

THE NORTHWEST SEAPORT ALLIANCE
SPECIAL MEETING – BUDGET STUDY SESSION MINUTES
TUESDAY, OCTOBER 29, 2019
The Conference Center at Seattle-Tacoma International Airport
17801 International Boulevard, Seattle, Washington

SEATTLE COMMISSIONERS PRESENT:

Stephanie Bowman
Fred Felleman
Courtney Gregoire
Peter Steinbrueck – by telephone.

Excused:

Ryan Calkins

STAFF PRESENT:

John Wolfe, CEO
Kurt Beckett, Deputy CEO
Don Esterbrook, Deputy CEO
Carolyn Lake, Legal Counsel
Tom Tanaka, Legal Counsel
Eric ffitich, State Government Relations Manager
David Morrison, Deputy Treasurer
Tong Zhu, Chief Commercial and Chief Strategy Officer
Leilani Berinobis, Executive Administrative Assistant
Juliet Campbell, Clerk

TACOMA COMMISSIONERS PRESENT:

Don Johnson
John McCarthy joined telephonically at 2:25 p.m.
Dick Marzano left at 3:43 p.m.
Don Meyer
Clare Petrich left at 2:57 p.m.

1:00 PM – PUBLIC SESSION:

1. **CALL TO ORDER:** Commissioner Bowman called the meeting to order and lead the Pledge of Allegiance.

Washington Public Ports Association (WPPA) Executive Director, James Thompson presented Representative Joe Fitzgibbon (D-34th District, West Seattle) with the Compass Award. The award was designed to recognize legislators that have shown special support for port districts.

2. **CHIEF EXECUTIVE OFFICER'S REPORT:**

CEO Wolfe provided opening remarks on the cargo forecast and highlights to the 2020 budget. The Capital Investment Plan (CIP) project and expense list has been divided into required projects and discretionary projects. Required projects are defined as contractual requirements, regulatory requirements or maintenance projects tied to revenue preservation. Discretionary are those that fall outside of that definition. All discretionary listed are included in the draft budget.

3. **PUBLIC COMMENT:** None.

4. **BUDGET STUDY SESSION:**

- A. 2020 Cargo Forecast and Strategic Initiatives
Presenter: Tong Zhu

Staff provided an overview of international trade and shipping industry trends and cargo volume projections. Trade policy and tariffs are the most important factors weighing on the economy today. In addition to China tariffs, staff named other trade wars impacting the United States including global steel and aluminum import tariffs, a European Union trade war, and the removal of India from preferred trade program. These, along with regional politics and trade friction between Japan

and Korea and the demonstrations in Hong Kong have created a business climate of uncertainty and risk.

The short term and medium-to-long term implications of these trends for The Northwest Seaport Alliance (NWSA) gateway were presented.

Nine North American ports, including the NWSA handled 32.3 million TEUs through August, an increase of 1.25 million TEUs year over year (~ +4%). The NWSA volume grew by 140,839 TEUs (+5.8%). The NWSA's market share of transpacific trade is 9%.

In response to commission questions about east coast ports market share, staff reported that if cargo gets transshipped in Singapore it is routed through the east coast. The Panama Canal can handle up to a 14,000 TEU vessel, but the Suez Canal can handle the ultra large 23,000 TEU vessels. Commissioners commented on the competitive and strategy implications.

The top five NWSA commodities and trading partner trends for both imports and exports were presented.

Dynamics of the industry and the impacts on the gateway were discussed. Staff reported that there is less volume to go around and the level of competition for additional cargo is fierce. Strategic initiatives of the NWSA include incentivizing BCO and carrier customers for incremental cargo growth, new opportunities in emerging markets and more. Business outreach efforts by the business development team were described.

International container cargo forecast 2019-2024 was presented. The projected Average Annual Growth Rates (AAGR) for 2019-2024 were provided: international container 2.56%, domestic 2.3%, international and domestic 2.5%, breakbulk 3.7% auto 2.5%. Staff noted that actuals are tracked against forecast. Since the NWSA was formed staff has been within +/- 2% of forecast.

The Inland Point Intermodal (IPI) discretionary cargo average for the gateway as a whole is 37% of imports.

B. 2020 Budget Study Session

Presenter: David Morrison

Staff reviewed the proposed 2020 Operating Budget, 2020-2024 Capital Investment Plan (CIP) and Operating Forecast in preparation for the November budget adoption.

The five objectives of the budget were covered. Commissioner Meyer wants the key metrics by which the objectives and goals are measured included in the final budget document.

Staff summarized the impact of Governing Accounting Standards Board (GASB) Pronouncement 87 (GASB 87) which takes effect in 2020. This is an accounting standard change that deals with long term leases. Operating Revenue will be reduced and offset by an equal increase to Non-Operating Revenue. It is a change in how the numbers are presented but it does not impact Net Income. Definitions of key financial terms in the budget were provided.

A four-year history of actual versus forecast performance shows the NWSA has outperformed by \$66 million net income over the first 4 years.

The 2019 forecasted operating results show that revenue is essentially flat from the original budget, expenses are lower. Some of the reasons for the lower expenses were provided. There is the potential for some 2020 expenses to flow into 2019 offsetting some 2020 increases. The 2019 forecasted project spending on all projects, capitalized and expensed is \$40 million less than the original 2019 CIP budget.

The 2020 budget assumptions were provided, and staff noted that bond income exceeds minimum revenue required as calculated by the charter and each homeport bond documents.

Significant investments forecast in the 2020-2024 CIP include the redevelopment of Terminal 5 (T5) and a full dock rehabilitation at Terminal 18 (T18). Staff confirmed for commissioners that the T18 rehabilitation was included in the valuation at the formation of the NWSA. The grant total of the CIP is \$441.1 million. Most will be capitalized. Staff emphasized that just because a project is listed in the plan does not mean it has been authorized. Projects must still be authorized individually by the Managing Members, if not already authorized, or within the delegation of authority via Master Policy. Commissioners had suggestions on how to present the numbers associated with projects, including grants and legislation.

Staff provided a list of container terminal, non-container terminal and other projects along with brief descriptions and reasons.

The preliminary 2020 budget was presented. Attention was called to revenue reduction at Terminal 46 (T46) offset by increases at T18 and Husky. Expenses highlighted filling of vacant positions and technology projects, payroll increase to fill one new position and outside services for T46 paving and crane removal at Husky. Distributable cash and lease interest in 2020 are nearly equal to the original budgeted distributable cash in 2019. Commissioner Meyer prefers functional units to a line item view.

A discussion took place related to an opportunity to move a payment to Seattle City Light for the T5 electrical substation from 2020 to 2019. It may be incorporated into the final budget presented in November.

There was a small increase in memberships. Memberships over \$10,000 require Managing Member approval. A complete list of all memberships with the new memberships that highlights new memberships along with justifications will be provided.

Service level agreement will continue. Staff went over Port of Tacoma adjustments, Port of Seattle adjustment and NWSA to Port of Tacoma adjustments. The Port of Seattle corporate allocation increase is driven by police and environmental departments.

Highlights in the 2020 budget and four-year forecast include impacts to the Net Distributable Revenue in 2021 driven by one-time expenses including crane removal at T5 and Husky and one-time expenses for T5 permit conditions. Also, the 2024 numbers assume the second phase of T5 is implemented.

The definition of Distributable Cash was amended in the NWSA Charter, prior to the implementation of GASB 87. The definition does not include Lease Interest Cash. Staff will be requesting approval to distribute the lease interest cash on a monthly basis. Changes to the definition in the charter will be requested the next time it is updated.

Commissioners decided that the discussion on discretionary projects is better suited to its own meeting but did provide some feedback.

Commissioner Meyer does not want to go through the list line by line. He would rather the CEO recommend where cut backs could take place at various levels. He added that careful attention should be paid to unallocated funds. He noted that the \$28 million currently identified is high considering he knows significant contingencies are built into the projects already.

Commissioner Marzano would like recommendations that consider the need to move more cargo through the gateway. Commissioner Steinbrueck agreed.

Commissioner Felleman noted that projects listed in Operational Upgrades category could also be listed in the Air Quality category. He agreed that growing throughput is a priority as it allows for the payment of other things but added that the NWSA's ability to do business in a burgeoning city requires projects be done that may not immediately generate revenue. He said having all the environmental projects listed as discretionary is not acceptable.

Commissioner McCarthy noted that the homeports are impacted by the NWSA decisions on discretionary projects. He wants to ensure that decisions are not made that allow no room for big opportunities. His example is the decision to be made if the NWSA approves 2020 expenses be moved to 2019. He wants to know the impact on the homeports. He listed additional questions he would like answered before the final budget is presented in November.

5. GENERAL BUSINESS:

A. Inland Rail Hub Initiative: This item was postponed to a future meeting.

6. COMMISSIONER COMMENT:

7. ADJOURNMENT: There being no further business, Commissioner Bowman adjourned the meeting at 3:43 p.m.



Clare Petrich, Co-Chair
The Northwest Seaport Alliance



Stephanie Bowman, Co-Chair
The Northwest Seaport Alliance

ATTEST:



John McCarthy, Co-Secretary
The Northwest Seaport Alliance



Peter Steinbrueck, Co-Secretary
The Northwest Seaport Alliance



Juliet Campbell, Clerk
The Northwest Seaport Alliance