

Item No.: 3B Supp

Date of Meeting: October 30, 2018



**THE NORTHWEST
SEAPORT ALLIANCE**
Gateway to Solutions

2019 Budget Study Session

Managing Member Meeting
October 30th, 2018

Agenda

- **Budget Schedule**
- **Cargo Forecast**
- **2018 Forecast and Key Messages**
- **2019-2023 Capital Investment Plan**
- **2019 Budget and Key Messages**
- **2019 Budget and 2019-2023 Operating Forecast**



Budget Schedule

- **October 30**
 - Cargo Forecast
 - Budget study session

- **November 13**
 - Approve 2019 operating budget
 - Approve 2019-2023 Capital Investment Plan
 - 2019 Capital Construction contribution



Key Financial Terms

Three important terms used on several slides

- 1. Net Distributable Revenue** – The “Net Income” that is split 50/50 between the home ports
 - After all expenses including after depreciation
- 2. Distributable Cash** – Per the charter, the “operating” cash per the Cash Flow Statement that is distributed 50/50 back to the home ports
 - Excluded depreciation and other cash flows not categorized as operating
 - Example 1: capital grant revenue is not distributed automatically
 - Example 2: Distributable cash does not hold back cash to pay for non-operating expenses such as the Public expenses for T5
- 3. Bond Income**
 - Minimum level of net income required for homeports to meet current bond rate covenants – defined in Charter
 - Excludes depreciation, capital grants and non operating expenses



2018 Forecasted Operating Results

NWSA \$ Million	2018 Budget	2018 Forecast	Forecast Better/(Worse)
Revenue			
Ongoing Revenue	\$ 187.5	\$ 187.7	\$ 0.1
Significant One-Time Revenue	\$ -	\$ -	\$ -
	\$ 187.5	\$ 187.7	\$ 0.1
Operating and Maintenance Expenses			
Container	\$ 35.4	\$ 36.3	\$ (0.9)
Non Container	8.3	8.6	(0.2)
Real Estate	0.7	0.7	0.0
Other	16.9	15.9	1.0
Subtotal	61.3	61.4	(0.1)
Administration	24.2	21.2	2.9
Security	4.8	4.5	0.3
Air & Water Environmental	4.0	4.8	(0.8)
Total Operating Expenses before Depr.	\$ 94.3	\$ 91.9	\$ 2.4
Income from Operations	\$ 93.2	\$ 95.8	\$ 2.5
Depreciation	7.4	6.8	0.5
Operating Income	\$ 85.8	\$ 88.9	\$ 3.1
Non Operating	\$ 7.5	\$ 6.6	\$ (0.9)
Net Distributable Revenue	\$ 93.3	\$ 95.6	\$ 2.2
Return on Revenue	49.8%	50.9%	1.1%
Distributable Cash	\$ 93.3	\$ 95.8	\$ 2.5
Bond Income	\$ 94.2	\$ 96.9	\$ 2.8

Revenue – S. Harbor down \$1.2M due to volumes offset by N. Harbor increased volume and Opportunistic revenue

Expenses

Operations – S. harbor Longshore expenses decrease due to volume reductions. N. harbor maintenance increased by \$4M for crane removal.

Administration – Lower personnel costs and lower technology project spending

Environmental – Clean air and clean truck expenses

Depreciation – lower cost of T4 construction



2018 Forecasted Vs 2017 Actual

NWSA \$ Million	2017 Actuals	2018 Forecast	Fcst vs 2017 Better/(Worse)
Revenue			
Ongoing Revenue	\$ 189.3	\$ 187.7	\$ (1.6)
Significant One-Time Revenue	\$ 5.7	\$ -	\$ (5.7)
	\$ 195.0	\$ 187.7	\$ (7.3)
Operating and Maintenance Expenses			
Container	\$ 35.2	\$ 36.3	\$ (1.1)
Non Container	8.3	8.6	(0.2)
Real Estate	0.7	0.7	0.1
Other	13.9	15.9	(2.0)
Subtotal	58.1	61.4	(3.2)
Administration	19.6	21.2	(1.7)
Security	4.2	4.5	(0.2)
Air & Water Environmental	1.8	4.8	(3.0)
Total Operating Expenses before Depr.	\$ 83.7	\$ 91.9	\$ (8.2)
Income from Operations	\$ 111.3	\$ 95.8	\$ (15.5)
Depreciation	2.2	6.8	(4.7)
Operating Income	\$ 109.1	\$ 88.9	\$ (20.2)
Non Operating	\$ 0.8	\$ 6.6	\$ 5.9
Net Distributable Revenue	\$ 109.9	\$ 95.6	\$ (14.3)
Return on Revenue	56.3%	50.9%	-5.4%
Distributable Cash	\$ 111.4	\$ 95.8	\$ (15.6)
Bond Income	\$ 112.2	\$ 96.9	\$ (15.3)

Revenue – One time revenue from termination of terminal lease

Expenses

Operations –\$4M for crane removal.

Administration - \$1.2M Technology project spending, \$500K S. harbor deepening study

Environmental – \$3.8M Clean air and clean truck expenses

Depreciation – NWSA investments



2018 Forecasted Project Spending *(\$ million)*

Project	Amount	Description
Husky Terminal Crane Purchase	\$47.5	Payment of first set of 4 cranes and down payment of second set of 4 cranes
West Sitcum Stormwater Treatment	12.7	
Husky Phase 2 Construction	9.2	Reconfigure, design and construction T4
Husky Backland Reconfiguration	6.6	Pavement and stormwater treatment improvement
T18 Stormwater Utility Upgrade	5.5	
T46 Dock Rehabilitation	4.9	
N. Harbor Crane removal	4.0	
T5 Berth Modernization Design	1.0	
Others	28.0	74 projects
Total	\$119.4	

Original 2018 CIP budget was \$162.7 million



2019

- **The 2019 budget assumptions**
 - Fixed revenue based on negotiated leases
 - Variable revenue based on conservative volume forecasts
 - Allocated general and administrative costs are based on support services agreements developed by both homeports
 - Capturing impact of major investments
- **Bond Income exceeds minimum revenue required as calculated by the charter and each homeport bond documents**



2019 – 2023

- **This forecast includes significant investments**
 - Purchase of 4 additional cranes for Husky in S. Harbor
 - Redevelopment of T5 in N. Harbor
 - Reinvestment in repairs of T46 in N. Harbor
- **These investments impact the operating income through additional costs (depreciation, equipment maintenance, etc.) and where applicable, improve revenue**
- **Bond Income exceeds minimum revenue required as calculated by the charter and each homeport bond documents**



Five Year Capital Investment Plan

(\$ million)

	2018	2019 - 2023					Totals
	Forecast	2019	2020	2021	2022	2023	
Capitalized	\$105.6	\$162.7	\$112.1	\$93.0	\$40.0	\$5.3	\$413.1
Operating & Non Op. Expense	\$13.8	\$19.7	\$30.1	\$13.0	\$7.1	\$6.6	\$76.5
Grand Total	\$119.4	\$182.4	\$142.2	\$106.0	\$47.1	\$11.9	\$489.6

- **Capitalized**
 - Assets that depreciate over time
- **Operating expense**
 - Included in the operating budget
- **Projects need to be approved individually by the Managing Members or delegation via Master Policy**
 - Inclusion in the budget does not mean that the projects are authorized



2019 - 2023 Container Terminal Projects

(\$ million)

Project	Amount	Description
T5 Berth Modernization Construction	\$307.6	Design and construction T5, public expense projects & other small projects
Husky Terminal Crane Purchase	42.8	Second set of 4 cranes
T46 Dock Rehabilitation	25.3	Dock rehabilitation and terminal redevelopment, paving. Partially TIGER grant funded
T18 Stormwater Utility Upgrade	5.7	
Husky Phase 2 Construction	6.2	Backland reconfigure, design and construction
Husky Crane Disposal	4.2	
Others	30.5	16 other projects
Total	\$422.3	



2019 - 2023 Non Container Terminal Projects

(\$ million)

Project	Amount	Description
Auto Facility Roof Replacement	\$4.0	
Others	4.1	9 projects
Total	\$8.1	



2019 - 2023 Other Projects *(\$ million)*

Project	Amount	Description
Contingency/Unallocated	\$25.0	Capital contingency at \$3M/year, expense at \$2M per year for emergent issues
Northwest Ports Clean Air Strategy	7.1	Reduce diesel particulate matter (DPM) by 80% by 2020 and Green House Gases (GHG) by 15% by 2020
T106 NH CBP Office & Facility Improvements	6.3	
Clean Truck Program	4.8	2007 or newer trucks reduce DPM emissions by up to 85%
Industrial Stormwater Compliance	3.5	Reduce copper to less than 14 parts per billion, zinc to less than 117 parts per billion
Others	12.7	24 projects
Total	\$59.4	



2019 Operating Budget Key Assumptions

- **Conservative Cargo forecast**
- **Lease revenue per contract**
- **Volume revenue per tariff and contracts**
- **TIGER grants and repair of T46**
- **Continuation of shared support services between the home ports and the NWSA**



2019 Preliminary Budget *(\$ million)*

NWSA \$ Million	2017 Actuals	2018 Forecast	2019 Budget	Budget v Fcst Better/(Worse)
Revenue				
Ongoing Revenue	\$ 189.3	\$ 187.7	\$ 199.4	\$ 11.8
Significant One-Time Revenue	\$ 5.7	\$ -		\$ -
	\$ 195.0	\$ 187.7	\$ 199.4	\$ 11.8
Operating and Maintenance Expenses				
Container	\$ 35.2	\$ 36.3	\$ 37.3	\$ (1.0)
Non Container	8.3	8.6	11.3	(2.8)
Real Estate	0.7	0.7	0.8	(0.1)
Other	13.9	15.9	17.5	(1.6)
Subtotal	58.1	61.4	66.9	(5.5)
Administration	19.6	21.2	23.5	(2.2)
Security	4.2	4.5	5.1	(0.6)
Air & Water Environmental	1.8	4.8	3.9	1.0
Total Operating Expenses before Depr.	\$ 83.7	\$ 91.9	\$ 99.3	\$ (7.4)
Income from Operations	\$ 111.3	\$ 95.8	\$ 100.2	\$ 4.4
Depreciation	2.2	6.8	13.5	(6.6)
Operating Income	\$ 109.1	\$ 88.9	\$ 86.7	\$ (2.2)
Non Operating	\$ 0.8	\$ 6.6	\$ 1.1	\$ (5.5)
Net Distributable Revenue	\$ 109.9	\$ 95.6	\$ 87.8	\$ (7.7)
Return on Revenue	56.3%	50.9%	44.0%	-6.9%
Distributable Cash	\$ 111.4	\$ 95.8	\$ 99.9	\$ 4.2
Bond Income	\$ 112.2	\$ 96.9	\$ 102.1	\$ 5.2

Revenue –

Lease increases in S. Harbor and increased equipment rental revenue

Expenses

Operations – EB1 rent payment to POT and outsourced maintenance at W. Sitcum & Log dock

Administration – Vacant positions to be filled, projects initiated

Non-Operating – T5 permit conditions rail quiet zone and electrical substation



Budget Line Items

NWSA \$ Million	2017 Actuals	2018 Budget	2018 Forecast	2019 Budget
Revenue				
Property Rental	\$ 41.4	\$ 39.2	\$ 40.4	\$ 43.3
Sale of Utilities	0.9	0.9	1.1	1.0
Services Marine Terminals	124.6	119.9	120.5	127.2
Equipment Rentals	17.9	17.6	15.9	18.3
Other Revenue	10.3	9.9	9.8	9.8
Total Revenue	\$ 195.0	\$ 187.5	\$ 187.7	\$ 199.4
Expenses				
Port Salaries & Benefits	\$ 10.3	\$ 9.9	\$ 9.6	\$ 10.0
Outside Services	6.5	6.3	4.8	6.7
Longshore Labor & Fringe	11.9	12.8	11.0	10.4
Direct Expenses	9.6	9.5	10.1	11.1
Marketing & Global Outreach	0.5	1.5	1.1	0.7
Travel & Hosting	0.4	0.7	0.6	0.7
Maintenance	17.3	18.5	21.8	25.3
Office Equipment & Supplies	0.2	0.3	0.3	0.4
Utilities	3.8	4.4	4.5	4.8
Other Employee Exp	0.3	0.3	0.3	0.1
Other Expenses	1.0	1.1	1.1	1.0
Environmental	1.8	3.8	4.8	3.7
Operating Expenses before Allocations	63.7	69.2	69.9	75.1
Allocations	20.0	25.1	22.0	24.2
Total Operating Expenses before Dep.	83.7	94.3	91.9	99.3
Operating Income Before Depreciation	111.3	93.2	95.8	100.2
Depreciation	2.2	7.4	6.8	13.5
Total Operating Expenses	85.9	101.7	98.8	112.7
Operating Income	\$ 109.1	\$ 85.8	\$ 88.9	\$ 86.7

Maintenance –

- 2018 :\$4M for N. harbor crane removal
- 2019: T46 bulkhead repair & paving of \$3M, \$0.9M PCT Paving, \$2M unallocated

Allocations

- 2018 allocations below budget due to staffing and project spending
- 2019 budget less than original 2018 budget

Depreciation

- Increasing due to NWSA investments



MEMBERSHIPS

MM approval of NWSA Memberships over \$10,000 required per NWSA Master Policy

Organization	Annual Dues
American Association of Port Authorities	\$50,000
Pacific Northwest Waterways Association	28,000
WA Council on International Trade	20,000
International Association of Ports and Harbors	11,000
All Other Memberships under \$10,000	44,000
Total NWSA Memberships	\$153,000

Actual amounts paid may vary slightly as some dues are calculated based on fiscal year financial results.



NWSA Service Level Agreements

- **For 2019, both home ports will continue to provide some level of services to the NWSA**
 - Adjustments for 2019 include reducing POT Public Affairs allocation
 - POS corporate allocation reduced from 3.4% to 3.2%
- **Service level agreements are reviewed annually during the budget process and are in effect for one year.**
- **The NWSA Master Policy delegates approval of service level agreements to the NWSA CEO**



NWSA 2019 Budget and Four Year Forecast

NWSA \$ Million	2019	2020	2021	2022	2023
Revenue					
Ongoing Revenue	\$ 199.4	\$ 203.0	\$ 214.6	\$ 223.7	\$ 235.4
Significant One-Time Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses before Depr.	\$ 99.3	\$ 104.1	\$ 107.7	\$ 104.3	\$ 106.3
Depreciation	13.5	16.1	24.4	24.7	28.3
Operating Income	\$ 86.7	\$ 82.8	\$ 82.5	\$ 94.7	\$ 100.7
Capital Grants	\$ 3.8	\$ 3.0	\$ 0.6	\$ -	\$ -
Other Non Operating (net)	\$ (2.7)	\$ (7.6)	\$ 2.3	\$ 1.4	\$ 1.4
Net Distributable Revenue	\$ 87.8	\$ 78.2	\$ 85.5	\$ 96.0	\$ 102.1
<i>Return on Revenue</i>	44.0%	38.5%	39.8%	42.9%	43.4%
Distributable Cash	\$ 99.9	\$ 98.9	\$ 106.9	\$ 119.3	\$ 129.0
Bond Income	\$ 102.1	\$ 102.1	\$ 109.3	\$ 120.8	\$ 130.4



NWSA Non Operating Details

NWSA \$ Million	2019	2020	2021	2022	2023
Non Op Revenue					
Capital Grants	\$ 3.8	\$ 3.0	\$ 0.6	\$ -	\$ -
Operating Grants	\$ 0.5	\$ 1.8	\$ 1.0	\$ -	\$ -
Interest Income (Net)	\$ 1.5	\$ 1.4	\$ 1.4	\$ 1.4	\$ 1.4
Total Non Op Revenue	\$ 5.8	\$ 6.2	\$ 3.0	\$ 1.4	\$ 1.4
Non Op Expense					
Public Expense	\$ 4.4	\$ 10.8	\$ 0.0	\$ -	\$ -
Other/Banking Fees	\$ 0.2	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Total Non Op Expense	\$ 4.6	\$ 10.8	\$ 0.1	\$ 0.0	\$ 0.0
Total Non Operating	\$ 1.1	\$ (4.6)	\$ 3.0	\$ 1.4	\$ 1.4

- Capital Grants for T46
- Operating grants for NWSA community system
- Public expense for T5 permit conditions: Rail quiet zone, electrical substation, etc.



Budget Messages

- **2018 Net Distributable Revenue is projected to be \$95.5 million, \$2.2 million above budget level of \$93.3 million**
- **2019 and 2020 are years impacted with investments in technology and infrastructure to support future growth**
 - Technology investments for improved operations services
 - Community investments in electrical and rail infrastructure to support major terminal investments
 - NWSA investments in terminals in both harbors

