

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
STAFF BRIEFING

Item No.: 3B
Meeting Date: October 28, 2020

DATE: October 12, 2020

TO: Managing Members

CC: John Wolfe, CEO
Executive Management Team

FROM: David Morrison

SUBJ: 2021 Budget, 2021-2025 Capital Investment Plan, and 2022-2025 Forecast

ATTM: 1) Draft 2021 NWSA Budget Document
2) Draft 2021 NWSA Budget Study Session Presentation

A. BRIEFING REQUESTED: The study session will review the proposed 2021 NWSA operating budget, the 2022-2025 operating forecast, and the proposed 2021-2025 Capital Investment Plan (CIP).

B. BACKGROUND: The NWSA operating budget and CIP implement the business plan and are important components of each home port budget. This session will review the proposed 2021 operating budget, the 2022-2025 Operating Forecast, and the 2021-2025 CIP in preparation for the November 9, 2020 budget adoption meeting.

C. NEXT STEPS:

- POT Budget Study Session Wednesday, November 5th
- POS Budget Public Hearing Tuesday November 10th
- NWSA Budget Adoption Tuesday November 9th
- POS Budget Adoption Tuesday November 17th
- POT Budget Adoption Monday November 19th



THE NORTHWEST
SEAPORT ALLIANCE

The Northwest Seaport Alliance 2021 Budget



A Crane operator at work



In June 2020, Inbound Logistics magazine named The Northwest Seaport Alliance in its annual list of “Green 75” supply chain partners. This is the third consecutive year that the NWSA has been recognized for its environmental programs and commitment to sustainability.



In August 2020, Logistics Management Magazine awarded The Northwest Seaport Alliance with a 2020 Quest for Quality award in the West Coast Port category. This is the second year that the NWSA has earned this award. The NWSA ranked second highest among U.S. West Coast ports in the magazine’s annual readership survey of transportation providers. Ports were evaluated on ease of doing business, value, ocean carrier network, intermodal network and operations. The NWSA was one of only four West Coast ports to earn the honor this year.



In July, 202 the Northwest Seaport Alliance Clean Truck Program was named as a finalist in the International Association of Ports and Harbors’ (IAPH) World Ports Sustainability Program Awards in the Community Outreach and Port City Dialogue category. The IAPH established the World Ports Sustainability Program in 2018. Guided by the 17 United Nations Sustainable Development Goals, it aims to unite sustainability efforts of ports worldwide, encouraging international cooperation between all partners involved in the maritime supply chain.

Table of Contents

Memo from John Wolfe, CEO.....	i
Budget Document Overview	ii
I. Northwest Seaport Alliance Overview.....	I-1
II. Budget Message.....	II-1
III. Business Outlook.....	III-1
IV. Operating Budget.....	IV-1
V. Capital Investment Plan.....	V-1
VI. Environmental Stewardship & Planning	VI-1
Appendix A Bond Income Calculation.....	A-1
Appendix B Capital Construction.....	A-2
Appendix C NWSA Full Time Personnel.....	A-3
Appendix D NWSA Memberships.....	A-4

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Figures

<u>Figure</u>		<u>Page Number</u>
I-1	Northwest Seaport Alliance Facilities – Seattle Harbor.....	I-6
I-2	Northwest Seaport Alliance Facilities – Tacoma Harbor.....	I-7
I-3	The Northwest Seaport Alliance Organizational Chart.....	I-8
V-1	Five-Year Capital Investment Plan by Line of Business	V-4

Tables

<u>Table</u>		<u>Page Number</u>
III-1	Cargo Activity Five-Year Forecast.....	III-4
IV-1	Statement of Revenue, Expenses and Change in Net Position by Business	IV-4
IV-2	Operating Revenue and Expense Detail.....	IV-5
IV-3	Statements of Revenues, Expenses and Changes in Net Position	IV-6
IV-4	Allocation and Direct Charge Summary.....	IV-6
IV-5	NWSA Five-Year Financial Forecast	IV-7
IV-6	NWSA Five-Year Bond Income.....	IV-7
V-1	Planned Capitalized Project Spending.....	V-2
V-2	Five-Year Planned Capital Investment Plan by Purpose	V-3
V-3	Five-Year Planned Capital Investment Plan by Accounting Treatment	V-3
V-4	Planned Major Projects by Line of Business.....	V-3
V-5	Depreciation Impact due to Capitalized Projects	V-3

To: Managing Members

Date: November 19, 2020

Subject: The Northwest Seaport Alliance Operating Budget and Five-Year Capital Investment Plan

Staff is pleased to present the 2021 Northwest Seaport Alliance (NWSA) Budget. This document informs the Port of Seattle, the Port of Tacoma, citizens and other interested parties about the NWSA's overall goals and strategies, as well as the business environment in which we operate. It highlights our focus on strategic investments that will deliver competitive financial results, build for the future, and continue to create jobs and economic wealth for the Puget Sound region.

The competition within the international container business among ports remains intense as capacity grows with larger ships and volumes are threatened by the ongoing trade war and the uncertainty of a global pandemic. Shipping alliances and terminal operators continue to explore ways in which to improve their financial performance while investing in the infrastructure and or equipment required to handle the freight surge from larger ships.

Over the last five years, the NWSA has made and continues to make the investments necessary to service the larger ships. We completed construction of a new wharf and the purchase of eight new cranes at Husky Terminal in the Tacoma Harbor and will complete the first phase of the redevelopment of the wharfs at Terminal 5 in Seattle this year. These two significant investments alone total over 500 million dollars and provide the NWSA with terminals in both harbors capable of handling the largest vessels in the transpacific trade.

The NWSA creates significant economic activity and family wage jobs in the Puget Sound region and across the state. We provide manufacturers and agricultural producers throughout the nation valuable access to foreign markets. NWSA and our customers business activities generate more than 58,400 direct and indirect jobs and \$12.4 billion of business output based on the most recent study released in 2019 for 2017 data. The NWSA is also an environmental leader in reducing cargo-related air emissions and stormwater pollution.

The current NWSA's Strategic Business Plan includes:

- Enhance NWSA, local and regional transportation infrastructure
- Improve the efficiency and cost competitiveness of the supply chain
- Advance the NWSA's market position in the international and domestic shipping industry
- Increase revenue through growth and diversification
- Advance environmental stewardship

There is significant uncertainty in the global economy going into 2021. Additionally, our industry continues to experience rapid change and unforeseen circumstances that affect global trade. The NWSA will continue to invest in the facilities and infrastructure necessary to keep our position as a leading North American port. Despite the market uncertainty, our Team is focused on increasing the business activities and job growth within the region, while achieving that success in a financially and environmentally sustainable way.



John Wolfe

Chief Executive Officer

Budget Document Overview

The Budget Document consists of these major sections:

I. Overview: This section provides information about the NWSA's facilities and customers. It examines the economic context of the NWSA's operating environment, and it outlines the NWSA's organizational structure.

II. Budget Message: This includes an overview of the budget challenges and opportunities, revenue types and expenditures. The Budget Message outlines the priorities and issues for the budget year and describes changes from the previous year.

III. Business Outlook: This section describes the NWSA's overall goals and strategies. It includes assumptions, potential obstacles and trends that staff used to develop the forecast. These serve as the foundation for the Operating Budget.

IV. Operating Budget: This section provides a summary of the assumptions that form the basis for the NWSA's operating budget. This section includes the operating budget with revenue and expenses by line of business, and details of expected operating costs. This section also provides a five-year financial forecast for the alliance.

V. Five-Year Capital Investment Plan (CIP): The CIP consists of all capitalized and expensed projects that the NWSA plans to complete in the next five years. Capitalized projects affect the NWSA's Profit and Loss statement through depreciation while expensed projects flow directly to the NWSA's net income in the year the expenses are incurred. This section provides details on the CIP including the impact of the capital spending on profitability.

VI. Environmental Stewardship and Planning: This section provides a historical context for the environmental challenges facing the two ports and their surrounding communities. This section also discusses the role of the NWSA Planning department and its work to integrate all aspects of the alliance.

The Northwest Seaport Alliance Overview

Marine Cargo Operating Partnership

The Northwest Seaport Alliance (NWSA) is the first of its kind in North America.

The ports of Seattle and Tacoma 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 for the region.

Located in the Pacific Northwest in Washington state, the NWSA offers short U.S.-to-Asia transit times, and the infrastructure necessary to quickly move cargo to the U.S. Midwest.

International & Domestic Trade

The NWSA is the fourth-largest gateway for containerized cargo in North America, focused specifically on shipping between Asia and major distribution points in the Pacific Northwest, Midwest, Ohio Valley and the East Coast.

The NWSA is also a major center for bulk, breakbulk, project/heavy-lift cargoes, automobiles and trucks. The NWSA's terminals are located near the second-largest concentration of distribution centers on the West Coast.

Top international trading partners include:

- China/Hong Kong
- Japan
- Republic of Korea
- Vietnam
- Taiwan
- Thailand
- Indonesia
- Philippines
- Malaysia

The value of this two-way international trade totaled more than \$74.9 billion in 2019. Imports were \$59.4 billion and exports were \$15.4 billion.

The Puget Sound is the major cargo gateway to Alaska. More than 80 percent of the total trade volume between Alaska and the lower 48 states moves through the Tacoma and Seattle harbors. Trade with Alaska was estimated at \$5.4 billion in 2018. If it were ranked with the NWSA's international trading partners, Alaska would be fourth. The NWSA also provides connections to Hawaii.

Port of Seattle & Port of Tacoma

The Port of Seattle was created September 5, 1911, in an effort by citizens to ensure public ownership of the Seattle harbor. The Port of Seattle was the first autonomous municipal corporation in the United States specifically tasked to develop harbor and port facilities to encourage commerce. The Port opened Fishermen's Terminal in 1914, its first warehouse in 1915 and began working on the creation of Harbor Island.

The Port of Tacoma was created on November 5, 1918, by the citizens of Pierce County to create job opportunities through trade, as well as in the economic development of Pierce County and the state of Washington.

The Port of Seattle and the Port of Tacoma's geographic boundaries lie within King and Pierce counties, respectively. They are situated on Elliott and Commencement bays in Puget Sound. Because of this strategic location, they offer efficient connections to sea, rail, highway and air transportation networks.

The NWSA ranks among the world's top 50 container gateways with some of the industry's largest container shipping lines calling the Puget Sound. Seventeen international and four domestic shipping lines make regular service calls to the NWSA. The alliance also handles breakbulk, bulk, and auto shipping lines.

Shipping lines have been attracted to the Pacific Northwest because of its proximity to markets for trade, an experienced labor force, natural deep water, available land for expansion, excellent on-dock rail facilities and inland rail service. Rail service is

provided by the BNSF Railway and the Union Pacific Railroad. Currently, approximately 50% of the NWSA import cargo moves out via rail. Excellent highway access is provided via Interstate 5 and Interstate 90.

Through July 2020, the two ports handled about \$35.4 billion of trade. Based on dollar volume, China (including Hong Kong) is the NWSA's largest trading partner. Other leading trading partners include Japan, Vietnam Republic of Korea, and Taiwan.

As the "Gateway to Alaska," the NWSA handles about 3.4 million tons of domestic cargo shipped between the two states annually. Matson, TOTE Maritime Alaska, Northland and Alaska Marine Lines are major shipping lines serving Alaska from the NWSA. Matson also provides service to Hawaii.

The NWSA is both a landlord and an operating organization. The NWSA's maritime marketing efforts focus on attracting cargo and additional shipping lines to its facilities. The NWSA also works with charter shippers and others to move their cargoes through both NWSA and customer-operated facilities in Puget Sound.

The NWSA is a major auto import and processing center, handling vehicles for Kia, Mazda, and Mitsubishi. The Port of Tacoma has a separate facility that processes vehicles from Nissan and Volvo

Additionally, many of the two ports' efforts are focused on industrial development and real estate. They each work to attract major manufacturing and warehouse/distribution centers to King and Pierce counties.

King and Pierce Counties

King and Pierce counties are the first and second most populous metropolitan areas in the state of Washington. The two counties represent a combined population of approximately 3.1 million or 41% of the population of the state of Washington.

Located about halfway between the Oregon and Canadian borders, King and Pierce counties cover 3,916 square miles.

Ports Economic Impact

In 2019, the ports of Tacoma and Seattle announced the results of a joint economic impact study for the

NWSA and the two seaports. The ports serve as a major economic engine for Pierce County, King County, and the state of Washington, creating thousands of family-wage jobs and serving as a catalyst for economic development.

According to the study, in 2017 the two ports' marine cargo activities are related to 58,400 jobs in Washington state that contribute \$12.4 billion in total business output. The two ports' cargo-handling, and leasing activities generate more than \$136 million annually in local and state taxes in Washington.

NWSA Facilities and Services

The ports have licensed to the NWSA facilities related to maritime commerce, including facilities for containerized cargo, automobiles, logs, breakbulk cargo, heavy-lift cargo and project cargoes, as well as intermodal rail terminal operations.

The NWSA's four major waterways – two in Seattle and two in Tacoma – provide 33 ship berths on waterways that are about 51 feet deep. The NWSA facilities are located near I-5 and I-90, allowing access to the Puget Sound market and beyond.

BNSF Railway and the Union Pacific Railroad serve the NWSA's nine on-dock and near-dock intermodal rail yards. The NWSA's intermodal rail facilities help save shippers and shipping lines both time and money.

In Tacoma, Tacoma Rail, a division of Tacoma Public Utilities, provides switching and terminal rail service. Arrival and departure tracks help ensure efficient and reliable access to the mainline railroads.

See Figures 1-1 and 1-2 for an overview of The Northwest Seaport Alliance facilities located in Seattle and Tacoma, respectively.

The Northwest Seaport Alliance governance

The NWSA is a separate governmental entity established as a Port Development Authority (PDA), similar to Public Development Authorities formed by cities and counties. In 2015, the ports successfully sought and received an amendment to Washington law RCW 53 that allows the ports of Tacoma and Seattle to form a PDA for management of maritime activities.

The NWSA is governed by the two ports as equal members, with each port acting through its elected commissioners. Each Port Commission is a Managing Member of the NWSA, with each Managing Member being represented by its Port Commission. Votes by the Managing Members require a simple majority from each commission.

Each port remains a separate legal entity, independently governed by its own elected commissioners. Each port has granted to the PDA 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.

The ports remain responsible for their own debt and debt service; the PDA will not borrow funds.

The ports set up an initial 50/50 investment in the PDA; operating income is reported monthly and cash is distributed back to the ports at least quarterly. The PDA has its own annual operating budget and five-year capital investment plan.

The ports contribute to capital construction subject to Managing Members approval; capital funding does not come from working capital.

NWSA Managing Members

The Managing Members are the commissions for each of the two ports. The citizens of Pierce and King counties each elect a five-member Port Commission to govern the ports of Tacoma and Seattle. Each Commission seat is elected every four years, on a staggered basis.

The Managing Members are the final authority for approval of the NWSA's annual budget, long-term leases, policies, long-range development plans, and all construction projects and spending in amounts exceeding the authority of the Chief Executive Officer.

The members of the commissions at the time of this publication are:

Port of Seattle

- Stephanie Bowman
- Ryan Calkins
- Sam Cho

- Fred Felleman
- Peter Steinbrueck

Port of Tacoma

- Kristin Ang
- Deanna Keller
- Dick Marzano
- John McCarthy
- Don Meyer

NWSA Managing Members Meetings

Managing Member meetings are open to the public and are held at various locations in both King and Pierce counties.

For the location and agenda for upcoming Managing Member meeting, as well as minutes for previous Managing Member meetings, you can visit the website at www.nwseaportalliance.com.

The NWSA streams all Managing Member meetings live on the website and are archived for future viewing.

Citizens may contact the Managing Members by calling 800-657-9808. Correspondence may be mailed to:

The Northwest Seaport Alliance
P.O. Box 2985
Tacoma, WA 98401-2985

Organizational Structure

The NWSA's daily operations are led by the Chief Executive Officer and the NWSA Executive Team. See the Organizational Chart (Figure I-3 on page I-8).

Executive Team

The Executive Team is comprised of the following positions:

- Chief Executive Officer (CEO)
- Two Deputy CEO's
- General Counsel
- Chief Commercial and Strategy Officer

- Chief Financial Officer
- Chief Operations Officer
- Director of Engineering
- Director of Environmental Programs
- Senior Manager for Government Affairs
- Senior Manager for Communications

The Executive Team oversees all business activities and departments, and with the Managing Members, provides long-term strategic direction. The Executive Team ensures compliance with all regulations relevant to NWSA and port activities, including public meetings and information, environmental protection, labor relations, procurement, security, financial management and other issues. The Chief Operations Officer, Director of Engineering and Director of Environmental Programs provide day to day management of some port staff working on both Port and NWSA related items.

Commercial Group

Led by the Chief Commercial and Strategy Officer, the Commercial Group is comprised of the Business Development team, the Marketing & Business Services Team, and the Real Estate team.

Business Development: International and domestic container, breakbulk, and bulk cargo are core business segments for the NWSA. The Business Development team is responsible for cargo and terminal business development and management, and customer service for these cargoes. The Business Development team plays an important role coordinating efforts with the entire supply chain, including customers, terminal facilities, rail roads, and trucking companies. This team pursues and implements operational improvements to enhance overall efficiency at the NWSA's terminals.

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 key assets and are

an integral part of the NWSA business. Relationship management with Tacoma Rail, BNSF and Union Pacific (UP) and other rail stakeholders are key functions of this team.

While a significant portion of the Business Development team is focused on the container and associated intermodal business, the NWSA has a robust non-container business. Comprised of breakbulk (Roll On and Roll Off also known as RoRo), bulk and auto cargoes, these non-container businesses make a significant contribution to revenue and further diversify the gateway's business portfolio. Additionally, the NWSA's Tacoma Harbor is designated as a strategic military port for transport of military cargoes.

Auto customers of the NWSA include Kia, Mazda, Nissan, Volvo and Mitsubishi. Auto Warehousing Company (AWC), a tenant, is the largest auto processor on the U.S. West Coast and the Port of Tacoma has a separate auto facility with its tenant, Wallenius Wilhelmsen.

Exports of petroleum products and molasses add to the diversified cargo mix.

The NWSA offers competitive rates and full service to all customers. To help facilitate and grow business, the NWSA has trade and business development representation in Alaska, New Jersey, Japan, Hong Kong, China, Vietnam, and Korea.

Marketing and Business Services Team: This team supports the Business Development team and is responsible for research, data analysis, advertising and marketing activities. This team also manages and administers the NWSA tariff. It also supports the goals of the Commercial Group by providing strategic market research and business intelligence, cargo volume tracking and forecasting.

Real Estate Team: Non-terminal industrial and commercial properties and facilities in the Seattle and Tacoma harbor are included in the assets assigned to the NWSA. These properties are a significant source of revenue for the NWSA. Real estate personnel are responsible for leasing, divesting and managing the Port's real estate portfolio.

Located in an industrial zone with room for growth, tenants offer a broad range of services for the

NWSA's international and domestic customers including warehousing and distribution, manufacturing and marine services.

Operations Group

The Operations Group is responsible for the daily operations of NWSA facilities at both ports.

The Operations Group provides coordination with vessel arrivals and departures, and with the associated stevedores. The Operations group orders and manages labor at the North Intermodal Yard and other locations in Tacoma, and is also responsible for customer service. The major focus of this department is to ensure the proper processing of all vessels and freight shipments moving through the Puget Sound gateway.

The Operations Department, in conjunction with Tacoma Rail, is responsible for rail service delivery at the Tacoma Harbor intermodal yards. This department also operates the North Intermodal Yard, and is the only port on the U.S. West Coast with dedicated rail services personnel. Both harbors offer competitive rail service via BNSF Railway and the UP Railroad, and are a major gateway for handling discretionary cargo destined for the Midwest.

Support Services

Support services such as maintenance, security, government affairs, communications, engineering, environmental programs, planning and financial services are provided by NWSA staff and / or service agreements between the alliance and the two ports. Costs for these services are charged by the ports to the alliance based on agreed upon methodologies including direct charge and purchased services.

Commitment to Fiscal Stewardship

The NWSA is intended to support the credit profiles of both ports, and its financial framework is intended to preserve both ports' commitment to financial strength and fiscal stewardship.

Both ports have a solid track record of prudent financial management and strong financial results, including solid debt service coverage and ample liquidity balances.

The ports are committed to ensuring that existing bond pledges and covenants will not be negatively affected. Outstanding bonds will remain obligations of each individual port.

To maintain the rights of each port's existing bondholders, the charter prohibits the NWSA from issuing debt.

Figure I-1.... Northwest Seaport Alliance Facilities – Seattle Harbor

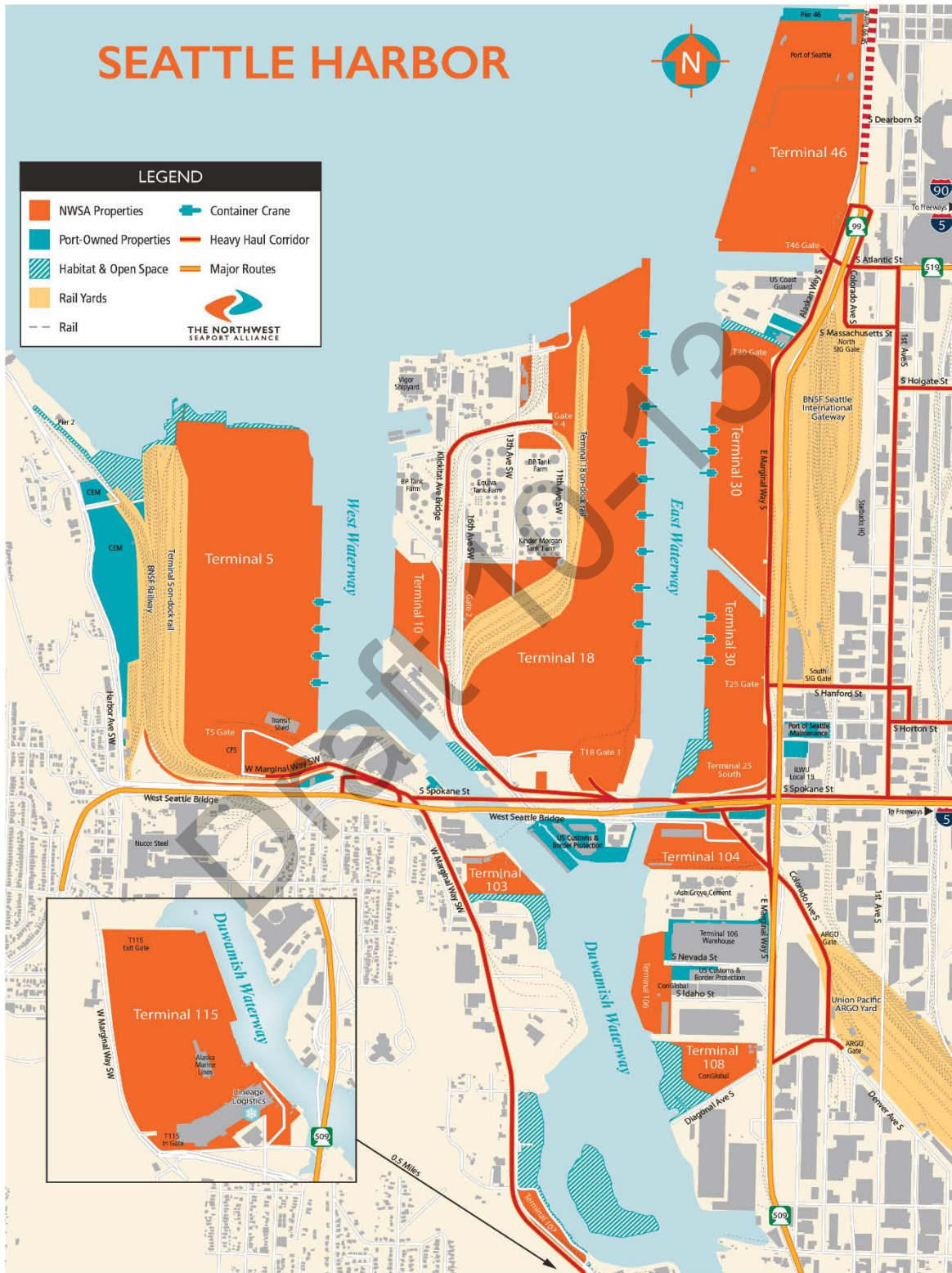


Figure I-2.... Northwest Seaport Alliance Facilities – Tacoma Harbor

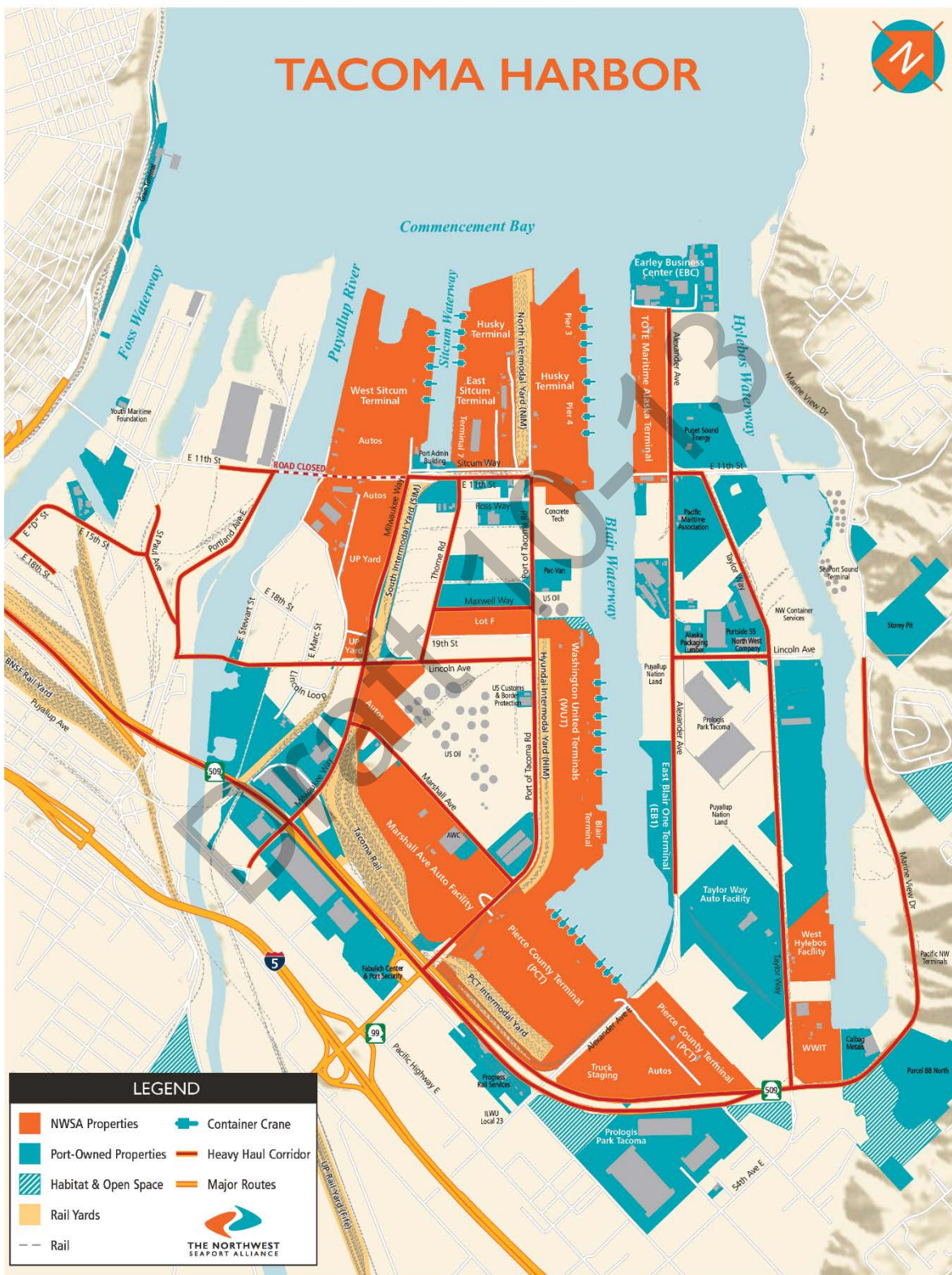
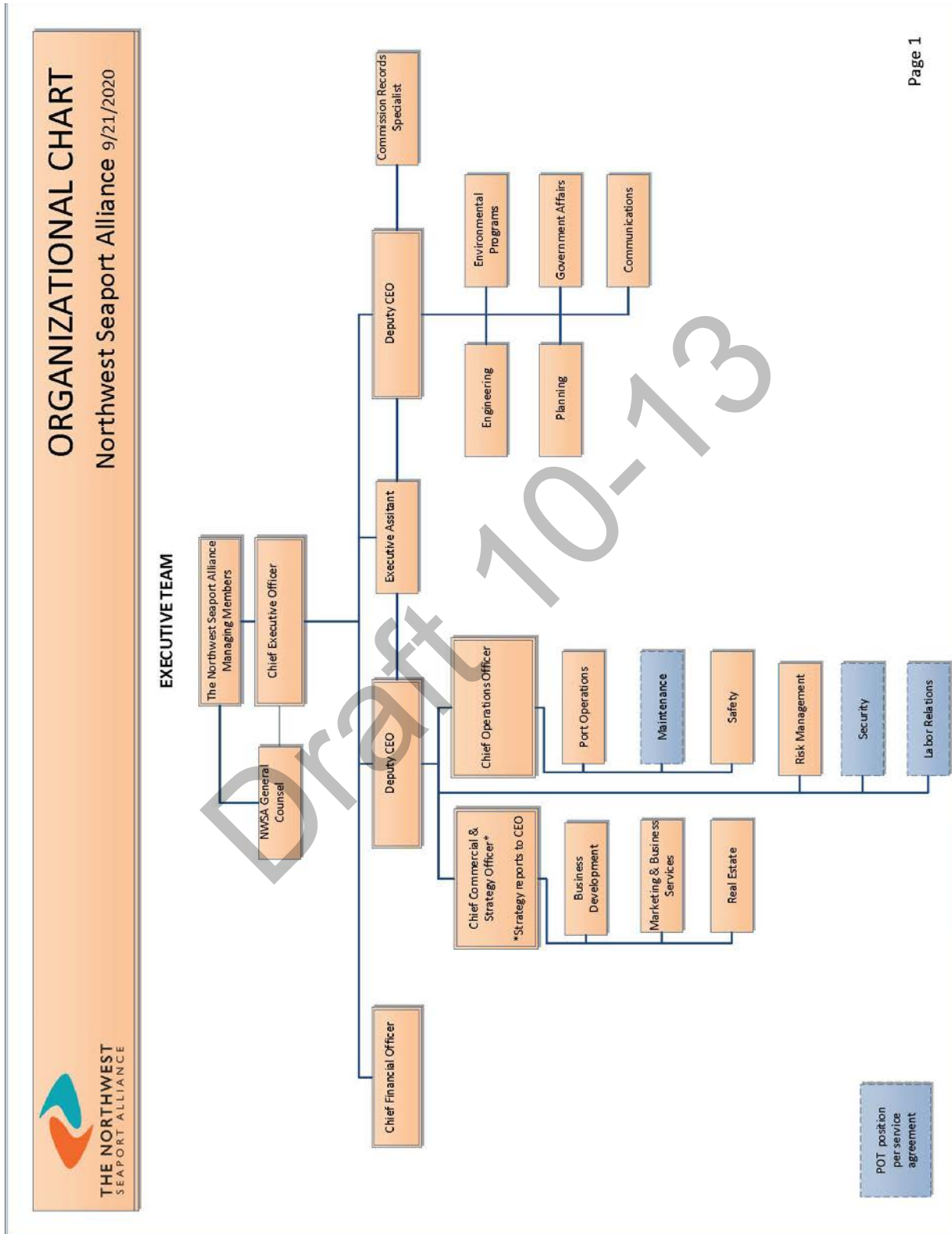


Figure I-3.... The Northwest Seaport Alliance Organizational Chart



II 2021 The Northwest Seaport Alliance Budget Message

NWSA Goals

The NWSA has identified seven strategic initiatives to maintain and grow the maritime business in the Puget Sound. The seven high level strategic initiatives, and supporting priorities are:

1. **Business Development and Commercial Initiatives**

- a. Complete redevelopment of Husky Terminal and Pier 4 in the Tacoma Harbor to increase container throughput and respond to container industry changes
- b. Complete modernization of T5 dock, berth and power infrastructure in the Seattle Harbor to meet future container industry demand, increase throughput, and position The Northwest Seaport Alliance gateway strategically
- c. Maximize gateway cargo potential and diversification and enhance supply chain networks

2. **Gateway Operations**

- a. Enhance cargo and transportation (waterway, roadway and rail) visibility within the gateway to drive improved service delivery
- b. Enhance and improve service delivery key performance indicators (KPIs) with a move toward real-time reporting and analytics
- c. Support Port-area infrastructure investments that support the efficient flow of cargo to and from NWSA facilities
- d. Design and develop appropriate rail support infrastructure in coordination with Tacoma Rail and the Class 1 railroads

3. **Financial Performance**

- a. Effectively Manage Operating Activities to Deliver Expected Financial Results

4. **Environmental Stewardship**

- a. Effectively Manage and monitor the clean truck and clean air strategies and pursue improvements that support the green gateway strategy
- b. Continued focus on water quality at NWSA and tenant run facilities
- c. Develop and implement a green gateway communications strategy

5. **Government Affairs**

- a. Continue to pursue Harbor maintenance tax reform
- b. Support establishment of a Federal West Coast port competitiveness strategy

6. **Planning and Logistics**

- a. Continue engagement in regional transportation and land use planning
- b. Complete a facilities infrastructure plan
- c. Leverage grant opportunities to fund strategic cargo facilities and infrastructure
- d. Support harbor deepening and maintenance dredging in both harbors

7. **Planning and Logistics**

- a. Engage and participate in Diversity, Equity and Inclusion (DEI) training
- b. Continue development and implementation of applications that enhance the business and provide a competitive advantage

Budget Environment

The NWSA operates principally in two industries: terminal services and property rentals. Terminal services involve marine-oriented services including dockage, cargo-handling, storage and related activities. Property rentals include facilities and land used for container terminals, industrial activities, and storage.

As described in further detail in Section III, increased competition from Canadian ports as well as ports located on the U.S. West, Gulf and East coasts, have resulted in reduced cargo through the Puget Sound gateway. The expansion of the Panama Canal has made the all water route to the Gulf and East coasts more attractive for cargo owners. Due to decreased demand for terminal space, competition among ports for container business has increased.

The ports of Seattle and Tacoma responded to these conditions by reducing costs and focusing on the needs of our current customers. NWSA staff continue to review both harbor's physical assets to rationalize the facilities and reduce costs where possible.

Revenues

GASB 87: The NWSA has adopted the new accounting standard for leases known as GASB 87 for 2020. Accordingly, a significant amount of revenue has moved from Lease income in Operating Revenue to Lease Interest Income which is included in non-operating revenue. Prior years have not been restated. Year over year comparisons are impacted by the adoption of GASB 87.

The NWSA has both fixed and variable revenue streams. The majority of NWSA's revenue comes from fixed revenue streams, primarily from leased properties. The leased properties are mainly container terminals, buildings, and industrial and commercial land. The NWSA's container terminal leases with shipping carriers can last 20 years or longer depending on carrier requirements. Building and land leases with more than one-year remaining are considered fixed. Minimum crane hours and minimum intermodal lift requirements specified in certain terminal leases are considered fixed.

The balance of NWSA revenue comes from variable services provided to customers. These services

include intermodal lifts for rail car loading above minimums and per unit charges for automobile unloading and breakbulk cargo. Variable revenues also include equipment rental on an hourly basis for crane hours above minimums and straddle carriers used by terminal leaseholders and month to month building or land leases.

2021 Budget

The NWSA has developed an overall operating budget with projected revenue of \$141.7 million net of the GASB Adjustment (\$192 million gross). Operating income is budgeted to be \$48.0 million, resulting in an operating margin of 33.9 percent (reduced from prior years due to GASB 87). The NWSA net distributable revenue of \$83.7 million, which includes grant and interest income and the GASB 87 Interest. Distributable Cash of \$103.7 million will be distributed evenly between the two home ports. Each port's portion of net income will be included as revenue in their financial reports.

NWSA financial performance reflects the investments it is making to successfully complete our customer commitments while meeting the NWSA financial goals. The operating and capital budgets are based on the cargo forecast in Section III.

Capital Investment Plan Highlights

NWSA projects for the next five years reflect a focus on strategic container terminal development in both harbors. With this focus the NWSA has reviewed potential assets for revenue generation to ensure that financial and economic growth goals are met.

Major 2021 – 2025 capital projects include the following:

Seattle Harbor

- T-5 wharf redevelopment, including a rail quiet zone and electrical upgrades in the City of Seattle's substation.
- T-18 dock rehabilitation and stormwater improvements;
- T5 stormwater treatment improvements

Tacoma Harbor

- Husky berth dredge and tenant improvements including shore power

- WUT and PCT fender system replacements
- Ongoing maintenance of facilities

Both Harbors

- Clean air and stormwater investments;
- Investments in numerous environmental remediation and mitigation projects.

The NWSA's 2021 Capital Investment Plan of \$125.3 million represents the first year of the NWSA's 2021-2025 CIP – a package totaling \$387.1 million in new projects and investments. See Section V for additional details on the Capital Investment Plan.

Financial Measures

Financial measures for the NWSA have been developed to monitor financial performance. The two measures are (1) Net Distributable Cash and (2) Return on Revenue. These measures help ensure that the NWSA is providing the necessary financial performance required by each home port.

Legislative Impact

Transportation Funding

The NWSA relies on an efficient and well-maintained road and rail network to ensure the smooth movement of cargo to and from its facilities. The Washington Legislature made a significant commitment to infrastructure in 2015, passing a 16-year, \$16 billion statewide transportation package. An estimated \$3.3 billion of those funds will be invested in projects benefiting NWSA terminals.

In 2015 Congress passed the FAST Act, a surface transportation authorization bill that established a new freight funding program. In its Fiscal Year 2019 spending bill, Congress appropriated \$292 million for a port-dedicated infrastructure funding program. Prior to these bills, few federal investment tools have been available to ports and other local government when it comes to freight infrastructure. The new program could assist the NWSA in making strategic investments in mission-critical freight infrastructure, such as marine terminals, roads and rail.

Shorepower Infrastructure Funding

Both the ports of Tacoma and Seattle have provided shorepower at some berths. The NWSA continues to

pursue additional opportunities to leverage public and private funding for additional shorepower installations, and ensure terminal designs include shorepower capability. Some of these opportunities include Diesel Emission Reduction Act (DERA), State and Federal Volkswagen Settlement (VW) funding, and TransAlta Centralia Coal Transition Grant funds, along with other emerging sources of state funding.

As part of this effort the NWSA has developed a plan for shore power installations throughout the gateway. The NWSA has accepted a DERA grant from the EPA that would contribute \$1 million to the installation for shore power at Husky Terminal, with design underway and construction planned for 2021. The NWSA also received \$1 million from the TransAlta Transition grant funds, and \$1.1 million in state Volkswagen settlement funds to support the Husky shorepower project. This would allow vessels at this Tacoma Harbor berth to shut their engines off and plug into the local electrical grid for their energy needs.

The expansion of shore power capabilities is consistent with the NWSA Strategic Plan and Northwest Ports Clean Air Strategy to reduce particulate emissions and greenhouse gases.

Navigation Improvement Projects

The largest container vessels calling West Coast ports today have over two times the capacity of those that called just five years ago. To remain a competitive trade gateway, the NWSA is taking steps to upgrade our infrastructure to handle these ships. One such step involves the deepening of the navigation channels that serve its facilities. In 2018, the U.S. Army Corps of Engineers completed a Chief's Report recommending deepening in specific areas adjacent to the NWSA's container terminals in the Seattle Harbor. Congress subsequently authorized the project in the 2018 Water Resources Development Act, and design funds were approved in the Corps' FY20 Work Plan. While channels are mostly -51 feet or deeper, some shallower spots present navigational and safety challenges. The recommendation is to deepen the east and west waterway in the Seattle Harbor to -57 feet MLLW. This will allow the NWSA to handle fully laden ships larger than 18,000 TEUs. Deepening channels to this depth will require a local financial match of federal

dollars, which could come from several sources, including the potential for a contribution from the NWSA.

Additionally, the NWSA in 2018 signed a feasibility cost-sharing agreement with the Corps to initiate a feasibility study of navigation improvements to the Blair Waterway at the Port of Tacoma. The study is almost complete, and in May the project passed the Agency Decision Milestone, in which the Corps' Northwest Division approved the proposed plan to deepen the Blair to -57'. Additional study of this plan will take place over the next several months, and a Chief's Report (comparable to the one referenced above in Seattle) is scheduled to be issued in June 2021. The alliance has contributed approximately \$1.5 million over the course of the three-year study, amounting to half of the study's costs.

Harbor Maintenance Tax (HMT)

The HMT is assessed on ocean-going international imports that land at U.S. ports to pay for maintenance dredging of waterways through the HMT Trust Fund. It is not, however, assessed on importers who route cargo through non-US ports and afterwards move the cargo into U.S. markets by land. Moreover, the NWSA has received little, if any, benefit from the fund because its facilities are located on natural deep-water harbors that do not require significant maintenance dredging. Since 1986 the ports of Seattle and Tacoma have sought reform of the HMT to provide a greater return to donor ports, such as the NWSA, and to ensure U.S. tax code does not disadvantage U.S. ports and maritime cargo.

The Water Resources Reform and Development Act (WRRDA) passed by Congress in 2014 included language that, for the first time in 30 years, partially reformed the federal Harbor Maintenance Tax to the betterment of Puget Sound ports. The bill authorizes

up to \$50 million to be distributed to a select group of donor ports and energy transfer ports. The funds can be used for berth maintenance, the navigation-related maintenance dredging and disposal of contaminated sediments, environmental remediation, or rebates to importers. Congress appropriated \$50 million in donor and energy port funding in FY20. This summer U.S. Customs and Border Protection and the U.S. Army Corps of Engineers finally implemented the customer rebate program authorized under Section 2106 of WRRDA 2014 and checks to top NWSA importers were issued in summer 2020.

Conclusion

The realities of the drastic changes in the global economy have led all ports to examine business and operational strategies.

The NWSA is focused on maximizing the use of existing facilities, working with existing customers to keep them competitive and successful, and making strategic infrastructure investments such as the construction of world class terminals in both harbors that position the gateway for long-term growth. Through coordinated investments in maritime assets, the NWSA will help ensure growth in the cargo flow through the Puget Sound.

The NWSA is placing increased emphasis on the importance of developing and strengthening relationships with labor partners, industry stakeholders, customers, local, state and tribal governments and near-port communities in a collaborative effort to achieve the future vision of the NWSA. This vision must include the road and rail infrastructure that ties the whole system together.

Despite the challenging realities of today's global economy, NWSA management is confident that the plans outlined in this budget will help the gateway remain financially strong, competitive and successful.

III Business Outlook

U.S. Economy

Real gross domestic product (GDP), defined as the value of the production of goods, was -31.7 percent in the second quarter of 2020 and -4.8 percent in the first quarter of 2020, two quarters of negative GDP put the economy in recession. The Department of Commerce Bureau of Economic Analysis (BEA) said, "The decline in second quarter GDP reflected the response to COVID-19, as "stay-at-home" orders issued in March and April were partially lifted in some areas of the country in May and June, and government pandemic assistance payments were distributed to households and businesses. This led to rapid shifts in activity, as businesses and schools continued remote work and consumers and businesses canceled, restricted, or redirected their spending. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the second quarter of 2020 because the impacts are generally embedded in source data and cannot be separately identified."

TTX has real GDP at -32.9 percent in Q2 2020 and expects 2020 GDP to be -5.8 percent. Moody's Analytics projects GDP will not return to pre-COVID-19 levels until early 2022. TTX notes that the second half of 2020 is difficult to predict:

- Will COVID-19 resurge and when will there be a vaccine?
- Will the trade war escalate?
- How long will it take before jobs lost due to the pandemic to return?
- How many businesses forced to close are closed permanently?

The U.S. unemployment rate was at 8.4 percent in August 2020 with 1.4 million jobs added for the month. Most job gains in August occurred in retail trade, in professional and business services, in leisure and hospitality, and in education and health services.

According to the National Association of Realtors, pending and existing home sales are up 15.5 percent and 8.7%, respectively, from a year ago. According to

Lawrence Yun, NAR's chief economist, "The housing market is well past the recovery phase and is now booming with higher home sales compared to the pre-pandemic days. With the sizable shift in remote work, current homeowners are looking for larger homes and this will lead to a secondary level of demand even into 2021."

The Conference Board reported August Consumer Confidence Index at 84.8, down from 91.7 in July. According to the Conference Board's Senior Director of Economic Indicators Lynn Franco, "The Present Situation Index decreased sharply, with consumers stating that both business and employment conditions had deteriorated over the past month. Consumers' optimism about the short-term outlook, and their financial prospects, also declined and continues on a downward path. Consumer spending has rebounded in recent months but increasing concerns amongst consumers about the economic outlook and their financial well-being will likely cause spending to cool in the months ahead."

Between 2019 and 2021 many importers declared bankruptcy, with some closing for good and other reorganizing. In addition, many stores, particularly retail, have announced major layoffs and furloughs. The travel and leisure industry, restaurants and retailers have been strongly impacted by the pandemic as layoffs and declining confidence has caused consumers to reduce spending.

Shipping Industry

The global COVID-19 pandemic has impacted economies around the world and contributed to erratic swings in global container volumes over the first three quarters of the year. As noted above, economic shutdowns around the world in the spring to limit the spread of the virus fueled global unemployment and stifled both production and consumer spending. In response to the decrease in demand, container shipping lines removed cellular capacity from the global container trades by blanking, or cancelling, scheduled sailings to consolidate volumes on fewer ships and reduce operating costs. Equitable freight rates through effective capacity management and additional revenues and bunker surcharges calculated based on higher than actual cost for low-

sulfur fuel oil helped most international carriers realize a profit through the first half of the year.

Many retailers postponed or cancelled consumer goods orders with overseas suppliers in the spring in response to the COVID outbreak. The second half of 2020 saw a significant rebound in consumer demand as the US economy re-opened. Inventory replenishment and a surge in e-commerce orders have contributed to record-breaking import volumes, tight capacity and record slot costs for shippers on the China to US West coast trade lane, despite the introduction of additional ships and premium services to handle the higher volumes. Carrier financials should continue to improve assuming no additional shutdowns due to the pandemic and continued effective capacity management.

In response to the US-China trade war and the pandemic, many importers have accelerated efforts to shift sourcing and production to countries in SE Asia or use a "China + X" strategy to diversify the risk associated with being solely reliant on China. There has been a corresponding increase in manufactured imports from Vietnam and other SE Asian economies. In many cases, origin and transshipment ports in SE Asia are geographically closer (and transits shorter) to the US East Coast, which may cause a partial shift of Asia import volume away from west coast ports.

The ordering of ultra large vessels continues. The top nine ocean carriers have 86 vessels of over 10,000 TEUs on order, equaling a capacity of 1.47M TEUs, with expected delivery through 2023.

In 2020, the composition of carriers that make up the various shipping alliances shifted slightly with HMM joining THE Alliance.

- 2M+Z – Maersk, MSC, ZIM
- Ocean Alliance – CMA CGM, APL, COSCO Shipping, Evergreen, OOCL
- THE Alliance – Hapag Lloyd, Yang Ming, Ocean Network Express (ONE), HMM

Major Independent Carriers – Hamburg Sud and SM Line.

Alliances have concentrated capacity in fewer hands allowing ocean carriers to exercise greater control over capacity on major trade lanes through

coordinated changes to vessel sailings, schedules, and transit times. THE Alliance introduced fewer services with larger vessels in the PNW this year. There has also been further consolidation within the trans-Pacific (TP) trade due to the exit of some established carrier brands. APL, a subsidiary of CMA-CGM, announced that it would withdraw to focus exclusively on servicing the US government and its service on the Guam-Pacific trade. PIL, based in Singapore and another trans-Pacific stalwart, will refocus energy on building business in the North-South trades.

Northwest Seaport Alliance Activity

Containers:

Through August 2020, the NWSA has handled over 2.1 million TEUs (twenty-foot equivalent units), a 17.6 percent decrease year-to-date. Year-over-year volume comparisons are clouded by inflated shipping activity in the preceding year when shippers moved cargo ahead of tariffs, particularly on imports from China. Furthermore, current year volumes have been negatively impacted by a significant increase in blanked sailings as carriers removed capacity to align with a decline in consumer demand resulting from the COVID-19 pandemic and the subsequent economic downturn. On the domestic side, the Alaska container market was negatively impacted by the cancellation of the 2020 cruise season. The Hawaii market has been flat.

Container volume is projected to increase next year as the market recovers, however a second surge of COVID-19 would have negative impacts. Factors that could also impact NWSA international volumes include competition from ports in British Columbia, Canada, and other North American gateways or a possible decline in global trade and the global economy resulting from U.S. and international tariffs and trade policy.

Domestic container volume, which accounts for almost 20 percent of total NWSA volume, would be negatively impacted if the 2021 cruise season were delayed or if the economy were to falter again.

Breakbulk:

Breakbulk cargo is comprised of commodities that are either too large or heavy for containerized shipment. In the case of The Northwest Seaport Alliance, this consists largely of building materials, heavy machinery, boats, and agricultural and construction equipment. For 2020, total breakbulk tonnage (both harbors) is estimated to reach approximately 277 metric tons. Volume is forecasted to be 263K metric tons in 2021 with both the trade war and COVID-19 pandemic having negative impacts.

Autos:

NWSA/POT auto units for 2020 are forecasted to be 134K units, down from the previous year. 2020 volumes were impacted by the down economy. If the economy stabilizes, we should see growth in 2021.

Logs:

The Log business was suspended due to the tariffs and has not been included in the 2020 through 2025 forecast or budget.

Molasses & Petroleum:

Petroleum volumes are forecasted to be 637K metric tons in 2020 and essentially flat thereafter.

Molasses volumes are forecasted to be 46K metric tons in 2020 and essentially flat thereafter.

Table III-1.... Cargo Activity Five-Year Forecast

	Actual					Forecast					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Non-Container Forecast (Thousands of Metric Tons)											
Breakbulk	234	181	211	249	246	277	263	273	277	282	287
Autos	271	246	225	228	306	189	207	222	226	231	235
Logs	237	177	278	117	76	0	0	0	0	0	0
Petroleum	815	612	716	666	636	637	637	637	637	637	637
Molasses	44	44	36	46	47	46	46	46	46	46	46
Total Tonnage	1,601	1,261	1,465	1,305	1,311	1,150	1,152	1,178	1,187	1,196	1,205
<i>Year over Year change</i>	-13%	-21%	16%	-11%	0%	-12%	0%	2%	1%	1%	1%
Container Forecast (Thousands of TEUs)											
International	2,761	2,859	2,995	3,111	3,058	2,536	2,873	2,930	2,992	3,053	3,115
Domestic	769	757	707	686	717	670	698	707	713	718	724
Total TEUs	3,530	3,616	3,702	3,798	3,775	3,206	3,571	3,637	3,704	3,771	3,839
<i>Year over Year change</i>	3%	2%	2%	3%	-0.6%	-15.1%	11.4%	1.9%	1.8%	1.8%	1.8%
Intermodal Yard Lifts*											
Hyundai Intermodal Yard	132,655	172,901	115,858	112,731	124,778	97,729	106,828	90,170	91,072	91,983	92,903
North Intermodal Yard	227,051	226,329	194,502	177,380	178,205	124,840	143,465	162,625	164,251	165,894	167,553
South Intermodal Yard	90,531	84,068	87,659	99,954	86,271	80,154	82,169	82,992	83,824	84,662	85,509
Pierce County Intermodal Yard	81,581	92,270	75,581	62,959	71,310	49,113	57,900	58,479	59,064	59,654	60,251
Total Intermodal Lifts	531,818	575,568	473,600	453,024	460,564	351,836	390,362	394,267	398,211	402,193	406,215
<i>Year over Year change</i>	3%	8%	-18%	-4%	2%	-24%	11%	1%	1%	1%	1%
Log Board Feet	41,679,250	24,921,280	52,706,190	23,161,000	15,192,000	0	0	0	0	0	0
<i>Year over Year change</i>	-17%	-40%	111%	-56%	-34%	-100%	0%	0%	0%	0%	0%
Vehicle Units (NWSA+POT)	183,305	165,687	146,885	146,147	191,822	134,429	182,961	198,353	202,284	206,293	210,381
<i>Year over Year change</i>	4%	-10%	-11%	-1%	31%	-30%	36%	8%	2%	2%	2%

* Intermodal Lifts Reported for South Harbor only

IV Operating Budget

Overview

The NWSA operating budget revenue is based on cargo volume forecasts (see Table III-1, page III-4), existing terminal and property leases and contractual and tariff-generated revenue. Operating budget expenses were projected based on historical information, as well as levels of expenditures required to support the increases in revenue.

From this information, NWSA staff prepared a realistic budget that supports both the strategic priorities and financial goals of the NWSA.

Departmental budgets estimate the expenses that will be generated in support of the NWSA and its businesses. Expenses fall into one of five categories: Administration, Operations, Security, Environmental or Maintenance. Administration expenses are incurred in the day-to-day management of the NWSA. Operations and Maintenance expenses support the day-to-day management of business activities. Security support is provided by each home port. Environmental expenses are a subset of overall environmental spending, and include clean air and clean water activities, and close coordination with each home port on compliance and monitoring activities.

Business budgets are projections of revenues earned and expenses incurred in the operation of a particular business line. In addition, the NWSA expects to receive funds from other sources including user fees, and investment earnings.

Although capital project spending is planned within the capital budget, capital projects will impact operating budgets for future years through new sources of revenues and increased operating expenses and depreciation costs.

Nature of Business

Washington law authorizes ports to provide and charge rents, tariffs and other fees for docks, wharves and similar harbor facilities, including associated storage and traffic-handling facilities for waterborne

commerce. Ports also may provide freight and passenger terminals and transfer and storage facilities for other modes of transportation, including air, rail and motor vehicles. Finally, ports may acquire and improve lands for sale or lease for industrial or commercial purposes and may create industrial development districts.

The NWSA is a joint venture that operates with the two ports as enterprise funds, allowing the NWSA and the ports to operate in much the same manner as a private business. Operating revenues are comprised of charges to its customers to cover costs associated with the service provided and to support investment in future projects.

Balanced Budget

Based on the Government Finance Officers Association (GFOA) Recommended Budget Practices, a balanced budget "is a basic budgetary constraint intended to ensure that a government does not spend beyond its means."

The NWSA defines "balanced budget" in the following way: Total revenues are sufficient to cover operating expenses for the budget year and to offset the cost of capital investments (depreciation) and anticipated debt costs for any planned future capital investments.

Budget Process

The NWSA budget is a guideline used by management to direct strategic and tactical operations. Typically, more projects and spending are budgeted than may actually occur. This conservative approach ensures that the NWSA's financial goals are still met if business conditions support the full budgeted spending.

The NWSA operates on a calendar year budget cycle that must integrate the budget schedule needs of both home ports. The operating budget and the capital budget are the NWSA's plan for meeting the current needs of its customers, and for implementation of the strategic goals.

The annual budget development begins in June and continues through November. The process begins with the development of strategic objectives and initiatives, which are reviewed by the Managing Members and the Chief Executive Officer. The Managing Members and Chief Executive Officer communicate any strategy changes or policy concerns and gather additional input.

Cargo forecasts, available at the beginning of the budget process, are used to develop the variable portion of the operating budget. During a study session, the Managing Members are presented with a draft budget.

In November, a public hearing is held by each home port to allow for public comment, and to adopt the statutory budget and approve the property tax levy for the home ports. The NWSA's operating income is split evenly between the ports and is shown as revenue to the home ports. After the home port Commission approves and adopts its statutory budget, it is submitted, with the related home port resolutions, to the respective County Councils and Assessor Treasurer offices.

Major Assumptions

Major drivers of the 2021 operating budget are a result of economic and industry trends represented in the cargo forecast.

Revenue

- Existing leases continue per existing lease terms and contracts
- Cargo volumes drive equipment and intermodal revenues and expenses
- Auto and breakbulk imports continue to provide revenue diversity
- Tariff rates are projected to increase between 2.5% and 3.0%
- Property lease rental rates will increase as specified in contracts

Direct Expenses

- The NWSA has direct headcount of 54 positions. Salaries are expected to increase by 3%.
- Major operating expenses include construction of non-NWSA owned infrastructure needed for the

development of T5, and ongoing maintenance of terminal paving, bulkheads and fender systems.

- Depreciation for licensed assets at the time of the formation of the NWSA will remain on the books of the home ports. Depreciation of any new investments that are jointly funded will be charged against the NWSA.

Home port services provided

Each home port is providing services to the alliance, and some NWSA personnel are providing services back to the home ports. These services are provided either by direct charge or purchased services through Inter-local Agreements.

Table IV-4 shows the approximate value of Operating, Maintenance, Environmental, Security and Administrative services purchased by the NWSA from each of the home ports and the services purchased by the Port of Tacoma from the NWSA. This table does not include the value of services provided for capitalized and expensed projects.

Estimating Revenues and Expenses

The NWSA uses several different methods of projecting revenues, depending upon the nature and materiality of the revenue item and the projection period. Specific revenue projection techniques include:

- **Historical Data:** Future revenues are based on historical trends with the assumption that they will continue in the future. When using historical data as a means for projecting revenues, the NWSA analyzes as many as 10 years of data to estimate a rate of growth
- **Business Operations:** Terminal lease/rental agreements, grant agreements, and service contracts provide information for this projection method. These projections may be adjusted to reflect the probable impacts of anticipated changes in the economy, legislation and inflation
- **Judgment Estimates:** This method relies on a person knowledgeable in the field, often a department director, who prepares a revenue projection based on awareness of past and present conditions including fee changes, development plans, marketing campaigns, usage

activity, frequency, volume, weight and similar determinations

- **Current Data:** This method predicts future revenue based on actual or annualized current year revenues and often is used when historical data and trends are not available, or if used, would result in an inaccurate revenue projection
- **Volume:** The NWSA uses the five-year cargo forecast to project volume related revenues

Financial Practices

The NWSA manages its operations to maximize its financial capacity - to provide the necessary provide adequate home port debt service coverage ratios.

Financial Tools

- **Cargo Forecasts:** The NWSA maintains a cargo estimate for each of the next five years. (See Table III-1, page III-4)
- **Five-Year Financial Forecast:** A portion of the operating budget is driven by volumes from the cargo forecast while the majority of the revenue comes from major lease contracts. Planned revenue-generating capital projects are aligned with new revenues and expenses in the five-year operating forecast. The operating budget is monitored throughout the year, noting any

variances that may require corrective action. The Managing Members, Chief Executive Officer and Executive Team review these semi-annually

- **Five-Year Capital Investment Plan:** This plan ties directly to the strategy developed during the budget process. Updated semi-annually, it identifies all proposed projects. Some projects are capitalized and impact future year forecasts through depreciation, while others are expensed in the current year
- **Home Port Plan of Finance:** The financial output of the NWSA will be shared evenly between the home ports and is an input into each home port's five-year plan that identifies each port's ability to fund their business objectives
- **Financial Analysis of Investments:** The NWSA reviews significant capital investments and their related assumptions prior to acceptance into the planned capital budget. Revenue-generating projects are expected to earn a return on investment that meets or exceeds the standards
- **Financial Reporting:** The NWSA creates a variety of reports available electronically or in hard copy

For additional information on accounting policies, see each home port's budget and annual financial reports.

Table IV-1...Statement of Revenue, Expenses by Business*

(\$ millions)	2019 Actual	2020 Budget	2020 Forecast	2021 Budget
Operating Revenues				
NWSA				
Container	160.6	119.5	101.5	113.8
Non Container	21.8	22.1	17.0	18.3
Real Estate	12.7	8.3	9.0	9.6
Other	0.0	0.0	0.0	0.0
Total Operating Revenues	195.0	149.9	127.6	141.6
Direct and Maintenance Expenses				
Container	38.1	41.6	40.7	37.8
Non Container	10.8	9.7	9.4	10.4
Real Estate	0.6	1.1	0.6	0.8
Other	13.9	14.3	13.0	17.1
Total Direct Expenses	63.5	66.7	63.7	66.1
Administration	19.7	22.7	19.9	21.5
Security	4.8	5.7	5.6	4.0
Environmental	1.3	2.6	1.8	2.1
Total Operating Expense before Depreciation	89.2	97.7	91.0	93.7
<i>Operating Income before depreciation</i>	<i>105.8</i>	<i>52.2</i>	<i>36.6</i>	<i>48.0</i>
Depreciation & Amortization	11.3	15.4	14.4	20.0
Total Operating Expense	100.5	113.1	105.4	113.6
Income from Operations	\$94.5	\$36.8	\$22.2	\$28.0
<i>Return on Revenue</i>	<i>48.5%</i>	<i>24.6%</i>	<i>17.4%</i>	<i>19.8%</i>
Non Operating Income (Expense)	1.4	47.1	49.1	55.6
Distributable Income before Special Item	96.0	84.0	71.4	83.6
Special Item				
Distributable Income	\$96.0	\$84.0	\$71.4	\$83.6
Distributable Cash + Lease Interest Cash	\$107.2	\$99.3	\$85.7	\$103.6
Bond Income	\$107.7	\$103.7	\$87.5	\$99.8

* 2020 and 2021 includes impact of GASB 87. Amounts may not foot due to rounding.

Table IV-2....Operating Revenue and Expense Detail*

(\$ millions)	2019	2020	2020	2021
	Actual	Budget	Forecast	Budget
Property Rental	\$39.8	(\$2.3)	(\$4.0)	(\$3.2)
Sale of Utilities	1.3	1.2	1.2	1.2
Services Marine Terminals	128.1	125.5	108.1	120.3
Equipment Rentals	16.2	16.3	13.3	14.4
Other Revenue	9.7	9.1	9.1	9.1
Operating Revenue	195.0	149.9	127.6	141.7
Home Port Services Provided	21.6	25.3	22.2	21.6
Port Salaries & Benefits	8.8	10.3	9.6	10.2
Outside Services	8.7	10.8	12.9	5.2
Longshore Labor & Fringe	11.5	11.0	8.5	9.4
Direct Expenses	11.5	11.0	9.7	10.6
Marketing & Global Outreach	0.5	0.7	0.5	0.7
Travel & Hosting	0.5	0.7	0.1	0.5
Maintenance	18.1	19.3	19.7	26.5
Office Equipment & Supplies	0.3	0.3	0.2	0.2
Utilities	4.9	4.7	4.9	5.5
Other Employee Exp	0.1	0.1	0.0	0.1
Other Expenses	1.4	1.1	1.1	1.1
Environmental	1.4	2.3	1.6	1.9
Total Operating Expenses before Dep.	89.2	97.7	91.0	93.7
<i>Operating Income before Depr.</i>	105.8	52.2	36.6	48.0
Depreciation & Amortization	11.3	15.4	14.4	20.0
Total Operating Expenses	\$100.5	\$113.1	\$105.4	\$113.6
Operating Income	\$94.5	\$36.8	\$22.2	\$28.1
<i>Return on Revenue</i>	48.5%	24.6%	17.4%	19.8%
Non Operating Revenue and Expenses	1.4	47.1	49.1	55.6
Net Assets Before Special Items	96.0	84.0	71.4	83.7
Increase in Net Assets	\$96.0	\$84.0	\$71.4	\$83.7
Distributable Cash + Lease Interest Cash	\$107.2	\$99.3	\$85.7	\$103.7
Bond Income	\$107.7	\$103.7	\$87.5	\$99.9

* 2020 and 2021 includes impact of GASB 87. Amounts may not foot due to rounding.

Table IV-3.... Statement of Revenues, Expenses and Changes in Net Position*

	2019 Actual	2020 Forecast	2021 Budget	Change from Prior Year Forecast
(\$ Millions)				
Operating Revenue	\$195.0	\$127.6	\$141.7	11.1%
Total Operating Expenses before Dep.	(89.2)	(91.0)	(93.7)	3.0%
Depreciation & Amortization	(11.3)	(14.4)	(20.0)	38.7%
Operating Income	94.5	22.2	28.1	26.4%
Non Operating Revenues (Expenses)				
Lease Interest Income	0.0	49.0	50.3	2.8%
Interest Income	1.7	1.1	0.5	-53.7%
Premium Discount	(0.1)	(0.1)	0.0	-100.0%
Market Value Adjustments	0.4	0.1	0.0	-100.0%
Non-Capital Grant Income	0.1	0.9	1.0	14.5%
Capital Grant Contributions	3.8	1.9	7.1	284.1%
Other Non Operating Revenue (Expense)	(4.4)	(3.6)	(3.3)	-7.7%
Total Non Operating Income (Expense)	1.4	49.1	55.6	13.2%
Net Distributable Revenue (Net Income)	96.0	71.4	83.7	17.3%
Distributable Cash + Lease Interest Cash				
Net Distributable Revenue (Net Income)	96.0	71.4	83.7	17.3%
Add Depreciation and Amortization	11.3	14.4	20.0	38.7%
Distributable Cash* + Lease Interest Cash	107.2	85.7	103.7	20.9%
Net Position				
Net Position beginning of year	284.0	353.4	468.7	32.6%
Add Contributions and Expected Capital Construction	88.6	129.7	109.6	-15.5%
Add Net Distributable Revenue (Net Income)	96.0	71.4	83.7	17.3%
Less Cash Distributions	(115.2)	(85.7)	(103.7)	20.9%
Net Position end of year	\$353.4	\$468.7	\$558.3	19.1%

* Per charter section 5.3 and charter definition 1.1 (p)

* 2020 and 2021 includes impact of GASB 87. Amounts may not foot due to rounding.

Table IV-4.... Summary of Allocations and Direct Charges*

(\$ Millions)	2019 Actual	2020 Budget	2020 Forecast	2021 Budget
Port of Tacoma to NWSA	\$30.4	\$34.6	\$31.8	\$31.7
Port of Seattle to NWSA	\$8.7	\$9.3	\$8.4	\$9.3
NWSA to Port of Tacoma	\$1.2	\$1.3	\$1.2	\$1.0

Table IV-5.... Six-year Statement of Revenue, Expenses and Change in Assets*

(\$ millions)	2020	2021	2022	2023	2024	2025
Operating Revenue	\$127.6	\$141.7	\$151.3	\$158.7	\$164.2	\$166.3
Total Operating Expenses before Dep.	(91.0)	(93.7)	(92.5)	(98.2)	(96.0)	(97.0)
Depreciation & Amortization	(14.4)	(20.0)	(23.3)	(23.8)	(29.8)	(31.4)
Operating Income	22.2	28.1	35.6	36.7	38.4	37.9
Grant Income	2.7	8.1	5.9	0.0	0.0	0.0
Lease Interest Income	49.0	50.3	51.6	49.3	53.2	50.7
Other Non Operating Income	(2.5)	(2.8)	(8.3)	(0.1)	(0.1)	(0.0)
Net Distributable Revenue	71.4	83.7	84.7	85.9	91.6	88.5
Distributable Cash + Lease Interest Cash	\$85.7	\$103.7	\$108.0	\$109.7	\$121.4	\$119.9
Bond Income	\$87.5	\$99.9	\$110.4	\$109.8	\$121.5	\$120.0

The NWSA is required by the charter to provide at least \$90 million in Bond Income every year to provide adequate cash to the homeports to pay bondholders of bond issues outstanding at the time of the NWSA formation. Table IV-6 provides a forecast of the Bond Income.

Table IV-6.... Six-year Bond Income*

(\$ Millions)	2020	2021	2022	2023	2024	2025
Operating Revenue	127.6	141.7	151.3	158.7	164.2	166.3
Add Non Operating Revenue	52.7	59.0	57.5	49.3	53.3	50.7
Less Capital Grants	(1.9)	(7.1)	(5.9)	(0.0)	0.0	0.0
Less Operating Expenses before Depreciation	(91.0)	(93.7)	(92.5)	(98.2)	(96.0)	(97.0)
Bond Income	\$87.5	\$99.9	\$110.4	\$109.8	\$121.5	\$120.0

* Amounts may not foot due to rounding.



Heavy equipment offloading at EB1
Breakbulk Terminal

V NWSA Capital Investment Plan

Overview

The Northwest Seaport Alliance invests in projects to increase the capacity, extend the life or improve the safety or efficiency of Alliance-managed property and equipment.

The five-year Capital Investment Plan (CIP) identifies all projects planned or underway. The CIP provides a mechanism for tracking and managing project budgets and cash flows for five years into the future. Table V-1 shows planned spending on capitalized projects for the five-year time frame. Projects are associated with a program that fall under one of the businesses or under a category called "Infrastructure."

Although funds for a project are included in the CIP, the project is not automatically authorized to proceed. The Alliance Managing Members review and approve each project individually. Projects must have the necessary permitting before proceeding.

To achieve its goals, the alliance continues to invest in revenue-generating capital projects that support its businesses. Although the home ports are responsible for the general infrastructure in each respective county, the Alliance may also invest in infrastructure projects that support the NWSA's maritime business, as well as increasing rail and road transit of cargo within boundaries between the ports of Seattle and Tacoma. Often, these infrastructure projects are expensed versus capitalized due to accounting requirements.

In addition, environmental projects are planned for meeting or maintaining regulatory requirements, including the development of mitigation and remediation projects. Projects may be expensed or capitalized according to accounting rules.

Summary of Major Projects

The five-year Capital Investment Plan focuses on the following strategic and maintenance projects:

By the close of 2020, the NWSA will have completed or neared completion of the following capital projects:

- Upgraded stormwater system at T18
- Repaired T-46 wharf
- Completed significant portions of the phase one berth modernization construction at T5
- Funded tenant improvement at Husky
- Completed office improvement for Customs and Border Protection services in the Tacoma Harbor

2021-2025 Strategic investments:

- Completion of phase 1 and Phase two berth modernization at Seattle Harbor Terminal 5 and associated infrastructure requirements
- Rehabilitation of T18 and T46-Tacoma wharfs
- Rehabilitation of the T46 bulkhead
- T5 stormwater treatment system
- Berth dredging and shore power at Husky

Maintenance investments:

- Replace fender system at WUT and PCT
- Maintenance and rehabilitation of assigned assets

The Alliance has a strong commitment to the protection and improvement of the environment. Examples of this commitment include the Clean Truck Program, the Northwest Ports Clean Air Strategy, and significant investment in storm-water improvements.

Strategic development efforts focus on serving existing customers, attracting new customers and building a diverse, dynamic and resilient business base.

Table V-1....Planned Capitalized Project Spending

(\$ Millions)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Historical Capital	80.5	66.7	77.8	82.1						
Planned Capital					131.9	109.6	91.4	30.7	23.5	73.0
Grand Total	\$ 80.5	\$ 66.7	\$ 77.8	\$ 82.1	\$ 131.9	\$ 109.6	\$ 91.4	\$ 30.7	\$ 23.5	\$ 73.0

Capital Investment Plan Priorities

To efficiently allocate human and financial resources, the Alliance uses a capital project prioritization methodology. For internal management, the alliance uses two categories:

- **Open:** These are ongoing projects or projects ready to move forward that have customer commitment or a high degree of certainty. Only open projects are included in the budget
- **Estimate:** These are projects based on an identified business need or opportunity but have not been fully developed in scope and cost

Capital Investment Plan Projects by Purpose

The Alliance classifies CIP projects into three types, (as shown below in Table V-2):

- **Revenue-Generating:** Projects developed for a specific customer that will result in a new revenue stream. The NWSA has designated Port-generated operating cash and revenue bonds to fund most of these projects
- **Revenue Renewal:** Projects developed to renovate or replace obsolete or aging revenue-producing assets. These projects serve to extend existing revenue streams or ensure existing streams are not lost and may offer additional revenue if replacements enhance the efficiencies of operations or offer additional capabilities or value. The ports have designated port-generated operating cash or revenue bonds to fund most of these projects and may use capital leasing through equipment suppliers or financial institutions

- **Infrastructure:** Projects developed to enhance infrastructure, support multiple or future customers or to enhance public infrastructure. Sometimes, other public agencies may participate in funding that otherwise comes from port-generated operating cash, the property tax levy, and general obligation bonds or revenue bonds. They often are complex in nature, with multiple public agencies involved in the planning process and execution

Table V-3 shows Open (excludes estimate) project expenditures during the five-year planning horizon as categorized by accounting treatment.

Accounting rules require some spending to be capitalized and depreciated over time, while other spending is expensed as incurred.

Table V-3 shows that the NWSA intends to implement \$387.1 million worth of planned projects (capitalized and expensed) in the next five years, with \$125.3 million of that total earmarked for 2021. Non-operating and operating projects will be expensed as incurred and are included in the operating budget.

Table V-4 shows the five-year CIP by Line of Business.

Table V-5 shows the expected increase in depreciation when all the projects are completed. The CIP is the total expected spending of 121 projects, 56 of which are capitalized and 65 expensed as incurred. The expensed projects are captured as expenses in the current year budget and four-year operating forecast as incurred. The costs of the capitalized projects are captured as depreciation expense over the estimated life of the projects that may extend beyond five years. The Alliance expects depreciation expense will increase when the redevelopment of Terminal 5 is complete and are in-service.

Table V-2....Five-Year Planned Capital Investment Plan by Purpose

(\$ Millions)

	2021	2022	2023	2024	2025	Total
Infrastructure	\$5.0	\$6.4	\$5.0	\$5.0	\$5.1	\$26.5
Renewal	32.2	13.1	18.0	25.6	74.3	163.1
Revenue	88.1	89.1	19.9	0.4	0.0	197.5
Grand Total	\$125.3	\$108.6	\$42.9	\$31.0	\$79.3	\$387.1

Amounts may not foot due to rounding

Table V-3....Five-Year Planned Capital Investment Plan by Accounting Treatment

(\$ Millions)

	2021	2022	2023	2024	2025	Total
Capitalized	\$109.6	\$91.4	\$30.7	\$23.5	\$73.0	\$328.2
Operating Expense	12.6	9.2	12.2	7.5	6.3	47.7
Non-Operating Expense	3.1	8.1	0.0	0.0	0.0	11.2
Grand Total	\$125.3	\$108.6	\$42.9	\$31.0	\$79.3	\$387.1

Amounts may not foot due to rounding

Table V-4....Planned Major Projects by Line of Business

(\$ Millions)

	2021	2022	2023	2024	2025	Total
Container Business	\$111.4	\$82.5	\$34.3	\$22.6	\$71.2	\$321.9
Non Container Business	1.9	2.5	0.3	0.4	0.1	5.2
Infrastructure	12.0	23.6	8.3	8.0	8.1	60.0
Grand Total	\$125.3	\$108.6	\$42.9	\$31.0	\$79.3	\$387.1

Amounts may not foot due to rounding

Table V-5....Depreciation Impact Due To Capitalized Projects

(\$ Millions)

	2021	2022	2023	2024	2025	Total
Container Business	\$ (6.0)	\$ (9.7)	\$ (9.9)	\$ (16.4)	\$ (18.4)	\$ (60.4)
Non Container Business	(0.2)	(0.3)	(0.5)	(0.5)	(0.5)	\$ (1.9)
Real Estate	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	\$ (0.1)
Grand Total	\$ (6.2)	\$ (10.0)	\$ (10.4)	\$ (16.9)	\$ (19.0)	\$ (62.5)

Amounts may not foot due to rounding

Capital Investment Plan Project Descriptions

The NWSA's five-year CIP has been categorized on a business basis, as shown in Figure V-1. The following section provides details of major planned improvements within each business and only includes major projects and equipment.

Container Terminals Business

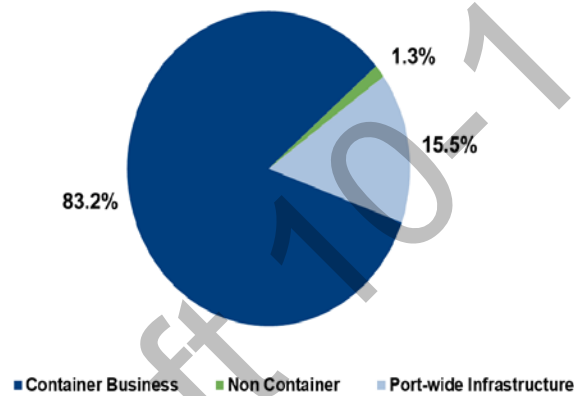
Planned capital expenditures for container terminals will total approximately \$321.9 million over the next five years. The CIP for this business will provide the

funds necessary for the construction of major terminal improvements at the Seattle Harbor Terminal 5; dock rehabilitation at T-18, and T-46, berth dredging and install shore power at Husky terminal and fender replacements at various terminals.

Non-Container Business

Approximately \$5.2 million will be spent on facility improvement for terminal operations and auto businesses.

Figure V-1...Five-Year Capital Investment Plan by Line of Business



Alliance Infrastructure

This section includes capital expenditures that are not specific to a single business and are in support of the Alliance's infrastructure or environmental improvements.

- **Environmental Programs:** These projects include reduction and monitoring of emissions, ongoing cleanup projects, and improvements to infrastructure to reduce pollution. This also includes the Clean Truck Program, which provides matching funds and incentives to help cover the cost of replacing older trucks with cleaner new trucks, and improvements to stormwater systems at several terminals.

- **Technology:** The Alliance continues to invest in an operations service center that will allow customers and cargo owners to track their cargo as it moves through the gateway

Capital Investment Plan Revisions

The CIP is an integral part of the budget planning process and is reviewed and revised semi-annually. Adjustments in amount and timing are made as required to meet changes in customer or infrastructure requirements.

The Alliance maintains sufficient cash reserves to meet the CIP requirements, as well as any unexpected capital requirements, without adversely affecting the ongoing operations of either ports

VI Environmental Stewardship and NWSA Planning

Environmental stewardship is a high priority for the NWSA. The NWSA Environmental Stewardship Framework has been put into action. Specifically, working with our stakeholders, the NWSA developed a Best-In-Class approach built on a foundation of the following:

- Environmental, economic and financial business decision planning/making are fully integrated;
- Responsive to market and community; and,
- Drives innovative, cost-effective and sustainable solutions.

Program areas of emphasis include:

- Water Quality
- Air Quality and Sustainable Practices
- Remediation
- Habitat Restoration
- Planning
 - Transportation
 - Land Use
 - Facilities

In 2021, the NWSA plans to focus its environmental efforts on water and air quality and greenhouse gas reductions, with the bulk of that work on NWSA licensed properties. The NWSA plans to develop additional sustainability strategies to help shape future leasing strategies.

Water Quality Program

NWSA's water quality team is comprised of professionals with experience in site inspection, monitoring, project development and delivery, and policy analysis. The goal of this program is to work with internal and external stakeholders to design highly effective, low cost treatment and compliance solutions that meet or exceed Washington State's high water quality standards.

Industrial Stormwater Management Program

The NWSA partnership is the framework for an industrial stormwater management program that is a collaborative effort engaging customers, agencies and environmental organizations in both the Seattle and Tacoma harbors. The goal of the program is to discuss emerging stormwater issues, common

problems and solutions and provide stormwater technical assistance to our customers at their request. Staff engage in extensive stakeholder outreach that includes customers, regulators, and environmental organizations.

Research and Develop Cost-Effective Means to Manage Stormwater

The NWSA continues previous work initiated separately by the two ports. The NWSA implements innovative cost-effective treatment methods in the field in an effort to focus in on practical, effective stormwater Best Management Practices (BMPs). This includes conducting pilot studies of new and existing treatment infrastructure results of which are shared with tenants and stakeholders.

Source Control

Controlling pollutants at or near the source is the most cost-effective way of reducing impacted stormwater runoff, managing the risk of costly corrective actions for treatment, and reducing the cost of operations and maintenance of installed stormwater treatment systems. NWSA WQ staff work with customers (as requested) to identify pollutants close to the source and eliminate the source where possible. Using a stepped approach like this, the WQ team assists customers with effective, cost-effective solutions.

Seattle Harbor Focus

Most Seattle Harbor tenants have installed stormwater treatment at their facilities. The challenge going forward is to reduce the cost of operating and maintaining these systems and, if possible, prevent or eliminate the need for stormwater treatment in selected areas. The Water Quality team continues to focus on maintaining relationships with tenants/customers and working with them to implement at-source and near-source BMPs with these goals in mind. In 2021, WQ staff will spend time with tenants walking their site operations and comparing that to their SWPPPs to help the tenant understand the importance of consistency between operations and plans.

Tacoma Harbor Focus

Many Tacoma Harbor tenants are coming out of consistent attainment with benchmarks for water quality parameters under the Industrial Stormwater General Permit. The Water Quality team continues to work with tenants/customers to implement at-source and near-source BMPs to facilitate cost-effective and successful solutions, and to focus on tenants/customers that may face site challenges to meet water quality criteria or regulatory policy issues. In 2021, WQ staff will spend time with tenants walking their site operations and comparing that to their SWPPPs to help the tenant understand the importance of consistency between operations and plans.

Stormwater Development/Redevelopment

Coordination with each home ports' stormwater permit programs ensures site-specific stormwater requirements are met. This includes the design of appropriate treatment systems and/or system selection based on proposed land use and typical discharges associated with site-specific activities. Projects include redevelopment of terminals in both harbors. Both home ports have developed Stormwater Management Guidance Manuals which give specific guidance for development and redevelopment projects to ensure compliance with MS4 requirements.

Projects

Tenant assistance projects in both harbors include installing downspout treatment boxes, infrastructure assessments to identify potential deficiencies, and source control site visits to assist tenants/customers.

Seattle Harbor Projects

Design for the redevelopment of Terminal 5 is 90% complete. As part of those efforts the NWSA focused on cost-effective stormwater treatment solutions as the facility is updated in partnership with its customer, SSA Marine. The project goal is an effective treatment system that protects the water quality of the west waterway. The project received a \$5M grant from the Department of Ecology's Water Quality program for the phase 1 installation of treatment on 137 acres of the terminal. This is the first grant given to a port and a facility subject to the ISGP. This is the

largest grant Ecology has given to support a stormwater facility project.

T-18 is installing its last treatment system. SSA Marine chose a system based on what worked best on the terminal by looking at previously installed projects in four other drainage basins. SSA Marine installed modular wetlands, open media filtration systems and active chemical treatment, Chitosan Enhanced Sand Filtration. The active chemical treatment system was selected for the last drainage basin due to its predictable results in meeting permit benchmarks and O&M costs

Tacoma Harbor Projects

The NWSA has successfully completed the treatment installation at the West Sitcum Terminal and turned over the operating permit to the customer in January 2020. Additionally, the NWSA installed a membrane filtration device and pipe that treats water from the NIM and Maintenance areas and completely bypasses Husky's terminal. This project will allow Husky to install a lower flow and cost treatment system for their terminal operations.

2021 Goals

In 2021 the NWSA water quality team will assist SSA in completing the construction of the Phase 1 stormwater treatment system at T-5 for 137 acres. The team continues to assist other tenants as requested. In 2021 the NWSA Water Quality (WQ) team will continue to work with tenants on stormwater pollution prevention plan (SWPPPs) updates, pilot additional media blends at the Port of Tacoma Maintenance yard and in the downspout treatment boxes at the T-5 transit shed, and work on the EB1 facility to improve system performance. Additionally, the WQ team will engage with national groups and agencies to advocate for national permit standards for Port Facilities.

Air Quality & Sustainable Practices Program

The Air Quality & Sustainable Practices Program jointly serves the Port of Tacoma and The Northwest Seaport Alliance and focuses on two goals:

1) reducing – and, ultimately, phasing out -- air and climate pollution from seaport related activities; and

2) promoting environmentally sustainable corporate practices. The program collaborates with a wide range of internal and external partners to develop, find funding for, and implement a suite of initiatives, including the Northwest Ports Clean Air Strategy (NWPCAS), the Clean Truck Program, and the Shore Power Program. In addition, the NWSA works to continuously improve the environmental sustainability of its services and operations. In 2020, the team focused the majority of their efforts on updating the NWPCAS, including significant community engagement, stakeholder input and project planning.

Key 2021 goals for the Air Quality & Sustainable Practices Program include the following:

- Finalize, adopt, and begin execution on both the Northwest Ports Clean Air Strategy (NWPCAS) and a customized implementation plan for the NWSA;
- Continue to manage the Clean Truck Program, including the domestic truck scrapping program, outreach and assistance to truckers and terminal operators, and truck data management;
- In collaboration with the Port of Tacoma, Tacoma Public Utilities, and others, launch the Tacoma Harbor Electrification Roadmap (SHERM) to assess the infrastructure needs associated with transitioning to zero-emission vehicles, equipment, and operations;
- Support implementation of a project at the South Intermodal Yard to replace six diesel-powered yard tractors with zero-emission, all-electric tractors;
- Support shore power design and installation at T-3/T-4 and pursue additional funding for shore power design and installation at T-18;
- Continue to identify, pursue; and secure other grants and other external financial and technical assistance to help advance the NWSA's clean air, climate, and sustainability goals. Continue to partner with the Commercial and Operations teams to highlight and leverage our efforts to position the NWSA as a relatively low-carbon corridor for cargo traveling between the US and Asia;

- Finalize WSU air emissions impact study and integrate findings into NWPCAS implementation; and
- Facilitate the newly formed joint Port of Tacoma/NWSA Clean Air & Climate Action Team (C-CAT), a cross-departmental team to guide implementation of the NWPCAS and the NWSA's associated implementation plan.

Planning & Logistics

The Planning & Logistics Team provides a range of services from strategic to site planning. Some of our primary services include planning for marine terminals and supporting infrastructure, land use planning and advocacy, optimizing port operations and determining the operational and feasibility of new port and marine investments. Planning also coordinates baseline studies and analyses to inform decision-making about development opportunities and operations.

Planning Overview:

- **Facility Planning:** Planning has experience with developing port industrial lands, industrial warehouse location and conceptual layout development and analysis.
- **Operations, Planning, and Research:** Planning supports Port Operations in optimizing gates and terminals, analyzing traffic flow and circulation, and evaluating new communications and data collection technologies.
- **Project Feasibility Development:** The Planning Team maintains a general understanding of all focus areas within the department, to assist with opportunity assessment review and strategic port planning.
- **Economic and Financial Analysis:** Planning coordinates and supports cost benefit studies, economic risk analysis, financial analysis, market studies, multi-modal and system optimization of transportation networks, and defining

development concepts and economic strategies.

- **Strategic Planning:** Planning leads the development of strategic plans and supports transportation advocacy and facility planning. The Planning Team reviews and provides comment on new and updated local, state, and federal policy and regulatory documents to protect the interests of the Port. These plans can range from State Freight Master Plans to City Comprehensive Plans.
- **Grant Coordination:** Planning helps coordinate grant application efforts to ensure a unified and sensible approach. We look for grants to help offset the cost of facility, technology, and planning work whenever feasible. Our coordination efforts encompass tracking priority projects and possible grants, and keeping up to date on the progress of projects that benefit from grant dollars. We provide communications and staff support to the Grant Steering Committee.

2021 Planning Goals

The major goals for 2021 include , leading a resiliency assessment study, coordination of Seattle Master Use Permit (MUP) operational condition requirements for Terminal 5, coordination and technical support for Sound Transit on ST3 link extensions north and south and Sounder expansion, technical support for the West Seattle Bridge closure, advocacy at Puget Sound Regional Council, Commercial support for new business opportunities, and continued coordination with the NWSA Government Relations, Operations, and Commercial teams, and coordination of grant opportunities. Planning will also lead the homeport of Tacoma's work on the Tideflats Subarea Plan and finalization of the Port of Tacoma Strategic Plan. This overlap will help ensure that those key planning/land use and strategic documents take into account the NWSA and its desired opportunities for growth.

Appendix A Bond Income Calculation

The Northwest Seaport Alliance Charter requires the establishment of a Bond Income Calculation. Section 4.2 (b) states:

Bond Income Calculation. Managing Members shall establish and maintain a requirement for the PDA to calculate and establish a minimum level of net income available to pay revenue bond debt service for each Managing Member from the PDA equal to the amount currently required for the Homeports to meet their current bond rate covenants for bond issues outstanding at the time of the formation of the PDA. ("Bond Income Calculation"). In the case of the Port of Seattle, the Bond Income Calculations excludes bonds issued to fund Airport Facilities. The Managing Members shall require the Bond Income Calculation to be reviewed annually as part of the PDA 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. The PDA may not take any action that reasonably would reduce PDA income below the minimum level established by the Bond Income Calculation unless each Homeport separately votes to approve that action. Such a vote by each Homeport must occur even if the action is within the CEO's authority under the Delegation of Authority Master Policy.

The Northwest Seaport Alliance Charter also specifies required actions associated with each homeports bond rate coverage management. Section 4.2 (c) states:

If net income before depreciation of the PDA is not sufficient for either Homeport to be in compliance with a rate covenant (as currently described in each Homeport's Master Bond Resolutions in effect as of the Effective Date), then:

- (i) Upon that Homeport's request, the PDA 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 PDA is unwilling, unable or refuses to undertake, either Managing Member can require dissolution of the PDA following the dispute resolution process even if within the Initial Period.
- (iii) The PDA 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 Managing Members established the Bond Income Calculation as \$90 million based on the then currently outstanding debt of each Port, the applicable rate covenants and certain other net revenues available for debt service, as appropriate.

Appendix B Capital Construction

The Northwest Seaport Alliance Charter requires the funding of Capital Construction. Section 3.12 states:

Separate from Working Capital, the PDA shall provide for the funding of capital expenditures (“Capital Construction”) to be funded by a pro rata initial contribution from each Managing Member based on their respective Membership Interests. Managing Members may approve by vote contributions to Capital Construction in amounts other than based on each Managing Members’ pro rata respective Membership Interests on a project-specific basis. Requests for funding Capital Construction shall be based either on the CEO’s periodic projection of PDA capital project cash flow needs or based on project authorizations to the CEO in accordance with the Managing Member’s Delegation of Authority Master Policy Resolution. Managing Members may consider requests for additional contributions to the PDA, the affirmative approval of which will require a vote by each Managing Member. Capital Construction shall be funded by each Managing Member separately and not from Working Capital except to provide short term liquidity per Section 3.7. Distributions of Capital Construction funds will be made expressly subject to either (1) Managing Member approval of capital projects or (2) CEO approval of capital expenditure, where such expenditure is within the levels set in the Delegation of Authority Master Policy.

The Managing Members established the initial Capital Construction as \$27 million based on the proposed 2016 NWSA Capital Improvement Plan. Additions to NWSA Capital Construction have been made as necessary to fund Managing Member approved projects.

Appendix C NWSA Full Time Personnel

As of October 7, 2020

	NWSA			
	2019 Actual	2020 Budget	2020 Actual	2021 Budget
Executive	11	13	12	11
External Affairs (Public Affairs & Communications)			-	2
Commercial Business	20	23	20	21
Operations	9	11	9	10
Facilities Development	8	9	9	10
Total	48	56	50	54

The 2021 staffing budget of \$10,226,513 includes the following:

- \$6,989,042 for salaried employees and \$92,265 for hourly employees which includes;
 - \$145,702 for annual pay increases for salaried employees starting April.
 - \$17,141 for annual recognition program paid to salaried employees in April.
 - \$17,141 for marketplace adjustment for salaried employees during the year.
 - Hourly employees will receive a 3.25% raise in April per contract.
 - Average salary of \$126,973.
- Total benefits of \$3,141,206

Changes in NWSA Full Time Personnel from prior budget

- Executive: 1 position moved to Port of Tacoma, 1 eliminated
- External Affairs: 2 new positions
- Commercial Business: Eliminated 2 positions
- Operations: 1 position eliminated
- Facilities Development: 1 position increase transferred from POT

Appendix D NWSA Memberships

Overview

The NWSA and alliance staff are members of several organizations. The NWSA believes that participating in these partnership organizations plays a key role in advancing the NWSA's business objectives and ensures NWSA staff is knowledgeable and productive. These memberships are in addition to, or supplement the home port memberships.

Port Authority Organizations

These memberships assist the NWSA's lobbying efforts on both the state and national levels and keep staff informed about major issues and developments that affect NWSA operations. Membership with the Washington State Public Ports Association remains with the home ports.

Economic Development Organizations

Economic development is a major part of the NWSA's mission. For that reason, the NWSA maintains memberships and works closely with a variety of economic development groups. These memberships help strengthen the NWSA's visibility throughout the world through trade missions and trade shows.

Regional Organizations

Memberships in regional organizations demonstrate the NWSA's commitment to trade on a statewide and regional basis.

Industry Associations and Professional Organizations

These associations and organizations ensure that staff obtains the latest in technical development by taking advantage of meetings, networks and special programs offered by them.

Trade Promotion Organizations

These memberships give the marketing and sales staff important contacts and current industry trade information that enhances the NWSA's overall marketing efforts.

Community Service Groups

The NWSA maintains memberships in these groups as part of its effort to build better community relations, to work more effectively with the business people and to ensure that the NWSA's interests and concerns are addressed in the community.

Annual NWSA Memberships & Personnel Memberships (estimated)

Organization	Annual Dues
American Association of Port Authorities	\$55,000
Pacific Northwest Waterways Association	31,100
Washington Council on International Trade	20,000
International Association of Ports and Harbors	13,000
Green Marine	11,000
All Other Memberships	48,083
Total NWSA Memberships	\$178,183

American Association of Port Authorities

AAPA is an alliance of leading ports in the Western Hemisphere that protects and advances the common interests of its diverse members through advocacy, professional development, relationship-building, and public awareness.

Pacific Northwest Waterways Association

The Association advocates for funding for navigation projects around the region, including those on the Columbia Snake River System, in the Puget Sound and along the Oregon and Washington coasts.

Washington Council on International Trade

The Council is dedicated to advocating for public policies that increase Washington State's international competitiveness.

International Association of Ports and Harbors

A global trade association for seaports worldwide. It is headquartered in Tokyo, Japan.

Green Marine

Green Marine is an environmental certification program for the North American marine industry.

The Northwest Seaport Alliance

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Item No: 3B
Meeting Date: Oct. 28, 2020

2021 Budget Study Session

Managing Member Meeting
October 28th, 2020

Agenda

- **Budget Schedule**
- **2020 Forecast**
- **2021 Budget with Details**
- **2021 Budget and 2022-2025 forecast**
- **2021-2025 Capital Investment Plan**



Budget Schedule

- **October 28**
 - Cargo Forecast
 - Budget study session
- **November 9**
 - Approve 2021 operating budget
 - Approve 2021-2025 Capital Investment Plan

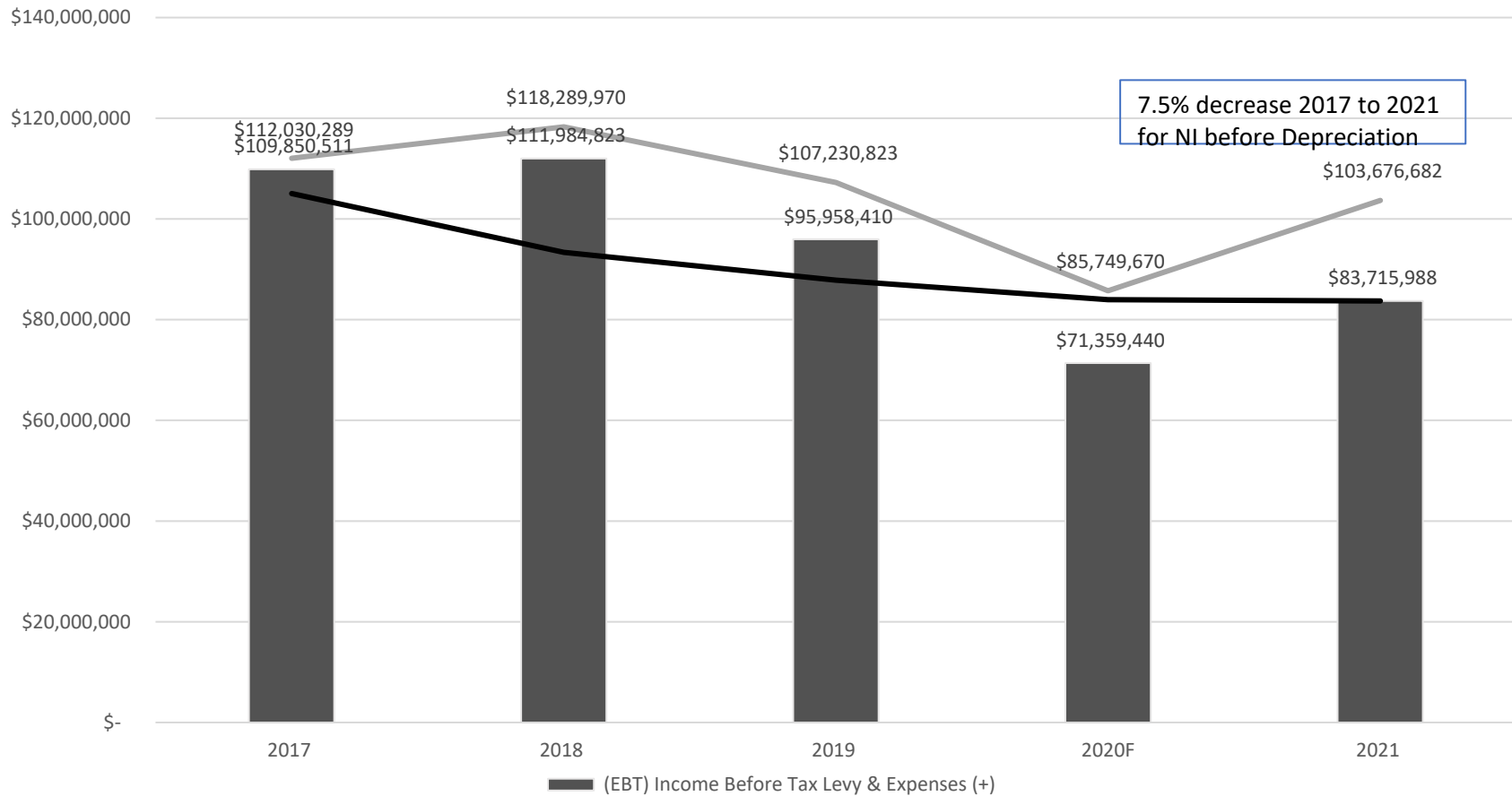


NWSA Objectives

- **The objectives of this budget are:**
 - Increase the gateway cargo volumes to support the local economy and increase family-wage jobs
 - Complete the construction of T5 on schedule and on budget
 - Increase utilization of licenses properties
 - Maintain and pursue expansion of a diversified business portfolio
 - Meet or exceed targeted financial performance
 - Reduce the NWSA's impact on the environment through effective environmental policies

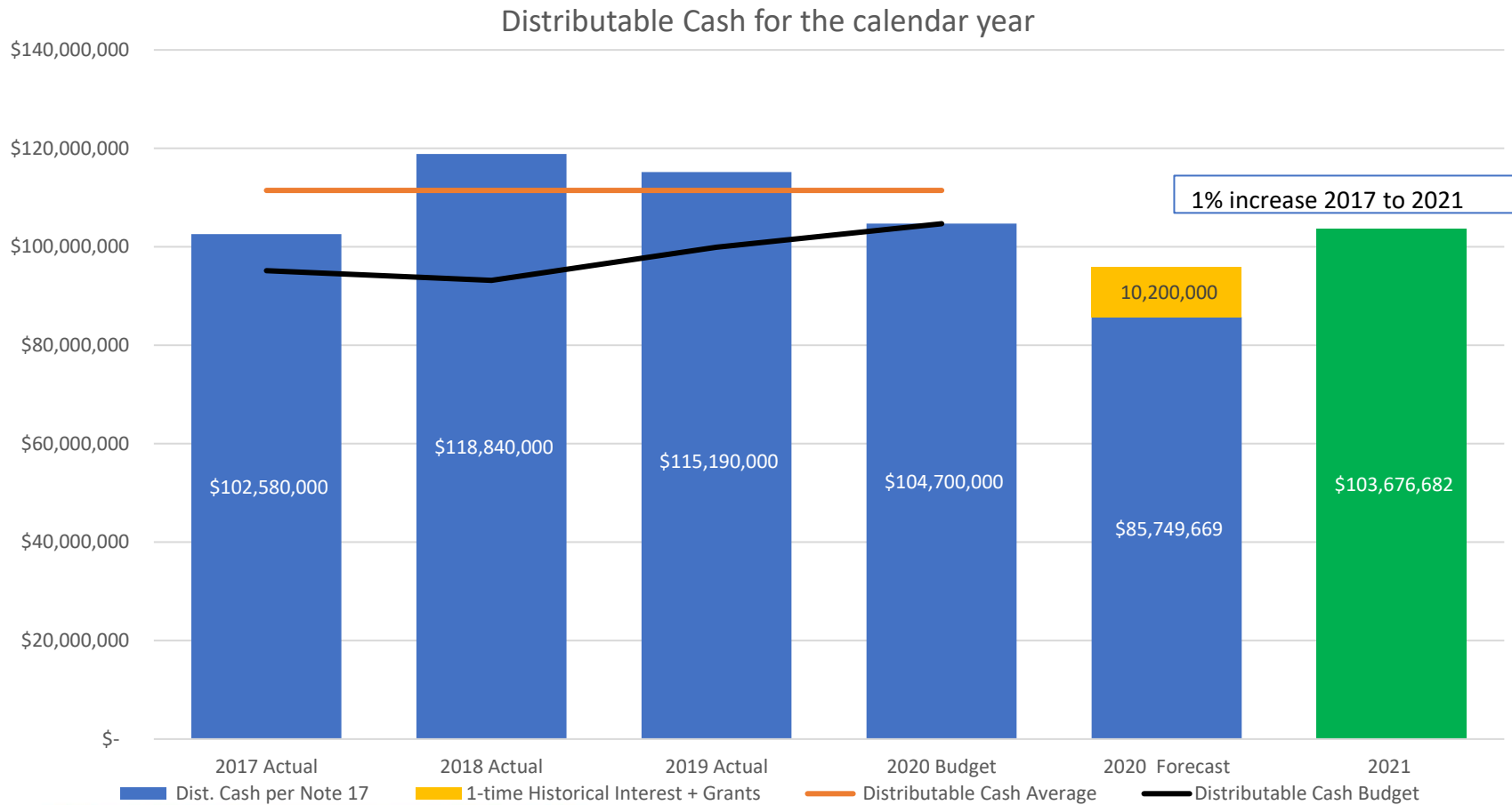
Historical Net Income History

Net Income
(Revenue minus operating expenses minus depreciation plus net Non-Operating)



23% decrease 2017 to 2021 for NI after Depreciation

Distributable Cash History



2020 Forecasted Operating Results

(\$ millions)

	2019 Actual	2020 Budget	2020 Forecast	Better / Worse than budget
Property Rental	\$39.8	(\$2.3)	(\$4.0)	(\$1.8)
Sale of Utilities	1.3	1.2	1.2	-0.1
Services Marine Terminals	128.1	125.5	108.1	-17.4
Equipment Rentals	16.2	16.3	13.3	-3.1
Other Revenue	9.7	9.1	9.1	0.0
Operating Revenue	195.0	149.9	127.6	-22.3
Home Port Services Provided	21.6	25.3	22.2	-3.1
Port Salaries & Benefits	8.8	10.3	9.6	-0.7
Outside Services	8.7	10.8	12.9	2.1
Longshore Labor & Fringe	11.5	11.0	8.5	-2.4
Direct Expenses	11.5	11.0	9.7	-1.4
Marketing & Global Outreach	0.5	0.7	0.5	-0.2
Travel & Hosting	0.5	0.7	0.1	-0.7
Maintenance	18.1	19.3	19.7	0.4
Office Equipment & Supplies	0.3	0.3	0.2	0.0
Utilities	4.9	4.7	4.9	0.2
Other Employee Exp	0.1	0.1	0.0	-0.1
Other Expenses	1.4	1.1	1.1	0.0
Environmental	1.4	2.3	1.6	-0.7
Total Operating Expenses before Dep.	89.2	97.7	91.0	-6.7
<i>Operating Income before Depr.</i>	105.8	52.2	36.6	-15.6
Depreciation & Amortization	11.3	15.4	14.4	-1.0
Total Operating Expenses	\$100.5	\$113.1	\$105.4	-\$7.7
Operating Income	\$94.5	\$36.8	\$22.2	-\$14.6
<i>Return on Revenue</i>	48.5%	24.6%	17.4%	-7.2%
Non Operating Revenue and Expenses	1.4	47.1	49.1	2.0
Net Assets Before Special Items	96.0	84.0	71.4	-12.6
Increase in Net Assets	\$96.0	\$84.0	\$71.4	-\$12.6
Distributable Cash + Lease Interest C:	\$107.2	\$99.3	\$85.7	-\$13.6
Bond Income	\$107.7	\$103.7	\$87.5	-\$16.2

2019 Forecast vs budget

Revenue – Volume driven reductions Primarily in Intermodal

Expenses

Allocations and salaries – staffing held flat, savings in travel etc.

Outside Services – \$4M of additional crane removal costs

Longshore & Direct– lower due to volume

Non-Operating – delayed T5 permit requirement spending



2020 Forecasted Project Spending *(\$ million)*

Project	Amount	Description
T5 Berth Modernization Construction	\$97.7	Phase 1 (1450' north)
Husky Tenant Improvements	6.1	
T5 Stormwater Treatment System	4.6	
T18 Stormwater Utility Upgrade	4.0	
T46 Dock Rehabilitation	3.2	
Surplus Crane Removal North Harbor - T5 Cranes (6)	3.1	
Container Crane Disposal Husky Terminal (2301, 2302, 2405, 2406)	3.0	
Others	28.8	86 projects
Total	\$150.5	

Original 2020 CIP budget was \$144.6 million driven primarily by crane removal T5 spending moving from 2019 to 2020, offset by delayed spending on many projects including T46 paving, T18 stormwater and WUT Fender system

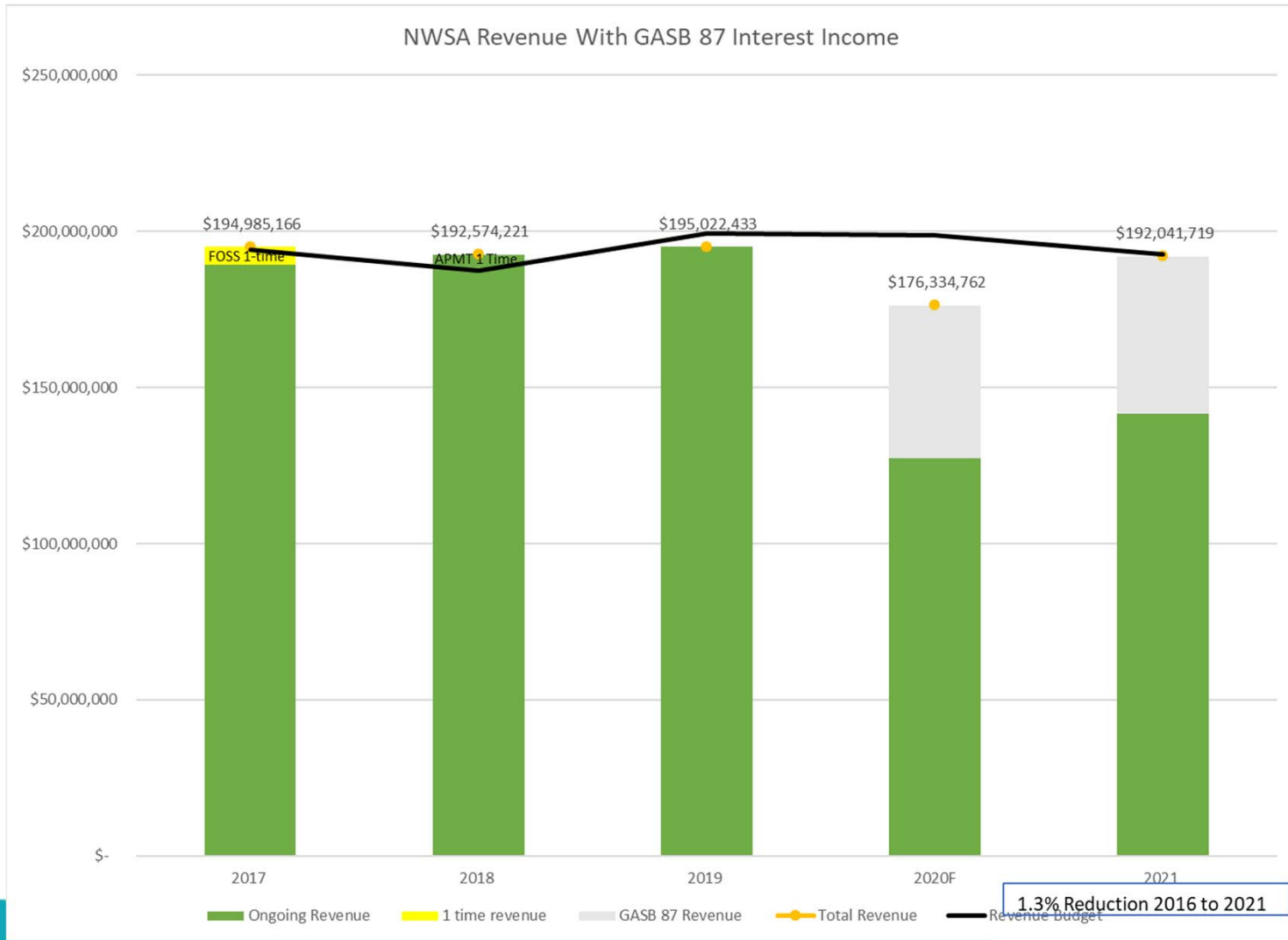


2021 Budget Preview

(\$ millions)

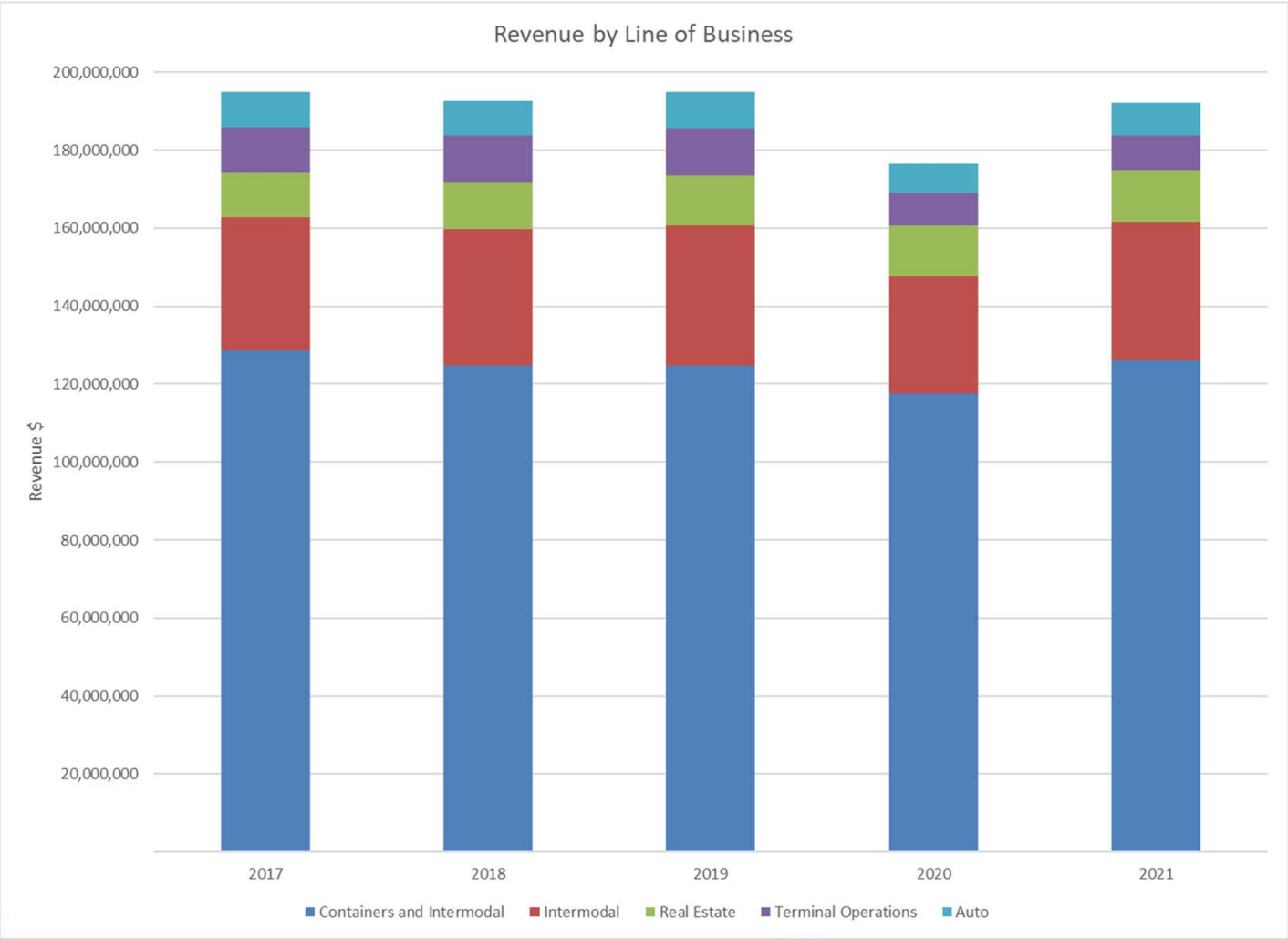
	2019 Actual	2020 Budget	2020 Forecast	2021 Budget
Operating Revenues				
NWSA				
Container	160.6	119.5	101.5	113.8
Non Container	21.8	22.1	17.0	18.3
Real Estate	12.7	8.3	9.0	9.6
Other	0.0	0.0	0.0	0.0
Total Operating Revenues	195.0	149.9	127.6	141.7
<i>Revenue before GASB 87</i>	<i>195.0</i>	<i>197.5</i>	<i>176.6</i>	<i>192.0</i>
Direct and Maintenance Expenses				
Container	38.1	41.6	40.7	37.8
Non Container	10.8	9.7	9.4	10.4
Real Estate	0.6	1.1	0.6	0.8
Other	13.9	14.3	13.0	17.1
Total Direct Expenses	63.5	66.7	63.7	66.1
Administration	19.7	22.7	19.9	21.5
Security	4.8	5.7	5.6	4.0
Environmental	1.3	2.6	1.8	2.1
Total Operating Expense before Depreciation	89.2	97.7	91.0	93.7
<i>Operating Income before depreciation</i>	<i>105.8</i>	<i>52.2</i>	<i>36.6</i>	<i>48.0</i>
Depreciation & Amortization	11.3	15.4	14.4	20.0
Total Operating Expense	100.5	113.1	105.4	113.6
Income from Operations	\$94.5	\$36.8	\$22.2	\$28.1
<i>Return on Revenue</i>	<i>48.5%</i>	<i>24.6%</i>	<i>17.4%</i>	<i>19.8%</i>
Non Operating Income (Expense)	1.4	47.1	49.1	55.6
Distributable Income before Special Item	96.0	84.0	71.4	83.7
Special Item				
Distributable Income	\$96.0	\$84.0	\$71.4	\$83.7
Distributable Cash + Lease Interest Cash	\$107.2	\$99.3	\$85.7	\$103.7
Bond Income	\$107.7	\$103.7	\$87.5	\$99.9

5-year History: Revenue

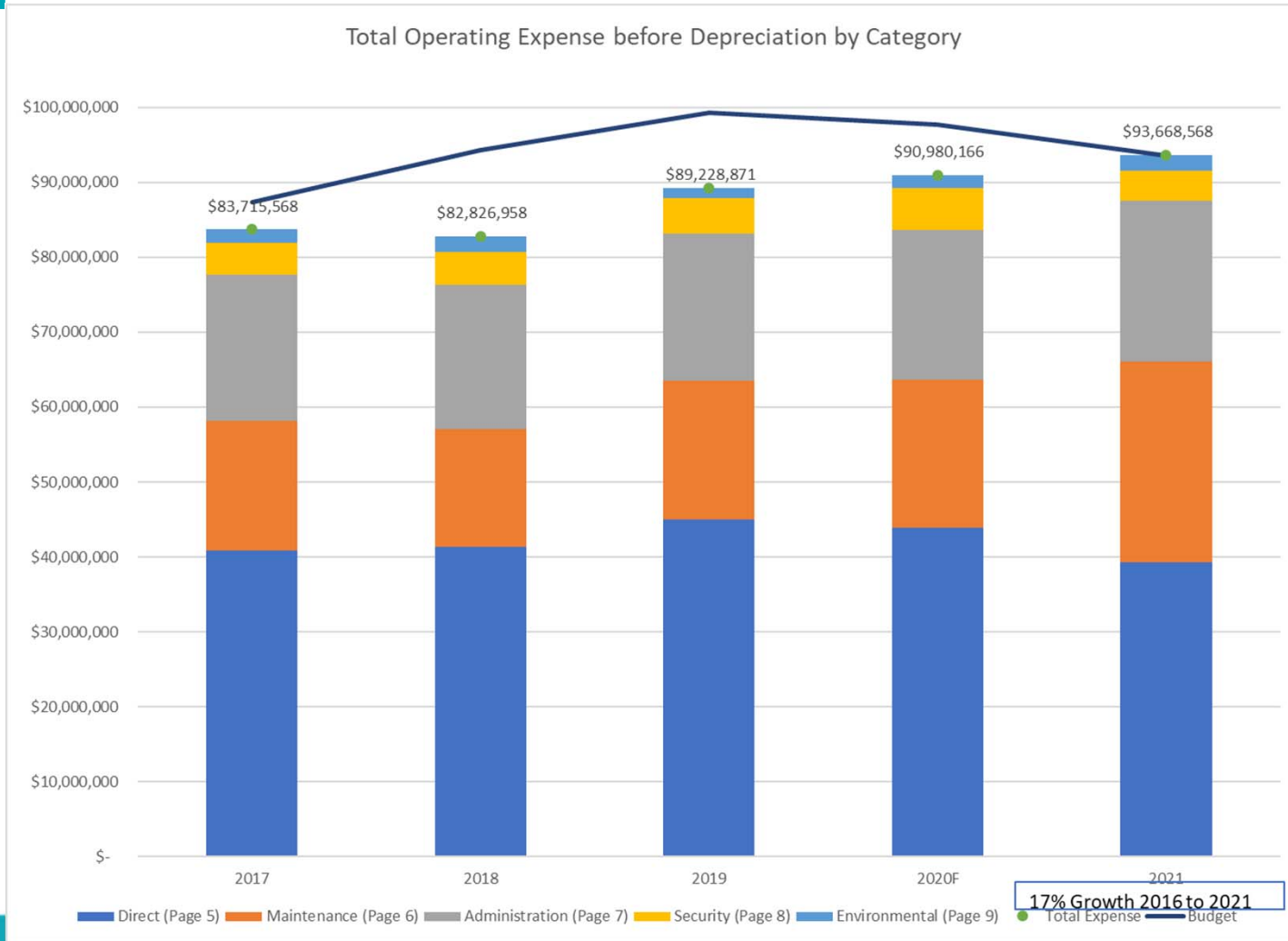


Revenue by Line of Business

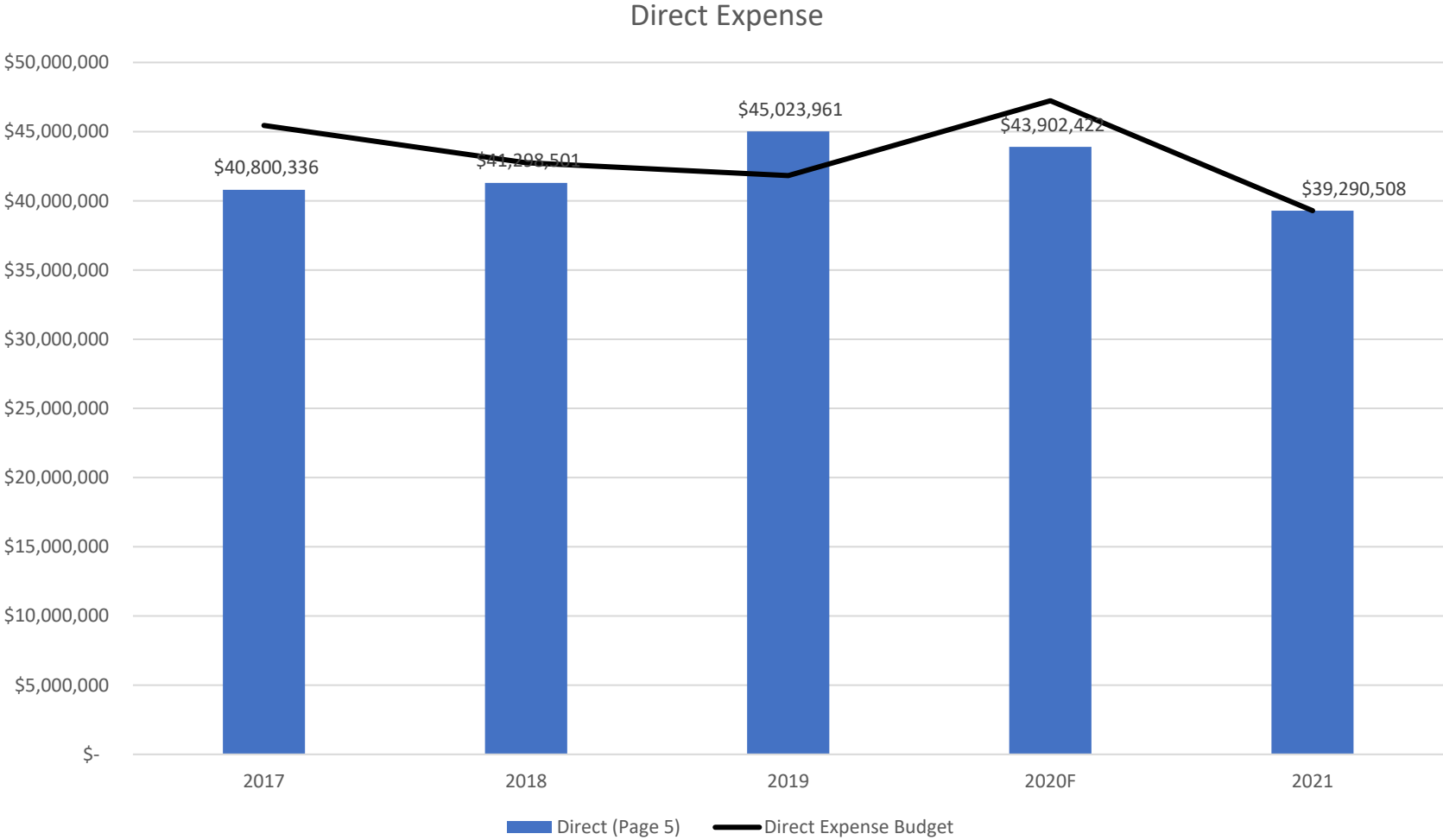
(pre GASB 87 adjustment)



Total Operating Expense before Depreciation



5-Year History: Direct Expense



Direct Expense

	2019	2020	2021	2020 vs 2021	% Change
Direct Expense	45,023,961	43,902,422	39,290,508	(4,611,914)	-10.50%

- **2020 Forecast vs 2021 Budget**

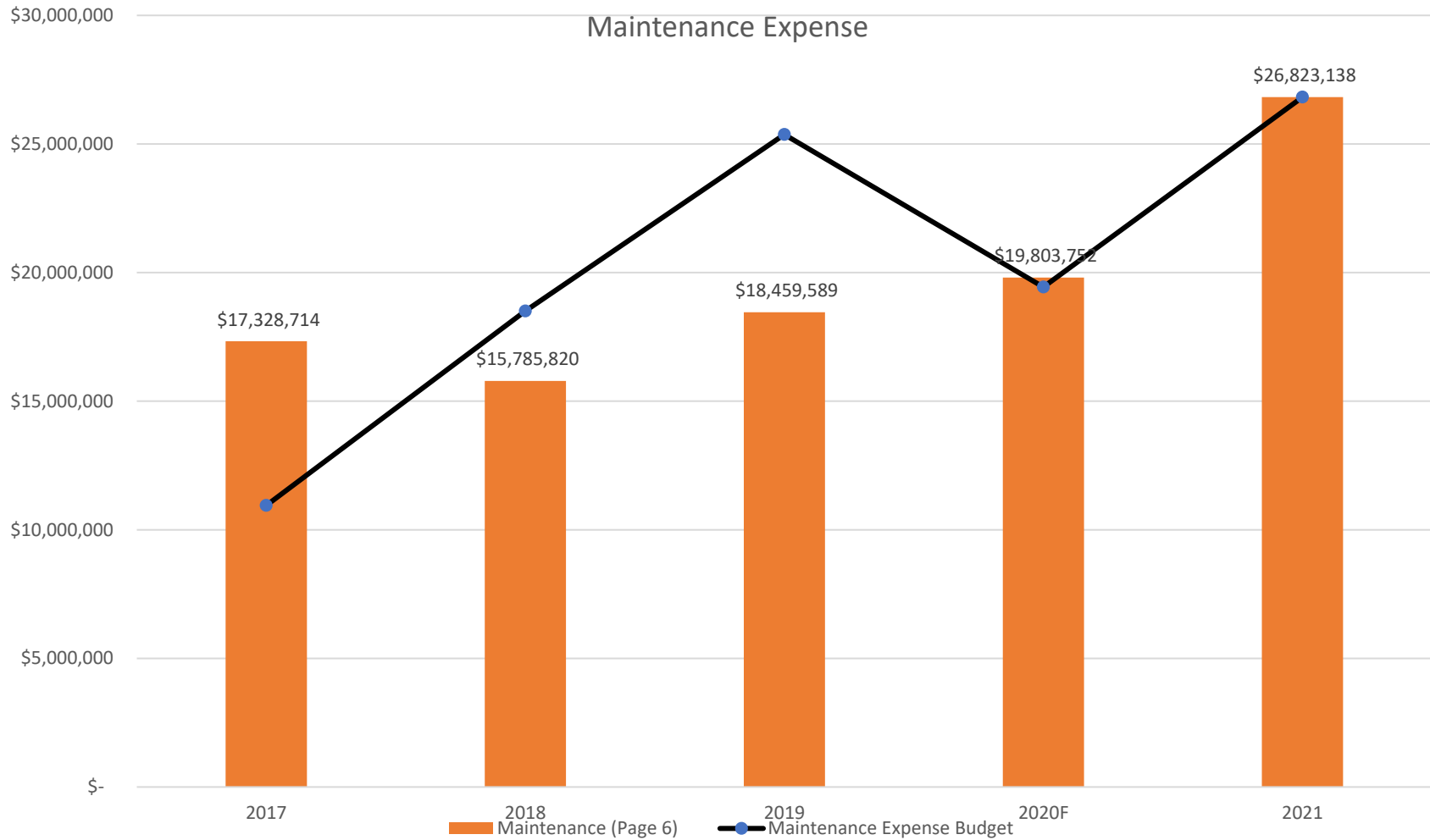
- 2020 includes crane removal at Husky and T5, \$6.1M
- 2020 includes T46 paving, \$3M

- **2019 Actual vs 2021 Budget**

- 2019 includes T18 and T46 crane removal, \$3M
- 2021 includes reduced longshore expense due to lower cargo activity, \$2.1M



5-Year History: Maintenance Expense

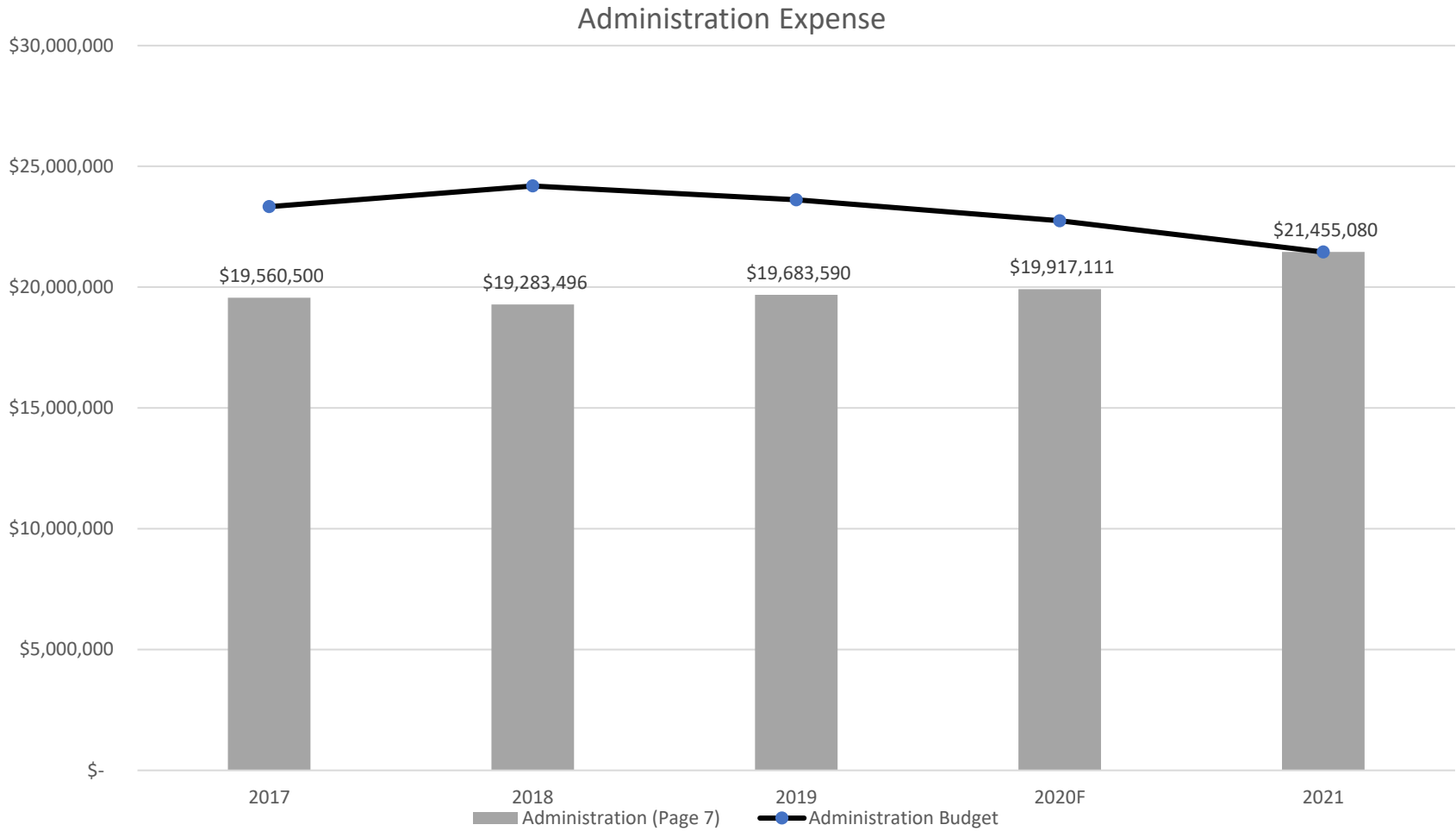


Maintenance

	2019	2020	2021	2020 vs 2021	% Change
BARS Maintenance Total	18,459,589	19,803,752	26,823,138	7,019,385	35.44%

- **NWSA BARS Maintenance**
 - Ongoing maintenance expenses vs projects
 - Ongoing paving is maintenance vs 1 time paving may be operations
 - Equipment and facilities maintenance from both harbors
- **2020 Forecast and 2019 Actuals vs 2021 Budget**
 - \$3M for unanticipated repairs and expense
 - \$1.5M for PCT pavement repair
 - \$1.2M for West Sitcum pier repairs
 - \$1M for T5 management reserve
 - \$700K for T5 south reefer repair

5-Year History: Admin Expenses



NWSA BARS Administration (\$)

	2019	2020	2021	2020 vs 2021	% Change
Administration Total	19,683,590	19,917,111	21,455,080	1,537,968	7.72%

- **2020 Forecast vs 2021 Budget**

- 2021 Budget includes consulting expense increase of \$327K
 - Bathymetry, \$160K
 - Grant writing and administration, \$125K
 - Climate resiliency, \$75K
- 2021 Budget includes travel increase of \$161K compared to near zero travel in 2020
- Net increase in allocations from the POT, \$171K, 1.4%
- Increase in allocations from the POS, \$277K
 - \$150K due to alignment of Commission charges
- Increased legal expense in 2021 of \$127K due to the reclassification of NWSA Real Estate legal fees to the Executive department
- In 2021 budgeted \$100K of Industrial Time Loss Insurance
- Net Payroll increase of \$86K

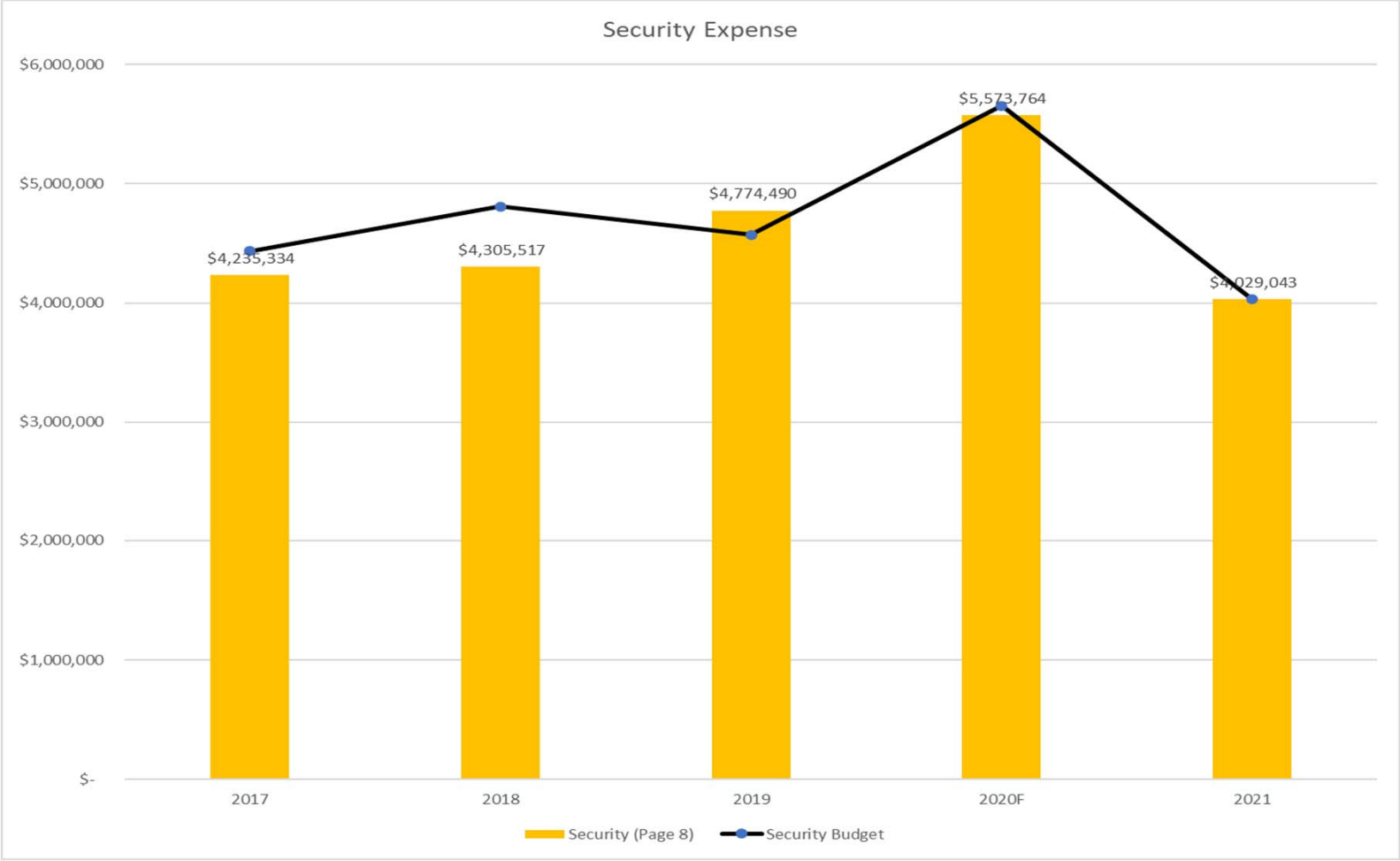
NWSA BARS Administration (\$)

	2019	2020	2021	2020 vs 2021	% Change
Administration Total	19,683,590	19,917,111	21,455,080	1,537,968	7.72%

- **2019 Actual vs 2021 Budget**

- Net increase payroll of \$317K
 - Pension liability adjustment of \$298K
- Increased legal expense in 2021 of \$159K due to the reclassification of NWSA Real Estate legal fees to the Executive department
- Reduction in NWSA Executive allocation to the POT, \$507K
- IT Allocation now includes depreciation \$480K
- Contracts allocation increased \$215K due to understaffing in 2019
- HR allocation increased \$380K due to reorganization and summer interns
- Communications expense reduction due to reduced allocation percentage from 50% to 20% partially offset by new headcount in the NWSA, net \$410K
- Government Affairs expense reduction due to reduced allocation percentage from 36% to 12%, reduced allocation from the POS, both partially offset by new headcount in the NWSA, net \$272K

5-Year History: Security Expenses

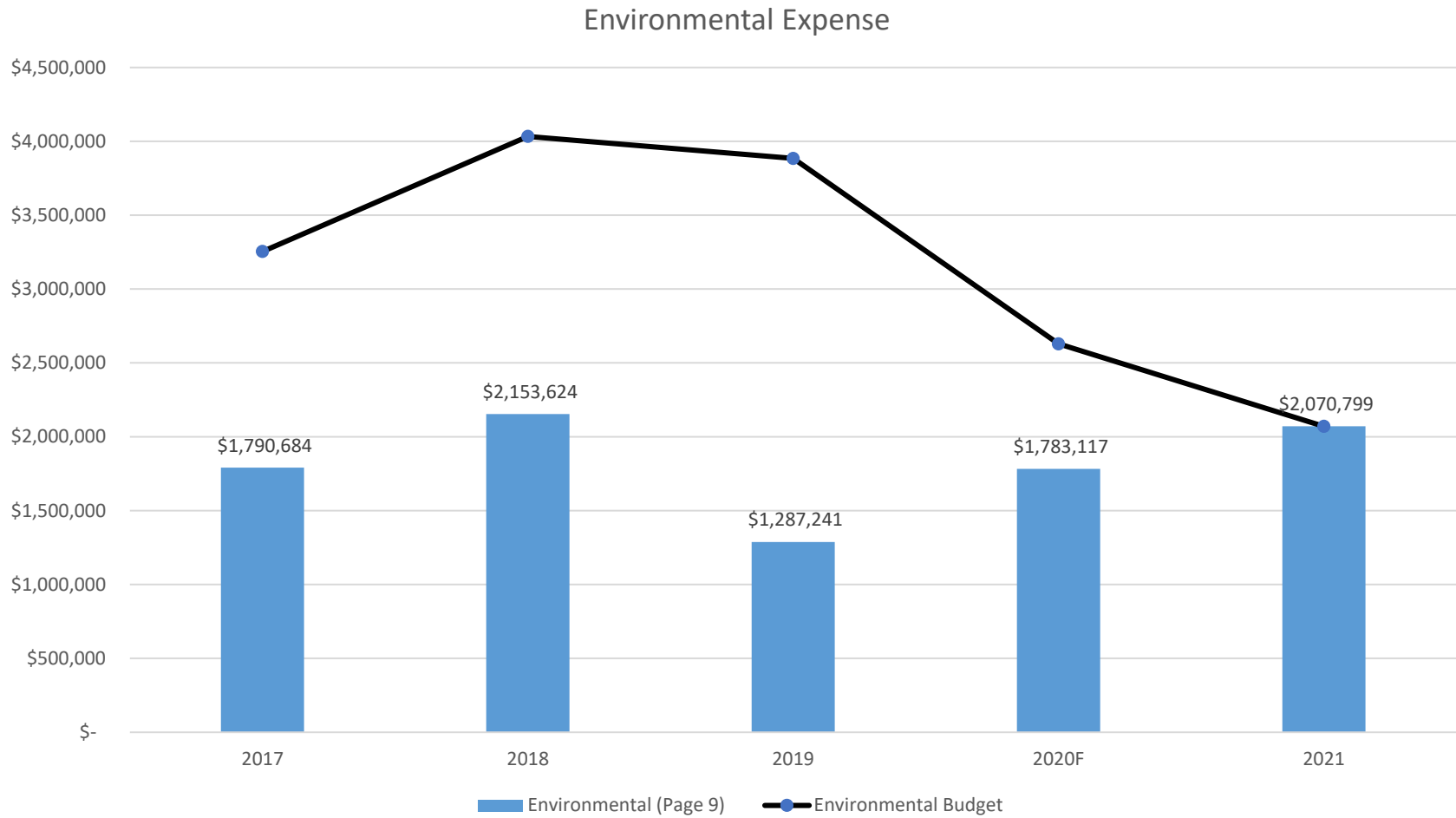


Security

	2019	2020	2021	2020 vs 2021	% Change
BARS Security Total	4,774,490	5,573,764	4,029,043	(1,544,721)	-27.71%

- **2020 Forecast vs 2021 Budget**
 - Reduced allocation percentage of POT security to NWSA by 29%, \$761K
 - Reduced allocation from POS, \$610K
 - Reduced POT direct charge rate to NWSA locations, \$173K
- **2019 Actuals vs 2021 Budget**
 - Reduced allocation percentage of POT security to NWSA by 29%, \$831K

5-Year History: Environmental Expenses



Environmental

	2019	2020	2021	2020 vs 2021	% Change
Total BARS Environmental	1,287,241	1,783,117	2,070,799	287,682	16.13%

- 2021 Budget includes environmental projects of:
 - \$400K stormwater legal/permit expenses
 - Electrification roadmap of \$145K
 - Ongoing clean air and stormwater projects



NWSA Payroll

	2019	2020 Budget	2020 Forecast	2021 Budget	Var from Forecast	% Var	Var from Prior Budget	%Var
Salary Wages	6,305,486	6,998,670	6,449,886	6,989,042	539,156	8%	(9,628)	-0%
Hourly Wages	102,641	78,196	79,504	96,265	16,761	17%	18,068	23%
OT Wages	14,599	8,000	1,891		(1,891)	#DIV/0!	(8,000)	-100%
Total Wages	6,422,726	7,084,867	6,531,281	7,085,307	554,027	8%	441	0%
F.I.C.A.	439,224	474,785	503,378	483,662	(19,716)	-4%	8,876	2%
S.U.I.	20,648	14,470	23,797	35,649	11,852	33%	21,179	146%
Medical Benefits	1,592,419	1,475,451	1,379,542	1,496,204	116,662	8%	20,753	1%
Employee Pension	815,682	901,247	839,152	812,330	(26,822)	-3%	(88,917)	-10%
Other Benefits	(496,952)	342,149	301,402	313,361	11,959	4%	(28,788)	-8%
Total Benefits	2,371,021	3,208,103	3,047,271	3,141,206	93,935	3%	(66,897)	-2%
<i>Benefits % of Total</i>	36.9%	45.3%	46.7%	44.3%				
Port Salaries & Benefits	8,793,747	10,292,969	9,578,552	10,226,513	647,961	6%	(66,456)	-1%

- **\$145,702** for annual pay increases for salaried employees starting April.
- **\$17,141** for annual recognition paid to salaried employees in April.
- **\$17,141** for marketplace adjustment for salaried employees during the year.
- Hourly employees will receive a **3.25%** raise in April per contract.
- **Average Salary of \$126,973. Benefits of 45%**



Promotional Hosting

- **RCW 53.36.120 & 130 requires that Port expenditures for Industrial Development, Trade Promotion, and Promotional hosting be specific budgeted items**
- **Promotional hosting is “Furnishing customary meals, refreshments, lodging, transportation or any combination of those items in connection with: Business meetings, social gatherings, and ceremonies honoring persons or events relating to the authorized business promotion activities of the port”**

	2019	2020	2021
Hosting	\$132,616	\$21,165	\$224,894

2021 Statutory limit is \$379,250.

MEMBERSHIPS

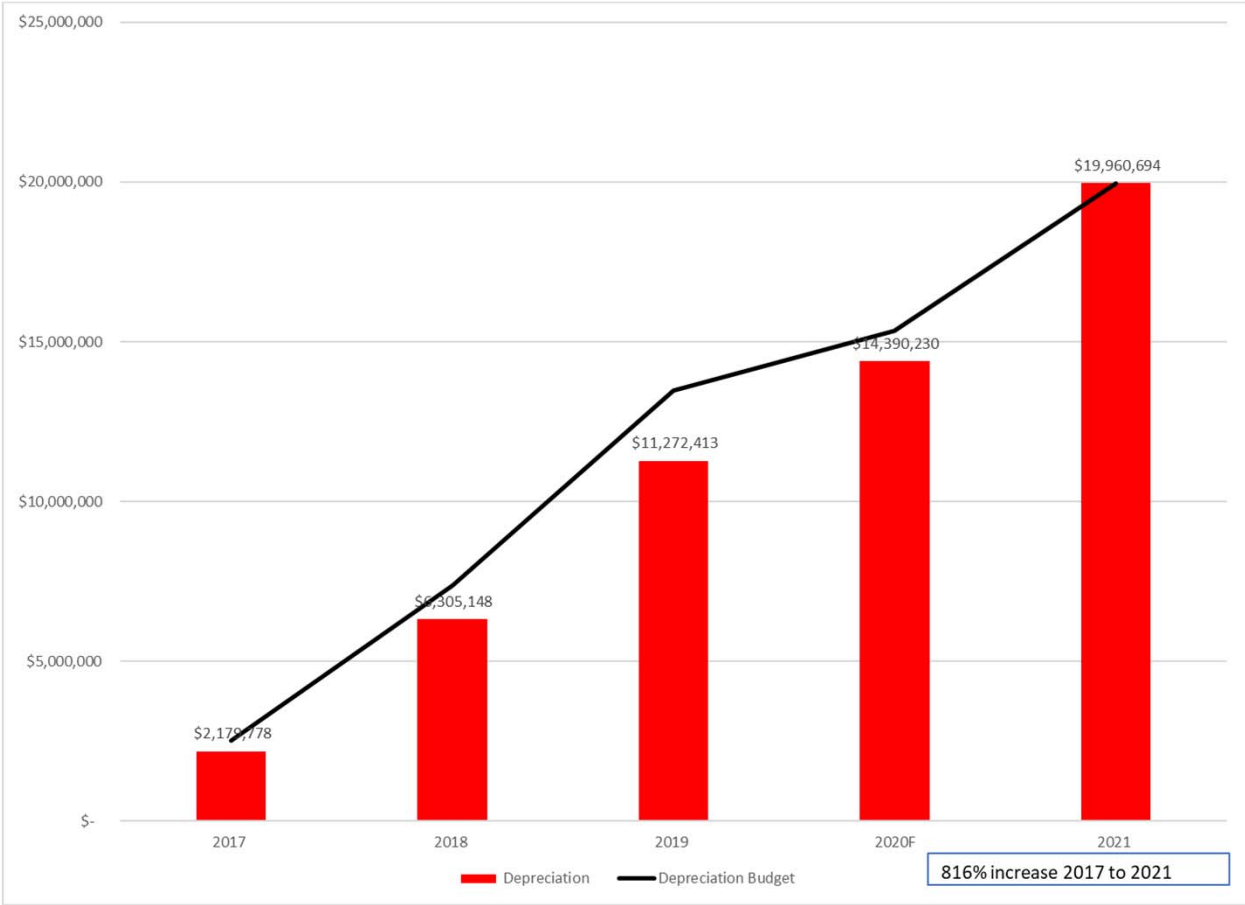
MM approval of NWSA Memberships over \$10,000 required per NWSA Master Policy

Organization	2020 Dues	2021 Dues
American Association of Port Authorities	\$55,000	\$55,000
Pacific Northwest Waterways Association	30,000	31,100
WA Council on International Trade	20,000	20,000
International Association of Ports and Harbors	13,000	13,000
Green Marine	11,000	11,000
All Other Memberships under \$10,000	54,796	48,083
Total NWSA Memberships	\$183,796	\$178,183

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



NWSA Depreciation



Budget Non Operating

(\$ millions)

	2019	2020	2020	2021
	Actual	Budget	Forecast	Budget
Grant Income				
Capital Grant Income	3.8	2.9	1.9	7.1
Non-Capital Grant Income	0.1	2.4	0.9	1.0
Interest Income				
Lease Interest Income	0.0	47.5	49.0	50.3
Interest Income	1.7	1.8	1.1	0.5
Premium Discount	(0.1)	(0.1)	(0.1)	0.0
Non Operating Income				
Gain (Loss) Sale Facil	(0.3)	0.0	0.0	0.0
Purchase Discounts Taken	0.0	0.0	0.0	0.0
Misc Non Op Inc	0.1	0.0	(0.0)	0.0
Investment Gain Loss				
	0.4	0.0	0.1	0.0
Non Operating Revenue	5.7	54.4	52.7	59.0
Other Non Operating Expense				
Lease Interest Expense	0.0	0.3	0.1	0.2
Bank Service Fee	0.0	0.0	0.0	0.0
Public Expense/LEDIF	3.8	6.1	3.2	2.2
Misc Non Op Exp	0.4	0.9	0.2	0.9
Non Operating Expense	\$4.2	\$7.3	\$3.6	\$3.3
Non Operating Revenue and Expenses	\$1.4	\$47.1	\$49.1	\$55.6

GASB 87

T5
public
expense

NWSA 2021 Budget and Four Year Forecast

(\$ millions)	2020	2021	2022	2023	2024	2025
Operating Revenue	\$127.6	\$141.7	\$151.3	\$158.7	\$164.2	\$166.3
Total Operating Expenses before Dep. Depreciation & Amortization	(91.0)	(93.7)	(92.5)	(98.2)	(96.0)	(97.0)
Operating Income	22.2	28.1	35.6	36.7	38.4	37.9
Grant Income	2.7	8.1	5.9	0.0	0.0	0.0
Lease Interest Income	49.0	50.3	51.6	49.3	53.2	50.7
Other Non Operating Income	(2.5)	(2.8)	(8.3)	(0.1)	(0.1)	(0.0)
Net Distributable Revenue	71.4	83.7	84.7	85.9	91.6	88.5
Distributable Cash + Lease Interest Cash	\$85.7	\$103.7	\$108.0	\$109.7	\$121.4	\$119.9
Bond Income	\$87.5	\$99.9	\$110.4	\$109.8	\$121.5	\$120.0

Opportunities to Increase 2021 Distributable Cash by Cost Reductions

Items to Reduce	Amount	Observations
Reduce Unplanned budget bucket	\$3,000,000	
Delay W. Sitcum pier repair	\$1,195,000	Risk of interim repair needed
Reduce PCT Paving to prior levels	\$600,000	Risk of further degradation
Represented Pay Freeze (2021 impact)	\$500,000	Includes allocated from POT
Hiring Freeze (2021 impact)	\$500,000	Will change allocations.
Salaried Pay Freeze (2021 impact)	\$350,000	Includes estimated POT allocated
Total Federal and State Lobbyist	\$225,000	
Total Memberships	\$180,000	
Hong Kong & Japan Foreign Office	\$100,000	
Reduce travel & hosting to 2019 level	\$100,000	
Reduce Air Quality project consulting	\$100,000	
Total subject to MM Direction	\$6,850,000	

Opportunities to increase 2021 Distributable Cash by Revenue Growth

Items for Increased Revenue	Amount	Observations
Lease 57 acres at T46 @ \$3k/month/acre	\$2,000,000	In addition to Foss \$1M
Lease 20 acres at log dock @ \$3k/month/acre	\$720,000	
Lease 15 acres at East Sitcum @ \$3k/month/acre	\$540,000	
Total subject to MM direction	\$3,260,000	

Other smaller opportunities exist and are being explored such as lease of available acres at T25 south.

Issues/Opportunities that may Impact Distributable Cash

- Deal with CMA CGM to secure T5 Phase II could reduce 2021 \$4.5 million
- The Gateway Infrastructure planning grant was not received, so in order to meet the distributable income goals of the NWSA, staff has removed the project from the budget. However, if the MM's want to proceed without grant support, the estimated minimum cost for 2021 to initiate the study is \$300,000. Additional spending of approximately \$300,000 will be required in 2022 to complete the study.
- Opportunities to grow volume and revenue – Revenue impact **TBD**
 - Further incentives for auto industry - \$1 million
 - BCO incentives to use our gateway - \$2 million
 - BNSF Domestic Rail incentive - \$1 million

Capital Improvement Plan



CIP Categories

- **Categorization is subjective**
 - **Required means**
 - per lease requirements (which can be negotiated away) or contract with another entity
 - Safety
 - legal or environmental compliance
 - **Discretionary can mean timing or need to complete is discretionary (flexible)**
 - Timing –could be delayed
 - New Need/Opportunity – new business opportunities which may have several alternatives



2021- 2025 CIP by Category *(\$ thousand)*

Group	2021	2022	2023	2024	2025	2021-25 Total
T5	84,957	81,867	19,572	372	-	186,768
Maintenance	21,847	11,202	16,655	24,755	54,900	129,359
Infrastructure	16,420	11,717	4,297	3,509	22,009	57,952
Environmental	2,053	3,855	2,354	2,378	2,403	13,043
Grand Total	125,277	108,641	42,878	31,014	79,312	387,122

All projects capitalized and expenses, required and discretionary

2021- 2025 Required Capitalized Projects by Category *(\$ thousand)*

Group	2021	2022	2023	2024	2025	2021-25 Total
T5	81,103	73,462	19,566	365	-	174,496
Infrastructure	2,896	5,600	1,280	500	-	10,276
Maintenance	5,784	-	840	260	-	6,884
Grand Total	89,783	79,062	21,686	1,125	-	191,656



2021- 2025 Required Expensed Projects by Category *(\$ thousand)*

Group	2021	2022	2023	2024	2025	2021-25 Total
T5	3,854	8,405	6	7	-	12,272
Maintenance	1,800	1,500	1,500	1,500	900	7,200
Environmental	897	1,004	993	992	1,012	4,898
Infrastructure	306	-	-	-	-	306
Grand Total	6,857	10,909	2,499	2,499	1,912	24,676



2021-2025 Discretionary Capitalized Projects by Category *(\$ thousand)*

Group	2021	2022	2023	2024	2025	2021-25 Total
Maintenance	10,352	5,203	6,000	19,400	51,000	91,955
Infrastructure	9,392	6,100	3,000	3,000	22,000	43,492
Environmental	100	1,000	-	-	-	1,100
Grand Total	19,844	12,303	9,000	22,400	73,000	136,547



2021- 2025 Discretionary Expensed Projects by Category *(\$ thousand)*

Group	2021	2022	2023	2024	2025	2021-25 Total
Maintenance	6,789	4,499	8,315	3,595	3,000	26,198
Environmental	1,056	1,851	1,361	1,386	1,391	7,045
Infrastructure	948	17	17	9	9	1,000
Grand Total	8,793	6,367	9,693	4,990	4,400	34,243



2021- 2025 Container Terminal Projects

(\$ million)

Project	Amount	Description
T5 Berth Modernization Construction	\$138.0	Develop N. Harbor strategic terminal required to achieve 3M TEU capacity & accommodate Ultra Large Container Ships (ULCSs)
T18 Dock Rehabilitation	69.0	Rehabilitate maritime asset for continued use
T5 Stormwater Treatment System	25.0	
Husky Berth Dredging	19.0	Rehabilitate maritime asset for continued use
T46 S Dock Rehabilitation	8.4	Rehabilitate maritime asset for continued use
T18 Stormwater Utility Upgrade	4.0	
Husky Shore Power	5.3	
Others	53.2	62 other projects
Total	\$321.9	

Note: T18 shorepower design is in the budget, but construction is not included as we work to get 50% grant funding



2021 - 2025 Other Projects *(\$ million)*

Project	Amount	Description
Contingency/Unallocated	\$30.0	\$3M/year for capital contingency and operating expense of emergent issues
T5 Public Expenses	10.3	
NWSA MS4, ISGP and Clean Truck Program	6.2	Stormwater compliance and air quality programs
T106 NH CBP Office & Facility Improvements	6.2	
NW Ports Clean Air Strategy	4.2	Reduce both diesel particulate matter (DPM) and Green House Gases (GHG) to zero by 2050 subject to Managing Members adoption
Others	3.1	11 projects
Total	\$60.0	



Budget Summary

- **2020 Net Distributable Revenue is projected to be \$71.4 million, \$12.6 million below budget level of \$84 million. Distributable cash of \$85.7 million**
- **2021 Net Distributable Revenue is projected to be \$83.7 million. Distributable cash of \$103.7 million**
- **2020, 2021 and 2022 are years impacted with investments in infrastructure to support future growth**
- **All years are projected to achieve required bond income**
- **All years are projected to provide over \$100M in cash to be split by the two homeports**

