



Minutes

Wednesday, October 28, 2020

NWSA Managing Member Special Meeting

In accordance with the governor's proclamation 20-28.11 public attendance at this meeting was allowed remotely only. No in-person attendance was permitted. The meeting was streamed live on the NWSA's website <http://portal.veconnect.us/p/nwseaportalliance> and the call in number of 1-253-617-4257, Conference ID: 336 072 541# was provided for those who wished to listen live by phone.

Call to Order and Flag Salute

The special meeting was called to order at 9:34 a.m. Port of Tacoma Commissioners Ang, Keller, McCarthy, Marzano, and Meyer were all present via video/telephone conference. Port of Seattle Commissioners Bowman, Calkins, Felleman, and Steinbrueck were also present via video/teleconference. Commissioner Cho joined the meeting at 10:05 a.m. Commissioner McCarthy then lead the Pledge of Allegiance.

Public Comment

Commissioner McCarthy called for public comments. There were none.

CEO Opening Comments

Staff will be providing a highlight of the economic trends in the marketplace along with a five-year cargo forecast. There is a high level of volatility in the global marketplace creating significant shifts in the NWSA's cargo volume. Given the fluidity in the marketplace, he suggested commissioners focus in on the 2021 cargo volumes versus the five-year cargo forecast. Staff will also be presenting a draft 2021 budget and five-year Capital Investment Plan (CIP). The subsequent four years and will likely change in the coming year, so CEO Wolfe again recommended focusing in on 2021.

The priorities reflected in the draft proposed budget and CIP include increasing cargo volume, managing expenses to generate additional cash for reinvestment into the gateway, and environmental stewardship to grow the gateway while reducing the environmental impacts of our business activity.

Study Session

3A. Cargo Forecast

Presented by Tong Zhu, Chief Commercial & Strategy Officer and Don Esterbrook, Deputy CEO.

The managing members briefed the Managing Members on global and United States trade and economic trends and the implications for the NWSA gateway.

Mr. Esterbrook provided a brief overview of the inherent competitive challenges in the NWSA gateway and staff's plans to overcome those limitations. He noted that the NWSA has a much smaller local consumer base than others such as Los Angeles/Long Beach (LA/LB) so there are fewer ocean carriers calling this gateway. To illustrate this, he noted there are roughly 17 ocean carrier services calling Tacoma-Seattle, whereas LA/LB has 42 services calling. He noted that this has been further exacerbated over the last several years with the upsizing of vessels and the consolidation of services. Less first port of call vessel strings, which carry the majority of intact intermodal cargo, in this gateway. The NWSA gateway rail cargo has also been marginalized by significantly lower rates via the Canadian gateway. Mr. Esterbrook referenced that a number of customized strategic initiatives staff has implemented that will better position the NWSA in the marketplace were presented at the September study session. He highlighted the NWSA's rail strategy.

Ms. Zhu presented cargo forecasts for containers, breakbulk and auto. She noted the 2020 is an absolute anomaly and the volume fluctuations will skew the annual average growth rate for the forecast periods. The forecasts presented were based on actuals through August, customer input, industry trends and economic conditions as they stand today.

Discussion:

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Commissioner McCarthy asked about the reliability of the forecast. Staff responded that past years, 2020 excluded, show staff as being within a three percent margin of error or less.

Discussion took place surrounding market share trends. It was noted that LA/LB has a population of 40 million and demand for local cargo is twice or three times as much as in the NWSA gateway. The need to target strategy toward inland intermodal cargo was discussed. The importance of active engagement with labor was also discussed. Staff noted that labor at the Homeports have been good partners. It was noted that service delivery has grown to 30 moves an hour on average (up from 27).

Commissioner Felleman was encouraged by the focus on a B.C. strategy and the inland competition issue. He suggested the interstate element may help get federal attention. He sees an opportunity for the NWSA to better market the green gateway to its competitive advantage.

Commissioner Marzano would like to see a market share comparison with Canada. He noted the need for northwest trade policies and underscored the need for the federal government as a partner.

Commissioner Calkins referenced an article by Marc Levinson in the October 22, 2020 Wall Street Journal titled, "The Megaships that Broke Global Trade." In light of the logistical challenges described in the article, which he likened to what happened in passenger aviation with the Airbus A380, he asked whether staff was contemplating niche/expedited services. Staff is tracking the issue.

Commissioner Bowman would like more information regarding strategies in emerging markets specifically India and Vietnam. She would also like to hear more about efforts to anchor BCOs closer to terminals in the Port of Seattle as a way to drive cargo. Staff will provide an update on that initiative at a later date.

Commissioner Ang commented that she has seen the federal government support Gulf Coast ports in terms of expansion. She asked staff what they would like to see from the federal government as far as a national freight plan and infrastructure. Staff commented that the Canadian government has pumped millions of dollars toward its supply chain visibility program as part of its national freight strategy. Something similar in terms of funding IT infrastructure is one example of what staff would like to see. She also noted that the pandemic intensified an existing trend in e-commerce and warehousing, etc. The forecast presented acknowledges that the trends are not temporary or an aberration.

3B. Budget

Presented by David Morrison, Director, Financial Planning & Treasury

Staff will return to the Managing Members on November 9, 2020 to request approval of the 2021 operating budget and the 2021-2025 Capital Investment Plan (CIP). Staff reminded the commissioners that approving the CIP is not approving the projects. Each project would still need to come before the Managing Members or to the CEO if the amount is less than the Delegation of Authority.

Staff described the objectives of the proposed budget. A history of net income (2017- forecast 2021) was presented as was a history of distributable cash (2017-forecast 2021). Distributable cash was essentially flat, a one-percent increase from 2017 to 2021. A comparison of 2020 budget to forecast shows Operating Revenue down \$22.3 million, Total Operating Expenses before depreciation down \$6.7 million. Non-Operating Revenue and Expenses are forecast to be up \$2 million due to delayed spending at Terminal 5 (T5). Distributable Cash plus Lease Interest Cash is on track with June forecast at \$85.7 million. 2020 Forecasted spending is \$150.5 million. Staff provided a 2021 budget preview.

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Five-year histories of Revenue, Direct Expense, Maintenance Expense, Administration Expense (including an explanation of allocation changes), Security Expense, and Environmental Expense were all presented. 2020 Distributable cash is projected to be \$85.7 million. In 2021 it is projected to be \$103.7 million. Staff noted that 2020-2021 and 2022 are years impacted with investments in infrastructure to support future growth. All years are projected to achieve required bond income and provide over \$100 million in cash split between the two Homeports.

[Commissioner Cho left the meeting at 11:34 a.m.]

Commissioner Meyer would like to know how confident staff is regarding projected revenue. Staff responded that the cargo forecast presented showed a high, a low, and a baseline. The baseline is what they expect and that is what is reflected in the budget.

[Commissioner Calkins left the meeting at 11:42 a.m.]

Commissioner Meyer finds an eight percent increase in administrative costs unacceptable with the revenue situation the NWSA is in overall and the number of positions. His final comment is that he would like to see an outcome-based budget document that outlines the top five goals the NWSA wants to accomplish, and how the budget relates to it.

Commissioner Felleman did not see the \$84,000 allocation for the Quiet Sound Program in the environmental section of the budget. He asked why it is in administration and why it isn't broken out as a direct expense. Staff clarified that the Environmental Department for the NWSA is allocated out. There came an agreement that the NWSA would pay \$84,000.00. If it were budgeted in accounting it would be part of the allocation and defeat the purpose of the agreement, so it was put in Executive. Commissioner Felleman then also asked about pending grants. Staff was aware of only one at this time, a \$10.6 million PIDP grant to split with SSA 70/30, however the details as to which aspects of the T5 program are yet to be determined. No other grants have been applied for associated with T5. Staff is working with AAPA to advocate for additional port infrastructure grants in the new year.

Commissioners Felleman and Bowman emphasized the need to engage the congressional delegation related competition with Canada and inland rail efforts. Commissioner Bowman noted that the NWSA has a congressional delegation that is extremely sympathetic to its needs related to Canada and efforts should be proactive.

Commissioner Bowman asked staff to address strategy regarding APL's outstanding payment and impacts to what she considered a lean budget as proposed by staff, if payment or a new deal are not forthcoming. Staff will update the Managing Members at a future meeting.

Commissioner Ang emphasized the need to work with the legislative delegation to get funding to help US ports be competitive with Canadian ports. The delegation needs detailed plans that can be passed in regard to trade. She heard plans for either passenger or cargo high-speed rail from Southern California to the mid-west, but nothing from our gateway. Managing Members and staff need to advocate for infrastructure funding for the Pacific Northwest to mid-west.

Commissioner Steinbrueck recommended a roll call process for Commissioner Comment so that those on the phone get equal time to comment. He said a clear approach to suggesting amendments to the 2021 budget is needed and suggested that commissioners get support from at least one commissioner of the other homeport before offering an amendment.

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Commissioner Felleman agreed with having a process for offering amendments would be helpful. He would like a document to drop on the legislative delegations' desks. The Mercator report is at too high of a level. He would like to see a Washington strategy document that provides very specific and actionable suggestions.

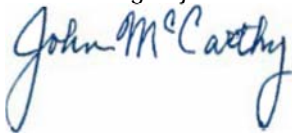
Commissioner McCarthy put commissioners on notice that he intends to propose amendments to lower administrative expenses in the budget from eight percent to zero percent in light of what has happened this year. Staff suggested that the budget, when presented in the BARS method, represents an artificial distribution of expenses and recommended a line by line versus category review when considering cuts. Commissioner McCarthy responded that commissioners should look at the budget overall and the CEO can make some of the decisions or recommendations on the specific details.

Commissioner Bowman suggested that commissioners offer amendments to the budget during the November 3, 2020 meeting. She suggested that commissioners send amendments to staff and they can distribute the collective list of amendments to all commissioners for review before the meeting to allow a productive conversation. Commissioners should send staff their amendments by close of business Thursday, October 29, 2020.

Commissioner Keller stated that at previous meetings the Managing Members discussed Distributable Cash targets and the majority of commissioners, all but two, agreed that they did not want to meet those targets through cuts to employees, furloughs, etc. She asked why the conversation continues to circle back to those actions. Commissioner McCarthy responded that debate continues up until the time of the vote on the budget.

CEO Wolfe stated that he appreciates the conversation and staff will follow-up on the commissioners' comments offered today. Regarding the budget, he likes the suggestion that each commissioner feed their comments/amendments to staff by close of business tomorrow. Staff will circulate on Friday and the commissioners can then go through them at the November 3, 2020 meeting.

The meeting adjourned at 12:39 p.m.



John McCarthy, Co-Chair
The Northwest Seaport Alliance



Peter Steinbrueck, Co-Chair
The Northwest Seaport Alliance

ATTEST:



Sam Cho, Co-Secretary
The Northwest Seaport Alliance



Don Meyer, Co-Secretary
The Northwest Seaport Alliance



Juliet Campbell, Clerk
The Northwest Seaport Alliance