General Obligation Bonds (including capital leases)	(405,925,000)
Remaining Capacity for Limited Tax General Obligation Debt	<u>\$ 772,715,720</u>
Debt Limit, Total, Voted and Nonvoted Debt, General Obligation Debt (0.75% of Value of Taxable Property)	\$ 3,535,922,160
Less: Outstanding Limited Tax General Obligation Bonds (including capital leases)	(405,925,000)
Less: Outstanding Unlimited Tax General Obligation Bonds	-0-
Remaining Capacity for Total General Obligation Debt	<u>\$ 3,129,997,160</u>

⁽¹⁾ As of July 2, 2017.

⁽²⁾ Per King County Assessor's Office Certification of Assessed Valuation.
Source: Port of Seattle and King County Assessor's Office.

APPENDIX E

PROPOSED FORMS OF BOND COUNSEL OPINIONS

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August 22, 2017

Port of Seattle
Seattle, WashingtonJ.P. Morgan Securities LLC
Seattle, WashingtonCitigroup Global Markets Inc.
Seattle, WashingtonMerrill Lynch, Pierce, Fenner & Smith
Incorporated
Seattle, WashingtonMorgan Stanley & Co. LLC
New York, New YorkAcademy Securities, Inc.
Chicago, IllinoisBarclays Capital Inc.
Seattle, WashingtonBackstrom McCarley Berry & Co., LLC
San Francisco, CaliforniaGoldman Sachs & Co. LLC
Seattle, WashingtonThe Williams Capital Group, L.P.
Sacramento, California

Re: Port of Seattle Intermediate Lien Revenue Refunding Bonds, Series 2017A
(Non-AMT) — \$16,705,000

Ladies and Gentlemen:

We have acted as bond counsel to the Port of Seattle (the “Port”) and have examined a certified transcript of the proceedings taken in the matter of the issuance by the Port of its Intermediate Lien Revenue Refunding Bonds, Series 2017A (Non-AMT) in the aggregate principal amount of \$16,705,000 (the “Series 2017A Bonds”), issued pursuant to Resolution No. 3540 of the Port Commission (the “Intermediate Lien Master Resolution”) and Resolution No. 3735 of the Port Commission (the “Series Resolution” and, together with the Intermediate Lien Master Resolution, the “Resolution”) for the purpose of refunding certain outstanding obligations of the Port and paying issuance costs. Capitalized terms used herein which are not otherwise defined shall have the meanings given such terms in the Resolution. Simultaneously with the issuance of the Series 2017A Bonds, the Port is issuing its Intermediate Lien Revenue Refunding Bonds, Series 2017B (Taxable), and its Intermediate Lien Revenue Bonds, Series 2017C (AMT), and its Intermediate Lien Revenue Bonds, Series 2017D (AMT).

The Series 2017A Bonds are subject to redemption prior to their stated maturities as provided in the Bond Purchase Contract.

Regarding questions of fact material to our opinion, we have relied on representations of the Port in the Resolution and in the certified proceedings and on other certifications of public

officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Series 2017A Bonds have been legally issued and constitute valid and binding obligations of the Port, except to the extent that the enforcement of the rights and remedies of the owners of the Series 2017A Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases. Both principal of and interest on the Series 2017A Bonds are payable solely out of a special fund of the Port designated as the "Port of Seattle Intermediate Lien Revenue Bond Fund" (the "Intermediate Lien Bond Fund") and the Intermediate Lien Reserve Account.

2. The Port has obligated and bound itself to set aside and pay into the Intermediate Lien Bond Fund out of Available Intermediate Lien Revenues and the money in the Revenue Fund amounts sufficient to pay the principal of and interest on the Series 2017A Bonds as the same become due. The Port has further bound itself to pay into the Revenue Fund, as collected, all Gross Revenue.

3. The Port has further pledged in the Resolution that payments to be made out of Gross Revenue and money in the Revenue Fund into the Intermediate Lien Bond Fund and into the Intermediate Lien Reserve Account shall be a first and prior lien and charge upon the Net Revenues, subject to the liens thereon of any Permitted Prior Lien Bonds and equal in rank to the lien and charge upon such Net Revenues of the amounts required to pay the Port's Outstanding Intermediate Lien Revenue Bonds, Net Payments on any Parity Derivative Product, and any other revenue bonds hereafter issued on a parity therewith as provided in the Resolution. The Port has reserved the right to enter into Parity Derivative Products and issue bonds in the future with a lien against the Available Intermediate Lien Revenues on a parity with the lien thereon of Intermediate Lien Parity Bonds.

4. Interest on the Series 2017A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2017A Bonds is not taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinions set forth in the preceding sentences are subject to the condition that the Port comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2017A Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Port has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the Series 2017A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2017A Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the Series 2017A Bonds (except to the extent, if any, specifically addressed by separate opinion to the Underwriters), and we express no opinion relating thereto or relating to the undertaking of the Port to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

The Port has not designated the Series 2017A Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Series 2017A Bonds. Owners of the Series 2017A Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series 2017A Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

K&L GATES LLP

August 22, 2017

Port of Seattle
Seattle, WashingtonJ.P. Morgan Securities LLC
Seattle, WashingtonCitigroup Global Markets Inc.
Seattle, WashingtonMerrill Lynch, Pierce, Fenner & Smith
Incorporated
Seattle, WashingtonMorgan Stanley & Co. LLC
New York, New YorkAcademy Securities, Inc.
Chicago, IllinoisBarclays Capital Inc.
Seattle, WashingtonBackstrom McCarley Berry & Co., LLC
San Francisco, CaliforniaGoldman Sachs & Co. LLC
Seattle, WashingtonThe Williams Capital Group, L.P.
Sacramento, California

Re: Port of Seattle Intermediate Lien Revenue Refunding Bonds, Series 2017B
(Taxable) — \$264,925,000

Ladies and Gentlemen:

We have acted as bond counsel to the Port of Seattle (the “Port”) and have examined a certified transcript of the proceedings taken in the matter of the issuance by the Port of its Intermediate Lien Revenue Refunding Bonds, Series 2017B (Taxable) in the aggregate principal amount of \$264,925,000 (the “Series 2017B Bonds”), issued pursuant to Resolution No. 3540 of the Port Commission (the “Intermediate Lien Master Resolution”) and Resolution No. 3735 of the Port Commission (the “Series Resolution” and, together with the Intermediate Lien Master Resolution, the “Resolution”) for the purpose of refunding certain outstanding obligations of the Port and paying issuance costs. Capitalized terms used herein which are not otherwise defined shall have the meanings given such terms in the Resolution. Simultaneously with the issuance of the Series 2017B Bonds, the Port is issuing its Intermediate Lien Revenue Refunding Bonds, Series 2017A (Non-AMT), and its Intermediate Lien Revenue Bonds, Series 2017C (AMT), and its Intermediate Lien Revenue Bonds, Series 2017D (AMT).

The Series 2017B Bonds are subject to redemption prior to their stated maturities as provided in the Bond Purchase Contract.

Regarding questions of fact material to our opinion, we have relied on representations of the Port in the Resolution and in the certified proceedings and on other certifications of public

officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Series 2017B Bonds have been legally issued and constitute valid and binding obligations of the Port, except to the extent that the enforcement of the rights and remedies of the owners of the Series 2017B Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases. Both principal of and interest on the Series 2017B Bonds are payable solely out of a special fund of the Port designated as the "Port of Seattle Intermediate Lien Revenue Bond Fund" (the "Intermediate Lien Bond Fund") and the Intermediate Lien Reserve Account.

2. The Port has obligated and bound itself to set aside and pay into the Intermediate Lien Bond Fund out of Available Intermediate Lien Revenues and the money in the Revenue Fund amounts sufficient to pay the principal of and interest on the Series 2017B Bonds as the same become due. The Port has further bound itself to pay into the Revenue Fund, as collected, all Gross Revenue.

3. The Port has further pledged in the Resolution that payments to be made out of Gross Revenue and money in the Revenue Fund into the Intermediate Lien Bond Fund and into the Intermediate Lien Reserve Account shall be a first and prior lien and charge upon the Net Revenues, subject to the liens thereon of any Permitted Prior Lien Bonds and equal in rank to the lien and charge upon such Net Revenues of the amounts required to pay the Port's Outstanding Intermediate Lien Revenue Bonds, Net Payments on any Parity Derivative Product, and any other revenue bonds hereafter issued on a parity therewith as provided in the Resolution. The Port has reserved the right to enter into Parity Derivative Products and issue bonds in the future with a lien against the Available Intermediate Lien Revenues on a parity with the lien thereon of Intermediate Lien Parity Bonds.

4. Interest on the Series 2017B Bonds is not excludable from gross income for federal income tax purposes under existing law.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the Series 2017B Bonds (except to the extent, if any, specifically addressed by separate opinion to the Underwriters), and we express no opinion relating thereto or relating to the undertaking of the Port to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Series 2017B Bonds. Owners of the Series 2017B Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series 2017B Bonds, which may

include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

K&L GATES LLP

August 22, 2017

Port of Seattle
Seattle, WashingtonJ.P. Morgan Securities LLC
Seattle, WashingtonCitigroup Global Markets Inc.
Seattle, WashingtonMerrill Lynch, Pierce, Fenner & Smith
Incorporated
Seattle, WashingtonMorgan Stanley & Co. LLC
New York, New YorkAcademy Securities, Inc.
Chicago, IllinoisBarclays Capital Inc.
Seattle, WashingtonBackstrom McCarley Berry & Co., LLC
San Francisco, CaliforniaGoldman Sachs & Co. LLC
Seattle, WashingtonThe Williams Capital Group, L.P.
Sacramento, California

Re: Port of Seattle Intermediate Lien Revenue Bonds, Series 2017C (AMT) —
\$313,305,000

Ladies and Gentlemen:

We have acted as bond counsel to the Port of Seattle (the “Port”) and have examined a certified transcript of the proceedings taken in the matter of the issuance by the Port of its Intermediate Lien Revenue Bonds, Series 2017C (AMT), in the aggregate principal amount of \$313,305,000 (the “Series 2017C Bonds”), issued pursuant to Resolution No. 3540 of the Port Commission (the “Intermediate Lien Master Resolution”) and Resolution No. 3735, of the Port Commission (the “Series Resolution” and, together with the Intermediate Lien Master Resolution, the “Resolution”) for the purpose of paying or reimbursing costs of capital improvements to Airport facilities, satisfying the Intermediate Lien Reserve Requirement, paying capitalized interest on the Series 2017C Bonds, and paying issuance costs. Capitalized terms used herein which are not otherwise defined shall have the meanings given such terms in the Resolution. Simultaneously with the issuance of the Series 2017C Bonds, the Port is issuing its Intermediate Lien Revenue Refunding Bonds, Series 2017A (Non-AMT), and its Intermediate Lien Revenue Refunding Bonds, Series 2017B (Taxable), and its Intermediate Lien Revenue Bonds, Series 2017D (AMT).

The Series 2017C Bonds are subject to redemption prior to their stated maturities as provided in the Bond Purchase Contract.

Regarding questions of fact material to our opinion, we have relied on representations of the Port in the Resolution and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Series 2017C Bonds have been legally issued and constitute valid and binding obligations of the Port, except to the extent that the enforcement of the rights and remedies of the owners of the Series 2017C Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases. Both principal of and interest on the Series 2017C Bonds are payable solely out of a special fund of the Port designated as the "Port of Seattle Intermediate Lien Revenue Bond Fund" (the "Intermediate Lien Bond Fund") and the Intermediate Lien Reserve Account.

2. The Port has obligated and bound itself to set aside and pay into the Intermediate Lien Bond Fund out of Available Intermediate Lien Revenues and the money in the Revenue Fund amounts sufficient to pay the principal of and interest on the Series 2017C Bonds as the same become due. The Port has further bound itself to pay into the Revenue Fund, as collected, all Gross Revenue.

3. The Port has further pledged in the Resolution that payments to be made out of Gross Revenue and moneys in the Revenue Fund into the Intermediate Lien Bond Fund and into the Intermediate Lien Reserve Account shall be a first and prior lien and charge upon the Net Revenues, subject to the liens thereon of any Permitted Prior Lien Bonds and equal in rank to the lien and charge upon such Net Revenues of the amounts required to pay the Port's Outstanding Intermediate Lien Revenue Bonds, Net Payments on any Parity Derivative Product, and any other revenue bonds hereafter issued on a parity therewith as provided in the Resolution. The Port has reserved the right to enter into Parity Derivative Products and issue bonds in the future with a lien against the Available Intermediate Lien Revenues on a parity with the lien thereon of Intermediate Lien Parity Bonds.

4. Interest on the Series 2017C Bonds is excludable from gross income for federal income tax purposes, except for interest on any Series 2017C Bonds for any period during which such Series 2017C Bonds is held by a "substantial user" of the facilities financed or refinanced by the Series 2017C Bonds, or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); however, interest on the Series 2017C Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinion set forth in this paragraph is subject to the condition that the Port comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Port has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2017C Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2017C Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the Series 2017C Bonds (except to the extent, if any, specifically addressed by separate opinion to the Underwriters), and we express no opinion relating thereto or relating to the undertaking of the Port to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

The Series 2017C Bonds are not “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Series 2017C Bonds. Owners of the Series 2017C Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series 2017C Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

K&L GATES LLP

August 22, 2017

Port of Seattle
Seattle, Washington

J.P. Morgan Securities LLC
Seattle, Washington

Citigroup Global Markets Inc.
Seattle, Washington

Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Seattle, Washington

Morgan Stanley & Co. LLC
New York, New York

Academy Securities, Inc.
Chicago, Illinois

Barclays Capital Inc.
Seattle, Washington

Backstrom McCarley Berry & Co., LLC
San Francisco, California

Goldman Sachs & Co. LLC
Seattle, Washington

The Williams Capital Group, L.P.
Sacramento, California

Re: Port of Seattle Intermediate Lien Revenue Bonds, Series 2017D (AMT) —
\$93,230,000

Ladies and Gentlemen:

We have acted as bond counsel to the Port of Seattle (the “Port”) and have examined a certified transcript of the proceedings taken in the matter of the issuance by the Port of its Intermediate Lien Revenue Bonds, Series 2017D (AMT), in the aggregate principal amount of \$93,230,000 (the “Series 2017D Bonds”), issued pursuant to Resolution No. 3540 of the Port Commission (the “Intermediate Lien Master Resolution”) and Resolution No. 3735, of the Port Commission (the “Series Resolution” and, together with the Intermediate Lien Master Resolution, the “Resolution”) for the purpose of paying or reimbursing costs of capital improvements to Airport facilities, satisfying the Intermediate Lien Reserve Requirement, and paying issuance costs. Capitalized terms used herein which are not otherwise defined shall have the meanings given such terms in the Resolution. Simultaneously with the issuance of the Series 2017D Bonds, the Port is issuing its Intermediate Lien Revenue Refunding Bonds, Series 2017A (Non-AMT), its Intermediate Lien Revenue Refunding Bonds, Series 2017B (Taxable), and its Intermediate Lien Revenue Bonds, Series 2017C (AMT).

The Series 2017D Bonds are not subject to redemption prior to their stated maturities.

Regarding questions of fact material to our opinion, we have relied on representations of the Port in the Resolution and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Series 2017D Bonds have been legally issued and constitute valid and binding obligations of the Port, except to the extent that the enforcement of the rights and remedies of the owners of the Series 2017D Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases. Both principal of and interest on the Series 2017D Bonds are payable solely out of a special fund of the Port designated as the "Port of Seattle Intermediate Lien Revenue Bond Fund" (the "Intermediate Lien Bond Fund") and the Intermediate Lien Reserve Account.

2. The Port has obligated and bound itself to set aside and pay into the Intermediate Lien Bond Fund out of Available Intermediate Lien Revenues and the money in the Revenue Fund amounts sufficient to pay the principal of and interest on the Series 2017D Bonds as the same become due. The Port has further bound itself to pay into the Revenue Fund, as collected, all Gross Revenue.

3. The Port has further pledged in the Resolution that payments to be made out of Gross Revenue and moneys in the Revenue Fund into the Intermediate Lien Bond Fund and into the Intermediate Lien Reserve Account shall be a first and prior lien and charge upon the Net Revenues, subject to the liens thereon of any Permitted Prior Lien Bonds and equal in rank to the lien and charge upon such Net Revenues of the amounts required to pay the Port's Outstanding Intermediate Lien Revenue Bonds, Net Payments on any Parity Derivative Product, and any other revenue bonds hereafter issued on a parity therewith as provided in the Resolution. The Port has reserved the right to enter into Parity Derivative Products and issue bonds in the future with a lien against the Available Intermediate Lien Revenues on a parity with the lien thereon of Intermediate Lien Parity Bonds.

4. Interest on the Series 2017D Bonds is excludable from gross income for federal income tax purposes, except for interest on any Series 2017D Bonds for any period during which such Series 2017D Bonds is held by a "substantial user" of the facilities financed or refinanced by the Series 2017D Bonds, or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); however, interest on the Series 2017D Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinion set forth in this paragraph is subject to the condition that the Port comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Port has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may

cause interest on the Series 2017D Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2017D Bonds.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material relating to the Series 2017D Bonds (except to the extent, if any, specifically addressed by separate opinion to the Underwriters), and we express no opinion relating thereto or relating to the undertaking of the Port to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

The Series 2017D Bonds are not “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Series 2017D Bonds. Owners of the Series 2017D Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Series 2017D Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

K&L GATES LLP

APPENDIX F

DTC AND ITS BOOK-ENTRY SYSTEM

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DTC AND ITS BOOK-ENTRY ONLY SYSTEM

The following information has been provided by The Depository Trust Company, New York, New York (“DTC”). The Port makes no representation regarding the accuracy or completeness thereof. Each actual purchaser of a Series 2017 Bond (a “Beneficial Owner”) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2017 Bonds. The Series 2017 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2017 Bond certificate will be issued for the aggregate principal amount of the Series 2017 Bonds, and will be deposited with DTC.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (the “Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the “Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Series 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2017 Bond (the “Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2017 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2017 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2017 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2017 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2017 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Series 2017 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2017 Bond documents. For example, Beneficial Owners of Series 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2017 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.*

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2017 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Port as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Series 2017 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Port or the Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Registrar, or the Port, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Port or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Series 2017 Bonds at any time by giving reasonable notice to the Port or the Registrar. Under such circumstances, in the event that a successor depository is not obtained, Series 2017 Bond certificates are required to be printed and delivered.

10. To the extent permitted by law, the Port may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2017 Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Port believes to be reliable, but the Port takes no responsibility for the accuracy thereof.

* Note that the Series 2017B Bonds are to be selected for redemption based on a "Pro Rata Pass-Through Distributions of Principal" basis.

APPENDIX G

**COPIES OF THE INTERMEDIATE LIEN MASTER RESOLUTION AND
THE SERIES RESOLUTION**

(SEE ATTACHED)

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PORT OF SEATTLE

RESOLUTION NO. 3540, AS AMENDED

A RESOLUTION OF THE PORT COMMISSION OF THE PORT OF SEATTLE AUTHORIZING REVENUE BONDS OF THE PORT DISTRICT TO BE ISSUED IN SERIES TO FINANCE ANY LEGAL PURPOSE OF THE PORT DISTRICT; CREATING AND ESTABLISHING AN INTERMEDIATE LIEN UPON NET REVENUES OF THE PORT DISTRICT FOR THE PAYMENT OF SUCH BONDS; AND MAKING COVENANTS AND AGREEMENTS IN CONNECTION WITH THE FOREGOING.

ADOPTED: *June 14*, 2005

Prepared by:

PRESTON GATES & ELLIS LLP
Seattle, Washington

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RESOLUTION NO. 3540, AS AMENDED

A RESOLUTION OF THE PORT COMMISSION OF THE PORT OF SEATTLE AUTHORIZING REVENUE BONDS OF THE PORT DISTRICT TO BE ISSUED IN SERIES TO FINANCE ANY LEGAL PURPOSE OF THE PORT DISTRICT; CREATING AND ESTABLISHING AN INTERMEDIATE LIEN UPON NET REVENUES OF THE PORT DISTRICT FOR THE PAYMENT OF SUCH BONDS; AND MAKING COVENANTS AND AGREEMENTS IN CONNECTION WITH THE FOREGOING.

WHEREAS, the Port of Seattle (the "Port"), a municipal corporation of the State of Washington, owns and operates a system of marine terminals and properties and Seattle-Tacoma International Airport; and

WHEREAS, the Port has authorized the issuance of revenue bonds in one or more series pursuant to Resolution No. 3059, adopted on February 2, 1990 and most recently amended by Resolution No. 3436, adopted on July 11, 2000 (the "First Lien Master Resolution"); and

WHEREAS, the Port has issued and currently has outstanding 18 series of first lien revenue bonds pursuant to the First Lien Master Resolution, as follows:

Resolution Number	Date of Issue	Original Principal Amt.	Currently Outstanding (6/2/05)	Final Maturity Dates
3111	04/01/1992 (A)	\$25,450,000	\$ 395,000	11/1/2005
3155	02/01/1994 (A)	27,135,000	17,495,000	12/1/2011
3155	02/01/1994 (C)	51,755,000	17,845,000	07/1/2009
3215	04/01/1996 (A)	31,820,000	31,820,000	09/1/2021
3215	04/01/1996 (B)	74,520,000	53,315,000	09/1/2017
3242	05/01/1997 (A)	120,375,000	120,375,000	10/1/2022
3242	05/01/1997 (B)	19,985,000	2,230,000	10/1/2005
3275	05/01/1998 (A)	73,180,000	32,640,000	06/1/2017
3430	08/10/2000 (A)	130,690,000	130,690,000	02/1/2030
3430	08/10/2000 (B)	221,590,000	210,125,000	02/1/2024

3430	09/06/2000 (D)	28,085,000	13,135,000	02/1/2011
3462	10/17/2001 (A)	176,105,000	176,105,000	04/1/2031
3462	10/17/2001 (B)	251,380,000	251,380,000	04/1/2024
3462	10/17/2001 (C)	12,205,000	12,205,000	12/1/2014
3462/3467	08/07/2002 (D)	68,580,000	65,075,000	11/1/2017
3509	08/20/2003 (A)	190,470,000	190,470,000	07/1/2033
3509	08/20/2003 (B)	164,900,000	164,900,000	07/1/2029
3528	06/30/2004	24,710,000	23,380,000	06/1/2017

("Outstanding First Lien Bonds"); and

WHEREAS, each of the resolutions authorizing the issuance of the Outstanding First Lien Bonds permits the Port to issue its revenue bonds having a lien on Net Revenues (as such term is defined in the First Lien Master Resolution) subordinate to the lien thereon of the Outstanding First Lien Bonds; and

WHEREAS, the Port has issued and currently has outstanding six series of subordinate lien revenue bonds, as follows:

Authorizing Resolution Number	Date of Original Issue	Original Principal Amt.	Currently Outstanding (6/2/05)	Final Maturity Dates
3233 ¹	03/26/1997	\$108,830,000	\$ 108,830,000	09/01/2022
3276 ²	05/01/1998	27,930,000	20,605,000	08/01/2017
3354 ³	09/01/99 (A)	127,140,000	121,840,000	09/01/2024
3354 ³	09/01/99 (B)	116,815,000	102,560,000	09/01/2016
3456	(CP)	250,000,000	59,255,000	06/01/2021
3510	08/20/03 (C)	200,000,000	200,000,000	07/01/2033

¹ Amended by Resolution No. 3351, as amended, adopted on August 24, 1999.

² Amended by Resolution No. 3353, as amended, adopted on August 24, 1999.

³ Amended by Resolution No. 3496, as amended, adopted on November 12, 2002.

(the "Outstanding Subordinate Lien Bonds"); and

WHEREAS, each of the resolutions, as amended, authorizing the issuance of the Outstanding Subordinate Lien Bonds (identified in the chart above) authorized the Port to issue

revenue obligations having a prior lien on the revenues available to pay debt service on the Outstanding Subordinate Lien Bonds; and

WHEREAS, the Commission deems it advisable and in the best interest of the Port to establish a separate lien of revenue bonds of the Port that may hereafter be issued for any of its legal purposes under the provisions, terms and conditions of this resolution; and

WHEREAS, the principal of and interest on the bonds authorized by this resolution shall be payable solely from and shall constitute a lien and charge against Available Intermediate Lien Revenues (hereinafter defined);

NOW, THEREFORE, BE IT RESOLVED BY THE PORT COMMISSION OF THE PORT OF SEATTLE, WASHINGTON, as follows:

Section 1. Definitions. As used in this resolution, the following words and phrases shall have the meanings hereinafter set forth unless the context clearly shall indicate that another meaning is intended:

Accreted Value means (1) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the initial principal amount of such Intermediate Lien Parity Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (2) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Intermediate Lien Parity Bonds plus the amount of discounted principal which has accreted since the date of issue. In each case the Accreted Value shall be determined in accordance with the provisions of the Series Resolution authorizing the issuance of such Intermediate Lien Parity Bonds.

The **Amount Due** (for purposes of the Rate Covenant) in each fiscal year of the Port shall be equal to (a) Scheduled Debt Service, plus (b) amounts required to be deposited during

such fiscal year from Available Intermediate Lien Revenues into the Intermediate Lien Reserve Account plus (c) any other amounts due to any Credit Facility Issuer or any Liquidity Facility Issuer, but excluding from the foregoing (i) payments made or to be made from refunding debt and capitalized debt service or other money irrevocably (by Commission resolution) set aside for such payment and (ii) Intermediate Lien Debt Service Offsets identified by the Port in a certificate of the Designated Port Representative.

Annual Debt Service means the total amount of Debt Service for any series of Outstanding Intermediate Lien Parity Bonds in any fiscal year or Base Period.

Available Coverage Amount means the unrestricted balance in the Revenue Fund at the end of the two most recent fiscal years of the Port, whichever is lower. No amounts may be included in the Available Coverage Amount unless such amounts are legally available for payment of debt service on Intermediate Lien Parity Bonds.

Available Intermediate Lien Revenues mean the Gross Revenue of the Port after providing for the payments set forth in paragraphs First, Second, Third and Fourth of Section 2 of this resolution, excluding any Released Revenues.

Available Intermediate Lien Revenues as First Adjusted means Available Intermediate Lien Revenues increased (without duplication) by Prior Lien Debt Service Offsets identified by the Port in a certificate of the Designated Port Representative and subject to further adjustment to reflect the following:

(a) It is the intent of the Port that regularly scheduled net payments under derivative products (interest rate hedges) with respect to Port revenue obligations (regardless of lien position) be reflected in the calculation of debt service obligations with respect to those revenue obligations and not as adjustments to Gross Revenue or Operating Expenses; and

(b) Gross Revenue and Operating Expenses may be adjusted, regardless of then applicable generally accepted accounting principles, for certain items (e.g., to omit) in order to more fairly reflect the Port's annual operating performance.

Available Intermediate Lien Revenues as Second Adjusted means Available Intermediate Lien Revenues as First Adjusted plus the Available Coverage Amount.

Balloon Maturity Bonds means any Intermediate Lien Parity Bonds that are so designated in the Series Resolution pursuant to which such Intermediate Lien Parity Bonds are issued. Commercial paper (obligations with a maturity of not more than 270 days from the date of issuance) shall be deemed to be Balloon Maturity Bonds.

Base Period means any consecutive 12-month period selected by the Designated Port Representative out of the 30-month period next preceding the date of issuance of an additional series of Intermediate Lien Parity Bonds.

Beneficial Owner means any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Intermediate Lien Parity Bonds (including persons holding Intermediate Lien Parity Bonds through nominees, depositories or other intermediary).

Bond Counsel means a firm of lawyers nationally recognized and accepted as bond counsel and so employed by the Port for any purpose under this resolution applicable to the use of that term.

BMA Municipal Swap Index means the Bond Market Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or as otherwise designated by the Bond Market

Association; *provided*, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successor, then BMA Municipal Swap Index shall mean such other reasonably comparable index selected by the Designated Port Representative.

Capital Appreciation Bonds means Intermediate Lien Parity Bonds all or a portion of the interest on which is compounded, accumulated and payable only upon redemption, conversion or on the maturity date of such Intermediate Lien Parity Bonds. If so provided in the Series Resolution authorizing their issuance, Intermediate Lien Parity Bonds may be deemed to be Capital Appreciation Bonds for only a portion of their term. On the date on which Intermediate Lien Parity Bonds no longer are Capital Appreciation Bonds, they shall be deemed Outstanding in a principal amount equal to their Accreted Value.

Certificate Period means a period commencing with the year of issuance of the proposed series of Intermediate Lien Parity Bonds and ending with the third complete fiscal year following the earlier of (i) the projected Date of Commercial Operation of the Facilities to be financed with the proceeds of the proposed Intermediate Lien Parity Bonds; or (ii) the date on which no portion of the interest on the proposed series of Intermediate Lien Parity Bonds will be paid from the proceeds of such Intermediate Lien Parity Bonds (such date to be determined in accordance with the Port's proposed schedule of expenditures).

Commission means the elected governing body of the Port, or any successor thereto as provided by law.

Consultant means at any time an independent consultant recognized in marine or aviation matters or an engineer or engineering firm or other expert appointed by the Port to perform the duties of the Consultant as required by this resolution. For the purposes of delivering any certificate required by Section 5 hereof and making the calculation required by Section 5 hereof,

the term Consultant shall also include any independent public accounting firm appointed by the Port to make such calculation or to provide such certificate or the financial advisor appointed by the Port to make such calculation or to provide such certificate.

Costs of Construction means all costs paid or incurred by the Port in connection with the acquisition and construction of capital additions, improvements and betterments to and extensions of the Facilities, and the placing of the same in operation, including, but without limiting the generality of the foregoing, paying all or a portion of the interest on the series of Intermediate Lien Parity Bonds or any portion thereof issued to finance the costs of such improvements during the period of construction of such improvements, and for a period of time thereafter; paying amounts required to meet any reserve requirement for the fund or account established or maintained for such series of Intermediate Lien Parity Bonds from the proceeds thereof; paying or reimbursing the Port or any fund thereof or any other person for expenses incident and properly allocable to the acquisition and construction of said improvements and the placing of the same in operation; and all other items of expense incident and properly allocable to the acquisition and construction of said additions and improvements, the financing of the same and the placing of the same in operation.

A **Credit Event** occurs when (a) a Qualified Letter of Credit terminates, (b) the issuer of Qualified Insurance or a Qualified Letter of Credit shall become insolvent or no longer be in existence, or (c) a Qualified Letter of Credit or Qualified Insurance no longer meets the requirements established therefor in the definition thereof.

Credit Facility means a policy of municipal bond insurance, a letter of credit, surety bond, guarantee or other financial instrument or any combination of the foregoing, which obligates a third party to make payment or provide funds for the payment of financial obligations

of the Port, including but not limited to payment of the scheduled principal of and interest on Intermediate Lien Parity Bonds.

Credit Facility Issuer means the issuer of any Credit Facility.

Date of Commercial Operation means the date upon which any Facilities are first ready for normal continuous operation or, if portions of the Facilities are placed in normal continuous operation at different times, shall mean the midpoint of the dates of continuous operation of all portions of such Facilities, as estimated by the Port or, if used with reference to Facilities to be acquired, shall mean the date on which such acquisition is final.

Debt Service means, for any period of time and for the purpose of determining compliance with the conditions for issuance of Intermediate Lien Parity Bonds set forth in Section 5 and for the purpose of calculating the Intermediate Lien Reserve Requirement,

(a) with respect to any Outstanding Original Issue Discount Bonds or Capital Appreciation Bonds that are not designated as Balloon Maturity Bonds in the Series Resolution authorizing their issuance and that have not been associated with a Parity Derivative Product, the principal amount equal to the Accreted Value thereof maturing, converting or scheduled for redemption in such period, including the interest payable during such period;

(b) with respect to any Outstanding Fixed Rate Bonds that have not been associated with a Parity Derivative Product, an amount equal to (1) the principal amount of such Intermediate Lien Parity Bonds due or subject to mandatory redemption during such period and for which no sinking fund installments have been established, (2) the amount of any payments required to be made during such period into any sinking fund established for the payment of the principal of any such Intermediate Lien Parity Bonds, plus (3) all interest payable during such period on any such Intermediate Lien Parity Bonds Outstanding and, with respect to Intermediate

Lien Parity Bonds with mandatory sinking fund requirements, calculated on the assumption that mandatory sinking fund installments will be applied to the redemption or retirement of such Intermediate Lien Parity Bonds on the date specified in the Series Resolution authorizing such Intermediate Lien Parity Bonds;

(c) with respect to all other series of Intermediate Lien Parity Bonds Outstanding, other than Fixed Rate Bonds, Original Issue Discount Bonds or Capital Appreciation Bonds, specifically including but not limited to Balloon Maturity Bonds and Intermediate Lien Parity Bonds bearing variable rates of interest and that have not been associated with a Parity Derivative Product, an amount for any period equal to the amount which would be payable (1) as principal on such Intermediate Lien Parity Bonds during such period (computed on the assumption that the amount of Intermediate Lien Parity Bonds Outstanding as of the date of such computation would be amortized in accordance with the mandatory redemption provisions, if any, set forth in the Series Resolution authorizing the issuance of such Intermediate Lien Parity Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance to provide for essentially level annual debt service during such period) plus (2) interest at an interest rate equal to (A) the 10-year average of the BMA Municipal Swap Index, plus (B) 1.5%;

(d) With respect to Intermediate Lien Parity Bonds that bear variable rates of interest and have been associated with a Parity Derivative Product with fixed Port Parity Payments, an amount equal to:

(1) principal to be paid on such Intermediate Lien Parity Bonds calculated as set forth in (c)(1) above, plus

(2) assumed interest equal to

(A) the fixed Port Parity Payments to be paid to a Reciprocal Payor, minus

(B) the Reciprocal Parity Payment calculated by determining the average interest rate over the prior 12 months if the Parity Derivative Product was then in effect or that would have been paid during the prior 12 months based on the rate formula for the Reciprocal Parity Payment set forth in the Parity Derivative Product, plus

(C) (i) if the Intermediate Lien Parity Bonds bear interest that is exempt from general federal income taxation interest on the associated Intermediate Lien Parity Bonds calculated at the average BMA Municipal Swap Index during the previous 12 months, or (ii) if the Intermediate Lien Parity Bonds bear interest that is subject to general federal income taxation, interest on the associated Intermediate Lien Parity Bonds calculated at the average one-month LIBOR during the 12-month period immediately preceding the date of calculation;

(e) With respect to Intermediate Lien Parity Bonds that bear variable rates of interest and have been associated with a Parity Derivative Product with variable Port Parity Payments, an amount equal to:

(1) principal to be paid on such Intermediate Lien Parity Bonds calculated as set forth in (c)(1) above, plus

(2) assumed interest equal to

(A) the variable Port Parity Payments calculated by determining the average interest rate over the prior 12 months if the Parity Derivative Product was then in effect or that would have been paid during the prior 12 months based on the rate formula for the Port Parity Payment set forth in the Parity Derivative Product, minus

(B) the Reciprocal Parity Payment calculated by determining the average interest rate over the prior 12 months if the Parity Derivative Product was then in effect or that would have been paid during the prior 12 months based on the rate formula for the Reciprocal Parity Payment set forth in the Parity Derivative Product, plus

(C) (i) if the Intermediate Lien Parity Bonds bear interest that is exempt from general federal income taxation, interest on the associated Intermediate Lien Parity Bonds calculated at the average Municipal Swap Index during the previous 12 months, or (ii) if the Intermediate Lien Parity Bonds bear interest that is subject to general federal income taxation, interest on the associated Intermediate Lien Parity Bonds calculated at the average one-month LIBOR during the 12-month period immediately preceding the date of calculation; and

(f) With respect to any Fixed Rate Bonds that have been associated with a Parity Derivative Product, an amount equal to:

(1) the principal to be paid on such Intermediate Lien Parity Bonds calculated as set forth in (b)(1) and (b)(2) above, plus

(2) assumed interest equal to:

(A) the Port Parity Payment, calculated by determining the average interest rate over the prior 12 months if the Parity Derivative Product was then in effect or that would have been paid during the prior 12 months based on the rate formula for the Port Parity Payment set forth in the Parity Derivative Product, minus

(B) the Reciprocal Parity Payment to be paid to the Port; provided that if the Reciprocal Parity Payment is based on a variable rate then the Reciprocal Parity Payment shall be calculated by determining the average interest rate over the prior 12 months if the Parity Derivative Product was then in effect or that would have been paid during the prior 12

months based on the rate formula for the Reciprocal Parity Payment set forth in the Parity Derivative Product, plus

(C) the interest on the associated Fixed Rate Bonds calculated as set forth in (b)(3) above.

With respect to any Intermediate Lien Parity Bonds payable in other than U.S. Dollars, Debt Service shall be calculated as provided in the Series Resolution authorizing the issuance of such Intermediate Lien Parity Bonds. With respect to any series of Intermediate Lien Parity Bonds that is associated with a Parity Derivative Product with a notional amount that is less than the then Outstanding principal amount of such series of Intermediate Lien Parity Bonds, Debt Service shall be calculated separately for the portion of such Intermediate Lien Parity Bonds associated with the Parity Derivative Product and, without duplication, the portion not so associated.

Debt Service also shall be net of any principal and/or interest (not including any amount deposited in any reserve account for payment of principal and/or interest) funded from proceeds of any Intermediate Lien Parity Bonds or from earnings thereon. For the purpose of determining compliance with the conditions for issuance of Intermediate Lien Parity Bonds set forth in Section 5 (and not for the purposes of calculating the Intermediate Lien Reserve Requirement), Debt Service also shall be net of Intermediate Lien Debt Service Offsets, subject to the conditions set forth in Section 5.

Debt Service shall include reimbursement obligations (and interest accruing thereon) then owing to any Credit Facility Issuer or Liquidity Facility Issuer to the extent authorized herein or in another Series Resolution.

Designated Port Representative means the Chief Executive Officer of the Port, the Deputy Chief Executive Officer of the Port or the Chief Financial Officer of the Port (or the successor in function to such person(s)) or such other person as may be directed by resolution of the Commission.

Facilities means all equipment and all property, real and personal, or any interest therein, whether improved or unimproved, now or hereafter (for as long as any Intermediate Lien Parity Bonds of the Port shall be Outstanding) owned, operated, used, leased or managed by the Port.

First Lien Bonds means the Outstanding First Lien Bonds and any bonds issued by the Port in the future under a "Series Resolution", as defined in the First Lien Master Resolution, and pursuant to Section 7 of the First Lien Master Resolution, which provides that such bonds shall be on a parity of lien with other series of First Lien Bonds.

First Lien Master Resolution means Resolution No. 3059, as amended by Resolution No. 3214, Resolution No. 3241, and Resolution No. 3436 of the Commission, and as the same may be amended in the future in accordance with its terms.

Fitch means Fitch, Inc., organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Fitch shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody's) designated by the Designated Port Representative.

Fixed Rate Bonds means those Intermediate Lien Parity Bonds other than Capital Appreciation Bonds, Original Issue Discount Bonds or Balloon Maturity Bonds issued under a Series Resolution in which the rate of interest on such Intermediate Lien Parity Bonds is fixed and determinable through their final maturity or for a specified period of time. If so provided in

the Series Resolution authorizing their issuance, Intermediate Lien Parity Bonds may be deemed to be Fixed Rate Bonds for only a portion of their term. Fixed Rate Bonds also shall include two or more series of Intermediate Lien Parity Bonds simultaneously issued under a Series Resolution and which, collectively, bear interest at a fixed and determinable rate for a specified period of time.

Gross Revenue means all income and revenue derived by the Port from any source whatsoever except:

- (a) the proceeds of any borrowing by the Port and the earnings thereon (other than earnings on proceeds deposited in reserve funds);
- (b) income and revenue that may not legally be pledged for revenue bond debt service;
- (c) passenger facility charges, head taxes, federal grants or substitutes therefor allocated to capital projects;
- (d) payments made under Credit Facilities issued to pay or secure the payment of a particular series of obligations;
- (e) proceeds of insurance or condemnation proceeds other than business interruption insurance;
- (f) income and revenue of the Port separately pledged and used by it to pay and secure the payment of the principal of and interest on any issue or series of Special Revenue Bonds of the Port issued to acquire, construct, equip, install or improve part or all of the particular facilities from which such income and revenue are derived, *provided that* nothing in this subparagraph (f) shall permit the withdrawal from Gross Revenue of any income or revenue

derived or to be derived by the Port from any income producing facility that shall have been contributing to Gross Revenue prior to the issuance of such Special Revenue Bonds; and

(g) income from investments irrevocably pledged to the payment of bonds issued or to be refunded under any refunding bond plan of the Port.

Notwithstanding the foregoing, the Port may elect to pledge the foregoing exceptions from Gross Revenue and/or any other receipts at any time as additional security for any one or more series of obligations and thereby include such exception and/or receipts in Gross Revenue for such series of obligations; but if and only to the extent that such receipts may legally be used to pay debt service on such series of obligations.

Intermediate Lien Bond Fund means the fund of that name established pursuant to Section 3 of this resolution.

Intermediate Lien Debt Service Offsets means receipts of the Port that are not included in Gross Revenue and that are legally available and/or pledged by the Port to pay debt service on Intermediate Lien Parity Bonds, but excluding any receipts that have been designated as Prior Lien Debt Service Offsets.

Intermediate Lien Parity Bonds means the bonds, notes or other evidences of indebtedness issued from time to time in series pursuant to and under authority of Section 3 hereof. The term **Intermediate Lien Parity Bonds** may include reimbursement obligations of the Port to the issuer of a Credit Facility.

Intermediate Lien Reserve Account means the account of that name established within the Intermediate Lien Bond Fund pursuant to Section 3 of this resolution.

Intermediate Lien Reserve Requirement means a dollar amount equal to average Annual Debt Service on all Outstanding Intermediate Lien Parity Bonds, determined and calculated as of

the date of issuance of each Series of Intermediate Lien Parity Bonds (and recalculated upon the issuance of a subsequent Series of Intermediate Lien Parity Bonds and also, at the Port's option, upon the payment of principal of Intermediate Lien Parity Bonds).

LIBOR means the rate offered for U.S. dollar deposits on the London Inter-Bank Market, or any comparable successor rate.

Liquidity Facility means a line of credit, standby purchase agreement or other financial instrument or any combination of the foregoing, which obligates a third party to make payment or to provide funds for the payment of the purchase price of Intermediate Lien Parity Bonds.

Liquidity Facility Issuer means the issuer of any Liquidity Facility.

Maximum Annual Debt Service means, with respect to any Outstanding series of Intermediate Lien Parity Bonds, the highest remaining Annual Debt Service for such series of Intermediate Lien Parity Bonds.

Moody's means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term Moody's shall be deemed to refer to any other nationally recognized securities rating agency (other than Fitch or S&P) selected by the Designated Port Representative.

Net Payments means, for a period of time and with respect to a Parity Derivative Product, the difference between Reciprocal Parity Payments and Port Parity Payments which may be reflected as a positive or negative number on the financial statements of the Port (i.e., the net amount to be received by or paid by the Port for a period of time as a result of netting Reciprocal Parity Payments and Port Parity Payments).

Net Revenues means Gross Revenue less any part thereof that must be used to pay Operating Expenses.

Operating Expenses means the current expenses incurred for operation or maintenance of the Facilities (other than Special Facilities), as defined under generally accepted accounting principles applicable to the Port, in effect from time to time, excluding (i) any allowances for depreciation or amortization, or (ii) interest on any obligations of the Port incurred in connection with and payable from Gross Revenue.

Original Issue Discount Bonds means Intermediate Lien Parity Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Bonds in the Series Resolution authorizing their issuance.

Other Derivative Product means a payment agreement entered into in connection with one or more series of Intermediate Lien Parity Bonds between the Port and a counterparty permitted under Chapter 39.96 RCW, as amended from time to time, or any successor statute, which is not a Parity Derivative Product.

Outstanding, when used as of a particular time with reference to Intermediate Lien Parity Bonds, means all Intermediate Lien Parity Bonds delivered under a Series Resolution except those identified as no longer "Outstanding" under the terms established in the respective Series Resolution.

Outstanding First Lien Bonds means, collectively, the Port's outstanding Revenue Bonds, Series 1992A, issued pursuant to Resolution No. 3111, as amended; Revenue Bonds, Series 1994A and Revenue Bonds, Series 1994C issued pursuant to Resolution No. 3155, as amended, Revenue Bonds, Series 1996A and Series 1996B issued pursuant to Resolution No. 3215, as amended; Revenue Bonds, Series 1997A and Series 1997B issued pursuant to

Resolution No. 3242, as amended; and Revenue Refunding Bonds, Series 1998 issued pursuant to Resolution No. 3275, as amended; Revenue Bonds, Series 2000A and Series 2000B and Revenue Refunding Bonds, Series 2000D issued pursuant to Resolution No. 3430, as amended; Revenue Bonds, Series 2001A and Series 2001B and Revenue Refunding Bonds, Series 2001C issued pursuant to Resolution No. 3462, as amended; Revenue Refunding Bonds, Series 2001D issued pursuant to Resolution No. 3462, as amended, and Resolution No. 3467; and Revenue Bonds, Series 2003A and Series 2003B issued pursuant to Resolution No. 3509, as amended, and Revenue Refunding Bonds, 2004 (Taxable) issued pursuant to Resolution No. 3528, as amended.

Outstanding Subordinate Lien Bonds means, collectively, the Port's outstanding Subordinate Lien Revenue Bonds, Series 1997 issued pursuant to Resolution No. 3238, as amended by Resolution No. 3351, as amended, adopted on August 24, 1999; Subordinate Lien Refunding Revenue Bonds, 1998 issued pursuant to Resolution No. 3276, as amended by Resolution No. 3353, as amended, adopted on August 24, 1999; Subordinate Lien Revenue Bonds, Series 1999A and Series 1999B, issued pursuant to Resolution No. 3354, as amended; and Subordinate Lien Revenue Notes (Commercial Paper) issued pursuant to Resolution No. 3456, as amended; and Subordinate Lien Revenue Bonds, Series 2003C issued pursuant to Resolution No. 3510, as amended.

Parity Derivative Product means a written contract or agreement between the Port and a Reciprocal Payor permitted under Chapter 39.96 RCW, as amended from time to time, or any successor statute, obligating the Port to make Net Payments on a parity of lien with Intermediate Lien Parity Bonds.

Paying Agent shall mean any person, firm, association, corporation or public body as designated and appointed from time to time by resolution of the Commission or by a Series Resolution to act as paying agent for one or more series of Intermediate Lien Parity Bonds.

Permitted Prior Lien Bonds means and includes the First Lien Bonds and any other revenue bonds or revenue obligations that may be issued in the future at the discretion of the Port payable from Gross Revenues available after the payment of the amounts described in paragraphs First, Second, and Third of Section 2 of this resolution and having a lien on Net Revenues superior to the lien thereon of the Intermediate Lien Parity Bonds.

Port means the Port of Seattle, a municipal corporation of the State of Washington, as now or hereafter constituted, or the corporation, authority, board, body, commission, department or officer succeeding to the principal functions of the Port or to whom the powers vested in the Port shall be given by law.

Port Parity Payment means any payment, other than a termination or other nonscheduled payment, required to be made by or on behalf of the Port under a Parity Derivative Product and which is determined according to a formula set forth in a Parity Derivative Product and calculated without regard to netting.

Port Other Payment means any payment, other than a termination or other nonscheduled payment, required to be made by or on behalf of the Port under an Other Derivative Product and which is determined according to a formula set forth in such Other Derivative Product and calculated without regard to netting.

Prior Lien Debt Service Offsets means receipts of the Port that are not included in Gross Revenue and that are legally available and/or pledged by the Port to pay debt service on Permitted Prior Lien Bonds.

Qualified Insurance means any non-cancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) (i) which insurance company or companies, as of the time of issuance of such policy or surety bond, are rated in one of the two highest Rating Categories by one or more of the Rating Agencies for unsecured debt or insurance underwriting or claims paying ability or (ii) if as a result of the issuance of its policies, the obligations insured thereby to be rated in one of the two highest Rating Categories by one or more of the Rating Agencies.

Qualified Letter of Credit means any irrevocable letter of credit issued by a financial institution, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

Rate Covenant has the meaning given such term in Section 6(a) of this resolution.

Rating Agency means Fitch, Moody's or S&P.

Rating Category means the generic rating categories of a Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Reciprocal Parity Payment means any payment, other than a termination or other nonscheduled payment, to be made to, or for the benefit of, the Port under a Parity Derivative Product by the Reciprocal Payor and which is determined according to a formula set forth in a Parity Derivative Product and calculated without regard to netting.

Reciprocal Other Payment means any payment, other than a termination or other nonscheduled payment, to be made to, or for the benefit of, the Port under an Other Derivative

Product by the Port's counterparty and which is determined according to a formula set forth in such Other Derivative Product and calculated without regard to netting.

Reciprocal Payor means any counterparty to a Parity Derivative Product that is obligated to make one or more Reciprocal Parity Payments thereunder and that satisfies then existing State law requirements for such counterparties.

Registered Owner means the person named as the registered owner of an Intermediate Lien Parity Bond in the bond register maintained by the Registrar for such Intermediate Lien Parity Bonds.

Registrar means any person, firm, association, corporation or public body as designated and appointed from time to time by resolution of the Commission or by a Series Resolution, to act as registrar for one or more series of Intermediate Lien Parity Bonds.

Released Revenues shall mean income or revenue of the Port previously included in Available Intermediate Lien Revenue in respect of which the following have been delivered by or to the Port:

(a) a certificate of the Designated Port Representative identifying the income or revenue to be removed from the definition of Available Intermediate Lien Revenue and certifying the Port is in compliance with all requirements of this resolution;

(b) a certificate of an independent certified public accountant to the effect that Available Intermediate Lien Revenues, excluding the income or revenues proposed to become Released Revenues, for each of the two audited fiscal years prior to the date of such certificate were equal to at least 150% of Maximum Annual Debt Service on then Outstanding Intermediate Lien Parity Bonds;

(c) a certificate of a Consultant to the effect that based upon current knowledge of the operations of the Port, Available Intermediate Lien Revenues, excluding the income or revenues proposed to become Released Revenues, for the current fiscal year will be equal to at least 150% of Maximum Annual Debt Service on then Outstanding Intermediate Lien Parity Bonds;

(d) Rating Agency confirmation that the ratings then assigned to any Intermediate Lien Parity Bonds by such Rating Agency will not be reduced or withdrawn as a result of such withdrawal of Released Revenues; and

(e) an opinion of Bond Counsel to the effect that the exclusion of such revenues from the definition of Available Intermediate Lien Revenues and from the pledge, charge and lien of this resolution will not in and of itself cause the interest on any Outstanding Intermediate Lien Parity Bond issued as tax-exempt securities to be included in gross income for purposes of federal income tax.

Repair and Renewal Fund means the special fund authorized to be created pursuant to Section 4(B) of the First Lien Master Resolution.

Reserved Lien Revenue Bonds means those revenue bonds and other revenue obligations issued or incurred by the Port payable from Gross Revenue and having liens on Net Revenues subordinate to that of the Intermediate Lien Parity Bonds and prior to the lien thereon of the Subordinate Lien Parity Bonds.

Revenue Fund means, collectively, the Port's general fund, airport development fund and any other fund established in the office of the Treasurer of the Port for the receipt of Gross Revenues.

Scheduled Debt Service means the amounts required in a fiscal year to be paid by the Port as scheduled debt service (principal and interest) on Outstanding Intermediate Lien Parity Bonds, adjusted by Net Payments during such fiscal year.

Series Resolution means a resolution authorizing the issuance of a series of Intermediate Lien Parity Bonds, as such resolution may thereafter be amended or supplemented. Each Series Resolution shall be supplemental to this resolution.

S&P means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term S&P shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's or Fitch) selected by the Designated Port Representative.

Special Facilities means particular facilities financed with the proceeds of Special Revenue Bonds.

Special Revenue Bonds means any issue or series of revenue bonds, revenue warrants or other revenue obligations of the Port issued to directly or indirectly acquire (by purchase, lease or otherwise), construct, equip, install or improve part or all of particular facilities and which are payable from and secured by the income and revenue from such facilities.

Subordinate Lien Parity Bonds means and includes the Outstanding Subordinate Lien Bonds and any other revenue bonds or revenue obligations that may be issued in the future at the discretion of the Port payable from Gross Revenues available after the payment of the amounts described in paragraphs First through Eighth of Section 2 of this resolution.

Tax Maximum means the maximum dollar amount permitted by the Internal Revenue Code of 1986, as amended, including applicable regulations thereunder, to be allocated to a bond

reserve account from bond proceeds without requiring a balance to be invested at a restricted yield.

Treasurer means the Chief Financial Officer of the Port, or any other public officer as may hereafter be designated pursuant to law to have the custody of Port funds.

Interpretation. In this resolution, unless the context otherwise requires:

(a) The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms, as used in this resolution, refer to this resolution as a whole and not to any particular article, section, subdivision or clause hereof, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of this resolution;

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations, limited liability companies and other legal entities, including public bodies, as well as natural persons;

(d) Any headings preceding the text of the several articles and sections of this resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this resolution, nor shall they affect its meaning, construction or effect;

(e) All references herein to "articles," "sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and

(f) Whenever any consent or direction is required to be given by the Port, such consent or direction shall be deemed given when given by the Designated Port

Representative or his or her designee, respectively, and all references herein to the Designated Port Representative shall be deemed to include references to his or her designee, as the case may be.

Section 2. Priority of Use of Gross Revenue. The Port's Gross Revenue shall be deposited in the Revenue Fund as collected. The Revenue Fund shall be held separate and apart from all other funds and accounts of the Port, and the Gross Revenue deposited therein shall be used only for the following purposes and in the following order of priority:

First, to pay Operating Expenses not paid from other sources;

Second, to make all payments, including sinking fund payments, required to be made into the debt service account(s) within any redemption fund maintained for First Lien Bonds to pay the principal of and interest and premium, if any, on any First Lien Bonds;

Third, to make all payments required to be made into any reserve account(s) maintained for First Lien Bonds to secure the payment of any First Lien Bonds;

Fourth, to make all payments required to be made into any other revenue bond redemption fund and debt service account or reserve account created therein to pay and secure the payment of the principal of, premium, if any, and interest on any revenue bonds or other revenue obligations of the Port having liens upon the Net Revenues and the money in the Revenue Fund junior and inferior to the lien thereon for the payment of the principal of, premium, if any, and interest on any First Lien Bonds, but prior to the lien thereon of Intermediate Lien Parity Bonds;

Fifth, to make payments necessary to be paid into any bond fund or debt service account created to pay the debt service on Intermediate Lien Parity Bonds to pay the principal of and interest on Intermediate Lien Parity Bonds and, without duplication, to make Net Payments due

with respect to any Parity Derivative Product secured by a pledge of and lien on Available Intermediate Lien Revenues on an equal and ratable basis with Outstanding Intermediate Lien Parity Bonds;

Sixth, to make all payments required to be made into the Intermediate Lien Reserve Account;

Seventh, to make payments necessary to be paid into any bond fund or debt service account created to pay the debt service on Reserved Lien Revenue Bonds to pay the principal of and interest on Reserved Lien Revenue Bonds;

Eighth, to make all payments required to be made into any reserve account(s) securing Reserved Lien Revenue Bonds;

Ninth, to make payments necessary to be paid into any bond fund or debt service account created to pay the debt service on Subordinate Lien Parity Bonds, including, but not limited to the Subordinate Lien Bond Fund to pay the principal of and interest on Subordinate Lien Parity Bonds;

Tenth, to make all payments required to be made into the reserve account(s) securing Subordinate Lien Parity Bonds;

Eleventh, to make all payments required to be made into the Repair and Renewal Fund under the terms of the First Lien Master Resolution to maintain any required balance therein; and

Twelfth, to retire by redemption or purchase any outstanding revenue bonds or other revenue obligations of the Port as authorized in the various resolutions of the Commission authorizing their issuance or to make necessary additions, betterments, improvements and repairs to or extension and replacements of the Facilities, or any other lawful Port purposes.

Notwithstanding the foregoing, the obligations of the Port to make nonscheduled payments under a Parity Derivative Product (i.e., any termination payment or other fees) and/or make any payment pursuant to an Other Derivative Product may be payable from Gross Revenue available after Sixth above, as set forth in such Parity Derivative Product or Other Derivative Product.

Section 3. Authorization of Intermediate Lien Parity Bonds; Intermediate Lien Bond Fund; Intermediate Lien Reserve Account. Subject to Section 5 of this resolution, revenue bonds of the Port, unlimited in amount, to be known as the “Port of Seattle Intermediate Lien Revenue Bonds,” are hereby authorized to be issued in series, and each such series may be issued from time to time pursuant to this resolution in such amounts and upon such terms and conditions as the Commission may from time to time deem to be necessary or advisable, for any purposes of the Port now or hereafter permitted by law.

The Intermediate Lien Parity Bonds and the lien thereof created and established hereunder shall be obligations only of the Intermediate Lien Bond Fund and the Intermediate Lien Reserve Account therein (herein created). The Intermediate Lien Parity Bonds shall be payable solely from and secured solely by Available Intermediate Lien Revenues available after providing for the payments specified in paragraph First through Fourth of Section 2 of this resolution; provided, however, that any series of Intermediate Lien Parity Bonds also may be payable from and secured by a Credit Facility pledged specifically to or provided for that series of Intermediate Lien Parity Bonds.

A special fund of the Port designated the “Port of Seattle Intermediate Lien Revenue Bond Fund” (the “Intermediate Lien Bond Fund”) is hereby authorized to be created in the office of the Treasurer of the Port for the purpose of paying and securing the payment of Intermediate

Lien Parity Bonds. The Intermediate Lien Bond Fund shall be held separate and apart from all other funds and accounts of the Port and shall be a trust fund for the owners of Intermediate Lien Parity Bonds.

The Port hereby irrevocably obligates and binds itself for as long as any Intermediate Lien Parity Bonds remain Outstanding to set aside and pay into the Intermediate Lien Bond Fund from Available Intermediate Lien Revenues or money in the Revenue Fund, on or prior to the respective dates the same become due (and if such payment is made on the due date, such payment shall be made in immediately available funds):

(1) Such amounts as are required to pay the interest scheduled to become due on Outstanding Intermediate Lien Parity Bonds; and

(2) Such amounts with respect to Outstanding Intermediate Lien Parity Bonds as are required (A) to pay maturing principal, (B) to make any required sinking fund payments, and (C) to redeem Outstanding Intermediate Lien Parity Bonds in accordance with any mandatory redemption provisions.

Said amounts so pledged to be paid into such special funds are hereby declared to be a prior lien and charge upon the Net Revenues superior to all other liens and charges of any kind or nature whatsoever except for the liens and charges thereon of Permitted Prior Lien Bonds and except for liens and charges equal in rank that may be made thereon to pay Net Payments due pursuant to any Parity Derivative Product and to pay and secure the payment of the principal of, premium, if any, and interest on Intermediate Lien Parity Bonds issued under authority of a Series Resolution in accordance with the provisions of Sections 4 and 5 of this resolution.

The Bonds shall not in any manner or to any extent constitute general obligations of the Port or of the State of Washington, or of any political subdivision of the State of Washington.

An Intermediate Lien Reserve Account (the "Intermediate Lien Reserve Account") is hereby authorized to be created by the Treasurer of the Port within the Intermediate Lien Bond Fund for the further purpose of securing the payment of the principal of, premium, if any, and interest on all Outstanding Intermediate Lien Parity Bonds. The Port shall make deposits therein as provided in this section so that the balance therein shall be at least equal to the Intermediate Lien Reserve Requirement.

The Intermediate Lien Reserve Requirement may be funded at the date of issuance of Intermediate Lien Parity Bonds or may be funded in equal monthly deposits over a period of time (not greater than three years) established in Series Resolution(s); provided, however, that the dollar amount required to be contributed, if any, as a result of the issuance of a Series of Intermediate Lien Parity Bonds shall not be greater than the Tax Maximum. If the dollar amount required to be contributed at the time of issuance of a Series exceeds the Tax Maximum, then the amount required to be contributed shall be equal to the Tax Maximum; the Intermediate Lien Reserve Requirement shall be adjusted accordingly and remain in effect until the earlier of (i) at the Port's option, a payment of principal of Intermediate Lien Parity Bonds or (ii) the issuance of a subsequent Series of Intermediate Lien Parity Bonds (when the Intermediate Lien Reserve Requirement shall be re-calculated).

The Intermediate Lien Reserve Requirement shall be maintained by deposits of cash and/or qualified investments, a Qualified Letter of Credit or Qualified Insurance, or a combination of the foregoing. The Designated Port Representative may decide to utilize Qualified Insurance or Qualified Letter(s) of Credit to satisfy all or a portion of the Intermediate Lien Reserve Requirement. Upon such election, the Designated Port Representative is hereby authorized to execute and deliver one or more agreements with issuers of Qualified Insurance or

Qualified Letters of Credit to effect the delivery of the appropriate instrument. To the extent that the Port obtains a Qualified Letter of Credit or Qualified Insurance in substitution for cash or securities in the Intermediate Lien Reserve Account, all or a portion of the money on hand in the Intermediate Lien Reserve Account shall be transferred to the fund or account specified by the Designated Port Representative. In computing the amount on hand in the Intermediate Lien Reserve Account, Qualified Insurance and/or a Qualified Letter of Credit shall be valued at the lower of the face amount thereof and the amount available to be drawn thereunder, and all other obligations purchased as an investment of moneys therein shall be valued on a marked to market basis, at least once annually. As used herein, the term "cash" shall include U.S. currency, cash equivalents and evidences thereof, including demand deposits, certified or cashier's check; and the deposit to the Intermediate Lien Reserve Account may be satisfied by the transfer of investments to such account. If a deficiency in the Intermediate Lien Reserve Requirement shall exist as a result of the foregoing valuation, such deficiency shall be made up within a year thereof.

If the balance on hand in the Intermediate Lien Reserve Account is sufficient to satisfy the Intermediate Lien Reserve Requirement, amounts in excess of such Intermediate Lien Reserve Requirement shall be applied as provided in the following sentences. Whenever there is a sufficient amount in the Intermediate Lien Bond Fund and the Intermediate Lien Reserve Account to pay the principal of, premium, if any, and interest on all Outstanding Intermediate Lien Parity Bonds, the money in the Intermediate Lien Reserve Account may be used to pay such principal and interest. If the balance on deposit in the Intermediate Lien Reserve Account is at least equal to the Intermediate Lien Reserve Requirement, money in the Intermediate Lien

Reserve Account in excess of the Intermediate Lien Reserve Requirement may be transferred to the fund or account specified in writing by the Designated Port Representative.

If a deficiency in the Intermediate Lien Bond Fund shall occur, such deficiency shall be made up from the Intermediate Lien Reserve Account by the withdrawal of cash therefrom for that purpose and by the sale or redemption of investments held in the Intermediate Lien Reserve Account, in such amounts as will provide cash in the Intermediate Lien Reserve Account sufficient to make up any such deficiency with respect to the Intermediate Lien Parity Bonds, and if a deficiency still exists immediately prior to an interest payment date and after the transfer of cash from the Intermediate Lien Reserve Account to the Intermediate Lien Bond Fund, the Port shall then draw from any Qualified Letter of Credit or Qualified Insurance then credited to the Intermediate Lien Reserve Account for the Intermediate Lien Parity Bonds in sufficient amount to make up the deficiency. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide. Reimbursement may be made to the issuer of any Qualified Letter of Credit or Qualified Insurance in accordance with the reimbursement agreement related thereto, and after making necessary provision for the payments required to be made in paragraphs First through Fifth of Section 2 of this resolution. If the Port shall have failed to make any payment required to be made under such reimbursement agreement for Intermediate Lien Parity Bonds, the issuer shall be entitled to exercise all remedies available at law or under this resolution; provided, however, that no acceleration of the Intermediate Lien Parity Bonds shall be permitted, and no remedies that adversely affect Registered Owners of the Intermediate Lien Parity Bonds shall be permitted. Any deficiency created in the Intermediate Lien Reserve Account by reason of any such withdrawal shall be made up within one year from Qualified Insurance or a Qualified Letter of

Credit or out of Available Intermediate Lien Revenues (or out of any other moneys on hand legally available for such purpose), in 12 equal monthly installments, after first making necessary provision for all payments required to be made into the Intermediate Lien Bond Fund within such year.

To the extent that the Port has obtained Qualified Insurance or a Qualified Letter of Credit to satisfy its obligations under this Section 3, amounts then available to be drawn under such Qualified Insurance or a Qualified Letter of Credit shall be credited against the amounts required to be maintained in the Intermediate Lien Reserve Account by this Section 3 to the extent that such payments and credits are insured by the issuer of such Qualified Insurance, or are to be made or guaranteed by a Qualified Letter of Credit. If a Credit Event occurs, the Intermediate Lien Reserve Requirement shall be satisfied (A) within one year after the occurrence of such Credit Event with other Qualified Insurance or another Qualified Letter of Credit, or (B) within three years (in three equal annual installments) after the occurrence of such Credit Event, out of Available Intermediate Lien Revenues (or out of other money on hand and legally available for such purpose) after first making necessary provisions for all payments required to be made into the Intermediate Lien Bond Fund.

Section 4. Authorization of Series of Intermediate Lien Parity Bonds. The Port may issue hereunder from time to time one or more series of Intermediate Lien Parity Bonds by means of a Series Resolution for any purpose of the Port now or hereafter permitted by law, provided that the Port shall comply with the terms and conditions for the issuance of Intermediate Lien Parity Bonds hereinafter set forth in this Section 4 and in Section 5 hereof.

Each series of Intermediate Lien Parity Bonds shall be authorized by a Series Resolution which shall, among other provisions, specify and provide for:

(a) the authorized maximum principal amount, designation and series of such Intermediate Lien Parity Bonds;

(b) the general purpose or purposes for which such series of Intermediate Lien Parity Bonds is being issued, and the deposit, disbursement and application of the proceeds of the sale of the Intermediate Lien Parity Bonds of such series;

(c) the maximum interest rate or rates on the Intermediate Lien Parity Bonds of such series (which may be a rate of zero) or, if the interest rate or rates shall be variable, the method for determining such interest rates;

(d) the circumstances, if any, under which the Intermediate Lien Parity Bonds of such series will be deemed to be no longer Outstanding;

(e) the currency or currencies in which the Intermediate Lien Parity Bonds of such series are payable;

(f) the denominations of, and the manner of dating, numbering, and, if necessary, authenticating, the Intermediate Lien Parity Bonds of such series;

(g) the Paying Agent or Paying Agents, if any, for the Intermediate Lien Parity Bonds of such series and the duties and obligations thereof;

(h) the place or places of payment of the principal, redemption price, if any, or purchase price, if any, of and interest on, the Intermediate Lien Parity Bonds of such series;

(i) the tender agent or tender agents, if any, for the Intermediate Lien Parity Bonds of such series and the duties and obligations thereof;

(j) the remarketing agent or remarketing agents, if any, for the Intermediate Lien Parity Bonds of such series and the duties and obligations thereof;

(k) the Registrar or Registrars, if any, for the Intermediate Lien Parity Bonds of such series and the duties and obligations thereof;

(l) the form or forms of the Intermediate Lien Parity Bonds of such series and any coupons attached thereto, which may include but shall not be limited to, registered form, bearer form with or without coupons, and book-entry form, and the methods, if necessary, for the registration, transfer and exchange of the Intermediate Lien Parity Bonds of such series;

(m) the terms and conditions, if any, for the redemption of the Intermediate Lien Parity Bonds of such series prior to maturity, including the redemption date or dates, the redemption price or prices and other applicable redemption terms; provided that the Series Resolution may authorize the Chief Executive Officer of the Port to fix the terms and conditions for the redemption of the Intermediate Lien Parity Bonds of such series prior to maturity, including the redemption date or dates, the redemption price or prices and other applicable redemption terms under such terms and conditions approved by resolution of the Commission;

(n) the terms and conditions, if any, for the purchase of the Intermediate Lien Parity Bonds of such series upon any optional or mandatory tender for purchase prior to maturity, including the tender date or dates, the purchase date or dates, the purchase price or prices and other applicable terms; provided that the Series Resolution may authorize the Chief Executive Officer of the Port to fix the terms and conditions for the tender of the Intermediate Lien Parity Bonds of such series prior to maturity, including the tender date or dates, the purchase date or dates, the purchase price or prices and other applicable terms under such terms and conditions approved by resolution of the Commission;

(o) the manner of sale of the Intermediate Lien Parity Bonds of such series, with or without a premium or a discount, including the sale of Original Issue Discount

Intermediate Lien Parity Bonds; provided that the Series Resolution may authorize the Chief Executive Officer of the Port to establish the issue price of the Intermediate Lien Parity Bonds, including a premium or a discount, under such terms and conditions approved by resolution of the Commission;

(p) if so determined by the Port, the authorization of and any terms and conditions with respect to credit or liquidity support for the Intermediate Lien Parity Bonds of such series and the pledge or provision of moneys, assets or security other than Net Revenues to or for the payment of the Intermediate Lien Parity Bonds of such series or any portion thereof;

(q) a special fund or account to provide for the payment of the Intermediate Lien Parity Bonds of such series and, if so determined by the Port, any other special funds or accounts for the Intermediate Lien Parity Bonds of such series and the application of moneys or security therein;

(r) the amount, if any, to be deposited or credited to the Intermediate Lien Reserve Account; and

(s) any other provisions which the Port deems necessary or desirable in connection with the Intermediate Lien Parity Bonds of such series.

Section 5. Permitted Prior Lien Bonds; Conditions of Issuance of Intermediate Lien Parity Bonds.

(a) *Permitted Prior Lien Bonds.* As provided in the First Lien Master Resolution, the Port reserves the right to issue one or more series of First Lien Bonds by means of a "Series Resolution" (as such term is defined and required under the First Lien Master Resolution) for any purpose of the Port now or hereafter permitted by law, provided that the Port shall comply with the terms and conditions for the issuance of First Lien Bonds set forth in the

First Lien Master Resolution. In addition, the Port also reserves the right to issue obligations payable from Net Revenues available after payment of the amounts described in paragraphs First through Third of Section 2 of this resolution, and having lien(s) on such Net Revenues prior to the lien of the Intermediate Lien Parity Bonds and the Outstanding Subordinate Lien Bonds. Such obligations shall be subject to such terms, conditions and covenants set forth in their respective authorizing resolutions.

(b) *Future Intermediate Lien Parity Bonds - General Provisions.* All Intermediate Lien Parity Bonds authorized to be issued under Series Resolutions, upon fulfillment of the conditions of this resolution, shall be issued on a parity of lien with one another, having an equal lien and charge upon the Available Intermediate Lien Revenues of the Port.

The Port hereby further covenants and agrees with the owners and holders of each of the Intermediate Lien Parity Bonds for as long as any of the same remain Outstanding that it will not issue any Intermediate Lien Parity Bonds that constitute a charge and lien upon the Available Intermediate Lien Revenues equal to the lien thereon of Outstanding Intermediate Lien Parity Bonds, unless at the time of the issuance of such Intermediate Lien Parity Bonds the Port is not in default under this resolution, and the Port meets the conditions set forth in subsection (c) below or meets either of the conditions described in (1) or (2) below.

(1) Certificate Required. There shall have been delivered prior to or on the date of the issuance of the Intermediate Lien Parity Bonds, either

(A) a certificate prepared as provided below and executed by the Designated Port Representative stating that Available Intermediate Lien Revenues as First Adjusted during the Base Period were at least equal to 110 percent of Annual Debt Service in

each year of the Certificate Period with respect to all Intermediate Lien Parity Bonds then Outstanding and then proposed to be issued; or

(B) a Consultant's certificate, prepared as provided below, stating that projected Available Intermediate Lien Revenues as First Adjusted will be at least equal to 110 percent of Annual Debt Service in each year of the Certificate Period.

If Intermediate Lien Debt Service Offsets or Prior Lien Debt Service Offsets are or have been used in order to comply with Section 6(a)(1) or (2), then for the purposes of meeting the conditions of this Section 5, the Port shall, by resolution (which may be a Series Resolution), identify and irrevocably pledge the receipts that constitute such Intermediate Lien Debt Service Offset or Prior Lien Debt Service Offsets for a period not less than the duration of the Certificate Period.

The Designated Port Representative's certificate, described in (A) above shall be based upon the financial statements of the Port for the Base Period, corroborated by the certified statements of the Division of Municipal Corporations of the State Auditor's office of the State of Washington, or any successor to the duties thereof, or by an independent certified public accounting firm for the Base Period.

In making the computations of projected Available Intermediate Lien Revenues for the purpose of certifying compliance with the conditions specified in (B) above, the Consultant shall use as a basis the Available Intermediate Lien Revenues for the Base Period corroborated by the certified statements of the Division of Municipal Corporations of the State Auditor's office of the State of Washington, or any successor to the duties thereof, or by an independent certified public accounting firm for the Base Period. The Consultant shall make such adjustments to Available Intermediate Lien Revenues (including those described in establishing Available Intermediate

Lien Revenues as First Adjusted) in order to compute projected Available Intermediate Lien Revenues as he/she/it deems reasonable as set forth in writing to the Port.

Compliance with the coverage requirements of this Section 5 shall be demonstrated conclusively by a certificate delivered in accordance with this subsection (b).

(2) No Certificate Required. A certificate shall not be required as a condition to the issuance of Intermediate Lien Parity Bonds:

(A) if the Intermediate Lien Parity Bonds are being issued for refunding purposes upon compliance with the provisions of subsection (c) of this section; or

(B) if the Intermediate Lien Parity Bonds are being issued to pay Costs of Construction of Facilities for which indebtedness has been issued previously and the principal amount of such indebtedness being issued for completion purposes does not exceed an amount equal to an aggregate of 15% of the principal amount of indebtedness theretofore issued for such Facilities and reasonably allocable to the Facilities to be completed as shown in a written certificate of the Designated Port Representative, stating that the scope, nature and purpose of such Facilities has not materially changed and that the net proceeds of such indebtedness being issued for completion purposes will be sufficient, together with other available funds of the Port, to complete such Facilities.

(c) *Intermediate Lien Parity Bonds For Refunding Purposes.* The Port may issue Intermediate Lien Parity Bonds for refunding purposes, as follows:

(1) Intermediate Lien Parity Bonds may be issued at any time for the purpose of refunding (including by purchase) Intermediate Lien Parity Bonds including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of redemption (or purchase), any deposits to a reserve account or to purchase a Qualified Letter of

Credit or Qualified Insurance, any termination amount with respect to an associated Parity Derivative Product or Other Derivative Product, and the expenses of issuing the Intermediate Lien Parity Bonds and of effecting such refunding upon delivery of a certificate as provided in subsection (b)(2) above. Such refunding Intermediate Lien Parity Bonds also may be issued without a certificate if:

(A) the latest maturity of the Intermediate Lien Parity Bonds to be issued is not later than the latest maturity of the Intermediate Lien Parity Bonds to be refunded (were such refunding not to occur), and the increase in Annual Debt Service as a result of such refunding in any year is less than the greater of (i) \$25,000 or (ii) 5% of such Annual Debt Service on the Intermediate Lien Parity Bonds to be refunded; or

(B) the latest maturity of the Intermediate Lien Parity Bonds to be issued is later than the latest maturity of the Intermediate Lien Parity Bonds to be refunded (were such refunding not to occur), and the Maximum Annual Debt Service on all Intermediate Lien Parity Bonds to be Outstanding after the issuance of the refunding Intermediate Lien Parity Bonds shall not be greater than Maximum Annual Debt Service were such refunding not to occur.

(2) Intermediate Lien Parity Bonds may be issued at any time for the purpose of refunding (including by purchase) any Permitted Prior Lien Bonds, including amounts to pay principal thereof and redemption premium, if any, and interest thereon to the date of redemption of such bonds (or purchase), any deposits to a reserve account or to purchase a Qualified Letter of Credit or Qualified Insurance, any termination amount with respect to an associated derivative product, and the expenses of issuing the Intermediate Lien Parity Bonds to purchase or refund the same and of effecting such refunding; provided, however, that prior to the

issuance of such Intermediate Lien Parity Bonds the Port must provide a certificate if such a certificate would be required by subsection (c)(1) of this section if the Permitted Prior Lien Bonds to be refunded were Intermediate Lien Parity Bonds. For the purposes of determining whether a certificate is required by subsection (c)(1) and for the purpose of preparing any such certificate, the debt service on the Permitted Prior Lien Bonds shall be calculated as if such Permitted Prior Lien Bonds were Intermediate Parity Lien Bonds.

(3) Intermediate Lien Parity Bonds may be issued without the requirement of a certificate pursuant to this section for the purpose of refunding (including by purchase) any Permitted Prior Lien Indebtedness or Intermediate Lien Parity Bonds at any time within one year prior to their maturity or mandatory redemption date if sufficient Available Intermediate Lien Revenues or other moneys are not expected to be available for payment at maturity or mandatory redemption.

(d) *Liens Subordinate to Intermediate Lien Parity Bonds.* Nothing herein contained shall prevent the Port from issuing revenue bonds or other obligations (including any Other Derivative Product) which are a charge upon the Available Intermediate Lien Revenues junior or inferior to the payments required by this resolution to be made out of such Available Intermediate Lien Revenues to pay and secure the payment of any Intermediate Lien Parity Bonds. Such junior or inferior obligations shall not be subject to acceleration. This prohibition against acceleration shall not be deemed to prohibit mandatory tender or other tender provisions with respect to variable rate obligations or to prohibit the payment of a termination amount with respect to an Other Derivative Product or a Parity Derivative Product.

Section 6. Specific Covenants. The Port hereby makes the following covenants and agreements with the owners and holders of each of the Intermediate Lien Parity Bonds for as long as any of the same remain Outstanding.

(a) *Rate Covenant.* The Port will at all times establish, maintain and collect rentals, tariffs, rates, fees, and charges in the operation of all of its businesses as long as any Intermediate Lien Parity Bonds are Outstanding that will produce in each fiscal year

(1) Available Intermediate Lien Revenues as First Adjusted at least equal to 110% of the Amount Due; and

(2) Available Intermediate Lien Revenues as Second Adjusted at least equal to 125% of the Amount Due.

Subsections (a)(1) and (2) are separate rather than cumulative calculations regarding the sufficiency of Available Intermediate Lien Revenues and are together to be considered as the Port's "Rate Covenant".

If the Available Intermediate Lien Revenues as First Adjusted or if Available Intermediate Lien Revenues as Second Adjusted in any fiscal year are less than required to fulfill the Rate Covenant, then the Port will retain a Consultant to make recommendations as to operations and the revision of schedules of rentals, tariffs, rates, fees and charges; and upon receiving such recommendations or giving reasonable opportunity for such recommendations to be made, the Commission, on the basis of such recommendations and other available information, will establish rentals, tariffs, rates, fees and charges for services and operations which will be necessary to meet the Rate Covenant in the fiscal year during which such adjustments are made. If the Commission has taken the steps set forth in this paragraph and the Available Intermediate Lien Revenues as First Adjusted or if Available Intermediate Lien

Revenues as Second Adjusted in the fiscal year in which adjustments are made nevertheless are not sufficient to meet the Rate Covenant, there shall be no default under this Section 6(a) during such fiscal year, unless the Port fails to meet the Rate Covenant for two consecutive fiscal years.

(b) *Payment of Intermediate Lien Parity Bonds.* The Port will duly and punctually pay or cause to be paid out of the Intermediate Lien Bond Fund the principal of and interest on the Intermediate Lien Parity Bonds at the times and places as provided in each Series Resolution and in said Intermediate Lien Parity Bonds provided and will at all times faithfully perform and observe any and all covenants, undertakings and provisions contained in this resolution, the Series Resolution, as applicable, and in the Intermediate Lien Parity Bonds.

(c) *Maintenance and Operations.* The Port will at all times keep and maintain all of the Facilities in good repair, working order and condition, and will at all times operate the same and the business or businesses in connection therewith in an efficient manner and at a reasonable cost.

(d) *Sale of Certain Facilities.* In the event any Facility or part thereof which contributes in some measure to the Gross Revenue is sold by the Port or is condemned pursuant to the power of eminent domain, the Port will apply the net proceeds of such sale or condemnation to capital expenditures upon or for Facilities which will contribute in some measure to the Gross Revenue or to the retirement of Bonds then Outstanding.

(e) *Insurance of Facilities.* The Port will keep or arrange to keep all Facilities insured, if such insurance is obtainable at reasonable rates and upon reasonable conditions, against such risks, in such amounts, and with such deductibles as the Commission or the Designated Port Representative shall deem necessary.

(f) *Insurance Against Port Liability.* The Port will at all times keep or arrange to keep in full force and effect policies of public liability and property damage insurance which will protect the Port against anyone claiming damages of any kind or nature, if such insurance is obtainable at reasonable rates and upon reasonable conditions, in such amounts and with such deductibles as the Commission or the Designated Port Representative shall deem necessary.

(g) *Maintenance of Books and Records.* The Port will keep and maintain proper books of account and accurate records of all of its revenue, including tax receipts, received from any source whatsoever, and of all costs of administration and maintenance and operation of all of its business that are in accordance with generally accepted accounting principles as in effect from time to time. On or before 120 days after each fiscal year the Port will prepare or cause to be prepared an operating statement of all of the business of the Port for such preceding fiscal year. Each such annual statement shall contain a statement in detail of the Gross Revenue, tax receipts, expenses of administration, expenses of normal operation, expenses of normal and extraordinary maintenance and repair, and expenditures for capital purposes of the Port for such fiscal year and shall contain a statement as of the end of such year showing the status of all funds and accounts of the Port pertaining to the operation of its business and the status of all of the funds and accounts created by various resolutions of the Commission authorizing the issuance of outstanding bonds and other obligations payable from the Gross Revenue. Copies of such statements shall be placed on file in the main office of the Port and shall be open to inspection at any reasonable time by the owners of Intermediate Lien Parity Bonds.

(h) *Disposal of Income Properties.* In the event of voluntary or involuntary sale, lease, or other conveyance, transfer or disposal of all or substantially all of its Facilities, the Port shall require that contemporaneously with such disposition, there shall be paid into a special fund a sum which shall be sufficient to defease all Intermediate Lien Parity Bonds then Outstanding; provided, however, that such defeasance will not be required so long as the Port maintains primary responsibility for the management and operation of the affected Facilities and provided further that all Available Intermediate Lien Revenue from such Facilities continues to be pledged to all Intermediate Lien Parity Bonds then Outstanding.

Section 7. Derivative Products. The Port hereby reserves the right to enter into Parity Derivative Products and Other Derivative Products. The Port may amend this resolution, within the limitations permitted in Sections 8 or 9, to accommodate new or modified definitions of Debt Service in connection with a Parity Derivative Product if the Parity Derivative Product includes Port Parity Payments or Reciprocal Parity Payments not then contemplated or otherwise addressed by the definition of Debt Service. If the Port enters into a Parity Derivative Product with respect to previously Outstanding Intermediate Lien Parity Bonds or Intermediate Lien Parity Bonds to be issued subsequent to the effective date of the Parity Derivative Product, the Port shall not be required to satisfy the conditions set forth in Section 5 of this resolution with respect to the Parity Derivative Product. Each Parity Derivative Product shall set forth the manner in which the Port Parity Payments and Reciprocal Parity Payments are to be calculated and a schedule of payment dates. This resolution may be amended in the future to reflect the lien position and priority of any payments made in connection with a Parity Derivative Product; *provided, however*, that termination amounts under Derivative Parity Products must be subordinate to the lien of Intermediate Lien Parity Bonds.

Section 8. Amendments Without Bondowner Consent. This resolution may be amended or supplemented from time to time, without the consent of the Registered Owners by a resolution or resolutions amendatory or supplemental to this resolution adopted by the Commission for one or more of the following purposes:

(a) to add additional covenants of the Commission or to surrender any right or power herein conferred upon the Port; provided that such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Port contained in this resolution;

(b) to confirm as further assurance any pledge or provision for payment of the Intermediate Lien Parity Bonds under and the subjection to any lien, claim or pledge created or to be created by the provisions of this resolution of the Available Intermediate Lien Revenues or of any other moneys, securities or funds;

(c) to cure any ambiguity or to cure, correct or supplement any defective (whether because of any inconsistency with any other provision hereof or otherwise) provision of this resolution in such manner as shall not be inconsistent with this resolution or to make any other provisions with respect to matters or questions arising under this resolution, provided such action shall not impair the security hereof or materially and adversely affect the interests of the Registered Owners; or

(d) to prescribe further limitations and restrictions upon the issuance of Intermediate Lien Parity Bonds and the incurring of indebtedness by the Port payable from the Available Intermediate Lien Revenues which are not contrary to or inconsistent with the limitations and restrictions thereon theretofore in effect;

(e) to provide or modify procedures permitting Registered Owners to utilize a certificated system of registration for Bonds; or

(f) to modify, alter, amend, supplement or restate this resolution in any and all respects necessary, desirable or appropriate in connection with the delivery of a Credit Facility, Liquidity Facility or other security or liquidity arrangement; or

(g) to modify, alter, amend, supplement or restate this resolution in any and all respects necessary, desirable or appropriate in order to satisfy the requirements of any Rating Agency which may from time to time provide a rating on the Bonds, or in order to obtain or retain such rating on any Intermediate Lien Parity Bonds as is deemed necessary by the Port; or

(h) to qualify this resolution under the Trust Indenture Act of 1939, as amended;

(i) for any purpose, if such amendment becomes effective only following a mandatory tender of all Intermediate Lien Parity Bonds for purchase; or

(j) to modify any of the provisions of this resolution in any other respects; provided that such modifications shall not materially and adversely affect the rights of any Intermediate Lien Parity Bondowners or that such modifications shall not take effect until all then Outstanding Intermediate Lien Parity Bonds are no longer Outstanding.

Notwithstanding anything in this Section 8 to the contrary, without the specific consent of the Registered Owners of each Intermediate Lien Parity Bond, no such resolution amending or supplementing the provisions hereof or of any Series Resolution shall reduce the percentage of Intermediate Lien Parity Bonds, the Registered Owners of which are required to consent to any such resolution amending or supplementing the provisions hereof; or give to any Intermediate Lien Parity Bond or Intermediate Lien Parity Bonds any preference over any other Intermediate

Lien Parity Bond or Intermediate Lien Parity Bonds secured hereby. No resolution amending or supplementing the provisions hereof or any Series Resolution shall change the date of payment of the principal of any Intermediate Lien Parity Bond, or reduce the principal amount or Accreted Value of any Intermediate Lien Parity Bond, or change the rate or extend the time of payment of interest thereof, or reduce any premium payable upon the redemption or prepayment thereof, or advance the date upon which any Intermediate Lien Parity Bond may first be called for redemption prior to its fixed maturity date (except as provided in the Series Resolution authorizing the issuance of such Intermediate Lien Parity Bond) without the specific consent of the Registered Owner of that Intermediate Lien Parity Bond; and no such amendment shall change or modify any of the rights or obligations of any Paying Agent or other agent for a series of Intermediate Lien Parity Bonds without its written assent thereto.

Section 9. Amendments With Registered Owners' Consent. This resolution may be amended from time to time by a supplemental resolution approved by the Registered Owners of a majority in aggregate principal amount of the Intermediate Lien Parity Bonds then Outstanding; provided, that (a) no amendment shall be made which affects the rights of some but fewer than all of the Registered Owners of the Outstanding Intermediate Lien Parity Bonds without the consent of the Registered Owners of a majority in aggregate principal amount of the Intermediate Lien Parity Bonds so affected, and (b) except as expressly authorized hereunder, no amendment that alters the interest rates on any Intermediate Lien Parity Bonds, the maturity date, interest payment dates, purchase upon tender or redemption provisions of any Intermediate Lien Parity Bonds, this Section 9 without the consent of the Registered Owners of all Outstanding Intermediate Lien Parity Bonds affected thereby. For the purpose of consenting to amendments under this Section 9 except for amendments that alter the interest rate on any Intermediate Lien

Parity Bonds, the maturity date, interest payment dates, purchase upon tender or redemption of any Bonds, the Credit Facility Issuer shall be deemed to be the sole Registered Owner of the Bonds that are payable from such Credit Facility and that are then Outstanding.

Section 10. Resolution and Laws a Contract with Intermediate Lien Parity Bondowners. This resolution is adopted under the authority of and in full compliance with the Constitution and laws of the State of Washington, including Title 53 of the Revised Code of Washington, as amended and supplemented. In consideration of the purchase and acceptance of the Intermediate Lien Parity Bonds by those who shall hold the same from time to time, the provisions of this resolution and of any Series Resolution and of said laws shall constitute a contract with the owner or owners of each Intermediate Lien Parity Bond, and the obligations of the Port and its Commission under said laws and under this resolution and under any Series Resolution shall be enforceable by any court of competent jurisdiction; and the covenants and agreements herein set forth to be performed on behalf of the Port shall be for the equal benefit, protection and security of the owners of any and all of the Intermediate Lien Parity Bonds.

Section 11. Defaults and Remedies. The Port hereby finds and determines that the failure or refusal of the Port or any of its officers to perform the covenants and obligations of this resolution will endanger the operation of the Facilities and the application of Gross Revenue and such other money, funds and securities to the purposes herein set forth. Any one or more of the following shall constitute a default under this resolution:

(a) The Port shall fail to make a payment of the principal of any Intermediate Lien Parity Bonds when the same shall become due and payable whether by maturity or scheduled redemption prior to maturity; provided, that a failure to make a payment of the

principal of a Series shall not constitute a payment default under any other Series not otherwise in default;

(b) The Port shall fail to make a payment of any installment of interest on any Intermediate Lien Parity Bonds when the same shall become due and payable; provided, that a failure to make payment of interest on a Series shall not constitute a payment default under any other Series not otherwise in default; or

(c) The Port shall default in the observance or performance of any other covenants, conditions, or agreements on the part of the Port contained in this resolution, and such default shall have continued for a period of 90 days.

In determining whether a payment default has occurred or whether a payment on the Intermediate Lien Parity Bonds has been made under this resolution no effect shall be given to payments made under a Credit Facility that is a policy of municipal bond insurance or surety bond. Upon the occurrence and continuation of a default, a Credit Facility Issuer of a Credit Facility that is not a line of credit shall be entitled to waive any default or to exercise, on behalf of the owners of Intermediate Lien Parity Bonds insured by such Credit Facility Issuer, any of the remedies provided under this section and, for as long as such Credit Facility Issuer is not in default of its obligations under the Credit Facility, such Credit Facility Issuer shall be the only party entitled to waive any default or exercise the remedies provided under this section. There may not be any acceleration of the Intermediate Lien Parity Bonds, and a default under one Series of Intermediate Lien Parity Bonds shall not constitute a default under another Series of Intermediate Lien Parity Bonds not then in default.

Upon the occurrence of a default and so long as such default shall not have been remedied and subject to the foregoing paragraph, a Bondowners' Trustee may be appointed for

the Intermediate Lien Parity Bonds by the owners of a majority in principal amount of the Outstanding Intermediate Lien Parity Bonds of the series then in default by an instrument or concurrent instruments in writing signed and acknowledged by such Bondowners or by their attorneys-in-fact duly authorized and delivered to such Bondowners' Trustee, notification thereof being given to the Port. Any Bondowners' Trustee appointed under the provisions of this Section 11 shall be a bank or trust company organized under the laws of a state or a national banking association. The fees and expenses of a Bondowners' Trustee shall be borne by the Bondowners and not by the Port. The bank or trust company acting as a Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed by the owners of a majority in principal amount of the Intermediate Lien Parity Bonds Outstanding of the series then in default, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondowners or by their attorneys-in-fact duly authorized.

The Bondowners' Trustee appointed in the manner herein provided, and each successor thereto, is hereby declared to be a trustee for the owners of all the Intermediate Lien Parity Bonds for which such appointment is made and is empowered to exercise all the rights and powers herein conferred on the Bondowners' Trustee.

A Bondowners' Trustee may upon the happening of a default and during the continuation thereof, take such steps and institute such suits, actions or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of Bondowners to collect any amounts due and owing the Port, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this resolution.

Any action, suit or other proceedings instituted by a Bondowners' Trustee hereunder shall be brought in its name as trustee for the Bondowners represented by such Trustee and all such rights of action upon or under any of the Intermediate Lien Parity Bonds may be brought by a Bondowners' Trustee or the provisions of this resolution may be enforced by a Bondowners' Trustee without the possession of any of said Intermediate Lien Parity Bonds, and without the production of the same at any trial or proceedings relating thereto except where otherwise required by law, and the respective owners of said Intermediate Lien Parity Bonds by purchase of such Intermediate Lien Parity Bonds shall be conclusively deemed irrevocably to appoint a Bondowners' Trustee the true and lawful trustee to the respective owners of said Intermediate Lien Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums that become distributable on account of said Intermediate Lien Parity Bonds; to execute any paper or documents for the receipt of such moneys, and to do all acts with respect thereto that the Bondowner himself might have done in person. Nothing herein contained shall be deemed to authorize or empower any Bondowners' Trustee to consent to accept or adopt, on behalf of any owner of said Intermediate Lien Parity Bonds, any plan of reorganization or adjustment affecting the said Intermediate Lien Parity Bonds or any right of any owner thereof, or to authorize or empower the Bondowners' Trustee to vote the claims of the owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the Port shall be a party.

Subject to the rights of a Credit Facility Issuer set forth in this section, no owner of any one or more of the Intermediate Lien Parity Bonds shall have any right to institute any action, suit or proceedings at law or in equity for the enforcement of the same, unless default shall have happened and be continuing, and unless no Bondowners' Trustee has been appointed as herein

provided, but any remedy herein authorized to be exercised by a Bondowners' Trustee may be exercised individually by any Bondowner, in his own name and on his own behalf or for the benefit of all Bondowners, in the event no Bondowners' Trustee has been appointed, or with the consent of the Bondowners' Trustee if such Bondowners' Trustee has been appointed; provided however, that nothing in this resolution or in the Intermediate Lien Parity Bonds shall affect or impair the obligation of the Port which is absolute and unconditional, to pay from Available Intermediate Lien Revenues the principal of and interest on said Intermediate Lien Parity Bonds to the respective owners thereof at the respective due dates therein specified, or affect or impair the right of action, which is absolute and unconditional, of such owners to enforce such payments.



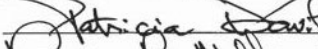

The remedies herein conferred upon or reserved to the owners of the Intermediate Lien Parity Bonds and to a Bondowners' Trustee are not intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. The privileges herein granted shall be exercised from time to time and continued so long as and as often as the occasion therefor may arise and no waiver of any default hereunder, whether by a Bondowners' Trustee or by the owners of Intermediate Lien Parity Bonds, shall extend to or shall affect any subsequent default or shall impair any rights or remedies consequent thereon. No delay or omission of the Bondowners or of a Bondowners' Trustee to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein.

Upon any such waiver, such default shall cease to exist, and any default arising therefrom shall be deemed to have been cured, for every purpose of this resolution; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 12. Moneys Held by Paying Agents One Year After Due Date. Unless otherwise provided in the Series Resolution authorizing a series of Intermediate Lien Parity Bonds, moneys or securities held by the Paying Agents in trust for the payment and discharge or purchase of any of the Intermediate Lien Parity Bonds which remain unclaimed for one year after the date when such Intermediate Lien Parity Bonds are purchased or shall have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by such Paying Agents at such date, or for one year after the date of deposit of such moneys if deposited with the Paying Agents after the date when such Intermediate Lien Parity Bonds become due and payable, shall be repaid by the Paying Agents to the Port free from the trust created by this resolution and the Paying Agents shall thereupon be released and discharged with respect thereto, and the owners of the Intermediate Lien Parity Bonds of the series payable from such moneys shall look only to the Port for the payment of such Intermediate Lien Parity Bonds.

Section 13. Severability. If any one or more of the provisions of this resolution shall be declared by any court of competent jurisdiction to be contrary to law, then such provision or provisions shall be deemed separable from, and shall in no way affect the validity of, any of the other provisions of this resolution or of the Intermediate Lien Parity Bonds issued pursuant to the terms hereof.

ADOPTED by the Port Commission of the Port of Seattle at a regular meeting thereof, held this 14th day of June, 2005, and duly authenticated in open session by the signatures of the Commissioners present and voting in favor thereof.

PORT OF SEATTLE, WASHINGTON
 BOB EDWARDS
 ALEC FISKEN
 PATRICIA DAVIS
 PAIGE MILLER

Commissioners


CERTIFICATE

I, the undersigned, Secretary of the Port Commission (the "Commission") of the Port of Seattle (the "Port"), DO HEREBY CERTIFY:

1. That the attached resolution numbered 3540, as amended (the "Resolution") is a true and correct copy of a resolution of the Port, as finally adopted at a meeting of the Commission held on the 11th day of June, 2005, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum of the Commission was present throughout the meeting and a legally sufficient number of members of the Commission voted in the proper manner for the adoption of said Resolution; that all other requirements and proceedings incident to the proper adoption of said Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of June, 2005.


Secretary **ALEC FISKEN**

INTERMEDIATE LIEN
SERIES RESOLUTION

PORT OF SEATTLE

RESOLUTION NO. 3735

A RESOLUTION of the Port Commission of the Port of Seattle authorizing the issuance and sale of intermediate lien revenue and refunding bonds in one or more series in the aggregate principal amount of not to exceed \$800,000,000, for the purpose of financing or refinancing capital improvements to aviation facilities and for the purpose of refunding certain outstanding revenue bonds of the Port; setting forth certain bond terms and covenants; and delegating authority to approve final terms and conditions and the sale of the bonds.

ADOPTED: July 11, 2017

Prepared by:

K&L GATES LLP

**PORT OF SEATTLE
Resolution No. 3735
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* This Table of Contents and the cover page are for convenience of reference and are not intended to be a part of this series resolution.

RESOLUTION NO. 3735

A RESOLUTION of the Port Commission of the Port of Seattle authorizing the issuance and sale of intermediate lien revenue and refunding bonds in one or more series in the aggregate principal amount of not to exceed \$800,000,000, for the purpose of financing or refinancing capital improvements to aviation facilities and for the purpose of refunding certain outstanding revenue bonds of the Port; setting forth certain bond terms and covenants; and delegating authority to approve final terms and conditions and the sale of the bonds.

WHEREAS, the Port has authorized the issuance of revenue bonds in one or more series pursuant to Resolution No. 3059, as amended, of the Commission adopted on February 2, 1990, as amended by Resolution No. 3214, adopted on March 26, 1996, Resolution No. 3241, adopted on April 8, 1997, and Resolution No. 3436, adopted on July 11, 2000 and as amended and restated by Resolution No. 3577 of the Commission adopted on February 27, 2007 (collectively, the "First Lien Master Resolution"), each series being payable from the Net Revenues (as such term is defined in the First Lien Master Resolution); and

WHEREAS, the Port currently has outstanding nine series of first lien revenue bonds pursuant to the First Lien Master Resolution, as follows:

Authorizing Resolution Number	Date of Original Issue	Series	Original Principal Amount	Principal Amount Outstanding (07/02/2017)	Final Maturity Date
3509	08/20/2003	(A)	\$ 190,470,000	\$ 36,600,000	07/01/2021
3619	07/16/2009	(A)	20,705,000 ⁽¹⁾	20,705,000 ⁽¹⁾	05/01/2028
3619	07/16/2009	(B-1)	274,255,000 ⁽¹⁾	268,160,000 ⁽¹⁾	05/01/2036
3619	07/16/2009	(B-2)	22,000,326 ⁽²⁾	39,248,676 ⁽²⁾	05/01/2031
3653	12/13/2011	(A)	11,380,000	2,110,000	09/01/2017
3653	12/13/2011	(B)	97,190,000	83,680,000	09/01/2026
3721	08/02/2016	(A)	19,565,000	19,565,000	10/01/2019
3721	08/02/2016	(B)	124,380,000	124,380,000	10/01/2032
3721	08/02/2016	(C)	6,180,000	6,180,000	10/01/2032

⁽¹⁾ All or part of the Series 2009A Bonds and Series 2009B-1 Bonds may be refunded pursuant to this series resolution.

⁽²⁾ Series 2009B-2 Bonds are capital appreciation bonds; total principal amount outstanding includes accreted interest through July 2, 2017.

(the "Outstanding First Lien Bonds"); and

WHEREAS, the Port has authorized the issuance of intermediate lien revenue bonds having a lien on Net Revenues subordinate to the lien thereon of the Outstanding First Lien Parity Bonds in one or more series pursuant to Resolution No. 3540, as amended, adopted on June 14, 2005 (the "Intermediate Lien Master Resolution"); and

WHEREAS, the Port currently has outstanding ten series of intermediate lien revenue bonds pursuant to the Intermediate Lien Master Resolution, as follows:

Authorizing Resolution Number	Date of Original Issue	Series	Original Principal Amount	Principal Amount Outstanding (07/02/2017)	Final Maturity Dates
3637	08/04/2010	(B)	\$ 221,315,000	\$ 206,200,000	06/01/2040
3637	08/04/2010	(C)	128,140,000	103,135,000	02/01/2024
3658	03/14/2012	(A)	342,555,000	323,415,000	08/01/2033
3658	03/14/2012	(B)	189,315,000	125,435,000	08/01/2024
3658	03/14/2012	(C)	80,270,000	7,050,000	11/01/2017
3684	12/17/2013		139,105,000	127,155,000	07/01/2029
3709	08/06/2015	(A)	72,010,000	72,010,000	04/01/2040
3709	08/06/2015	(B)	284,440,000	255,190,000	03/01/2035
3709	08/06/2015	(C)	226,275,000	222,500,000	04/01/2040
3722	08/02/2016		99,095,000	99,095,000	02/01/2030

(the "Outstanding Intermediate Lien Bonds"); and

WHEREAS, the First Lien Master Resolution and the Intermediate Lien Master Resolution permit the Port to issue its revenue bonds having a lien on Net Revenues and Available Intermediate Lien Revenues (as such terms are defined in the Intermediate Lien Master Resolution) subordinate to the lien thereon of the Outstanding Intermediate Lien Bonds; and

WHEREAS, the Port currently has outstanding four series of subordinate lien revenue bonds, as follows:

Authorizing Resolution Number	Date of Original Issue	Series	Original Principal Amount	Principal Amount Outstanding (07/02/2017)	Final Maturity Dates
3238	03/26/1997		\$ 108,830,000	\$ 64,940,000	09/01/2022
3354	09/01/1999	(A)	127,140,000	53,175,000	09/01/2020
3456	(CP)		250,000,000	29,655,000	06/01/2021
3598	06/17/2008		200,715,000	184,495,000	07/01/2033

(the "Outstanding Subordinate Lien Bonds"); and

WHEREAS, the Port has issued its Revenue Bonds, Series 2009A issued on July 16, 2009 currently outstanding and bearing interest as follows:

Maturity Dates (May 1)	Principal Amounts	Interest Rates
2027	\$ 10,080,000	5.25%
2028	10,625,000	5.25

(the "Series 2009A Bonds"); and

WHEREAS, all of the outstanding Series 2009A Bonds are subject to optional redemption on and after May 1, 2019 at a price equal 100% of the principal amount thereof plus accrued interest to the date fixed for redemption; and

WHEREAS, the Port has issued its Revenue Bonds, Series 2009B-1 issued on July 16, 2009 currently outstanding and bearing interest as follows:

Maturity Dates (May 1)	Principal Amounts	Interest Rates
2019*	\$ 12,710,000	5.74%
2036*	255,450,000	7.00

*Term Bonds

(the "Series 2009B-1 Bonds"); and

WHEREAS, the Series 2009B-1 Bonds maturing after May 1, 2019, are subject to optional redemption on and after May 1, 2019, at a price equal 100% of the principal amount thereof plus accrued interest to the date fixed for redemption; and

WHEREAS, the Port has determined that the Series 2009A Bonds and the Series 2009B-1 Bonds described on Exhibit A attached hereto (together, the "Refunding Candidates") may be defeased and/or refunded, thereby saving on debt service, through the issuance of the Series 2017 Bonds; and

WHEREAS, the Port wishes to finance certain capital improvements to aviation facilities (hereinafter defined as the "Projects") through the issuance of the Series 2017 Bonds; and

WHEREAS, the Intermediate Lien Master Resolution permits the Port to issue its revenue bonds having a lien on Available Intermediate Lien Revenues (as such term is defined in the Intermediate Lien Master Resolution) on a parity with the lien thereon of the Outstanding Intermediate Lien Bonds upon compliance with certain conditions; and

WHEREAS, the Port has determined that such conditions will be met; and

WHEREAS, pursuant to RCW 53.40.030, the Port Commission may delegate authority to the chief executive officer of the Port to approve the designation of the bonds to be defeased and/or refunded, the interest rates, maturity dates, redemption rights, interest payment dates, and principal maturities under such terms and conditions as are approved by resolution; and

WHEREAS, the Port has held a public hearing on the issuance of certain Series 2017 Bonds (as hereinafter defined) as required by Section 147(f) of the Internal Revenue Code, as amended; and

WHEREAS, it is deemed necessary and desirable that the Series 2017 Bonds be sold pursuant to one or more negotiated sale(s) as herein provided;

NOW, THEREFORE, BE IT RESOLVED BY THE PORT COMMISSION OF THE PORT OF SEATTLE, as follows:

Section 1. Definitions. Unless otherwise defined herein, the terms used in this series resolution, including the preamble hereto, that are defined in the Intermediate Lien Master Resolution shall have the meanings set forth in the Intermediate Lien Master Resolution. In addition, the following terms shall have the following meanings in this series resolution:

Acquired Obligations mean the noncallable Government Obligations acquired by the Port pursuant to Section 8(c) of this series resolution and the Escrow Agreement, if any, to effect the defeasance and refunding of all or a portion of the Refunded Bonds.

Beneficial Owner means any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2017 Bonds (including persons holding Series 2017 Bonds through nominees, depositories or other intermediaries).

Bond Counsel means a firm of lawyers nationally recognized and accepted as bond counsel and so employed by the Port for any purpose under this series resolution applicable to the use of that term.

Bond Insurance Commitment means the commitment(s) of the Bond Insurer, if any, to insure one or more series, or certain principal maturities thereof, all or a portion of the Series 2017 Bonds.

Bond Insurance Policy means the policy(ies) of municipal bond insurance, if any, delivered by the Bond Insurer at the time of issuance and delivery of Series 2017 Bonds to be insured pursuant to the Bond Insurance Commitment.

Bond Insurer means the municipal bond insurer(s), if any, that has committed to insure one or more series, or certain principal maturities thereof, of the Series 2017 Bonds, pursuant to the Bond Insurance Commitment.

Bond Purchase Contract means each of the Bond Purchase Contract(s) for the Series 2017 Bonds of one or more series, providing for the purchase of the Series 2017 Bonds of such series by the Underwriters and setting forth certain terms authorized to be approved by the Designated Port Representative as provided in Section 7 of this series resolution.

Bond Register means the registration books maintained by the Registrar containing the name and mailing address of the owner of each Series 2017 Bond or nominee of such owner and the principal amount and number of Series 2017 Bonds held by each owner or nominee.

Chief Executive Officer means the Chief Executive Officer of the Port, or any successor to the functions of his/her office.

Code means the Internal Revenue Code of 1986, as amended, and all applicable regulations and rulings relating thereto.

Continuing Disclosure Undertaking means the undertaking for ongoing disclosure executed by the Port pursuant to Section 15 of this series resolution.

Costs of Issuance Agreement means the Costs of Issuance Agreement(s), if any, dated as of the date of the closing and delivery of the Refunding Bonds between the Port and the Escrow Agent to be executed in connection with paying the costs of issuance of the Refunding Bonds.

Designated Port Representative, for purposes of this series resolution, means the Chief Executive Officer of the Port or the Chief Financial Officer of the Port (or the successor in function to such person(s)) or such other person as may be directed by resolution of the Commission.

DTC means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Series 2017 Bonds pursuant to Section 5 of this series resolution.

Escrow Agent means the Escrow Agent for the Refunded Bonds appointed by the Designated Port Representative pursuant to this series resolution if the Designated Port Representative determines that an escrow will be necessary or required to carry out the plan of refunding.

Escrow Agreement means the Escrow Deposit Agreement, if any, dated as of the date of the closing and delivery of the Refunding Bonds between the Port and the Escrow Agent to be executed in connection with the defeasance and/or refunding of some or all of the Refunded Bonds.

Federal Tax Certificate means the certificate(s) of that name executed and delivered by the Designated Port Representative at the time of issuance and delivery of the Series 2017 Bonds of a series that are issued on a federally tax-exempt basis.

First Lien Master Resolution means Resolution No. 3059, as amended, of the Commission adopted on February 2, 1990, as amended by Resolution No. 3214, adopted on March 26, 1996, Resolution No. 3241, adopted on April 8, 1997, and Resolution No. 3436, adopted on July 11, 2000 and as amended and restated by Resolution No. 3577 of the Commission adopted on February 27, 2007.

Government Obligation has the meaning given to such term in RCW Chapter 39.53, as amended from time to time.

Intermediate Lien Master Resolution means Resolution No. 3540, as amended, of the Commission adopted on June 14, 2005.

Letter of Representations means the blanket issuer letter of representations from the Port to DTC, dated August 28, 1995.

MSRB means the Municipal Securities Rulemaking Board or any successors to its functions. Until otherwise designated by the MSRB or the United States Securities and

Exchange Commission, any information, reports or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system, currently located at www.emma.msrb.org.

Outstanding Intermediate Lien Bonds mean the Port's outstanding intermediate lien revenue bonds identified in the recitals to this series resolution.

Project Bonds mean the Series 2017 Bonds issued for the purpose of funding all or part of the Projects, capitalizing interest, funding the Series 2017 Reserve Account Deposit and paying all or a portion of allocable costs of issuance.

Projects mean the capital projects listed in [Exhibit B](#) hereto.

Record Date means the close of business on the 15th day prior to each day on which a payment of interest on the Series 2017 Bonds is due and payable.

Refunded Bonds mean the Refunding Candidates that are designated by the Chief Executive Officer pursuant to authority delegated by Sections 2 and 7 of this series resolution.

Refunding Bonds means the Series 2017 Bonds issued for the purpose of defeasing and/or refunding the Refunded Bonds.

Refunding Candidates mean the outstanding revenue bonds of the Port as described on [Exhibit A](#).

Registered Owner means the person named as the registered owner of a Series 2017 Bond in the Bond Register.

Registrar means the fiscal agent of the State of Washington, appointed by the Designated Port Representative for the purposes of registering and authenticating the Series 2017 Bonds, maintaining the Bond Register and effecting transfer of ownership of the Series 2017 Bonds. The term **Registrar** shall include any successor to the fiscal agent, if any, hereinafter appointed by the Designated Port Representative.

Rule means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended from time to time.

Savings Target means a dollar amount of debt service savings at least equal to five percent (5.00%) of the principal amount of the Refunded Bonds.

Series 2009A Bonds mean the Port's Revenue Bonds, Series 2009A, issued on July 16, 2009, outstanding and maturing as described in the recitals to this series resolution.

Series 2009B-1 Bonds mean the Port's Revenue Bonds, Series 2009B-1, issued on July 16, 2009, outstanding and maturing as described in the recitals to this series resolution.

Series 2017 Bonds mean the Port of Seattle Intermediate Lien Revenue and Refunding Bonds, Series 2017, authorized to be issued by Section 2 of this series resolution with appropriate description and series designations as provided for by the Designated Port Representative.

Series 2017 Reserve Account Deposit means the amount, if any, that is required to be added to the reserve account balances in the Intermediate Lien Reserve Account to satisfy the Intermediate Lien Reserve Requirement and that is identified in a closing certificate or certificates of the Port.

Subordinate Lien Bond Resolutions mean, collectively, Resolution No. 3238, as amended; Resolution No. 3354, as amended; Resolution No. 3456, as amended; and Resolution No. 3598, as amended.

Surety Bond means the surety bond(s), if any, issued by the Surety Bond Issuer on the date of issuance of the Series 2017 Bonds for the purpose of satisfying the Series 2017 Reserve Account Deposit. There may be more than one Surety Bond.

Surety Bond Agreement means any Agreement(s) between the Port and the Surety Bond Issuer with respect to the Surety Bond(s).

Surety Bond Issuer means any issuer(s) of the Surety Bond(s).

Underwriters mean, collectively, Citigroup Global Markets Inc.; Morgan Stanley & Co. LLC; Barclays Capital Inc.; Goldman Sachs & Co. LLC; J.P. Morgan Securities LLC; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Academy Securities, Inc.; Backstrom McCarley Berry & Co., LLC; and Williams Capital Group, Inc.

Rules of Interpretation. In this series resolution, unless the context otherwise requires:

(a) The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this series resolution, refer to this series resolution as a whole and not to any particular article, section, subdivision or clause hereof, and the term “hereafter” shall mean after, and the term “heretofore” shall mean before the date of this series resolution;

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations, limited liability companies and other legal entities, including public bodies, as well as natural persons;

(d) Any headings preceding the text of the several articles and sections of this series resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this series resolution, nor shall they affect its meaning, construction or effect;

(e) All references herein to “articles,” “sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and

(f) Except as explicitly provided herein, whenever any consent or direction is required to be given by the Port, such consent or direction shall be deemed given when given by the Designated Port Representative.

Section 2. Plan of Finance: Authorization of Series 2017 Bonds.

(a) *Plan of Finance.* The Port intends to undertake improvements to its airport facilities at the locations described on Exhibit B (the “Projects”) attached hereto and incorporated by this reference herein. A portion of the costs of the Projects are expected to be paid, refinanced or reimbursed with the proceeds of the Project Bonds.

The Refunding Candidates may be defeased or are callable in whole or in part prior to their scheduled maturities and may be selected for defeasance and/or refunding depending on market conditions. The final selection of the Refunding Candidates to be designated as Refunded Bonds and to be defeased and/or refunded by the Refunding Bonds shall be made by the Chief Executive Officer pursuant to the authority granted in Section 7 of this series resolution.

(b) *Authorization of Series 2017 Bonds.* The Port shall issue bonds in one or more series (the “Series 2017 Bonds”) consisting of the Project Bonds and the Refunding Bonds, if any. The proceeds of the Project Bonds shall be used for the purpose of providing part of the funds necessary to (i) pay (or pay subordinate lien commercial paper notes issued to pay) or to reimburse the Port for all or a portion of the costs of the Projects; (ii) at the option of the Designated Port Representative, capitalize interest on all or a portion of the Project Bonds; (iii) make a Series 2017 Reserve Account Deposit or purchase a Surety Bond therefor; and (iv) pay all or a portion of the costs incidental to the foregoing and to the issuance of the Project Bonds. The proceeds of the Refunding Bonds, if any, shall be used for the purpose of providing

the funds necessary to (i) defease and/or refund the Refunded Bonds; and (ii) pay all or a portion of the costs incidental to the foregoing and to the issuance of the Refunding Bonds.

(c) *Maximum Principal Amount.* The aggregate principal amount of the Series 2017 Bonds to be issued under this series resolution shall not exceed \$800,000,000. The aggregate principal amount of Project Bonds and the aggregate principal amount of Refunding Bonds shall be determined by the Chief Executive Officer, pursuant to the authority granted in Section 7 of this series resolution.

Section 3. Series 2017 Bond Details.

(a) *Series 2017 Bonds.* The Series 2017 Bonds shall be issued in one or more series, shall be designated as "Port of Seattle Intermediate Lien Revenue and Refunding Bonds, Series 2017," with such description and additional designations for each series for identification purposes as may be approved by the Designated Port Representative, shall be registered as to both principal and interest, shall be issued in the aggregate principal amount set forth in the Bond Purchase Contract, shall be numbered separately in the manner and with any additional designation as the Registrar deems necessary for purposes of identification, shall be dated their date of delivery to the Underwriters, and shall be in the denomination of \$5,000 each or any integral multiple of \$5,000 within a series and maturity. The Series 2017 Bonds of each series shall bear interest from their date of delivery to the Underwriters until the Series 2017 Bonds bearing such interest have been paid or their payment duly provided for, at the rates, payable on the dates, set forth in the Bond Purchase Contract for each series and shall mature on the dates and in the years and in the principal amounts set forth in the Bond Purchase Contract, all as approved by the Chief Executive Officer pursuant to Section 7 of this series resolution.

(b) *Limited Obligations.* The Series 2017 Bonds shall be obligations only of the Intermediate Lien Bond Fund and the Intermediate Lien Reserve Account created under the

Intermediate Lien Master Resolution and shall be payable and secured as provided in the Intermediate Lien Master Resolution and this series resolution. The Series 2017 Bonds do not constitute an indebtedness of the Port within the meaning of the constitutional provisions and limitations of the State of Washington.

Section 4. Redemption and Purchase.

(a) *Optional Redemption.* The Series 2017 Bonds of one or more series and maturities may be subject to optional redemption on the dates, at the prices and under the terms relating to such series set forth in the Bond Purchase Contract, all as approved by the Chief Executive Officer pursuant to Section 7 of this series resolution.

(b) *Mandatory Redemption.* The Series 2017 Bonds of one or more series and maturities may be subject to mandatory redemption to the extent, if any, set forth in the Bond Purchase Contract relating to such series, all as approved by the Chief Executive Officer pursuant to Section 7 of this series resolution.

(c) *Purchase of Series 2017 Bonds for Retirement.* The Port reserves the right to use at any time any surplus Gross Revenue available after providing for the payments required by paragraphs First through Fifth of Section 2(a) of the First Lien Master Resolution, including the payments required by paragraphs First through Eleventh of the priority for use of Gross Revenue set forth in the Intermediate Lien Master Resolution, to purchase for retirement any of the Series 2017 Bonds offered to the Port at any price deemed reasonable to the Designated Port Representative.

(d) *Selection of Series 2017 Bonds for Redemption.* If Series 2017 Bonds are called for optional redemption, the series maturities, and interest rates of such Series 2017 Bonds to be redeemed shall be selected by the Port. If any Series 2017 Bonds to be redeemed (optional or mandatory) then are held in book-entry-only form, the selection of such Series 2017 Bonds

within a series maturity, and interest rate to be redeemed within a maturity and interest rate shall be made in accordance with the operational arrangements then in effect at DTC (or at a substitute depository, if applicable). If the Series 2017 Bonds to be redeemed are no longer held in book-entry-only form, the selection of such Series 2017 Bonds to be redeemed shall be made in the following manner. If the Port redeems at any one time fewer than all of the Series 2017 Bonds having the same maturity date and interest rate within a series, the particular Series 2017 Bonds or portions of Series 2017 Bonds to be redeemed within the series, maturity, and interest rate shall be selected by lot (or in such other random manner determined by the Registrar) in increments of \$5,000. In the case of a Series 2017 Bond within a series, maturity, and interest rate of a denomination greater than \$5,000, the Port and Registrar shall treat each Series 2017 Bond of the applicable series, maturity and interest rate as representing such number of separate Series 2017 Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Series 2017 Bonds of the applicable series, maturity, and interest rate by \$5,000. In the event that only a portion of the principal amount of a Series 2017 Bond is redeemed, upon surrender of such Series 2017 Bond at the principal office of the Registrar there shall be issued to the Registered Owner, without charge therefor, for the then-unredeemed balance of the principal amount thereof a Series 2017 Bond or, at the option of the Registered Owner, a Series 2017 Bond of like series, maturity, and interest rate in any of the denominations herein authorized. *Provided however*, that the manner of selection of Series 2017 Bonds issued on a federally taxable basis for redemption may be set forth in the Bond Purchase Contract relating to such series and as approved by the Designated Port Representative.

(e) *Notice of Redemption.* Written notice of any redemption of Series 2017 Bonds prior to maturity shall be given by the Registrar on behalf of the Port by first class mail, postage prepaid, not less than 20 days nor more than 60 days before the date fixed for redemption to the

Registered Owners of Series 2017 Bonds that are to be redeemed at their last addresses shown on the Bond Register. This requirement shall be deemed complied with when notice is mailed to the Registered Owners at their last addresses shown on the Bond Register, whether or not such notice is actually received by the Registered Owners.

So long as the Series 2017 Bonds are in book-entry only form, notice of redemption shall be given to Beneficial Owners of Series 2017 Bonds to be redeemed in accordance with the operational arrangements then in effect at DTC (or its successor or alternate depository), and neither the Port nor the Registrar shall be obligated or responsible to confirm that any notice of redemption is, in fact, provided to Beneficial Owners.

Each notice of redemption (which notice in the case of optional redemption may be conditional and/or may be rescinded at the option of the Port) prepared and given by the Registrar to Registered Owners of Series 2017 Bonds shall contain the following information: (1) the date fixed for redemption, (2) the redemption price, (3) if fewer than all outstanding Series 2017 Bonds of a series are to be redeemed, the identification by series, maturity, and interest rate (and, in the case of partial redemption, the principal amounts) of the Series 2017 Bonds to be redeemed, (4) whether, in the case of optional redemption, the notice of redemption is conditional and, if conditional, the conditions to redemption, (5) that (unless the conditions, if any, to redemption have not been satisfied or unless the notice of redemption shall have been rescinded) such Series 2017 Bonds will become due and payable and interest shall cease to accrue from the date fixed for redemption if and to the extent in each case funds have been provided to the Registrar for the redemption of such Series 2017 Bonds on the date fixed for redemption the redemption price will become due and payable upon each Series 2017 Bond or portion called for redemption, and that (unless the conditions, if any, to redemption have not been satisfied or unless the notice of redemption shall have been rescinded) interest shall cease to

accrue from the date fixed for redemption if and to the extent that funds have been provided to the Registrar for the redemption of such Series 2017 Bonds, (6) that the Series 2017 Bonds are to be surrendered for payment at the principal office of the Registrar, (7) the CUSIP numbers of all Series 2017 Bonds being redeemed, (8) the dated date of the Series 2017 Bonds being redeemed, (9) the rate of interest for each Series 2017 Bond being redeemed, (10) the date of the notice, and (11) any other information deemed necessary by the Registrar to identify the Series 2017 Bonds being redeemed.

Upon the payment of the redemption price of Series 2017 Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue, series and maturity, the Series 2017 Bonds being redeemed with the proceeds of such check or other transfer.

(f) *Effect of Redemption.* Unless the Port has rescinded a notice of optional redemption (or unless the Port provided a conditional notice of optional redemption and the conditions for the optional redemption set forth therein are not satisfied), the Series 2017 Bonds to be redeemed shall become due and payable on the date fixed for redemption, and the Port shall transfer to the Registrar amounts that, in addition to other money, if any, held by the Registrar for such purpose, will be sufficient to redeem, on the date fixed for redemption, all of the Series 2017 Bonds to be redeemed. If and to the extent that funds have been provided to the Registrar for the redemption of Series 2017 Bonds then from and after the date fixed for redemption for such Series 2017 Bond or portion thereof, interest on each such Series 2017 Bond shall cease to accrue and such Series 2017 Bond or portion thereof shall cease to be Outstanding.

(g) *Amendment of Notice Provisions.* The foregoing notice provisions of this section, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions, deletions and changes to maintain

compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

Section 5. Registration, Exchange and Payments.

(a) *Registrar/Bond Register.* The Port hereby specifies and adopts the system of registration and transfer for the Series 2017 Bonds approved by the Washington State Finance Committee, which utilizes the fiscal agent of the State of Washington, for the purposes of registering and authenticating the Series 2017 Bonds, maintaining the Bond Register and effecting transfer of ownership of the Series 2017 Bonds (the "Registrar"). The Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient records for the registration and transfer of the Series 2017 Bonds (the "Bond Register"), which shall be open to inspection by the Port. The Registrar may be removed at any time at the option of the Designated Port Representative upon prior notice to the Registrar, DTC (or its successor or alternate depository), each party entitled to receive notice pursuant to the Continuing Disclosure Undertaking and a successor Registrar appointed by the Designated Port Representative. No resignation or removal of the Registrar shall be effective until a successor shall have been appointed and until the successor Registrar shall have accepted the duties of the Registrar hereunder. The Registrar is authorized, on behalf of the Port, to authenticate and deliver Series 2017 Bonds transferred or exchanged in accordance with the provisions of such Series 2017 Bonds and this series resolution and to carry out all of the Registrar's powers and duties under this series resolution. The Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Series 2017 Bonds.

(b) *Registered Ownership.* Except as provided in the last sentence of Section 5(c) or the Continuing Disclosure Undertaking authorized pursuant to Section 15 of this series resolution, the Port and the Registrar may deem and treat the Registered Owner of each

Series 2017 Bond as the absolute owner for all purposes, and neither the Port nor the Registrar shall be affected by any notice to the contrary. Payment of any such Series 2017 Bond shall be made only as described in subsection (h) of this Section 5, but the transfer of such Series 2017 Bond may be registered as herein provided. All such payments made as described in subsection (h) of this Section 5 shall be valid and shall satisfy the liability of the Port upon such Series 2017 Bond to the extent of the amount or amounts so paid.

(c) *DTC Acceptance/Letter of Representations.* The Series 2017 Bonds shall initially be held in fully immobilized form by DTC acting as depository. To induce DTC to accept the Series 2017 Bonds as eligible for deposit at DTC, the Port has heretofore executed and delivered to DTC the Letter of Representations.

Neither the Port nor the Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Series 2017 Bonds for the accuracy of any records maintained by DTC (or any successor or alternate depository) or any DTC participant, the payment by DTC (or any successor or alternate depository) or any DTC participant of any amount in respect of the principal of or interest on Series 2017 Bonds, any notice that is permitted or required to be given to Registered Owners under this series resolution (except such notices as shall be required to be given by the Port to the Registrar or, by the Registrar, to DTC or any successor or alternate depository), the selection by DTC or by any DTC participant of any person to receive payment in the event of a partial redemption of the Series 2017 Bonds, or any consent given or other action taken by DTC (or any successor or alternate depository) as the Registered Owner. So long as any Series 2017 Bonds are held in fully immobilized form, DTC or its successor depository shall be deemed to be the owner and Registered Owner for all purposes, and all references in this series resolution to the Registered Owners shall mean DTC (or any successor or alternate depository) or its nominee and shall not

mean the owners of any beneficial interest in any Series 2017 Bonds. Notwithstanding the foregoing, if a Bond Insurance Policy is issued for any series or maturity of the Series 2017 Bonds and so long as the Bond Insurer is not in default under its Policy, the Bond Insurer shall be deemed to be the owner, Registered Owner, and holder of all bonds of that series or maturity for the purpose of granting consents and exercising voting rights with respect thereto and for any other purpose identified and specified in the Bond Insurance Commitment accepted by the Port as a condition of issuance of the Bond Insurance Policy.

(d) *Use of Depository.*

(1) The Series 2017 Bonds shall be registered initially in the name of CEDE & Co., as nominee of DTC, with a single Series 2017 Bond for each series and maturity having the same interest rate in a denomination equal to the total principal amount of such series and maturity. Registered ownership of such immobilized Series 2017 Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC or its nominee, or to any other nominee requested by an authorized representative of DTC, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute depository appointed by the Port pursuant to subsection (2) below or such substitute depository's successor or nominee; or (C) to any person as provided in subsection (4) below.

(2) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the Port to discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Port may appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (A) or (B) of subsection (1) above, the Registrar shall, upon receipt of all outstanding Series 2017 Bonds, together with a written request on behalf of the Port, issue a single new Series 2017 Bond for each series and maturity then outstanding, registered in the name of such successor or substitute depository, or its nominee, all as specified in such written request of the Port.

(4) In the event that (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (B) the Port determines that it is in the best interest of the Beneficial Owners of the Series 2017 Bonds of any series that the Series 2017 Bonds of that series be provided in certificated form, the ownership of such Series 2017 Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held in fully immobilized form. The Port shall deliver a written request to the Registrar, together with a supply of definitive Series 2017 Bonds (of the appropriate series and maturities) in certificated form, to issue Series 2017 Bonds in any authorized denominations. Upon receipt by the Registrar of all then outstanding Series 2017 Bonds (of the appropriate series), together with a written request on behalf of the Port to the Registrar, new Series 2017 Bonds of such series shall be issued in the appropriate denominations and registered in the names of such persons as are provided in such written request.

(e) *Registration of the Transfer of Ownership or the Exchange of Series 2017 Bonds; Change in Denominations.* The transfer of any Series 2017 Bond may be registered and any Series 2017 Bond may be exchanged, but no transfer of any Series 2017 Bond shall be valid unless the Series 2017 Bond is surrendered to the Registrar with the assignment form appearing on such Series 2017 Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Registrar. Upon such surrender, the

Registrar shall cancel the surrendered Series 2017 Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee, a new Series 2017 Bond (or Series 2017 Bonds at the option of the Registered Owner) of the same date, series, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, as and naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Series 2017 Bond, in exchange for such surrendered and canceled Series 2017 Bond. Any Series 2017 Bond may be surrendered to the Registrar, together with the assignment form appearing on such Series 2017 Bond duly executed, and exchanged, without charge, for an equal aggregate principal amount of Series 2017 Bonds of the same date, series, maturity and interest rate, in any authorized denomination. The Registrar shall not be obligated to register the transfer or exchange of any Series 2017 Bond during a period beginning at the opening of business on the 15th day of the month next preceding any interest payment date and ending at the close of business on such interest payment date, or, in the case of any proposed redemption of the Series 2017 Bonds, after the mailing of notice of the call for redemption of such Series 2017 Bonds.

(f) *Registrar's Ownership of Series 2017 Bonds.* The Registrar may become the Registered Owner of any Series 2017 Bond with the same rights it would have if it were not the Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as member of, or in any other capacity with respect to, any committee formed to protect the rights of the Registered Owners of the Series 2017 Bonds.

(g) *Registration Covenant.* The Port covenants that, until all Series 2017 Bonds issued on a federally tax-exempt basis have been surrendered and canceled, it will maintain a system for recording the ownership of each Series 2017 Bond that complies with the provisions of Section 149 of the Code.

(h) *Place and Medium of Payment.* The principal of, premium, if any, and interest on the Series 2017 Bonds shall be payable in lawful money of the United States of America. For so long as all Series 2017 Bonds are in fully immobilized form with DTC, payments of principal, premium, if any, and interest shall be made as provided to the parties entitled to receive payment as of each Record Date in accordance with the operational arrangements of DTC described in the Letter of Representations. In the event that the Series 2017 Bonds are no longer in fully immobilized form with DTC (or its successor or alternate depository), interest on the Series 2017 Bonds shall be paid by check mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register as of the Record Date, and principal and premium, if any, of the Series 2017 Bonds shall be payable by check upon presentation and surrender of such Series 2017 Bonds by the Registered Owners at the principal office of the Registrar; provided, however, that if so requested in writing prior to the opening of business on the 15th day of the month preceding any interest payment date by the Registered Owner of at least \$1,000,000 aggregate principal amount of Series 2017 Bonds of a series, interest on such Series 2017 Bonds will be paid thereafter by wire transfer on the date due to an account with a bank located within the United States.

Section 6. Pledge of Available Intermediate Lien Revenues; Series 2017 Reserve Account Deposit. Pursuant to the Intermediate Lien Master Resolution, the Intermediate Lien Bond Fund and the Intermediate Lien Reserve Account have been created for the purpose of paying and securing the payment of the principal of, premium, if any, and interest on all outstanding Intermediate Lien Parity Bonds. The Port hereby irrevocably obligates and binds itself for as long as any Series 2017 Bonds remain Outstanding to set aside and pay into the Intermediate Lien Bond Fund from Available Intermediate Lien Revenues or money in the

Revenue Fund, on or prior to the respective dates the same become due (and if such payment is made on the due date, such payment shall be made in immediately available funds):

(1) Such amounts as are required to pay the interest scheduled to become due on Series 2017 Bonds; and

(2) Such amounts with respect to Series 2017 Bonds as are required (A) to pay maturing principal, (B) to make any required sinking fund payments, and (C) to redeem Series 2017 Bonds in accordance with any mandatory redemption provisions.

Said amounts so pledged to be paid into such special funds are hereby declared to be a prior lien and charge upon the Gross Revenue superior to all other liens and charges of any kind or nature whatsoever except for (i) Operating Expenses, (ii) liens and charges thereon of Permitted Prior Lien Bonds, and (iii) liens and charges equal in rank that have or may be made thereon to pay Net Payments due pursuant to any Parity Derivative Product and to pay and secure the payment of the principal of, premium, if any, and interest on Outstanding Intermediate Lien Bonds and any Intermediate Lien Parity Bonds issued in the future under authority of a Series Resolution in accordance with the provisions of Sections 4 and 5 of the Intermediate Lien Master Resolution.

The Series 2017 Reserve Account Deposit, if any, shall be deposited in the Intermediate Lien Reserve Account (or shall be satisfied through the issuance of one or more Surety Bonds) on the date of issuance of the Series 2017 Bonds. Together with existing reserve account balances in the Intermediate Lien Reserve Account, the Series 2017 Reserve Account Deposit shall be at least sufficient to meet the Intermediate Lien Reserve Requirement.

The Designated Port Representative may decide to utilize one or more Surety Bonds to satisfy the Series 2017 Reserve Account Deposit; provided that each Surety Bond meets the qualifications for Qualified Insurance. Upon such election, the Designated Port Representative is

hereby authorized to execute and deliver one or more Surety Bond Agreements with one or more Surety Bond Issuers to effect the delivery of the Surety Bond(s).

Section 7. Designation of Refunded Bonds; Sale of Series 2017 Bonds.

(a) *Designation of Refunded Bonds.* As outlined in Section 2 and Section 9 of this series resolution, the Refunding Candidates may be called for redemption prior to their scheduled maturities. All or some of the Refunding Candidates may be defeased and/or refunded with the proceeds of the Series 2017 Bonds authorized by this series resolution. The Chief Executive Officer may select some or all of the Refunding Candidates and designate those Refunding Candidates as the "Refunded Bonds" in the Bond Purchase Contract if and to the extent that the net present value aggregate savings with respect to all Refunded Bonds to be realized as a result of the defeasance and/or refunding of the Refunded Bonds, after payment of all costs of issuance of allocated to the Series 2017 Bonds, is at least equal to the Savings Target.

(b) *Series 2017 Bond Sale.* The Series 2017 Bonds shall be sold at one or more negotiated sale(s) to the Underwriters pursuant to the terms of the applicable Bond Purchase Contract. The Designated Port Representative is hereby authorized to negotiate terms for the purchase of the Series 2017 Bonds and to execute one or more Bond Purchase Contracts, with such terms (including the designation of the Refunded Bonds and the Series 2017 Reserve Account Deposit) as are approved by the Chief Executive Officer pursuant to this section and consistent with this series resolution and the Intermediate Lien Master Resolution. The Port Commission has been advised by the Port's financial advisor that market conditions are fluctuating and, as a result, the most favorable market conditions may occur on a day other than a regular meeting date of the Commission. The Commission has determined that it would be in the best interest of the Port to delegate to the Chief Executive Officer for a limited time the authority to approve the designation of the Refunded Bonds and to approve the number of series,

final series designations, and with respect to each series, the date of sale, the tax status of each series, interest rates, maturity dates, aggregate principal amount, principal amounts and prices of each maturity, redemption rights, and other terms and conditions of the Series 2017 Bonds. The Chief Executive Officer is hereby authorized to approve the designation of the Refunded Bonds and to approve the number of series, final series designations, and with respect to each series, the date of sale, the tax status, interest rates, maturity dates, aggregate principal amount, principal amounts of each maturity and redemption rights for the Series 2017 Bonds in the manner provided hereafter (A) so long as the aggregate principal amount of the Series 2017 Bonds does not exceed the maximum principal amount set forth in Section 2, (B) so long as the true interest cost for the Series 2017 Bonds of a series issued on a federally tax-exempt basis does not exceed 5.25% per annum, and (C) so long as the Savings Target is met with respect to the Refunding Bonds (as described in subsection (a) of this Section 7).

In designating the Refunded Bonds, determining the number of series, final series designations, the date of sale, tax status of each series, interest rates, prices, maturity dates, aggregate principal amount, principal maturities, redemption rights or provisions of the Series 2017 Bonds for approval and the Series 2017 Reserve Account Deposit, the Designated Port Representative, in consultation with Port staff and the Port's financial advisor, shall take into account those factors that, in his judgment, will result in the most favorable interest cost on the Series 2017 Bonds of a series, including, but not limited to, current financial market conditions and current interest rates for obligations comparable in tenor and quality to the Series 2017 Bonds. Subject to the terms and conditions set forth in this section, the Designated Port Representative is hereby authorized to execute the final form of the Bond Purchase Contract, upon the Chief Executive Officer's approval of the Refunded Bonds, number of series, final series designations, the date of sale, tax status of each series, interest rates, maturity dates,

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aggregate principal amount, principal maturities and redemption rights set forth therein. Following the execution of the Bond Purchase Contract, the Chief Executive Officer or Designated Port Representative shall provide a report to the Commission, describing the final terms of the Series 2017 Bonds approved pursuant to the authority delegated in this section. The authority granted to the Designated Port Representative and the Chief Executive Officer by this section shall expire on December 31, 2017. If a Bond Purchase Contract for the Series 2017 Bonds has not been executed by December 31, 2017, the authorization for the issuance of the Series 2017 Bonds of that series shall be rescinded, and the Series 2017 Bonds shall not be issued nor their sale approved unless the Series 2017 Bonds shall have been re-authorized by resolution of the Commission. The resolution reauthorizing the issuance and sale of the Series 2017 Bonds may be in the form of a new series resolution repealing this series resolution in whole or in part (only with respect to the Series 2017 Bonds not issued) or may be in the form of an amendatory resolution approving a bond purchase contract or extending or establishing new terms and conditions for the authority delegated under this section.

Upon the adoption of this series resolution, the proper officials of the Port including the Designated Port Representative, are authorized and directed to undertake all other actions necessary for the prompt execution and delivery of the Series 2017 Bonds to the Underwriters thereof and further to execute all closing certificates and documents required to effect the closing and delivery of the Series 2017 Bonds in accordance with the terms of the Bond Purchase Contract.

The Designated Port Representative and other Port officials, agents and representatives are hereby authorized and directed to do everything necessary for the prompt issuance, execution and delivery of the Series 2017 Bonds to the Underwriters and for the proper application and use of the proceeds of sale of the Series 2017 Bonds. In furtherance of the foregoing, the Designated

Port Representative is authorized to approve and enter into agreements for the payment of costs of issuance, including Underwriters' discount, the fees and expenses specified in the Bond Purchase Contract, including fees and expenses of Underwriters and other retained services, including Bond Counsel, disclosure counsel, rating agencies, fiscal agent, escrow agent, if any, verification agent, financial advisory services, escrow structuring services and other expenses customarily incurred in connection with issuance and sale of bonds.

The Designated Port Representative is authorized to ratify, execute, deliver and approve for purposes of the Rule, on behalf of the Port, the final official statement(s) (and to approve, deem final and deliver any preliminary official statement) and any supplement thereto relating to the issuance and sale of the Series 2017 Bonds and the distribution of the Series 2017 Bonds pursuant thereto with such changes, if any, as may be deemed by him/her to be appropriate.

Section 8. Application of Series 2017 Bond Proceeds.

(a) *Application of Project Bond Proceeds.* The proceeds of the Project Bonds (exclusive of the Underwriters' discount and any amounts that may be designated by the Designated Port Representative in a closing certificate to be allocated to pay costs of issuance or any Bond Insurance Policy premium and/or a Surety Bond premium) shall be applied as follows:

- (1) An amount(s), if any, specified by the Designated Port Representative shall be deposited into one or more capitalized interest accounts (hereinafter authorized to be created);
- (2) An amount specified by the Designated Port Representative as required to pay the Series 2017 Reserve Account Deposit shall be deposited into the Intermediate Lien Reserve Account; and

(3) An amount specified by the Designated Port Representative shall be deposited into one or more capital project accounts and used to pay costs of issuance and, together with other available moneys, to pay costs of the Projects.

If interest on Project Bonds is to be capitalized, the Treasurer of the Port is hereby authorized and directed to create one or more capitalized interest accounts for the purpose of holding certain Project Bond proceeds and interest earnings thereon to be used and disbursed to pay interest on the Project Bonds through the date or dates specified by the Designated Port Representative.

The Treasurer shall invest the net proceeds of the Project Bonds in such obligations as may now or hereafter be permitted to port districts of the State of Washington by law and that will mature prior to the date on which such money shall be needed. Earnings on such investments, except as may be required to pay rebatable arbitrage pursuant to the Federal Tax Certificate, may be used for Port purposes or transferred to the Intermediate Lien Bond Fund for the uses and purposes therein provided.

The Port shall maintain books and records regarding the use and investment of proceeds of Series 2017 Bonds issued on a federally tax-exempt basis in order to maintain compliance with its obligations under its Federal Tax Certificate.

(b) *Application of Refunding Bond Proceeds.* The net proceeds of the Refunding Bonds (exclusive of the Underwriters' discount and any amounts that may be designated by the Designated Port Representative in a closing certificate to be allocated to pay costs of issuance or any Bond Insurance Policy premium and/or a Surety Bond premium, or to satisfy a portion of the Intermediate Lien Reserve Requirement), together with other available funds of the Port in the amount specified by the Designated Port Representative, shall be utilized immediately upon receipt thereof to pay and redeem the Refunded Bonds and/or shall be paid at the direction of the

Treasurer to the Escrow Agent (if the Designated Port Representative has determined that an escrow is necessary or desirable to effect the defeasance of all or a portion of the Refunded Bonds).

(c) *Defeasance of Refunded Bonds.* Subject to and in accordance with the resolution authorizing the issuance of the Refunded Bonds, the net proceeds of the Refunding Bonds so deposited shall be utilized immediately upon receipt thereof to pay and redeem Refunded Bonds and/or to purchase the noncallable Government Obligations that are direct or indirect obligations of the United States or obligations unconditionally guaranteed by the United States specified by the Designated Port Representative (the "Acquired Obligations") and to maintain such necessary beginning cash balance to defease the Refunded Bonds and to discharge the other obligations of the Port relating thereto under the resolution authorizing their issuance, by providing for the payment of the interest on the Refunded Bonds to the date fixed for redemption and the redemption price (the principal amount plus any premium required) on the date fixed for redemption of the Refunded Bonds. Subject to compliance with all conditions set forth in the resolution authorizing the issuance of the Refunded Bonds, when the final transfers have been made for the payment of such redemption price and interest on the Refunded Bonds, any balance then remaining shall be transferred to the account designated by the Port and used for the purposes specified by the Designated Port Representative.

(d) *Acquired Obligations.* The Acquired Obligations, if any, shall be payable in such amounts and at such times that, together with any necessary beginning cash balance, will be sufficient to provide for the payment of:

(1) the interest on the Refunded Bonds as such becomes due on and before the dates fixed for redemption of the Refunded Bonds; and

(2) the price of redemption of the Refunded Bonds on the date fixed for redemption of the Refunded Bonds.

(e) *Authorizing Appointment of Escrow Agent and Verification Agent.* The Commission hereby authorizes and directs the Designated Port Representative (if the Designated Port Representative determines that an escrow would be necessary or desirable to effect the defeasance of all or a portion of the Refunded Bonds) to select a financial institution to act as the escrow agent for all or a portion of the Refunded Bonds and also to select a verification agent for some or all of the Refunded Bonds.

Section 9. Redemption of Refunded Bonds. The Commission hereby calls the callable Refunded Bonds for redemption on the redemption date specified by the Designated Port Representative in accordance with the provisions of the resolution authorizing the issuance, redemption and retirement of the Refunded Bonds, respectively, prior to their maturity dates.

The Designated Port Representative may cause to be disseminated a conditional notice of redemption prior to the closing and delivery of the Refunding Bonds and if a notice of redemption has been disseminated, such notice may be revoked at the option of the Designated Port Representative.

Said defeasance and call for redemption of the Refunded Bonds shall be irrevocable after the closing and delivery of the Refunding Bonds.

If so appointed, the Escrow Agent shall be authorized and directed to provide for the giving of irrevocable notice of the redemption of those Refunded Bonds designated in the Escrow Agreement in accordance with the terms of the resolution authorizing the issuance of such Refunded Bonds and as described in the Escrow Agreement. The Treasurer is authorized and directed to provide whatever assistance is necessary to accomplish such redemption and the

giving of irrevocable notice therefor. The costs of mailing of such notice shall be an expense of the Port.

The Port or the Escrow Agent, if any, on behalf of the Port, shall be authorized and directed to pay to the fiscal agent of the State of Washington, sums sufficient to pay, when due, the payments specified in Section 8(d) of this series resolution. All such sums shall be paid from the moneys and the Acquired Obligations pursuant to the previous section of this series resolution, and the income therefrom and proceeds thereof.

If an Escrow Agent is appointed, the Port will ascertain that all necessary and proper fees, compensation and expenses of the Escrow Agent for the Refunded Bonds shall be paid when due. If an Escrow Agent is appointed, the Designated Port Representative is authorized and directed to execute and deliver the Escrow Agreement to the Escrow Agent when the provisions thereof have been fixed and determined for closing and delivery of the Refunding Bonds. The Escrow Agreement, if any, shall be in form and substance satisfactory to the Designated Port Representative and the Escrow Agent, and may include a separate Costs of Issuance Agreement.

Section 10. Tax Covenants.

(a) *General.* The Port covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the exclusion from gross income for federal income tax purposes of the interest on such Series 2017 Bonds issued on a federally tax-exempt basis and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exclusion from gross income for federal income tax purposes of the interest on the Series 2017 Bonds issued on a federally tax-exempt basis. The Port shall comply with its covenants set forth in the Federal Tax Certificate with respect to the Series 2017 Bonds issued on a federally tax-exempt basis.

(b) *No Bank Qualification.* The Series 2017 Bonds shall not be qualified tax-exempt obligations pursuant to Section 265(b) of the Code for investment by financial institutions.

Section 11. Lost, Stolen, Mutilated or Destroyed Series 2017 Bonds. In case any Series 2017 Bond shall be lost, stolen, mutilated or destroyed, the Registrar may execute and deliver a new Series 2017 Bond of like series, maturity, date, number and tenor to the Registered Owner thereof upon the owner's paying the expenses and charges of the Port in connection therewith and upon his/her filing with the Port evidence satisfactory to the Port that such Series 2017 Bond was actually lost, stolen or destroyed (including the presentation of a mutilated Series 2017 Bond) and of his/her ownership thereof, and upon furnishing the Port and the Registrar with indemnity satisfactory to both.

Section 12. Form of Series 2017 Bonds and Registration Certificate.

The Series 2017 Bonds shall be in substantially the following form:

[DTC HEADING]

NO. _____ UNITED STATES OF AMERICA \$ _____
STATE OF WASHINGTON
PORT OF SEATTLE
INTERMEDIATE LIEN REVENUE [REFUNDING] BOND,
SERIES 2017[A][B][C][D][[Non-AMT][AMT][Taxable]

Maturity Date: _____, _____ CUSIP No. _____

Interest Rate:

Registered Owner: Cede & Co.

Principal Amount:

THE PORT OF SEATTLE, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "Port"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the special fund of the Port known as the "Port of Seattle Revenue Intermediate Lien Bond Fund" (the "Intermediate Lien Bond Fund") created by Resolution No. 3540, as amended (the "Intermediate Lien Master Resolution" and together with Resolution No. 3735, hereinafter collectively referred to as the "Bond Resolution"), the Principal Amount indicated above and to

pay interest thereon from the Intermediate Lien Bond Fund from the date of initial delivery, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable semiannually on the first days of each _____ and _____ beginning on _____ 1, 20____. The principal of, premium, if any, and interest on this bond are payable in lawful money of the United States of America. Principal, premium, if any, and interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the Port to The Depository Trust Company ("DTC") (or its successor or alternate depository) or other registered owner. Capitalized terms used in this bond which are not specifically defined have the meanings given such terms in the Bond Resolution. The Treasurer of the Port has appointed the fiscal agent for the State of Washington as the initial registrar, authenticating and paying agent for the bonds of this series.

This bond is one of a series of bonds of the Port in the aggregate principal amount of \$_____, of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued pursuant to the Bond Resolution to [defeas and/or refund certain outstanding Port obligations][to pay costs of capital improvement projects]. [Simultaneously herewith, the Port is issuing _____ other series of revenue bonds: its Revenue [Refunding] Bonds, Series 2017[A][B][C][D][[Non-AMT][AMT][Taxable] in the principal amount of \$_____].

The bonds of this issue maturing on and after _____ 1, ____ shall be subject to optional redemption in advance of their scheduled maturity on and after _____ in whole or in part on any date at a price equal to 100% of the principal amount thereof plus accrued interest to the date fixed for redemption.

[The bonds of this issue maturing on _____ 1, ____ shall be redeemed by the Port on _____ 1 of the following years in the following principal amounts at a price equal to 100% of the principal amount thereof plus accrued interest: to the date fixed for redemption:

Redemption Dates	Amounts
	\$

* Final Maturity]

The bonds of this series are [not] private activity bonds. The bonds of this series are not "qualified tax-exempt obligations" eligible for investment by financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. [The Port has taken no action to cause the interest on this bond to be exempt from general federal income taxation.]

The Port hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution.

The Port does hereby pledge and bind itself to set aside and pay into the Intermediate Lien Bond Fund and Intermediate Lien Reserve Account from Available Intermediate Lien

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Revenues or money in the Revenue Fund the various amounts required by the Bond Resolution to be paid into and maintained in said Fund and Account, all within the times provided by said Bond Resolution.

The amounts pledged to be paid out of Gross Revenue into the Intermediate Lien Bond Fund and Intermediate Lien Reserve Account are hereby declared to be a first and prior lien and charge upon the Gross Revenue, subject to the payment of Operating Expenses of the Port and subject further to the liens thereon of the Permitted Prior Lien Bonds and equal in rank to the lien and charge upon such Gross Revenue of the amounts required to pay and secure the payment of any Net Payments due pursuant to any Parity Derivative Product, any Outstanding Intermediate Lien Bonds and any revenue bonds of the Port hereafter issued on a parity with the Outstanding Intermediate Lien Bonds and the bonds of this issue.

The Port has further bound itself to establish, maintain and collect rentals, tariffs, rates and charges in the operation of all of its businesses for as long as any bonds of this issue are outstanding that it will make available, for the payment of the principal thereof and interest thereon as the same shall become due, Available Intermediate Lien Revenues in an amount equal to or greater than the Rate Covenant defined in the Intermediate Lien Master Resolution.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Registrar.

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Washington and resolutions of the Port and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the Port of Seattle has caused this bond to be executed by the manual or facsimile signatures of the President and Secretary of the Port Commission, and the corporate seal of the Port to be impressed or a facsimile thereof imprinted hereon as of the ___ day of _____, 2017.

PORT OF SEATTLE

By _____ /s/ _____
President, Port Commission

ATTEST:
_____/s/_____
Secretary, Port Commission

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This bond is one of the bonds described in the within mentioned Bond Resolution and is one of the Intermediate Lien Revenue [Refunding] Bonds, Series 2017[A][B][C][D][[Non-AMT][AMT][Taxable] of the Port of Seattle, dated _____, 2017.

WASHINGTON STATE FISCAL AGENT, as
Registrar

By _____
Authorized Signer

* * * * *

In the event any Series 2017 Bonds are no longer in fully immobilized form, the form of such Series 2017 Bonds may be modified to conform to printing requirements and the terms of this series resolution.

Section 13. Execution. The Series 2017 Bonds shall be executed on behalf of the Port with the manual or facsimile signature of the President of its Commission, shall be attested by the manual or facsimile signature of the Secretary thereof and shall have the seal of the Port impressed or a facsimile thereof imprinted thereon.

Only such Series 2017 Bonds as shall bear thereon a Certificate of Authentication in the form hereinbefore recited, manually executed by the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this series resolution. Such Certificate of Authentication shall be conclusive evidence that the Series 2017 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this series resolution.

In case either of the officers of the Port who shall have executed the Series 2017 Bonds shall cease to be such officer or officers of the Port before the Series 2017 Bonds so signed shall

have been authenticated or delivered by the Registrar, or issued by the Port, such Series 2017 Bonds may nevertheless be authenticated, delivered and issued and upon such authentication, delivery and issuance, shall be as binding upon the Port as though those who signed the same had continued to be such officers of the Port. Any Series 2017 Bond may also be signed and attested on behalf of the Port by such persons as on the actual date of execution of such Series 2017 Bond shall be the proper officers of the Port although on the original date of such Series 2017 Bond any such person shall not have been such officer.

Section 14. Defeasance. In the event that money and/or noncallable Government Obligations that are direct or indirect obligations of the United States or obligations unconditionally guaranteed by the United States maturing or having guaranteed redemption prices at the option of the owner at such time or times and bearing interest to be earned thereon in amounts (together with such money, if any) sufficient to redeem and retire part or all of the Series 2017 Bonds in accordance with their terms, are hereafter irrevocably delivered to the Registrar for payment such Series 2017 Bonds or set aside in a special account and pledged to effect such redemption and retirement, and, if the Series 2017 Bonds are to be redeemed prior to maturity, irrevocable notice, or irrevocable instructions to give notice of such redemption has been delivered to the Registrar, then no further payments need be made into the Intermediate Lien Bond Fund or any account therein for the payment of the principal of, premium, if any, and interest on the Series 2017 Bonds so provided for and such Series 2017 Bonds shall then cease to be entitled to any lien, benefit or security of the Intermediate Lien Master Resolution or this series resolution, except the right to receive the funds so set aside and pledged and such notices of redemption, if any, and such Series 2017 Bonds shall no longer be deemed to be Outstanding hereunder, under the Intermediate Lien Master Resolution or under any resolution authorizing the issuance of bonds or other indebtedness of the Port.

The Port shall provide notice of defeasance of any Series 2017 Bonds to the Registered Owners of the Series 2017 Bonds being defeased, to the Bond Insurer, if any, and to each party entitled to receive notice under the Continuing Disclosure Undertaking authorized pursuant to Section 15 of this series resolution.

Section 15. Undertaking to Provide Ongoing Disclosure. The Designated Port Representative is authorized to, in his or her discretion, execute and deliver a Continuing Disclosure Undertaking providing for an undertaking by the Port to assist the Underwriters in complying with the Rule.

Section 16. Bond Insurance. The payments of the principal of and interest on one or more series, or principal maturities within one or more series, of the Series 2017 Bonds may be insured by the issuance of the Bond Insurance Policy. The Designated Port Representative may solicit proposals from municipal bond insurance companies, and the Designated Port Representative, in consultation with the Port's financial advisor, is hereby authorized to select the proposal that is deemed to be the most cost effective and further to execute the Bond Insurance Commitment with the Bond Insurer, which may include such covenants and conditions as shall be approved by the Designated Port Representative.

Section 17. Compliance with Parity Conditions. The Commission hereby finds and determines as required by Section 5(b) of the Intermediate Lien Master Resolution, as follows:

First: The Port is not in default of its covenant under Section 5 of the Intermediate Lien Master Resolution; and

Second: The Commission has been assured that prior to the issuance and delivery of the Series 2017 Bonds, the Port will meet the conditions set forth in Section 5(c) of the Intermediate Lien Master Resolution and/or will deliver either:

(A) a certificate prepared as provided in the Intermediate Lien Master Resolution and executed by the Designated Port Representative stating that Available Intermediate Lien Revenues as First Adjusted during the Base Period were at least equal to 110 percent of Annual Debt Service in each year of the Certificate Period with respect to all Intermediate Lien Parity Bonds then Outstanding and then proposed to be issued; or

(B) a Consultant's certificate, prepared as provided in the Intermediate Lien Master Resolution and stating that projected Available Intermediate Lien Revenues as First Adjusted will be at least equal to 110 percent of Annual Debt Service in each year of the Certificate Period.

The limitations contained in the conditions provided in Section 5(b) of the Intermediate Lien Master Resolution having been complied with, the payments required herein to be made out of the Available Intermediate Lien Revenues to pay and secure the payment of the principal of, premium, if any, and interest on the Series 2017 Bonds shall constitute a lien and charge upon such a charge and lien upon the Available Intermediate Lien Revenues equal to the lien thereon of Outstanding Intermediate Lien Parity Bonds.


Section 18. Severability. If any one or more of the covenants or agreements provided in this series resolution to be performed on the part of the Port shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements in this series resolution and shall in no way affect the validity of the other provisions of this series resolution or of any Intermediate Lien Parity Bonds.


Section 19. Effective Date. This series resolution shall be effective immediately upon its adoption.


ADOPTED by the Port Commission of the Port of Seattle at duly noticed meeting thereof, held this 11th day of JULY, 2017, and duly authenticated in open session by the signatures of the commissioners voting in favor thereof.





PORT OF SEATTLE

 TOM ALBRO

 STEPHANIE DOWMAN

 COURTNEY GREGOIRE

 FRED FELLEMAN

 JOHN CREIGHTON

Commissioners

EXHIBIT A
REFUNDING CANDIDATES

Port of Seattle Revenue Bonds, Series 2009A⁽¹⁾

Maturity Dates (May 1)	Principal Amounts	Interest Rates
2027	\$ 10,080,000	5.25%
2028	10,625,000	5.25

Port of Seattle Revenue Bonds, Series 2009B-1 (Taxable)⁽²⁾
(Current interest bonds)

Maturity Dates (May 1)	Principal Amounts	Interest Rates
2036*	\$255,450,000	7.00%

*Term Bonds

⁽¹⁾ Callable at any time on and after May 1, 2019, in whole or in part on any date, with maturities to be selected by the Port, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

⁽²⁾ Callable at any time on and after May 1, 2019, as a whole or in part on any date, and if in part pro rata within a maturity, at a redemption price equal to 100% of the principal amount thereof plus interest accrued to the date fixed for redemption.

CERTIFICATE

I, the undersigned, Secretary of the Port Commission (the "Commission") of the Port of Seattle (the "Port"), DO HEREBY CERTIFY:

1. That the attached resolution numbered 3735 (the "Resolution"), is a true and correct copy of a resolution of the Port, as finally adopted at a meeting of the Commission held on the 11th day of July, 2017, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum of the Commission was present throughout the meeting and a legally sufficient number of members of the Commission voted in the proper manner for the adoption of said Resolution; that all other requirements and proceedings incident to the proper adoption of said Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of July, 2017.



Secretary STEPHANIE BOWMAN

EXHIBIT B
PROJECTS

Runway, apron and safety areas construction, repairs and improvements; airfield infrastructure construction, repairs and upgrades; noise mitigation; Airport Terminal and parking garage construction, modification, repairs, improvements including equipment acquisition; roadway and ground transportation improvements; planning work relating to future facilities on or near the Airport; property acquisitions for Airport expansion adjacent or near to the Airport and other airport improvements that are functionally related to the airfield, air terminal and Airport property improvements described above at Seattle-Tacoma International Airport, 17801 Pacific Highway South, Seatac, WA 98158, which is owned and operated by the Port.

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APPENDIX H

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Port of Seattle (the “Port”) in connection with the issuance of its \$16,705,000 Intermediate Lien Revenue Refunding Bonds, Series 2017A (Non-AMT), its \$264,925,000 Intermediate Lien Revenue Refunding Bonds, Series 2017B (Taxable), its \$313,305,000 Intermediate Lien Revenue Bonds, Series 2017C (AMT), and its \$93,230,000 Intermediate Lien Revenue Bonds, Series 2017D (AMT), (collectively the “Series 2017 Bonds”). The Port covenants and agrees as follows:

For purposes of the Port’s undertaking pursuant to the Rule (the “undertaking”), “beneficial owner” means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2017 Bond, including persons holding Series 2017 Bonds through nominees or depositories or other intermediaries.

(a) Financial Statements/Operating Data.

(1) *Annual Disclosure Report.* The Port covenants and agrees that not later than six months after the end of each fiscal year (the “Submission Date”), commencing June 30, 2018 for the fiscal year ending December 31, 2017, the Port shall provide or cause to be provided to the Municipal Securities Rulemaking Board (the “MSRB”), an annual report (the “Annual Disclosure Report”) that is consistent with the requirements of part (2) of this subsection (a). The Annual Disclosure Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in part (2) of this subsection (a); provided that any audited annual financial statements may be submitted separately from the balance of the Annual Disclosure Report and later than the Submission Date if such audited financial statements are not available by the Submission Date. If the Port’s fiscal year changes, the Port shall give notice of such change in the same manner as notice is to be given of the occurrence of an event listed in subsection (b), and if for any fiscal year the Port does not furnish an Annual Disclosure Report to the MSRB, by the Submission Date, the Port shall send to MSRB notice of its failure to furnish such report pursuant to subsection (c).

(2) *Content of Annual Disclosure Reports.* The Port’s Annual Disclosure Report shall contain or include by reference the following:

(A) *Audited financial statements.* Audited financial statements, prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis accounting, except that if any audited financial statements are not available by the Submission Date, the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the audited financial statements most recently prepared for the Port, and the Port’s audited financial statements shall be filed in the same manner as the Annual Disclosure Report when and if they become available.

(B) *Operating and Financial Information.* Annual financial information and operating data with respect to the Port, including historical financial information and operating data of the type provided in the final Official Statement for the Series 2017 Bonds dated July 25, 2017 under the headings “OUTSTANDING PORT INDEBTEDNESS,” “THE AIRPORT,” “OTHER PORT BUSINESSES,” “PORT FINANCIAL MATTERS” and in Appendix D under the headings “Tax Levy Rates, Records and Procedures.” The Port also will provide the following Seaport Alliance historical operating data: information regarding container facility leases of the type provided in “Table 8: Container Facility Leases” and information regarding annual container volumes of the type provided in “Table 9: Container Volumes for Seaport Alliance.”

Any or all of the listed items may be included by specific reference to other documents, including official statements of debt issues of the Port, or of any related entity, that have been submitted to the MSRB. If the document included by reference is a final official statement, it must be available from the MSRB. The Port shall identify clearly each document so included by reference.

(b) *Listed Events.* The Port agrees to provide or cause to be provided to the MSRB, in a timely manner, not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Series 2017 Bonds:

1. Principal and interest payment delinquencies;
2. Non payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2017 Bonds, or other material events affecting the tax status of the Series 2017 Bonds;
7. Modifications to the rights of Series 2017 Bond owners, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the Series 2017 Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Port;
13. The consummation of a merger, consolidation, or acquisition involving the Port or the sale of all or substantially all of the assets of the Port, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Solely for purposes of information, but without intending to modify the Port's undertaking, with respect to the notice regarding property securing the repayment of the Series 2017 Bonds, that there is no property securing the repayment of the Series 2017 Bonds.

(c) *Notice Upon Failure to Provide Financial Data.* The Port agrees to provide or cause to be provided, in a timely manner, to the MSRB, notice of its failure to provide the annual financial information described in subsection (a) above on or prior to the Submission Date.

(d) *Format for Filings with the MSRB.* All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

(e) *Termination/Modification.* The Port's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance (if notice of such defeasance is given as provided above) or payment in full of all of the Series 2017 Bonds. The undertaking, or any provision hereof, shall be null and void if the Port (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the undertaking, or any such provision, have been repealed retroactively or otherwise do not apply to the Series 2017 Bonds; and (2) notifies the MSRB of such opinion and the cancellation of the undertaking. The Port may amend the undertaking and any provision of the undertaking may be waived, in accordance with the Rule; *provided that* (A) if the amendment or waiver relates to the provisions of

subsections (a)(1), (a)(2) or (b) above, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2017 Bonds, or the type of business conducted; (B) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2017 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (C) the amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the beneficial owners of the Series 2017 Bonds.

In the event of any amendment of or waiver of a provision of the undertaking, the Port shall describe such amendment in the next Annual Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Port. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under subsection (b), and (ii) the Annual Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(f) *Registered Owner's and Beneficial Owners' Remedies Under the Undertaking.* A Registered Owner's and the beneficial owners' right to enforce the provisions of the undertaking shall be limited to a right to obtain specific enforcement of the Port's obligations under the undertaking, and any failure by the Port to comply with the provisions of the undertaking shall not be a default under the Resolution.

(g) *Additional Information.* Nothing in the undertaking shall be deemed to prevent the Port from disseminating any other information, using the means of dissemination set forth in the undertaking or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of an event, in addition to that which is required by the undertaking. If the Port chooses to include any information in any Annual Disclosure Report or notice of the occurrence of an event in addition to that specifically required by this undertaking, the Port shall have no obligation under the Resolution to update such information or to include it in any future Annual Disclosure Report or notice of occurrence of an event.

PORT OF SEATTLE

By: _____
Designated Port Representative

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APPENDIX I

DEMOGRAPHIC AND ECONOMIC INFORMATION

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DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

Historical and current population figures for the State of Washington as well as King County, Pierce County and Snohomish County (collectively the Seattle Metropolitan Area), the two largest cities in King County, and the unincorporated areas of King County are given below.

TABLE I-1

POPULATION⁽¹⁾

Year	Washington	King County	Pierce County	Snohomish County	Seattle	Bellevue	Unincorporated King County
2016	7,183,700	2,105,100	844,490	772,860	686,800	139,400	245,920
2015	7,061,410	2,052,800	830,120	757,600	662,400	135,000	253,280
2014	6,968,170	2,017,250	821,300	741,000	640,500	134,400	252,050
2013	6,882,400	1,981,900	814,500	730,500	626,600	132,100	253,100
2012	6,817,770	1,957,000	808,200	722,900	616,500	124,600	255,720

⁽¹⁾ Estimates are as of April 1 of each year.

Source: State of Washington, Office of Financial Management.

Per Capita Income

The following table presents per capita personal income for the Seattle Metropolitan Area, the County, the State, and the United States.

TABLE I-2

PER CAPITA INCOME

	2015	2014	2013	2012	2011
Seattle Metropolitan Area ⁽¹⁾⁽²⁾	\$ 54,850	\$ 53,339	\$ 50,505	\$ 49,847	\$ 46,557
King County ⁽¹⁾	72,530	70,854	66,106	65,331	58,685
State of Washington ⁽³⁾	51,971	50,421	47,814	47,338	44,202
United States ⁽³⁾	48,190	46,464	44,493	44,282	42,461

⁽¹⁾ As of November 17, 2016.

⁽²⁾ Average of King County, Pierce County, and Snohomish County.

⁽³⁾ As of March 28, 2017.

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce.

Construction

The table below lists the value of housing construction for which building permits have been issued by entities within King County. The value of public construction is not included in this table.

TABLE I-3

**RESIDENTIAL BUILDING PERMIT VALUES⁽¹⁾
KING COUNTY**

Year	New Single Family Units		New Multi-Family Units		Total Value
	Number	Value	Number	Value	
2017 ⁽²⁾	1,378	\$ 548,642,959	3,718	\$ 510,020,165	\$ 1,058,663,124
2016	4,254	1,616,722,532	13,445	1,759,255,696	3,375,978,228
2015	4,010	1,539,049,136	14,527	2,227,509,189	3,766,558,325
2014	4,215	1,478,116,875	10,488	1,401,889,919	2,880,006,794
2013	4,419	1,419,065,243	7,858	1,053,237,846	2,472,303,089

⁽¹⁾ Estimates with imputation.

⁽²⁾ As of April 2017.

Source: U.S. Bureau of the Census.

Retail Activity

The following table presents taxable retail sales in King County, Pierce County, Snohomish County and the City of Seattle.

TABLE I-4

TAXABLE RETAIL SALES

Year	King County	Pierce County	Snohomish County	City of Seattle
2016	\$ 59,530,882,870	\$ 14,878,550,727	\$ 13,618,314,632	\$ 24,287,539,378
2015	54,890,159,770	13,846,294,222	12,641,937,656	22,407,443,037
2014	49,638,174,066	12,736,324,142	11,699,234,128	19,995,171,842
2013	46,093,349,116	12,189,183,093	11,172,617,894	18,258,202,770
2012	43,038,779,843	11,080,668,742	10,341,316,548	17,162,539,898
2011	40,403,613,957	10,520,818,906	9,742,663,710	15,751,586,595

Source: Washington State Department of Revenue.

Industry and Employment

The following table presents State-wide employment data for certain major employers in the Puget Sound area in 2015.

TABLE I-5
MAJOR EMPLOYERS

Employer	Full-Time Employees In State
The Boeing Company	78,225
Joint Base Lewis-McChord	58,074
Navy Region Northwest	46,693
Microsoft Corp.	43,618
Amazon.com Inc. ⁽¹⁾⁽²⁾	24,000
University of Washington	23,639
Wal-Mart Stores Inc. ⁽²⁾	19,484
Providence Health & Services	17,669
Fred Meyer Stores	15,500
King County Government	13,800
Starbucks Corp. ⁽²⁾	12,610
CHI Franciscan Health	11,847
Nordstrom Inc.	10,867
Costco Wholesale Corp.	10,500
City of Seattle	10,343
Swedish Medical Center	9,627
Fairchild Air Force Base	9,110
United States Postal Service	7,645
Alaska Air Group Inc.	7,150
Group Health Cooperative	6,587
Seattle Public Schools	6,317
United Parcel Service of America Inc., dba UPS	6,000
Washington State University	5,915
Target ⁽²⁾	5,493
Multicare Health System	4,741

⁽¹⁾ Estimate only.

⁽²⁾ Headcount reflects full and part-time employees.

Source: *Puget Sound Book of Lists, as of July 22, 2016*.

TABLE I-6
RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT
SEATTLE METROPOLITAN DIVISION
(KING AND SNOHOMISH COUNTIES)
(NOT SEASONALLY ADJUSTED)

	2017⁽¹⁾	2016	2015	2014	2013	2012
Civilian Labor Force	1,645,922	1,620,512	1,580,439	1,557,474	1,527,928	1,508,333
Total Employment	1,593,011	1,554,951	1,511,698	1,482,632	1,448,798	1,408,598
Total Unemployment	52,911	65,561	68,741	74,842	79,130	99,735
Percent of Labor Force	3.2%	4.0%	4.3%	4.8%	5.2%	6.6%

⁽¹⁾ Preliminary, average through May 2017.

Source: *Washington State Employment Security Department*.

TABLE I-7

**NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
SEATTLE-BELLEVUE-EVERETT METROPOLITAN STATISTICAL AREA
(KING AND SNOHOMISH COUNTIES)
(NOT SEASONALLY ADJUSTED)**

NAICS INDUSTRY	2017 ⁽¹⁾⁽²⁾	2016	2015	2014	2013	2012
TOTAL NONFARM	1,683,800	1,644,100	1,592,200	1,543,200	1,501,600	1,459,700
Total Private	1,458,900	1,426,300	1,379,300	1,335,500	1,296,800	1,257,000
Goods Producing	257,200	261,500	258,100	248,900	243,100	233,800
Mining and Logging	800	800	800	700	700	700
Construction	94,200	92,200	86,100	77,900	71,700	65,800
Manufacturing	162,200	168,500	171,200	170,300	170,600	167,300
Service Providing	1,426,600	1,382,600	1,334,000	1,294,300	1,258,600	1,225,900
Trade, Transportation, and Utilities	311,000	302,500	291,800	281,200	269,500	260,000
Information	105,100	102,000	94,800	91,800	88,300	86,900
Financial Activities	85,300	83,400	82,000	80,800	80,300	77,800
Professional and Business Services	253,800	249,000	240,700	231,100	224,200	215,600
Educational and Health Services	216,400	207,900	200,300	197,100	193,300	191,200
Leisure and Hospitality	170,700	161,700	155,000	148,700	143,900	138,100
Other Services	59,400	58,200	56,600	55,800	54,400	53,700
Government	224,900	217,900	212,900	207,700	204,800	202,700
Workers in Labor/Management Disputes	0	0	0	0	0	0

⁽¹⁾ Preliminary, average through May.

⁽²⁾ Totals may not foot due to rounding.

Source: Washington State Employment Security Department.

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