

Item No. 11b_supp

Date of Meeting: October 22, 2024

Draft Plan of Finance 2025-2029 and Tax Levy Briefing

October 22, 2024



Overview

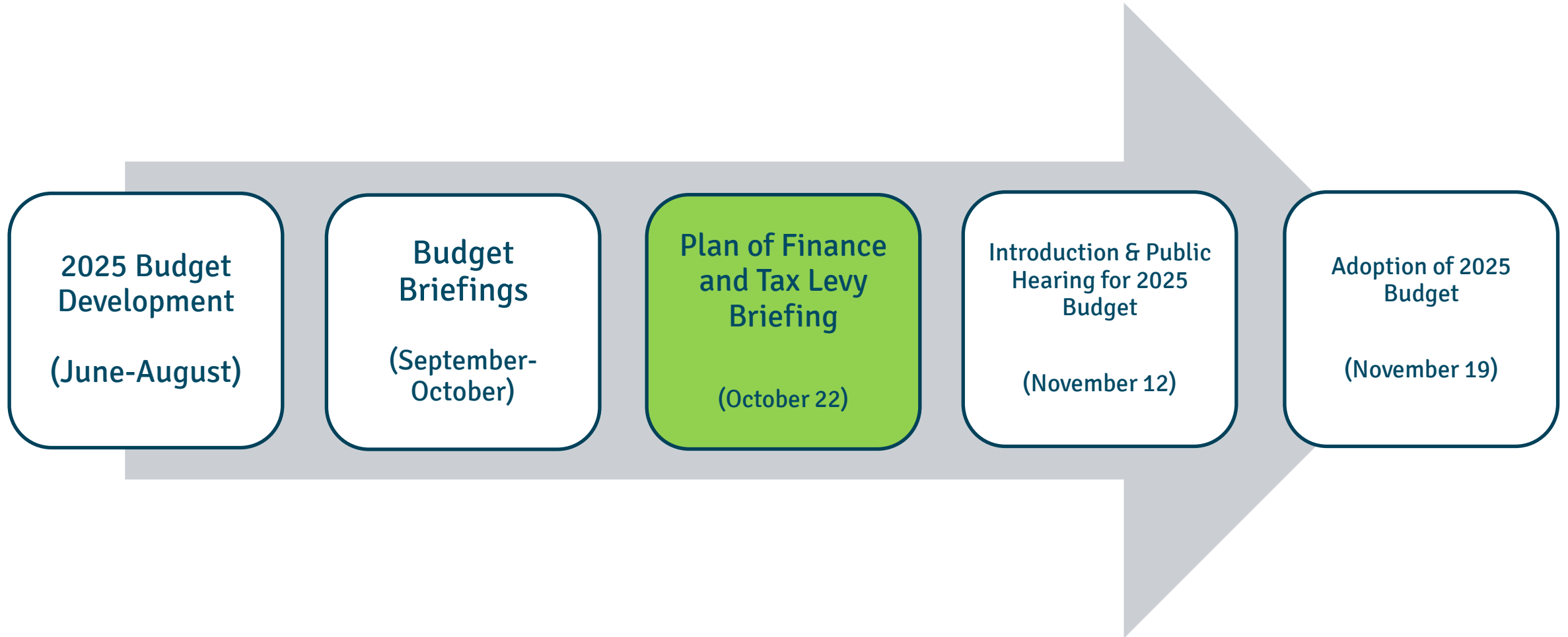
- Bottom Line Up Front
- Budget Process Timeline
- Tax Levy Background and Update
- Draft Plan of Finance 2025-2029
- Looking Beyond 2029
- Recommendations and Finance Initiatives
- Appendix

Bottom Line Up Front

- Financial Stewardship: Managing within established financial policies provides a foundation for the future; supports strong credit ratings and access to capital
- Future Resiliency: No immediate concerns but reason to proceed with caution over the next ten years
- Recommendations:
 - Increasing 2025 levy to 75% of maximum \$88.4 million (2% increase)
 - Deposit \$32 million into the Environmental Legacy Fund (ELF)
- Prioritize interests – **The Port can have anything ⁽¹⁾ it wants, but not everything it wants**

(1) Within its legal limitations

2025 Budget Process



Operating and Capital Budget Reviews roll-up into Plan of Finance and Port-wide Budget

Tax Levy Background and Update

2025 Preliminary Budget

October 22, 2024



Tax Levy Background

- Governed by State Law: Washington Ports permitted to levy property taxes
- Levy amount is approved annually by the Commission
- Levy can be leveraged by issuing General Obligation (G.O.) bonds
- Current Levy uses:
 - G.O. bond debt service
 - Legacy environmental remediation
 - Regional transportation mobility
 - Community: equity, workforce, economic development
 - Investments in seaport infrastructure
- Levy sub-funds also fund environmental and transportation efforts
- The Port may approve a levy amount up to the maximum allowable within statutory limits (~\$117.9 million in 2025)



2025-2029 Proposed Approach

- Levy amount set at 75% of the maximum levy per policy (=2% increase)
 - Preserves levy capacity for potential times of future stress
 - Maintains Port's strong credit ratings – a benefit to Airport as well as Seaport businesses
- Legacy environmental remediation is a top priority after debt service
 - Continue to use the ELF and tax levy fund
 - Use G.O. bonds to fund capital investments as needed
- Fund certain community programs costs
- Any remaining levy funds Seaport⁽¹⁾ capital

(1) Seaport includes Maritime, the Northwest Seaport Alliance joint venture and costs not allocated to the Airport



Taxpayer Impact

	2024	2025 preliminary
Tax Levy (\$ million)	86.7	88.4
Estimated millage rate (\$/1000)	0.1040	0.1031
Median home value (\$) ⁽¹⁾⁽²⁾	761,000	761,000
Estimated median home Port tax (\$)	\$79	\$78

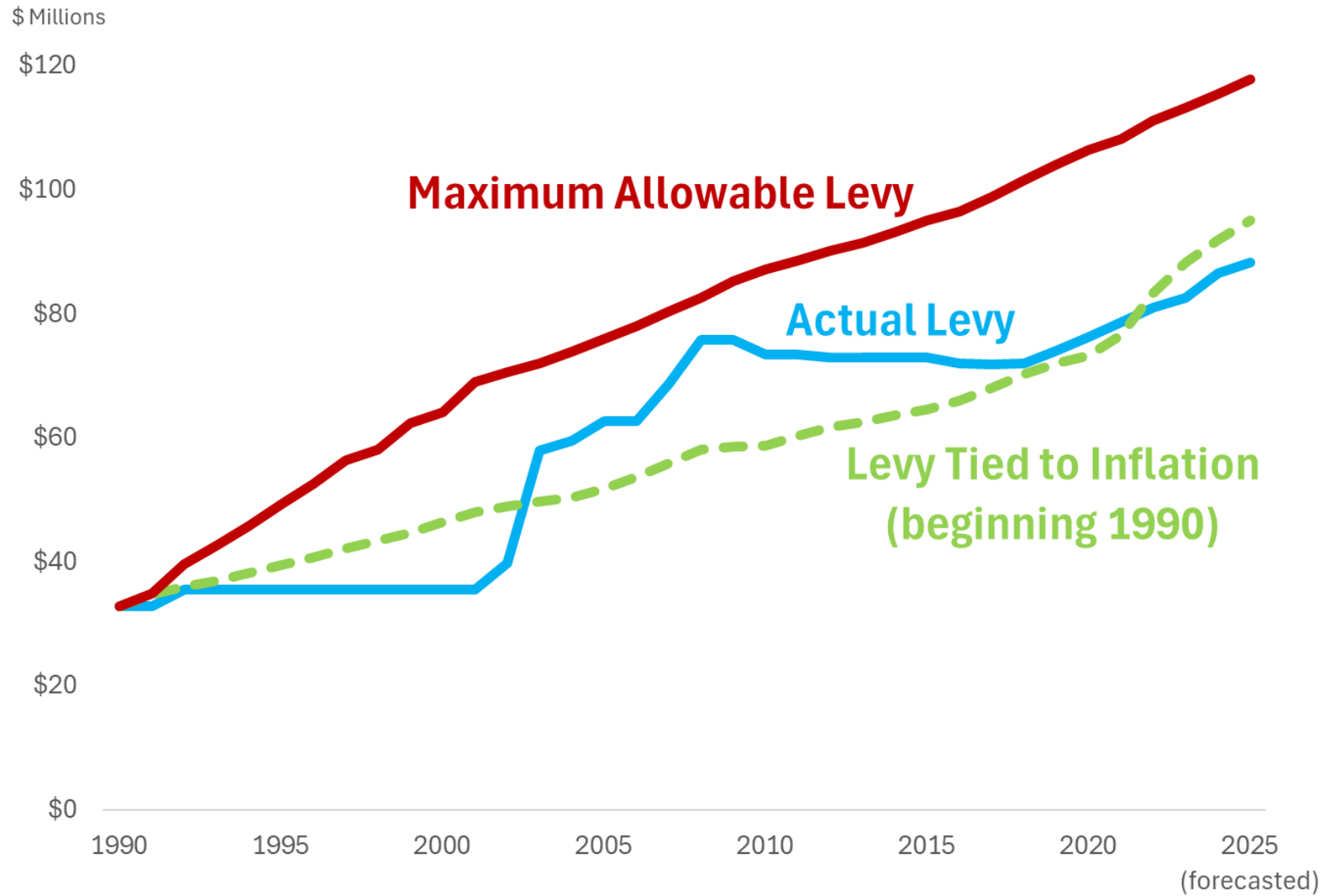
(1) 2024 per King County; 2025 data is not yet available

(2) 2023 median assessed value was \$853,000

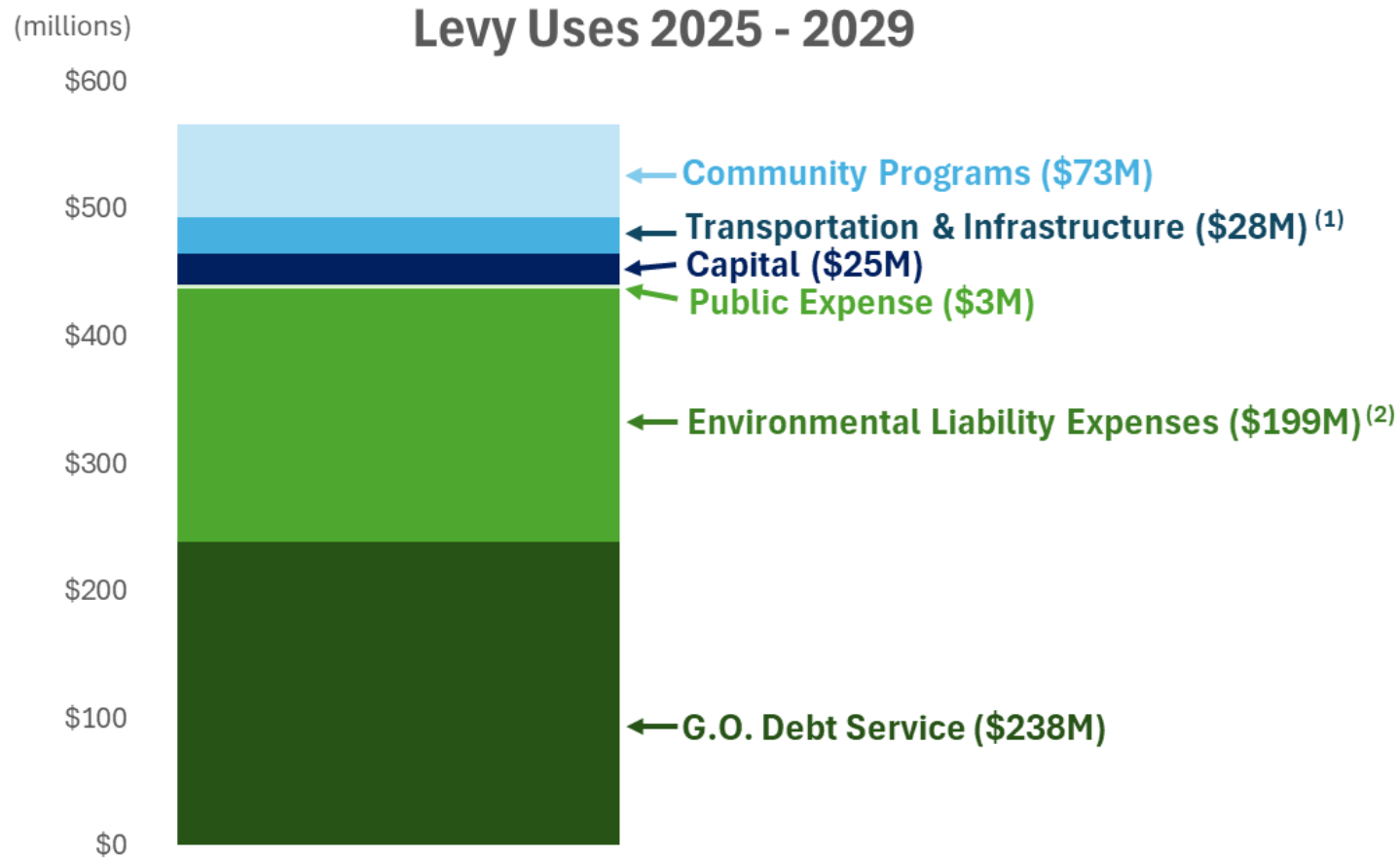
- The Port's levy increases by 2.0% in 2025; preliminary assessed valuation for 2025 is \$857 billion (increase of 2.9%) thus the millage rate and median taxpayer tax decrease slightly
- The Port's levy was approximately 1.1% of total property taxes levied in King County in 2024



Levy History



Tax Levy Use Forecast 2025-2029



- Includes the tax levy and sub-funds
 - Transportation Infrastructure Fund (TIF) will fund \$28 million for regional mobility efforts
 - ELF will fund \$74 million of remediation (assuming the recommended \$32 million addition)
- Expect no surplus tax levy funds over the next five years
- \$127M of new G.O. bonds will fund some capital investments
- Significant additional environmental expenses and expected beyond 2029

1) Includes spending funded by the Transportation and Infrastructure (TIF) levy sub-fund

2) Includes spending funded by the Environmental Legacy Fund (ELF) levy sub-fund

Major Capital Projects Funded with Levy/G.O. bonds

- T91 Berths 6&8 redevelopment and dock rehabilitation
- T91 Uplands development
- Fishermen's Terminal – docks, buildings and site improvements
- East and West Waterway deepening
- Salmon Bay Marina docks

Funding flexibility supports financial resilience

- Projects may be funded with either tax levy or G.O. bonds depending on funding availability
- Future funding availability may result in some projects being funded with the General Fund or Revenue Bonds



The Environment and the Tax Levy

Legacy Costs and the Tax Levy

- Commission Order established the ELF in 2023 to provide funding for legacy environmental liabilities
 - Initial deposit of \$30 million in 2023
- Recommend an additional deposit in 2025

Actual G.O. debt service below forecast	\$10M
Lower levy needs due to 2024 HMT higher than forecast	<u>\$22M</u>
Total	\$32M

- Legacy costs not funded by ELF will be funded by tax levy and G.O. bonds

Port Businesses Invest in the Environment

- Operating revenues and grants fund many environmental initiatives, such as:
 - Airport industrial waste
 - Waste reduction efforts
 - Asbestos remediation
 - Seaport stormwater management
 - P66 Shore power
 - Decarbonization
- Many capital projects include environmental components, e.g. LEED standards, asbestos removal
- Tax levy has also supported:
 - Airport environmental programs ineligible for Airport funding:
 - Sustainable aviation fuels, ineligible noise mitigation
 - Habitat restoration at T117

Draft Plan of Finance 2025-2029

2025 Preliminary Budget
October 22, 2024



The Draft Plan of Finance

The Draft Plan of Finance is a funding plan for the Port's five-year Capital Improvement Program (CIP)

- A tool for the Commission to inform the budget process and long-term capital investment decisions
 - Flexible tool that is updated as circumstances change
 - Plan is developed based on a sustainable financial model
- An important tool for investors
 - Gauge the future financial health of the Port
 - Provides insight into Port's approach to financial stewardship

Funding Resiliency

- Establish financial guardrails to manage uncertainty
- Provides a cushion for income variability

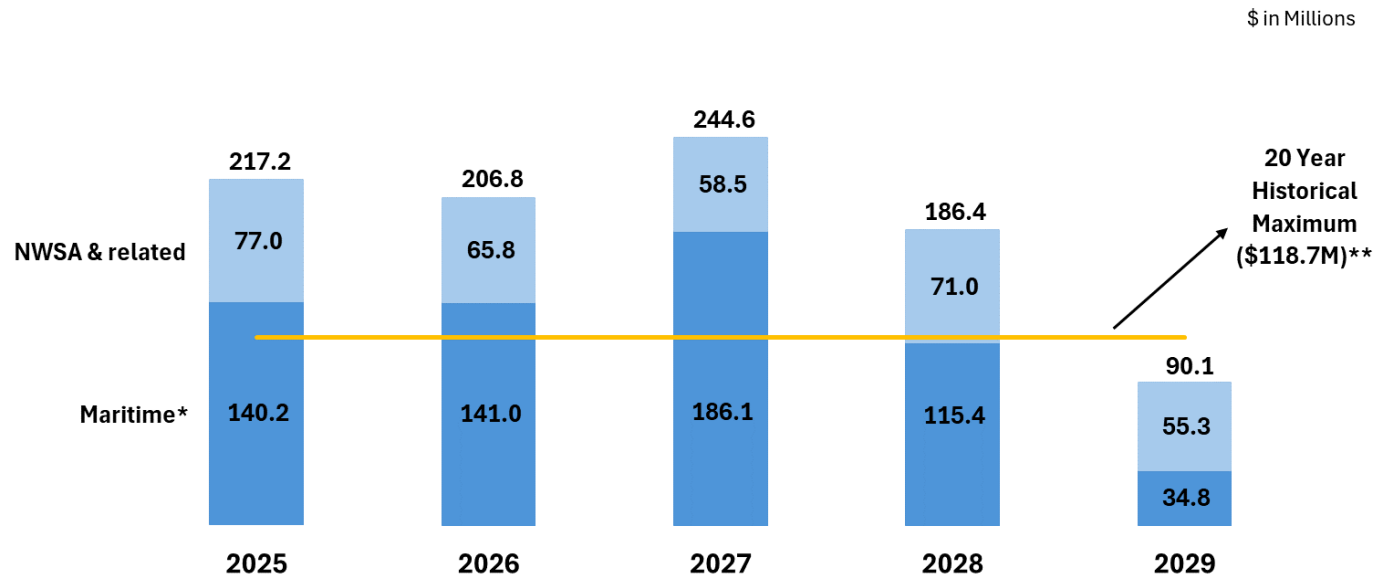
	Minimum Revenue Bond Debt Service Coverage	Minimum Fund Balance
Airport	1.25x (1.40x target) ⁽¹⁾	18 months ⁽²⁾
Seaport	1.80x	12 months

(1) Calculation for rates and charges may differ from the calculation for bond compliance

(2) By 2025, In progress

Seaport Capital Spending Forecast - \$945 million

Seaport Capital Spending Forecast vs. Historical Maximum



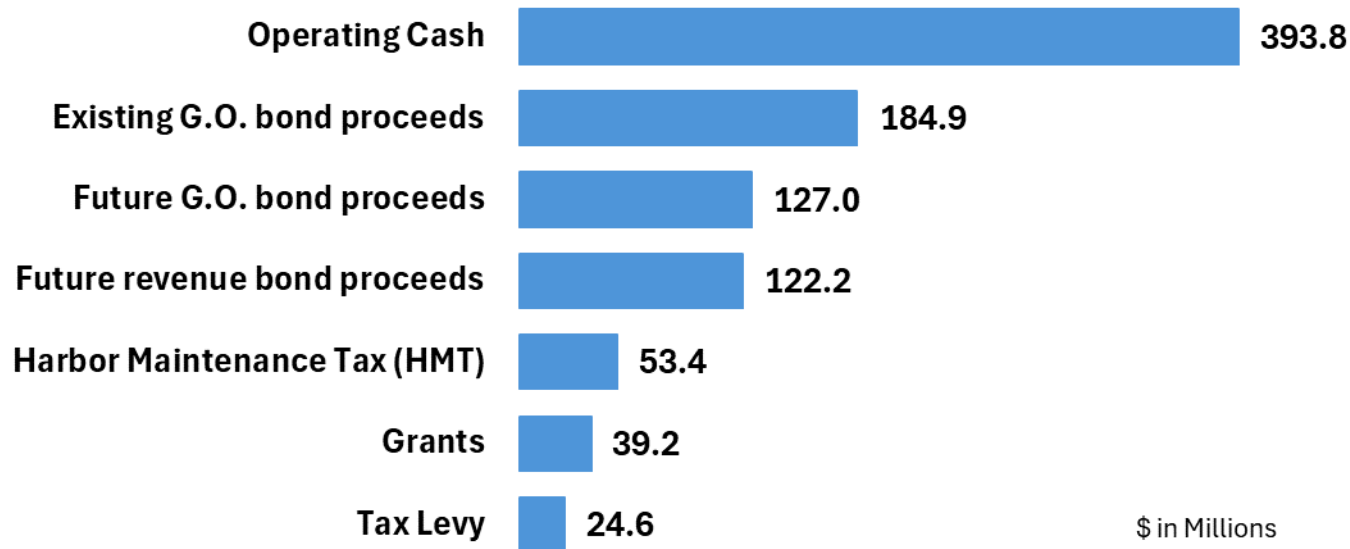
* Includes \$11.9M of Allocated Central Services CIP

** Does not include Allocated Central Services CIP

- Spending forecast to exceed prior maximum (2009) in most years
- NWSA \$327.5M includes
 - Port’s 50% share of NWSA CIP \$210.0M
 - Projects related to NWSA \$117.5M
- Stormwater Utility is self-funded and not included in the Plan of Finance
- 2024-2028 CIP was \$913 million
- Timing of spending can affect funding plan

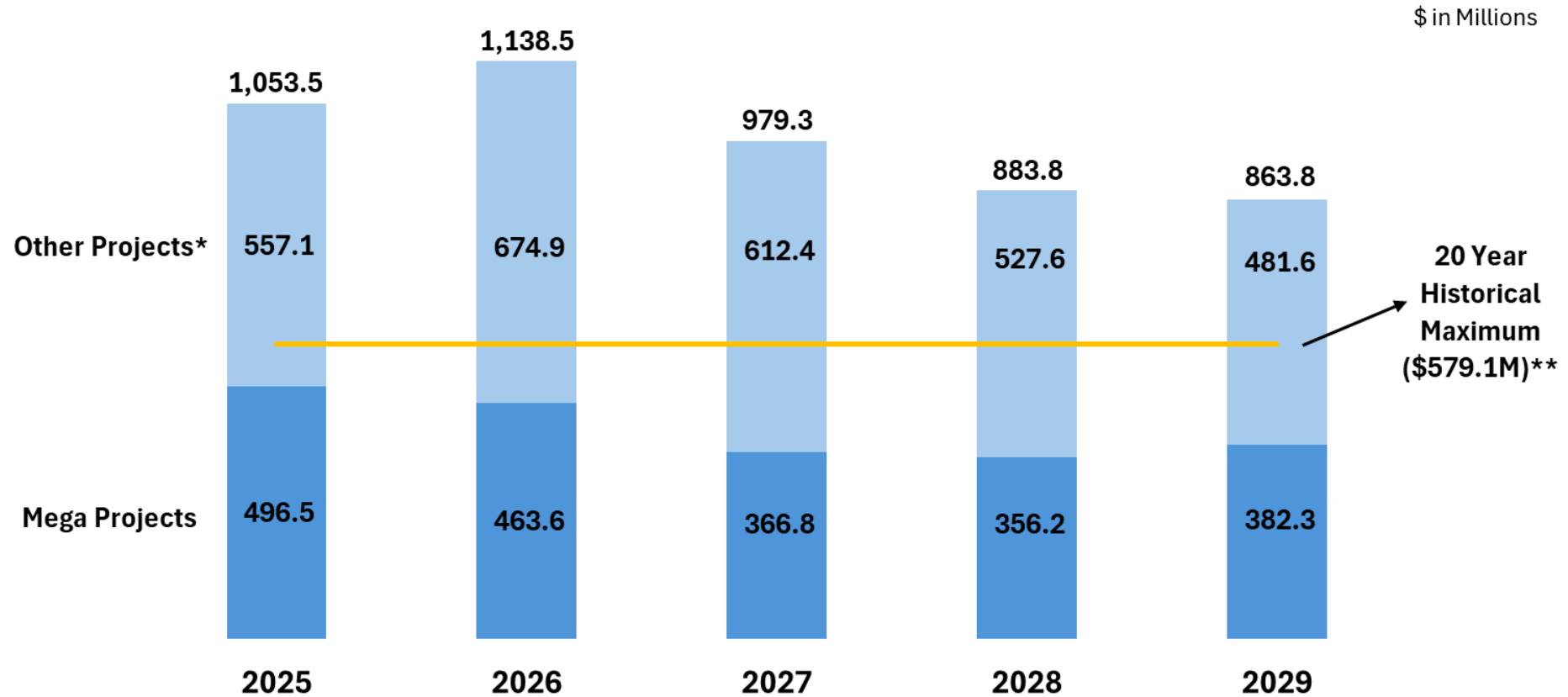
Seaport Capital Funding 2025-2029

Seaport Capital Funding - \$945.1 million



- 54% of funding from operating sources:
 - Includes cash funding and revenue bonds paid from operating cash
 - Income is primarily from NWSA
 - Decrease in revenue bond debt service provides funding capacity
- 36% is from tax levy related sources:
 - Tax levy cash
 - G.O. bonds paid by the tax levy
 - Funding plan approach includes a levy is set at 75% of maximum allowable each year
- 10% from other sources including grants and Harbor Maintenance Tax (HMT)
 - Funding sources limited to eligible projects

Airport Capital Spending Forecast - \$4.9 billion



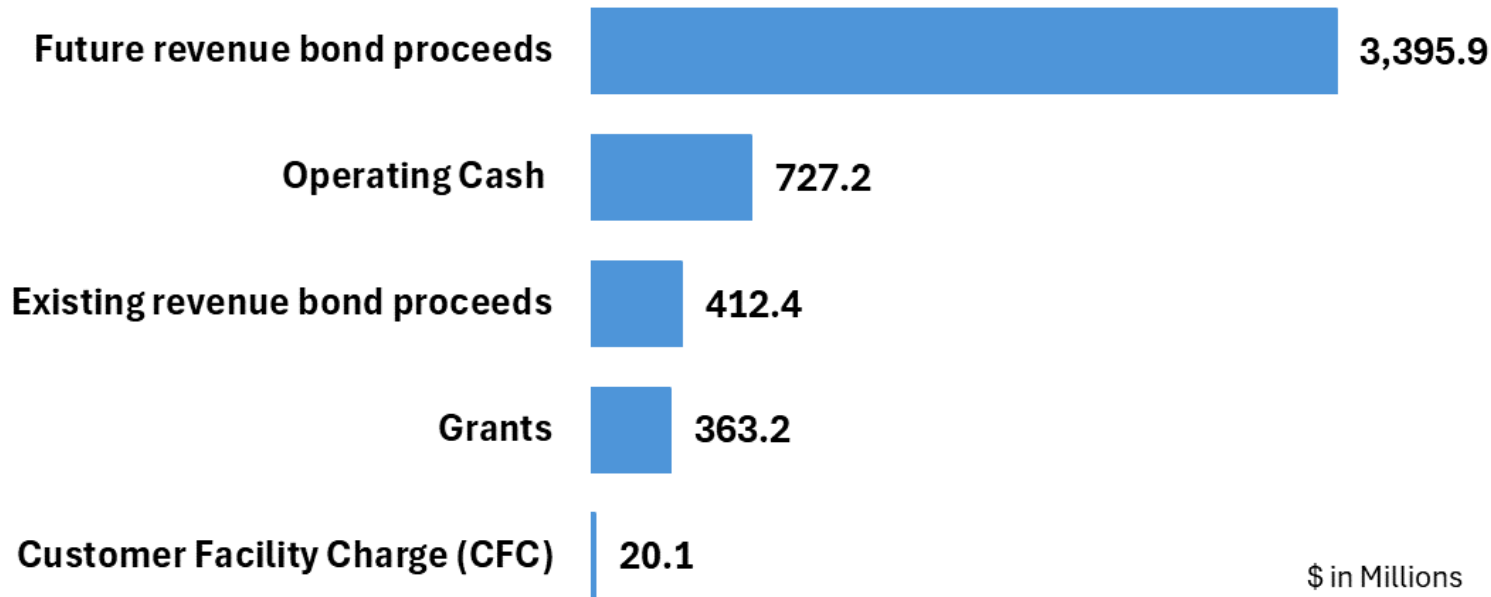
* Includes \$51.2M of Allocated Central Services CIP

** Does not include Allocated Central Services CIP

Includes the cost of real estate initiatives

Airport Funding 2025-2029

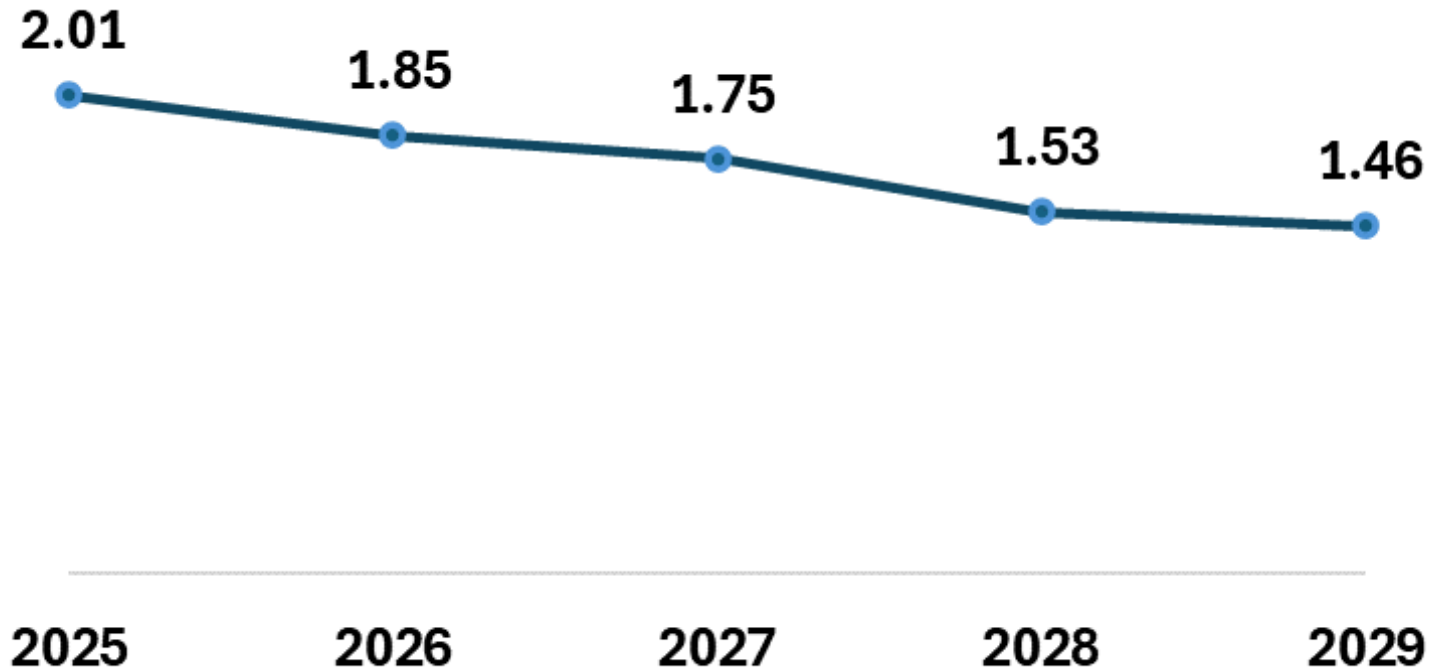
Airport Capital Funding - \$4,918.9 million



- 92% funded from operating cash flow and revenue bonds
- \$364M capital grants (AIP)
 - S Concourse Evolution, Noise insulation projects, Checkpoint 1 Relocation, other
- Other funding includes:
 - Customer Facility Charges after the payment of CFC eligible debt service
- PFC's are not used to fund Airport CIP directly, but are used to pay revenue bond debt service

Port-wide Revenue Bond Debt Service Coverage Forecast

Debt Service Coverage



- Represents all net income of the Port (including Airport and Seaport) divided by all revenue bond debt service
- Tax levy after payment of G.O. bond debt service adds to coverage
- Coverage informs debt and capital management
- Provides a measure of financial sustainability and is critical to investors and rating agencies
- Decreasing Port-wide DS coverage is driven by large Airport capital spending but is consistent with the Port's strong credit rating

Looking Beyond 2029

Assumptions

- Airport and Seaport are separately funded
- No major disruptions to steady income growth
- Environmental remediation expenses increase after 2029
- Continued support for community programs
- Aeronautical cost recovery similar to current airline agreement
- Airport real estate acquisition included beginning 2025

Results

- **Seaport capital** capacity would allow continuation of similar levels of spending (more than \$800 million 2030-2034)
 - Requires an additional ~\$400 million of G.O. bonds
- **Airport** capital capacity is constrained
 - 2030-2034 CIP is only half the 2025-2029 CIP
 - Debt service coverage is at 1.4x target
 - Airport allowance provides for additional spending

Ability to respond to adverse events or unanticipated needs may require reducing expenses or increasing the levy beyond 75% of maximum

Recommendations and Initiatives

- **Recommendations**
 - Continue to manage the tax levy in a way that provides financial resilience and supports the Port's good credit over the long term
 - Increase the tax levy to \$88.4 million (2% increase)
 - Contribute additional \$32 million to ELF
- **2025 Finance Initiatives**
 - Issue revenue bonds to continue funding Airport CIP as needed
 - Monitor debt for refunding opportunities to generate savings

Appendix

2025 Preliminary Budget
October 22, 2024

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25	Additional Tax Levy Information
36	Industrial Development District Levy Information
39	CIP and Funding
41	Revenue Bond Coverage and Credit Ratings

Port's Taxing Authority

Port taxing limitations: Port is limited by the most restrictive – currently the 1% limit

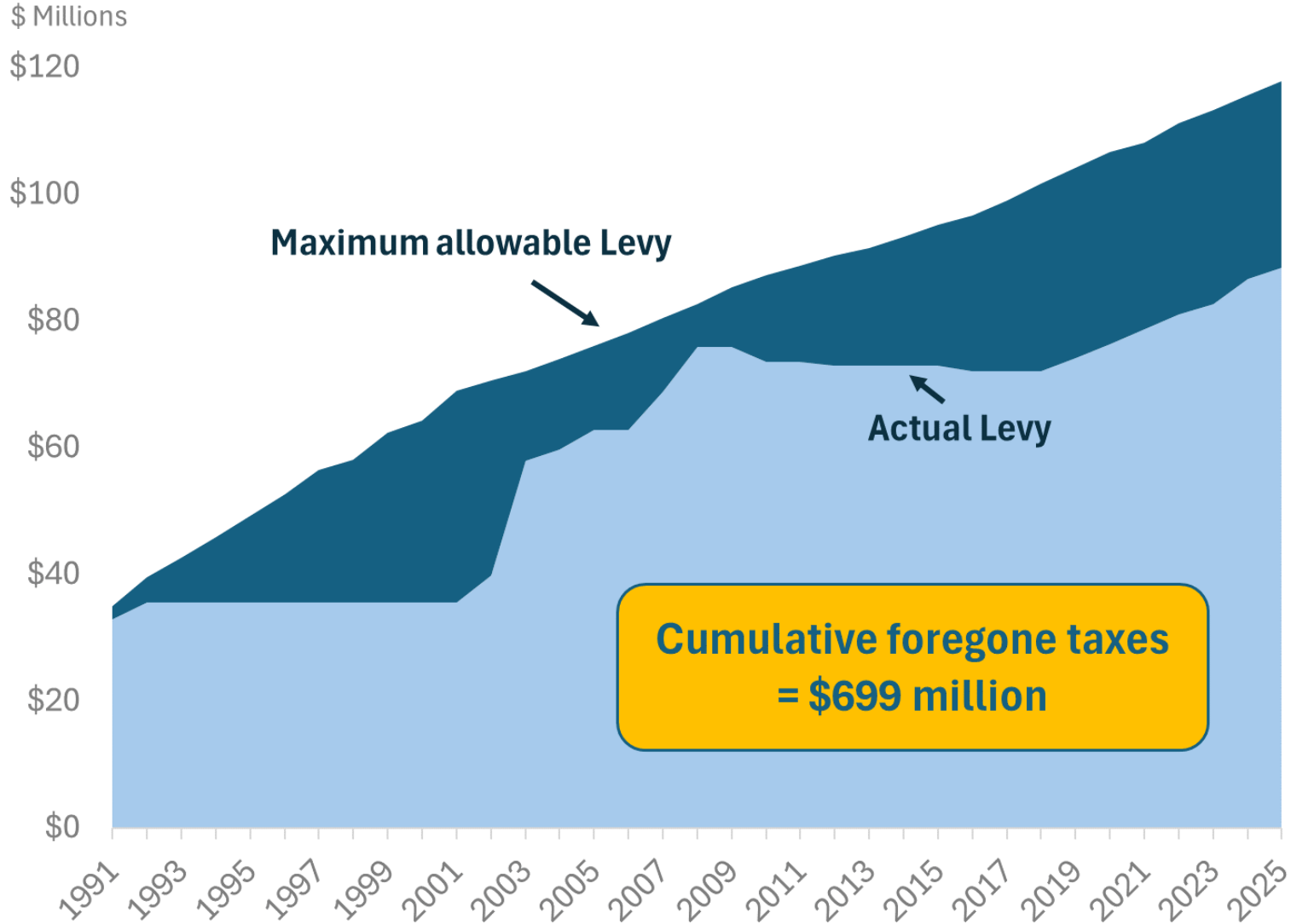
- **1% limit**

- The maximum levy is increased each year by the 1% limit factor
- Prior year's maximum is increased by the lessor of 1% or inflation
- New construction is added
- The maximum levy for 2025 is estimated to be ~\$117.9 million

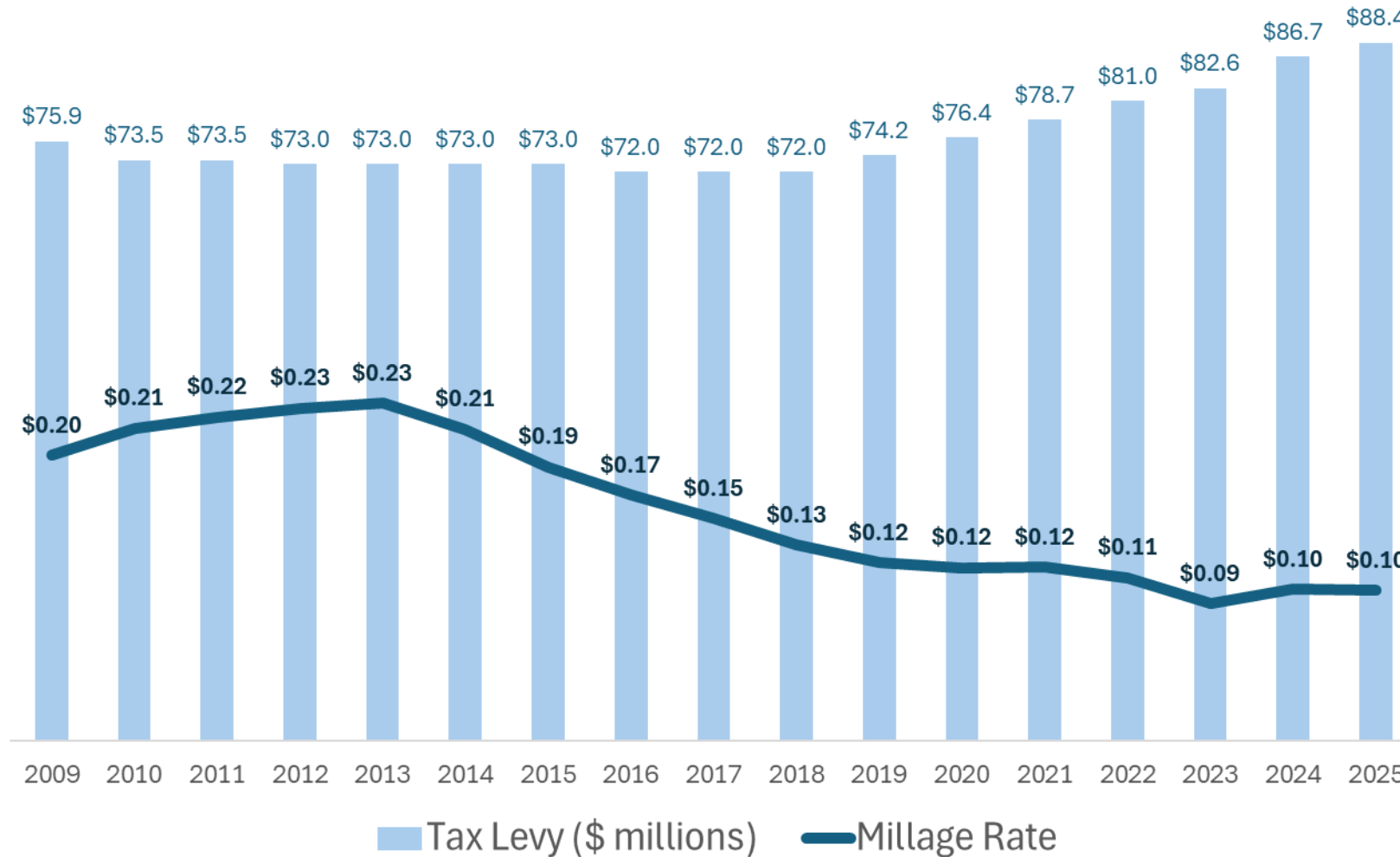
- **45 cent limit**

- The amount of the tax levy in any given year is limited to 45 cents per \$1000 of assessed value
- For 2025, this limit would translate to ~\$385.8 million
- Excludes the amount needed to pay G.O. bond debt service

Actual vs. Maximum Allowable Levy



2009-2024 Tax Levy & Millage Rate (1)

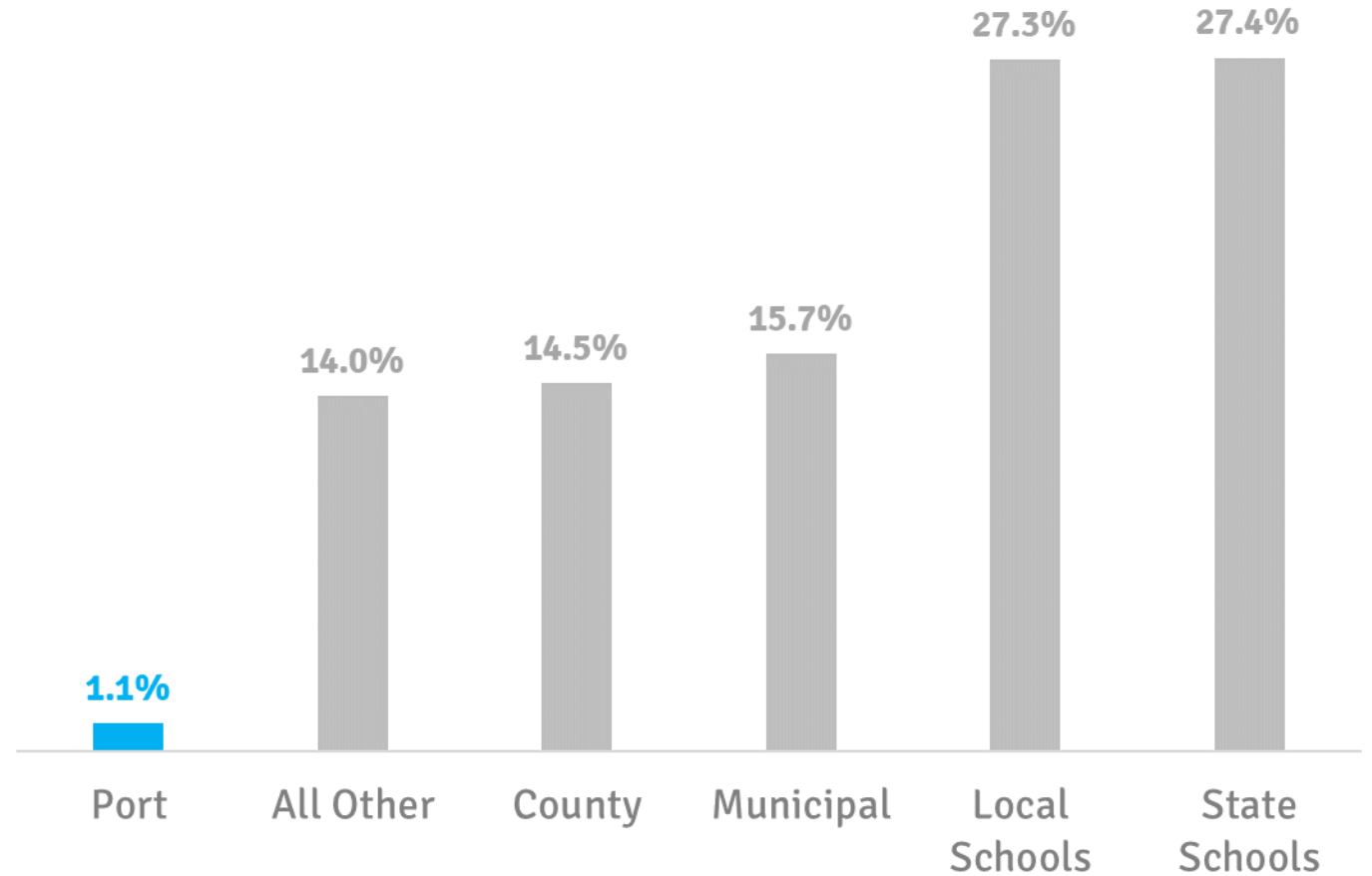


(1) Millage rate represents the amount per every \$1,000 of assessed valuation

Overall Taxpayer Impact – 2024

Only 1.1% of King County taxes went to the Port for 2024

- Of the \$7.6 billion of property taxes paid in King County, about 1.1% goes to the Port
- In 2024, the median homeowner paid \$6,946 in total property tax with **\$79 going to the Port**



2024 Tax Levy Fund Sources and Uses

(\$ million)

SOURCES OF TAX LEVY FUNDS

Prior Year Tax Levy Fund Balance
 Projected Tax Levy Collection
 Investment Interest Income
Total Sources

2024	
\$	23.8
	86.7
	1.6
\$	112.0

USES OF TAX LEVY FUNDS

G.O. bond debt service
 Non-Airport Capital Investments
 Airport Capital Investments
 NWSA Membership Interest Contribution
 Community Programs
Total Uses

2024	
\$	37.9
	13.0
	2.5
	5.0
	15.5
\$	73.9

Projected Ending 2024 Levy Fund Balance

\$	38.2
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- In addition to the tax levy, Commission established the following:
 - Transportation Infrastructure fund (TIF) for regional mobility participation
 - Environmental Legacy Fund (ELF) for current and future legacy environmental costs

2025-2029 Tax Levy Fund Sources and Uses

(\$ million)

SOURCES OF TAX LEVY FUNDS

Prior Year Tax Levy Fund Balance
 Projected Tax Levy Collection
 Total Sources

2025-2029	
\$	38.2
	458.4
\$	496.6

USES OF TAX LEVY FUNDS

G.O. bond debt service (Existing)
 G.O. bond debt service (New)
 Non-Airport Capital Investments
 Airport Capital Investments
 Non-Airport Public Expense
 Environmental Remediation Liability (Non-Aviation)
 Contribution to ELF
 Community Programs
 Total Uses

2025-2029	
\$	200.8
	37.3
	24.6
	6.3
	2.6
	125.4
	32.0
	66.6
\$	495.7

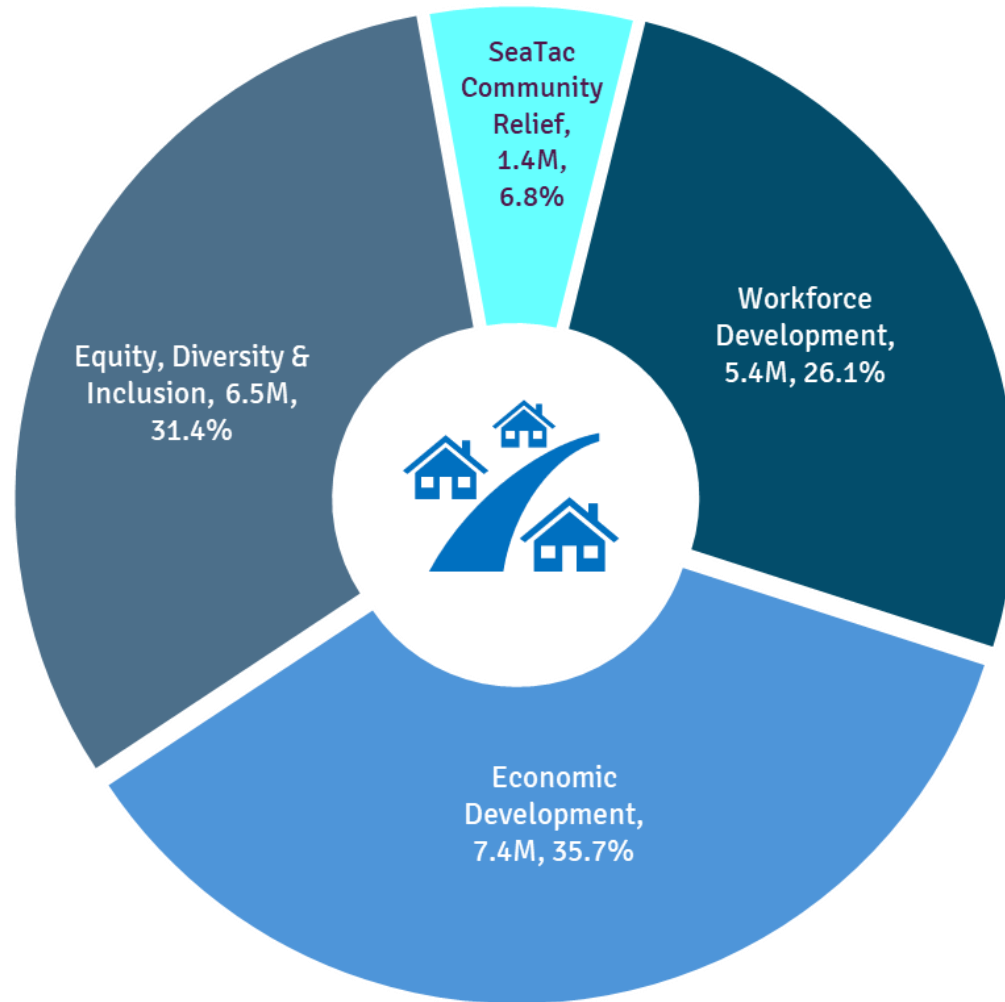
Projected Ending 2029 Levy Fund Balance

\$	0.9
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Tax Levy Fund - Assumptions

- Maintain levy at 75% of maximum allowable from 2025 -2029
 - Maximum levy increases approximately 2% per year
 - 2025 levy increase 2%
- Existing and new G.O. bonds to fund ~\$312 million of Seaport capital investments in addition to the \$24.6 million paid by tax levy cash

2025 Port Community Program Funding by Activity*



Total 2025 Budget: \$20.7M

Economic Development

- Tourism Marketing Support - \$2.2M
- Spotlight Advertising - \$1.6M
- Community Business Connector - \$380K
- Diversity in Contracting - \$2.4M
- Maritime Blue - \$175K
- Green Economy - \$50K

Workforce Development

- Workforce Development Department - \$4.9M
- High School Interns - \$520K

Equity, Diversity & Inclusion

- South King County Community Impact Fund (SKCCIF) – \$2.2M
- OEDI Department - \$2.6M
- Duwamish Community Equity program (DVCEP) – \$617K
- Low Carbon Fuel Standard – \$300K
- Airport Community Ecology Fund – \$40K
- Staff Costs supporting DVCEP & SKCCIF – \$781K

SeaTac Community Relief

- \$1.4M

* Does not include sound insulation R&R or Friends of the Waterfront

2025 Community Programs* (as of September 2024)

Program (in \$000)	2022 Budget	2023 Budget	2024 Budget	2025 Proposed Budget	2025 Funded by the levy	% of the 2025 Budget Funded by the levy
1) Energy & Sustainability Fund	160	120	-	-	-	0.0%
2) Airport Community Ecology (ACE) Fund	135	40	40	40	40	100.0%
3) South King County Community Impact Fund (SKCCIF)	2,195	2,214	2,214	2,205	2,205	100.0%
4) Duwamish Valley Community Equity Program	387	462	471	617	617	100.0%
5) EDD Partnership Grants	1,200	850	950	950	950	100.0%
6) Tourism Marketing Support Program	1,750	1,830	1,875	2,154	1,000	46.4%
7) Airport Spotlight Ad Program*	466	466	466	518	518	100.0%
8) City of SeaTac Community Relief*	1,400	1,400	1,400	1,400	1,400	100.0%
9) Maritime Blue (formerly Maritime Innovation Center)	150	150	175	175	175	100.0%
10) Workforce Development	4,390	5,186	5,077	4,876	3,662	75.1%
a. Youth Maritime Career Launch Program (formerly OYI)	1,000	1,000	900	750	750	100.0%
b. Airport Employment Center	1,096	1,517	1,517	1,517	303	20.0%
11) High School Internship Program	496	457	486	520	280	53.9%
12) Diversity in Contracting ²	1,836	2,299	2,304	2,356	310	13.2%
13) Equity, Diversity & Inclusion	1,366	1,767	2,065	2,559	226	8.8%
14) Sustainable Aviation Fuels & Air Emissions Program	200	100	-	-	-	0.0%
15) Low Carbon Fuel Standard Initiative	110	150	150	300	-	0.0%
16) Community Biz Connector (Regional Small Biz Partnerships)	150	350	380	380	380	100.0%
17) Public Market Study	-	100	-	-	-	0.0%
18) Seattle Aquarium Partnership	-	1,000	1,000	-	-	0.0%
19) Green Economy	-	-	-	50	50	100%
Sub Total	16,142	18,691	18,803	18,839	11,552	61%
Payroll charged to the Levy ³	483	433	589	781	781	100%
Grand Total	16,625	19,124	19,392	19,621	12,334	63%

Notes:

1 Youth Maritime Career Launch Program budget rolls up to Workforce Development total (item 10).

2 \$260K Small Business Accelerator under DIC is included in DIC total (Item 12) and SKCCIF (item 3).

3 2025 Payroll only for CPO & Ext. Rel. Other payroll from HS Interns, WFD, EDI are included in the individual items above.

* Non-Operating Accounts

* Does not include sound insulation R&R or Friends of the Waterfront

Transportation and Infrastructure Fund (TIF) & ELF

TIF (\$ million)	<u>2025-2029</u>	<u>Post 2029</u>
Beginning Balance	\$ 48.0	\$ 19.6
Seattle Heavy Haul Network	(11.6)	(8.2)
Puget Sound Gateway (SR 509)	(15.0)	-
Other	(1.8)	-
Ending Balance	\$ 19.6	\$ 11.4

ELF (\$ million)	<u>2025-2029</u>	<u>Post 2029</u>
Beginning Balance	\$ 27.0	\$ -
Additional Contribution ⁽¹⁾	32.0	-
Net Environmental Liabilities ⁽²⁾	(59.0)	-
Ending Balance	\$ -	\$ -

- (1) Assumes recommended \$32M contribution from the tax levy fund in 2025. Additional contributions will be reviewed on an annual basis.
- (2) Does not represent all assumed environmental costs during the forecast period. Additional environmental liabilities assumed to be funded with tax levy fund upon depletion of ELF.

Current Levy Policies and Practices

- Manage General Obligation (G.O.) debt service to no more than 75% of the annual levy
- Capital investment criteria
- Pay for legacy environmental costs
- Limited Airport use
- Retain tax levy flexibility
 - The difference between the actual levy and the maximum reserves “dry powder” for future resiliency
 - Supports Port’s strong credit ratings

Commission Established Levy Use Criteria for Capital Investments

Uses: Established in 2015, updated in 2018

	Operating Cash	Tax Levy
Asset Renewal	Business income sufficient to support investments	Economic benefit
Strategic Initiatives	Short payback/ Self funding	No or long payback
Location	South Harbor	North Harbor

IDD Levy - Background

- Port can levy property tax within an Industrial Development District (IDD)
 - In addition to regular property tax
 - A port can form multiple districts
 - Coextensive with port district, or
 - Smaller area within the Port district
 - The Port already has two Industrial Development Districts
- Port can implement the levy twice - Port of Seattle implemented first round in 1963
- Purpose is to provide for harbor improvements or industrial development of marginal lands
 - Broadly defined
 - Includes areas of poor planning or declining tax receipts

IDD Levy – Implementation

- Port may implement a second round based on a new formula
 - Maximum of ~\$2.3 billion over a period of up to 20 years
 - Average amount = ~\$113 million (for 20 years)
 - Port can establish a smaller IDD or collect a lesser amount, but cannot bank the unused capacity
- Process to implement
 - Publish notice by April 1 to begin collecting the next year
 - If within 90 days a petition of 8% of voters (voting in the most recent gubernatorial election) opposes, the Port must hold a special election to approve the levy

IDD Levy Information: “Marginal lands” are defined to include property subject to the following (RCW 53.25.030) conditions:

1. An economic dislocation, deterioration, or disuse resulting from faulty planning.
2. The subdividing and sale of lots of irregular form and shape and inadequate size for proper usefulness and development.
3. The laying out of lots in disregard of the contours and other physical characteristics of the ground and surrounding conditions.
4. The existence of inadequate streets, open spaces and utilities.
5. The existence of lots or other areas which are subject to being submerged by water.
6. By a prevalence of depreciated values, impaired investments, and social and economic maladjustment to such an extent that the capacity to pay taxes is reduced and tax receipts are inadequate for the cost of public services rendered.
7. In some parts of marginal lands, a growing or total lack of proper utilization of areas, resulting in a stagnant and unproductive condition of land potentially useful and valuable for contributing to the public health, safety and welfare.
8. In other parts of marginal lands, a loss of population and reduction of proper utilization of the area, resulting in its further deterioration and added costs to the taxpayer for the creation of new public facilities and services elsewhere.
9. Property of an assessed valuation of insufficient amount to permit the establishment of a local improvement district for the construction and installation of streets, walks, sewers, water and other utilities.
10. Lands within an industrial area which are not devoted to industrial use but which are necessary to industrial development within the industrial area.

Airport CIP and Funding

Airport CIP	2025-2029 (\$ million)
S Concourse Evolution	\$ 868.0
Baggage Optimization	458.8
SEA Gateway	287.2
C Concourse Expansion	273.5
Main Terminal Improvement	178.0
Other Capital Projects	1,504.4
SAMP Preliminary Planning/Design ⁽¹⁾	246.2
Proposed New Projects	476.1
CIP Reserves	575.6
TOTAL	\$ 4,867.8
Allocated Central Services CIP	51.2
Total Airport Funded CIP	\$ 4,918.9
(1) Sustainable Airport Master Plan	
Note: totals may not add due to rounding	

Airport Funding Sources	2025-2029 (\$ million)
Operating Cash ⁽¹⁾	\$ 727.2
Grants	363.2
Customer Facility Charge (CFC)	20.1
Existing revenue bond proceeds	412.4
Future revenue bond proceeds	3,395.9
Total Airport Funded CIP	\$ 4,918.9
(1) Includes airport income available after payment of revenue bond debt service.	
Note: totals may not add due to rounding	

Seaport CIP and Funding

Seaport CIP	2025-2029 (\$ million)
Maritime	\$ 605.6
NWSA - 50% Share (North & South Harbor)	210.0
NWSA - Reserve & Port Projects ⁽¹⁾	117.5
Total	\$ 933.2
Allocated Central Services CIP	11.9
Total Seaport Funded CIP	\$ 945.1
<p>(1) Includes N. Harbor channel deepening and other 100% Port legacy costs in N. Harbor. Note: totals may not add due to rounding</p>	

Seaport Funding Sources	2025-2029 (\$ million)
Operating Cash ⁽¹⁾	\$ 393.8
Grants	39.2
Harbor Maintenance Tax (HMT)	53.4
Tax Levy ⁽²⁾	24.6
Existing G.O. bond proceeds	184.9
Future G.O. bond proceeds	127.0
Future revenue bond proceeds	122.2
Total Seaport Funded CIP	\$ 945.1
<p>(1) Includes non-airport income available after payment of revenue bond debt service. (2) Annual levy forecasted at 75% of the Port's maximum annual allowable levy. Note: totals may not add due to rounding</p>	

Revenue Bond Debt Service Coverage

- Key metric of income available to pay debt service
 - Net income/debt service
- Management targets provide financial resilience
 - Airport 1.40x
 - Seaport 1.80x
- Legal obligation to investors
- Use of PFCs and CFCs to pay debt service improves coverage

Coverage Calculation	
	Airport & Non-Airport Revenues
Minus	<u>Expenses adjusted for tax levy ⁽¹⁾</u>
Equals	Available for debt service
Divide	Debt service net of payment from PFCs and <u>CFCs</u>
Equals	Debt Service Coverage

(1) Tax levy net of G.O. bond debt service is deemed to reduce expenses

Current Credit Ratings

	<u>Fitch</u>	<u>Moody's</u>	<u>S&P</u>
General Obligation Bonds	AA-	Aaa	AA
First Lien Revenue Bonds	AA	Aa2	AA
Intermediate Lien Revenue Bonds	AA-	A1	AA-
Subordinate Lien Revenue Bonds	AA-	A2	A+
Fuel Hydrant Special Facility Bonds		A1	A+

Noted Credit Strengths:

- Diverse asset and revenue base
- Airport's market position and enplanement levels
- Strong balance-sheet liquidity levels
- Conservative debt structure and healthy debt service coverage ratios
- Prudent management of the Tax levy including maintaining a cushion
- Strong governance and management
- Long-range strategic and sustainability plans
- Vibrant and resilient area economy

In 2024 Moody's changed its outlook on the Port credit to "Positive."