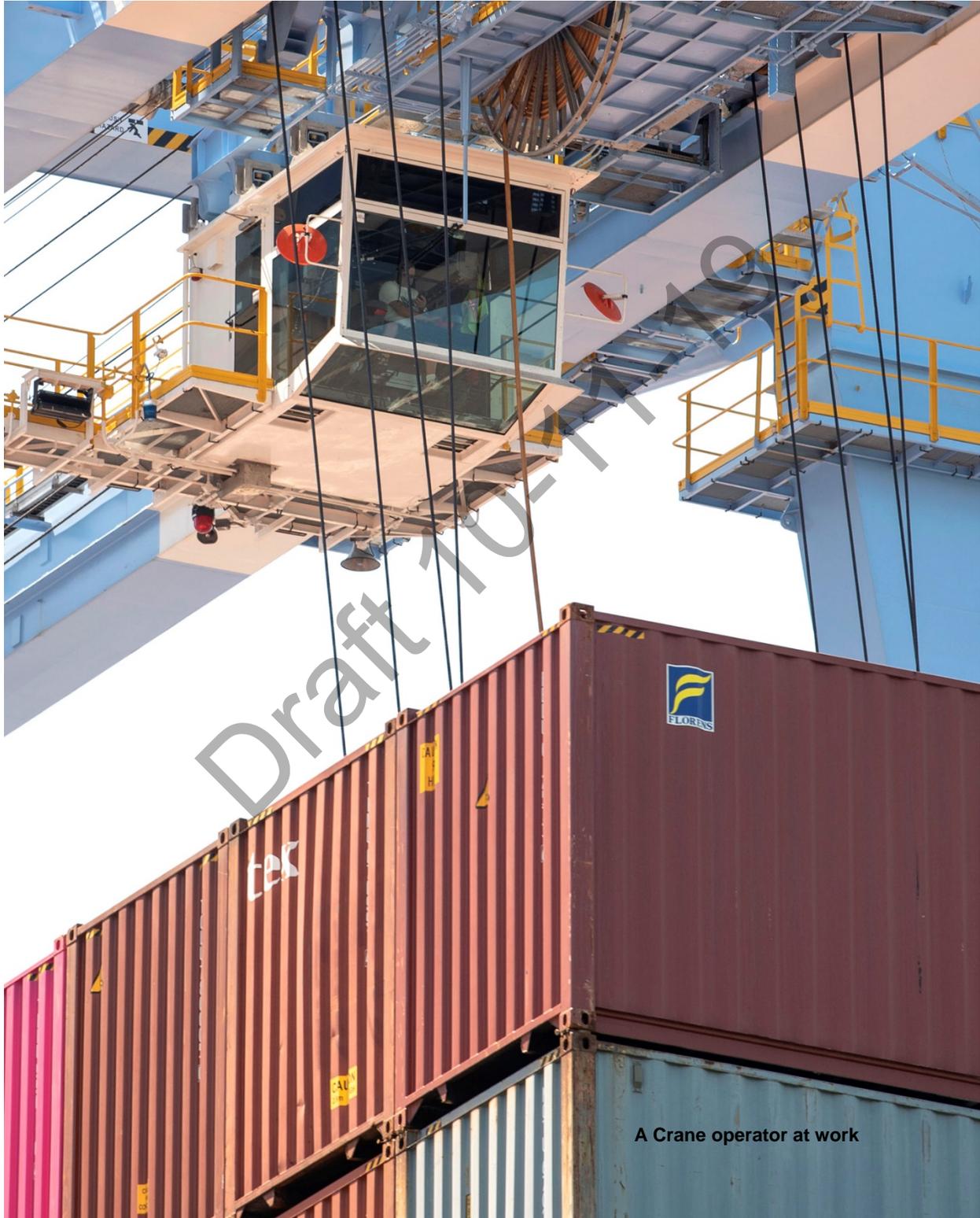




THE NORTHWEST  
SEAPORT ALLIANCE

## The Northwest Seaport Alliance 2020 Budget



A Crane operator at work

Operating Budget and Capital Investment Plan adopted:  
November 14, 2019



In July 2019, 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. Although this recognition is the first for the alliance, both the Port of Seattle and the Port of Tacoma have been recognized individually for several years.



In August 2019, Logistics Management Magazine awarded The Northwest Seaport Alliance with a 2017 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.

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**To:** Managing Members

**Date:** November 14, 2019

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

Staff is pleased to present the 2020 Northwest Seaport Alliance (NWSA) Budget. This document informs 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 softening of the Global marketplace. 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 four 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 have started the redevelopment of the wharfs at Terminal 5 in Seattle. 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 2020. Additionally, our industry continues to experience rapid change and unforeseen circumstances that affect global trade. In 2020, the NWSA will initiate an update to our Gateway Master Plan to help us be ready to respond to market changes and to position us to continue to be a leading port in N. America. 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.

# I 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
- Taiwan
- Vietnam
- Indonesia
- Thailand
- Malaysia
- Australia

The value of this two-way international trade totaled more than \$77.5 billion in 2018. Imports were \$60.9 billion and exports were \$16.6 billion of that total.

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<sup>th</sup>, 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 Commencement and Elliott 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 45 container gateways with some of the industry's largest container shipping lines calling the Puget Sound. Nineteen 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% to 60% of the NWSA import cargo moves out via rail. Excellent highway access is provided via Interstate 5 and Interstate 90.

Through August 2019, the two ports handled about \$50.8 billion of trade. Based on dollar volume, China (including Hong Kong) is the NWSA's largest trading partner. Other leading trading partners include Japan, South Korea, Taiwan and Vietnam.

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, 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.

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 (North Harbor) and Tacoma (South Harbor), 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

- Fred Felleman
- Courtney Gregoire
- Peter Steinbrueck

#### **Port of Tacoma**

- Don Johnson
- Dick Marzano
- John McCarthy
- Don Meyer
- Clare Petrich

### **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](http://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 CEO, two deputy CEO's, seven chief officer positions, and executive administrative support. 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 NWSA executive team provide day to day management of Port staff working on both Port and NWSA related items.

### **Commercial Group**

Led by the Chief Commercial Officer and the Chief Strategy Officer, the Commercial Group is comprised of the Business Development team, the Marketing & Business Services Team, and two Real Estate teams, one for the NWSA, and one for the Port of Tacoma.

**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 all of these cargos. 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 South Harbor is designated as a strategic military port for transport of military cargoes.

Auto customers include Kia, Mazda, and Mitsubishi. Auto Warehousing Company (AWC), a tenant, is the largest auto processor on the U.S. West Coast.

Exports of logs, 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 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 administrates 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.

**NWSA Real Estate Team:** Non-terminal industrial and commercial properties and facilities in the North and South 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 South 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, public affairs, facilities development and financial services are provided by 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.

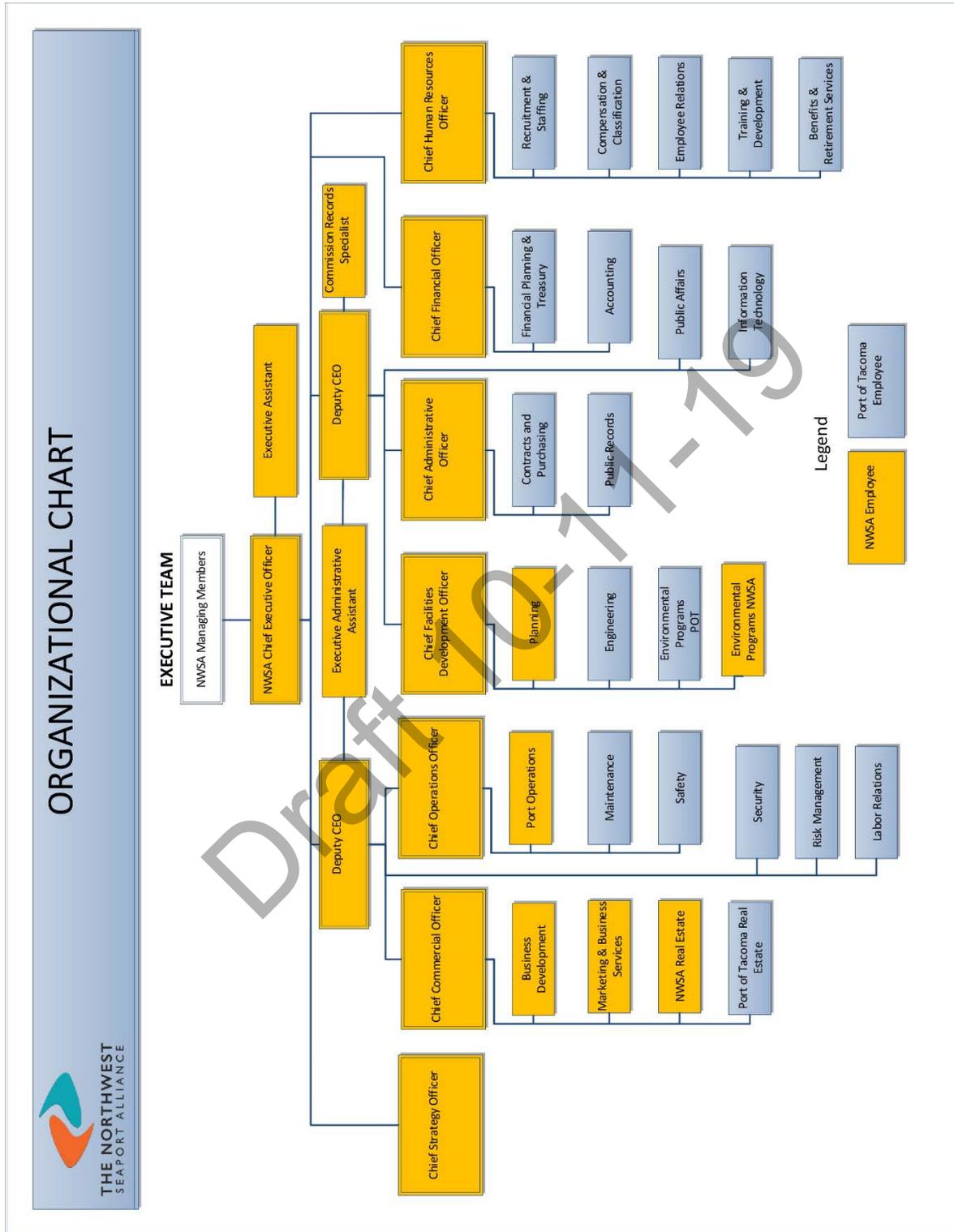
To maintain the rights of each port's existing bondholders, the charter prohibits the NWSA from issuing debt.

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



## II 2020 The Northwest Seaport Alliance Budget Message

### NWSA Goals

The NWSA has identified six commercial goals to maintain and grow the maritime business in the Puget Sound.

1. **Improve Licensed Alliance Terminal and Waterway Assets to Meet Market Demand**
  - a. Redevelop Husky Terminal and Pier 4 in the South Harbor to increase container throughput and respond to container industry changes
  - b. Modernization of T5 dock, berth and power infrastructure in the North Harbor to meet future container industry demand, increase throughput, and position The Northwest Seaport Alliance gateway strategically
  - c. Complete Seattle Harbor Navigation Improvement project
  - d. Work with U.S. Army Corps of Engineers (USACE) to begin a deepening project study for Tacoma waterways
  - e. Facilitate collaboration between terminal operators and ocean carriers for alliance consolidation
2. **Enhance Alliance, Local and Regional Transportation Infrastructure**
  - a. Participate in partner agency planning efforts to ensure that the alliance's needs are considered and that plans support future business growth
  - b. In partnership with local, state and federal stakeholders, facilitate improvement projects to vital roadways that service alliance customers
  - c. Update the ports of Tacoma and Seattle's Land Use and Transportation Plans and work to maintain and improve freight mobility along the alliance's truck routes
  - d. Design and develop appropriate rail support infrastructure in coordination with Tacoma Rail and the Class 1 railroads
3. **Improve Efficiency and Cost Competitiveness of the Supply Chain**
  - a. Improve the efficiency, service level and cost competitiveness of the intermodal product through the PNW gateway
  - b. Advance Operations Service Center (OSC) initiatives with the mission of providing "best in class" service delivery and customer care to our customers and stakeholders
4. **Advance the Alliance's Market Position in the International Shipping Industry**
  - a. Develop marketing materials and outreach programs to advance NWSA competitive position and value proposition with key customer segments
  - b. Develop and implement a comprehensive business development strategy targeting international container carriers, BCOs, NVOs and other supply chain partners
5. **Increase Revenue Through Growth and Diversification**
  - a. Facilitate new project cargo, breakbulk, auto and bulk business opportunities
  - b. Develop and execute a comprehensive business strategy to support the Seaport Alliance's domestic container business
6. **Advance Environmental Stewardship**
  - a. Partner with customers to find innovative solutions to our customers' environmental challenges
  - b. Continuously improve operational efficiency and emission reductions

## 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.

## 2020 Budget

The NWSA has developed an overall operating budget with projected revenue of \$149.9 million. Operating income is budgeted to be \$36.0 million, resulting in an operating margin of twenty-four percent (reduced from prior years due to GASB 87). The NWSA net distributable revenue of \$83.0 million, which includes grant and interest income, and cash of \$103.8 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 2020 – 2024 capital projects include the following:

### North Harbor

- T-5 wharf redevelopment, including a rail quiet zone and electrical upgrades in the City of Seattle's substation.
- T-46 wharf repair and paving;
- T5 and T-18 stormwater improvements;
- T18 and T30 full dock rehabilitations

### South Harbor

- Husky tenant improvements including shore power

- WUT fender system replacement
- Development of facilities for Customs and Border Patrol staff
- Ongoing maintenance of our facilities.

#### Both Harbors

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

The NWSA's 2020 Capital Investment Plan of \$146 million represents the first year of the NWSA's 2020-2024 CIP – a package totaling \$441.2 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 Revenue and (2) Return on Assets. 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

During the 2019 legislative session, state lawmakers authorized a \$4.4 million investment in shorepower infrastructure at the NWSA's Terminal 5. This would allow vessels at berth to shut their engines off and plug into the local electrical grid for their energy needs.

Shore power infrastructure, however, is not essential to the operation of the terminal. It is expensive and often does not "pencil out" for the terminal operators without outside capital.

The NWSA projects shore power at T-5 would reduce carbon emissions by 1,666 tons per year and NOx emissions by 66 tons per year. The state would also see reduced diesel particulate matter emissions.

Additionally secured \$1 million in federal Diesel Emissions Reduction Act grant funding for additional shorepower investments at Husky Container Terminal. To fully fund this project, the NWSA will seek additional state dollars in 2020 to match this federal investment.

##### 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 recommendation deepening in specific areas adjacent to the NWSA's container terminals in the North Harbor. Congress subsequently authorized construction of the project in the 2018 Water Resources Development Act. 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 North 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 Corp to initiate a feasibility study of navigation improvements to the Blair Waterway at the Port of Tacoma. The study will evaluate navigation improvement alternatives, including deepening. This is a first step to what could potentially result in a Chief's Report comparable to the one referenced above in Seattle. The alliance is committed to contribute up to \$1.5 million over the next three years for half of the costs of the feasibility study.

### 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 FY19. Seattle and Tacoma do not plan to spend our ports' share of the funding until the U.S. Army Corps of Engineers issues implementation guidelines for how to administer the customer rebate program authorized under Section 2106 of WRRDA 2014. The NWSA is actively working to encourage the Corps to issue these guidelines, in addition to securing additional appropriations for—and improvements to—this program.

### **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, and local, state and tribal governments 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 2.1 percent in the second quarter of 2019 and 3.1 percent in the first quarter of 2019. The Department of Commerce Bureau of Economic Analysis (BEA) said the second-quarter real GDP had “positive contributions from personal consumption expenditures (PCE), federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment, exports, nonresidential fixed investment and residential fixed investment.”

TTX expects a full-year GDP of 2 percent for 2019. Wages and salaries are expected to continue trending upward. Retail sales are forecast to grow 3.4 percent for the full year. TTX also predicts the likelihood of a recession in 2019 as low. Several factors that could raise the risk of recession include the trade war and rising fiscal deficits. Business inventory levels are expected to decline during the second half of the year.

The U.S. unemployment rate was at 3.7 percent in August 2019 with 130,000 jobs added for the month. Most job gains in August occurred in health care and financial activities. According to TTX, “As for many economic sectors, the trade war could turn things around in employment and income in the near term. Wage growth, which had been trending up over the last two years, has been down slightly over the past few months. Still, it is unlikely to fall significantly until whenever there is a next recession.”

According to the National Association of Realtors, existing home sales are up 0.6 percent from a year ago. Falling mortgage rates are improving housing affordability, but lower-priced homes are in short supply. According to Lawrence Yun, NAR’s chief economist, “Mortgage rates are important to consumers, but so is confidence about the nation’s overall economic outlook. Home buying is a serious long-term decision and current low or even lower future mortgage rates may not in themselves meaningfully boost sales unless accompanied by improved consumer confidence.”

The Conference Board reported August Consumer Confidence Index at 135.1, down from 135.8 in July. According to the Conference Board’s Senior Director of Economic Indicators Lynn Franco, “While other parts of the economy may show some weakening, consumers have remained confident and willing to spend. However, if the recent escalation in trade and tariff tensions persists, it could potentially dampen consumers’ optimism regarding the short-term economic outlook.”

### Shipping Industry

The global container shipping industry continues to struggle with imbalance in the supply and demand of vessel capacity. The overcapacity problem dates to the last decade, when the high price of bunker fuel drove global carriers to build and operate the largest, most fuel-efficient vessels to drive down per unit container carrying costs. Competition for market share and the resulting downward pressure on freight rates has resulted in multi-billion-dollar losses for international container lines over time.

The orderbook for mega vessels (more than 13,000-TEU capacity) which predominantly serve the major East-West trade lanes is shrinking, but vessels continue to get larger. It is projected that this segment of the global fleet will eventually account for more than 10 percent of global TEU capacity.

The new generation of ultra-large container ships (ULCS) is also having a ripple effect across the U.S. port industry. As the mega-ships come into service in Asia-Europe, vessels they have replaced are slowly being redeployed, primarily to the trans-Pacific trade. These larger ships, with carrying capacity of between 10,000 and 14,000 TEUs, require deeper water, more berth space and additional cranes with a longer reach to work the breadth of the ship. The larger container volume on each ship also puts a strain on landside infrastructure as terminals need more yard space for the loading and unloading of containers, and additional backlands for container storage and operational support. Seaports across the U.S. are engaged in major dredging and infrastructure improvement projects to accommodate the larger vessels, but port congestion could be an issue until infrastructure catches up. The downturn in the

industry, coupled with the drive to scale operations forced carriers to re-evaluate their partnerships and fueled an intense period of M&A activity amongst carriers over the last few years. In 2016, there were 20 global carriers. As of 2019, there are 12 global carriers, and they control 84.7 percent of the fleet. Industry analysts suggest that there is still room for more consolidation going forward.

In 2019, the composition of carriers that make up the various shipping alliances shifted slightly. ZIM joined the 2M Alliance. It was also announced that Hyundai Merchant Marine (HMM) will join THE Alliance in 2020.

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

Major Independent Carriers – Hamburg Sud, HMM, PIL, Wan Hai and SM Line.

Formation of these new alliances has concentrated capacity in fewer hands and allowed ocean carriers to exercise more control over available capacity on major trade lanes through coordinated changes to vessel sailings, schedules, and transit times, thereby influencing freight rates. Longer service strings with more port calls help carriers deploy excess capacity that would otherwise be running empty or delayed at great expense. Next year, THE Alliance expects fewer services with larger vessels in the PNW.

Carrier financials will again face pressure in 2020 when a new International Maritime Organization (IMO) mandate requiring ocean carriers to use fuels with a sulfur content no higher than 0.5 percent goes into effect on January 1. Ocean carriers can meet the new requirement by retrofitting vessels with special fuel scrubbers, a costly and time-consuming process or burning the new, more costly 0.5 percent low-sulfur fuel. The estimated cost to international shipping lines is estimated at \$10-\$15 billion.

The global container shipping industry will continue to face challenges; recent carrier financials are down, and global trade is slowing. Success or failure will in large part depend on carriers and their ability to

manage global capacity and resist the urge to seek market share through lower rates.

## Northwest Seaport Alliance Activity

### Containers:

Through August 2019, the NWSA has handled over 2.5 million TEUs (twenty-foot equivalent units), a 5.8 percent increase year-to-date. Volumes have been strong as importers have moved orders forward to stay ahead of tariffs. On the domestic side, the Alaska container market shows signs of recovery, although this could be derailed by in-state political tension and state budget constraints. The Hawaii market has improved, and larger vessels have been introduced to the service.

Container volume is projected to increase annually over the next several years due to larger vessels. Furthermore, 2019 volumes will be positively impacted by the PN4 service introduced in 2018. Factors that could 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, is also expected to increase annually over the next five years.

### 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 2019, breakbulk tonnage is estimated to reach approximately 280 metric tons. Volume is forecasted to reach 310K metric tons in 2020, resulting from new business and increased volume on current services.

### Autos:

NWSA/POT auto units for 2020 are forecasted to reach 191K units, up 31% from the previous year. This is due to the new Port of Tacoma auto managed by the NWSA.

Logs:

On the NWSA's bulk side of the business, log exports (metric tons) are forecasted to decline 34 percent in 2019 as demand from China, the primary customer, has dropped off significantly due to tariffs. The Log business has been suspended due to the tariffs and has not been included in the 2020 through 2024 forecast or budget.

Molasses & Petroleum:

Petroleum volumes in 2019 are projected to be 575K metric tons, essentially flat compared with the previous.

Molasses volumes are forecasted to be 49K metric tons in 2019. Molasses volumes are expected to grow 8 percent in 2019 and 2020.

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

	Actual					Forecast				
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Non-Container Forecast (Thousands of Metric Tons)</b>										
Breakbulk	234	181	211	249	280	310	313	318	327	336
Autos	271	246	225	228	277	285	204	206	208	210
Logs	237	177	278	117	76	0	0	0	0	0
Petroleum	815	612	716	666	575	575	575	575	575	575
Molasses	44	44	36	46	49	53	53	53	53	53
<b>Total Tonnage</b>	<b>1,601</b>	<b>1,261</b>	<b>1,465</b>	<b>1,305</b>	<b>1,257</b>	<b>1,223</b>	<b>1,145</b>	<b>1,152</b>	<b>1,163</b>	<b>1,174</b>
	-13%	-21%	16%	-11%	-4%	-3%	-6%	1%	1%	1%
<b>Container Forecast (Thousands of TEUs)</b>										
International	2,761	2,859	2,995	3,111	3,196	3,279	3,363	3,448	3,536	3,627
Domestic	769	757	707	686	726	748	763	779	796	812
<b>Total TEUs</b>	<b>3,530</b>	<b>3,616</b>	<b>3,702</b>	<b>3,798</b>	<b>3,922</b>	<b>4,027</b>	<b>4,126</b>	<b>4,227</b>	<b>4,332</b>	<b>4,439</b>
	3%	2%	2%	3%	3%	3%	2%	2%	2%	2%
<b>Intermodal Yard Lifts*</b>										
Hyundai Intermodal Yard	132,655	172,901	115,858	112,731	119,737	126,056	129,081	130,372	131,676	132,992
North Intermodal Yard	227,051	226,329	194,502	177,380	198,019	199,999	201,851	203,723	205,613	207,521
South Intermodal Yard	90,531	84,068	87,659	99,954	93,633	95,505	96,460	97,425	98,399	99,383
Pierce County Intermodal Yard	81,581	92,270	75,581	62,959	85,024	85,874	86,733	87,600	88,476	89,361
<b>Total Intermodal Lifts</b>	<b>531,818</b>	<b>575,568</b>	<b>473,600</b>	<b>453,024</b>	<b>496,412</b>	<b>507,434</b>	<b>514,126</b>	<b>519,120</b>	<b>524,164</b>	<b>529,258</b>
	3%	8%	-18%	-4%	10%	2%	1%	1%	1%	1%
<b>Log Board Feet</b>	<b>41,679,250</b>	<b>24,921,280</b>	<b>52,706,190</b>	<b>23,161,000</b>	<b>15,192,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	-17%	-40%	111%	-56%	-34%	-100%	0%	0%	0%	0%
<b>Vehicle Units (NWSA+POT)</b>	<b>183,305</b>	<b>165,687</b>	<b>146,885</b>	<b>146,147</b>	<b>191,131</b>	<b>207,511</b>	<b>182,275</b>	<b>191,972</b>	<b>203,332</b>	<b>216,684</b>
	4%	-10%	-11%	-1%	31%	9%	-12%	5%	6%	7%

\* 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 August 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 September, 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 budget year. 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 2020 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 58 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, environmental, 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 budgeted 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)	2018 Actual	2019 Budget	2019 Forecast	2020 Budget
<b>Operating Revenues</b>				
NWSA				
Container	159.7	168.4	164.4	119.5
Non Container	20.7	18.6	22.6	22.1
Real Estate	12.2	12.5	12.9	8.3
Other	0.0	0.0	0.0	0.0
<b>Total Operating Revenues</b>	<b>192.6</b>	<b>199.4</b>	<b>199.9</b>	<b>149.9</b>
<b>Direct Expenses</b>				
Container	32.7	38.0	39.3	39.7
Non Container	9.2	11.3	10.3	9.8
Real Estate	0.9	0.8	0.6	1.1
Other	14.3	17.3	14.6	16.0
<b>Total Direct Expenses</b>	<b>57.1</b>	<b>67.4</b>	<b>64.9</b>	<b>66.6</b>
<b>Administration</b>	19.3	23.6	20.9	24.0
<b>Security</b>	4.3	4.6	4.8	5.7
<b>Environmental</b>	2.2	3.9	2.2	2.6
<b>Total Operating Expense before Depreciation</b>	<b>82.8</b>	<b>99.5</b>	<b>92.8</b>	<b>98.9</b>
<i>Operating Income before depreciation</i>	<i>109.7</i>	<i>100.0</i>	<i>107.0</i>	<i>51.0</i>
<b>Depreciation &amp; Amortization</b>	<b>6.3</b>	<b>13.5</b>	<b>11.2</b>	<b>15.4</b>
<b>Total Operating Expense</b>	<b>89.1</b>	<b>112.9</b>	<b>104.0</b>	<b>114.3</b>
<b>Income from Operations</b>	<b>\$103.4</b>	<b>\$86.5</b>	<b>\$95.9</b>	<b>\$35.6</b>
<i>Return on Revenue</i>	<i>53.7%</i>	<i>43.4%</i>	<i>48.0%</i>	<i>23.7%</i>
Non Operating Income (Expense)	8.5	1.1	3.7	47.4
<b>Net Income before Special Item</b>	<b>112.0</b>	<b>87.6</b>	<b>99.6</b>	<b>83.0</b>
Special Item				
<b>Net Income</b>	<b>\$112.0</b>	<b>\$87.6</b>	<b>\$99.6</b>	<b>\$83.0</b>

\* 2020 includes impact of GASP 87. Amounts may not foot due to rounding.

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

(\$ millions)	2018	2019	2019	2020
	Actual	Budget	Forecast	Budget
Property Rental	\$40.7	\$43.3	\$40.7	(\$6.1)
Sale of Utilities	1.0	1.0	1.1	1.2
Services Marine Terminals	124.2	127.2	131.0	129.3
Equipment Rentals	16.7	18.3	17.7	16.3
Other Revenue	10.0	9.8	9.5	9.1
<b>Operating Revenue</b>	<b>192.6</b>	<b>199.4</b>	<b>199.9</b>	<b>149.9</b>
Home Port Services Provided	20.4	23.6	23.3	25.6
Port Salaries & Benefits	10.2	10.0	9.6	10.3
Outside Services	5.2	7.2	8.0	10.9
Longshore Labor & Fringe	10.4	10.4	11.6	11.0
Direct Expenses	11.4	11.3	11.5	11.0
Marketing & Global Outreach	0.6	0.8	0.6	0.7
Travel & Hosting	0.5	0.7	0.5	0.7
Maintenance	15.7	25.3	19.1	20.3
Office Equipment & Supplies	0.3	0.4	0.3	0.3
Utilities	4.4	4.8	4.6	4.7
Other Employee Exp	0.2	0.1	0.1	0.1
Other Expenses	1.3	1.0	1.4	1.1
Environmental	2.3	3.7	2.2	2.3
Depreciation & Amortization	6.3	13.5	11.2	15.4
<b>Total Operating Expenses</b>	<b>\$89.1</b>	<b>\$112.9</b>	<b>\$104.0</b>	<b>\$114.3</b>
<b>Operating Income</b>	<b>\$103.4</b>	<b>\$87.1</b>	<b>\$96.5</b>	<b>\$35.6</b>

\* 2020 includes impact of GASP 87. Amounts may not foot due to rounding.

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

	2018 Actual	2019 Budget	2019 Forecast	2020 Budget	Change from Prior Year Forecast
(\$ Millions)					
Operating Revenue	\$192.6	\$199.4	\$199.9	\$149.9	-25.0%
Total Operating Expenses before Dep.	(82.8)	(99.5)	(92.8)	(98.9)	6.6%
Depreciation & Amortization	(6.3)	(13.5)	(11.2)	(15.4)	37.7%
<b>Operating Income</b>	<b>103.4</b>	<b>86.5</b>	<b>95.9</b>	<b>35.6</b>	<b>-62.9%</b>
<b>Non Operating Revenues (Expenses)</b>					
Lease Interest Income	0.0	0.0	0.0	47.5	
Interest Income	1.4	1.7	1.8	1.8	-1.0%
Premium Discount	(0.2)	(0.2)	(0.2)	(0.1)	-20.3%
Market Value Adjustments	0.0	0.0	0.4	0.0	-100.0%
Non-Capital Grant Income	0.3	0.5	0.1	2.4	2358.3%
Capital Grant Contributions	3.6	3.8	4.3	2.9	-32.5%
Other Non Operating Revenue (Expense)	3.4	(4.6)	(2.8)	(7.1)	154.7%
<b>Total Non Operating Income (Expense)</b>	<b>8.5</b>	<b>1.1</b>	<b>3.7</b>	<b>47.4</b>	<b>1185.7%</b>
<b>Net Distributable Revenue (Net Income)</b>	<b>112.0</b>	<b>87.6</b>	<b>99.6</b>	<b>83.0</b>	<b>-16.6%</b>
<b>Distributable Cash + Lease Interest Cash</b>					
Operating Income Before Depreciation	109.7		107.0	51.0	-52.4%
Add Non Capital Grants	0.3	0.5	0.1	2.4	2358.3%
Add Capital Grants	3.6	3.8	4.3	2.9	-32.5%
Add Lease Interest Income	0.0	0.0	0.0	47.5	
<b>Distributable Cash* + Lease Interest Cash</b>	<b>113.7</b>	<b>104.3</b>	<b>111.4</b>	<b>103.8</b>	<b>-6.9%</b>
<b>Net Position</b>					
Net Position beginning of year	207.5	313.0	284.0	390.7	37.6%
Add Contributions and Expected Capital Construction	83.3	162.7	118.6	124.8	5.2%
Add Net Distributable Revenue (Net Income)	112.0	87.6	99.6	83.0	-16.6%
Less Cash Distributions	(118.8)	(104.3)	(111.4)	(103.8)	-6.9%
<b>Net Position end of year</b>	<b>\$284.0</b>	<b>\$459.1</b>	<b>\$390.7</b>	<b>\$494.6</b>	<b>26.6%</b>

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

\* 2020 includes impact of GASP 87. Amounts may not foot due to rounding.

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

(\$ Millions)	2018 Actual	2019 Budget	2019 Forecast	2020 Budget
Port of Tacoma to NWSA	\$28.3	\$35.0	\$32.4	\$34.2
Port of Seattle to NWSA	\$7.7	\$7.7	\$7.5	\$8.2
NWSA to Port of Tacoma	\$1.2	\$1.3	\$1.1	\$1.1

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

(\$ in millions)	2019	2020	2021	2022	2023	2024
Operating Revenue	\$199.9	\$149.9	\$159.2	\$168.0	\$176.4	\$192.7
Total Operating Expenses before Dep.	92.8	98.9	109.2	97.3	99.8	101.9
Depreciation & Amortization	11.2	15.4	21.1	22.8	22.3	27.8
<b>Operating Income</b>	<b>95.9</b>	<b>35.6</b>	<b>28.9</b>	<b>47.8</b>	<b>54.3</b>	<b>63.1</b>
Grant Income	4.4	5.3	1.6	0.5	0.0	0.0
Lease Interest Income	0.0	47.5	45.4	43.1	40.7	38.2
Other Non Operating Income	-0.7	-5.4	-5.1	0.2	1.5	1.5
<b>Net Distributable Revenue</b>	<b>99.6</b>	<b>83.0</b>	<b>70.8</b>	<b>91.7</b>	<b>96.5</b>	<b>102.8</b>
<b>Distributable Cash + Lease Interest Cash</b>	<b>\$111.4</b>	<b>\$103.8</b>	<b>\$97.0</b>	<b>\$114.2</b>	<b>\$117.3</b>	<b>\$129.1</b>

\*2020 to 2024 includes impact of GASP 87. Amounts may not foot due to rounding

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)	2019	2020	2021	2022	2023	2024
Operating Revenue	\$199.9	\$149.9	\$159.2	\$168.0	\$176.4	\$192.7
Add Non Operating Revenue	6.5	54.4	48.7	45.3	42.4	39.8
Less Capital Grants	(4.3)	(2.9)	(1.6)	(0.5)	0.0	0.0
Less Operating Expenses before Depreciation	(92.8)	(98.9)	(109.2)	(97.3)	(99.8)	(101.9)
<b>Bond Income</b>	<b>\$109.3</b>	<b>\$102.5</b>	<b>\$97.0</b>	<b>\$115.4</b>	<b>\$119.0</b>	<b>\$130.7</b>

2020 to 2024 includes impact of GASP 87. 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 2019, the NWSA will have completed or neared completion of the following capital projects:

- Placed in-service the second set of four super-post Panamax container cranes at Husky Terminal
- Constructed stormwater treatment system at West Sicum Terminal
- Replaced roof at AWC
- Removed cranes at T18 and T46
- Implemented RFID at both harbors
- Repaired T-46 wharf
- Completed design for T5 and started construction phase

#### Strategic investments:

- Construction of major terminal improvements at the North Harbor Terminal 5
- Rehabilitation of T18, T30 and T-46 dock
- Rehab bulkhead T-46 NW
- Pave T46
- T-18 stormwater utility upgrade
- Husky shore power

#### Maintenance investments:

- Replace fender system
- 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 stormwater 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
Historical Capital	80.5	66.7	77.8						
Planned Capital				154.6	124.8	104.3	71.5	38.7	29.0
<b>Grand Total</b>	<b>\$ 80.5</b>	<b>\$ 66.7</b>	<b>\$ 77.8</b>	<b>\$ 154.6</b>	<b>\$ 124.8</b>	<b>\$ 104.3</b>	<b>\$ 71.5</b>	<b>\$ 38.7</b>	<b>\$ 29.0</b>

**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

- **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

**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 also may use capital leasing through equipment suppliers or financial institutions

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 \$4441.1 million worth of planned projects (capitalized and expensed) in the next five years, with \$145.9 million of that total earmarked for 2020. 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 of the projects are completed. The CIP is the total expected spending of 148 projects, 68 of which are capitalized and 80 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)

	2020	2021	2022	2023	2024	Total
Infrastructure	\$8.8	\$7.6	\$5.9	\$6.1	\$5.8	\$34.2
Renewal	\$38.4	\$16.4	\$11.2	\$9.0	\$30.6	\$105.5
Revenue	98.7	108.7	63.0	31.0	0.0	301.4
<b>Grand Total</b>	<b>\$145.9</b>	<b>\$132.7</b>	<b>\$80.0</b>	<b>\$46.0</b>	<b>\$36.4</b>	<b>\$441.1</b>

Amounts may not foot due to rounding

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

(\$ Millions)

	2020	2021	2022	2023	2024	Total
Capitalized	\$124.8	\$104.3	\$71.5	\$38.7	\$29.0	\$368.2
Operating Expense	\$14.4	\$21.9	\$7.3	\$7.4	\$7.4	\$58.4
Non-Operating Expense	6.7	6.5	1.2	0.0	0.0	14.5
<b>Grand Total</b>	<b>\$145.9</b>	<b>\$132.7</b>	<b>\$80.0</b>	<b>\$46.0</b>	<b>\$36.4</b>	<b>\$441.1</b>

Amounts may not foot due to rounding

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

(\$ Millions)

	2020	2021	2022	2023	2024	Total
Container Business	\$123.2	\$110.3	\$69.9	\$36.9	\$27.5	\$367.9
Non Container Business	\$3.6	\$0.0	\$0.0	\$0.0	\$0.1	\$3.8
Infrastructure	19.1	22.3	10.1	9.1	8.8	69.4
<b>Grand Total</b>	<b>\$145.9</b>	<b>\$132.7</b>	<b>\$80.0</b>	<b>\$46.0</b>	<b>\$36.4</b>	<b>\$441.1</b>

Amounts may not foot due to rounding

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

(\$ Millions)

	2020	2021	2022	2023	2024	Total
Container Business	\$ (6.4)	\$ (12.4)	\$ (14.3)	\$ (14.6)	\$ (20.9)	\$ (68.7)
Non Container Business	(0.7)	(1.0)	(1.0)	(1.0)	(0.6)	(4.3)
Infrastructure	(0.9)	(1.3)	(1.6)	(1.6)	(1.3)	(6.6)
<b>Grand Total</b>	<b>\$ (8.0)</b>	<b>\$ (14.7)</b>	<b>\$ (16.9)</b>	<b>\$ (17.2)</b>	<b>\$ (22.8)</b>	<b>\$ (79.6)</b>

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

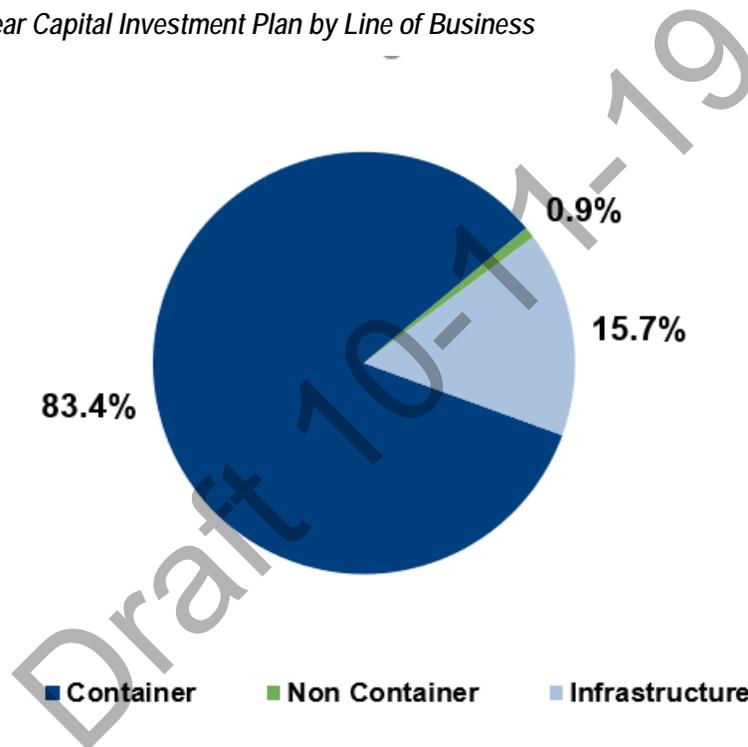
Planned capital expenditures for container terminals will total approximately \$367.9 million over the next five years. The CIP for this business will provide the funds necessary for the construction of major terminal

improvements at the North Harbor Terminal 5; T-18 stormwater utility upgrade; T-18, T-30 and T-46 dock rehabilitation, including design and construction paving repairs and fender replacements at various terminals.

### Non-Container Business

Approximately \$3.8 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, and ongoing cleanup projects. 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

- Technology: The alliance is investing 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.

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Arial view of the N. Harbor in Seattle.



## 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:

- Fully integrated environmental, economic and financial business decision planning/making;
- Responsive to market and community; and,
- Driver of innovative cost/effective and sustainable solutions.

Program areas of emphasis include:

- Water Quality (source control)
- Air Quality and Sustainable Practices
- Remediation
- Habitat Restoration
- Planning
  - Transportation
  - Land Use
  - Facilities

In 2020, 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 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 North and South 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, environmental organizations and the neighboring communities.

### 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 that are shared with tenants and customers.

### 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 their source and eliminate the source where possible. Using a stepped approach like this, the WQ team assists customers with effective, cost-effective solutions.

### North Harbor Focus

Most North Harbor tenants have installed or are installing 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.

### South Harbor Focus

Many South Harbor tenants have reached consistent attainment or are currently meeting 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.

### **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.

### North Harbor Projects

Design for the redevelopment of Terminal 5 is underway. As part of those efforts the NWSA is 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, lowest cost treatment system that protects the water quality of the west waterway.

### South Harbor Projects

At the East Sitcum Terminal, the NWSA is installing an end-of pipe retrofit of an existing treatment vault to support the Husky backlands reconfiguration and pipe

replacement project currently planned for 2020. The NWSA has successfully completed the treatment installation at the West Sitcum Terminal and anticipates turning over the operating permit to the customer in 2020.

### **2020 Goals**

In 2020 the NWSA water quality team will assist SSA in completing the engineering design for stormwater at T-5. The team continues to assist other tenants as requested. The new 2020 ISGP will be released in December 2019 with an effective date of January 1, 2020. NWSA is evaluating its response to this permit and its impacts to NWSA and tenant operations. The Water Quality team also has two pilot projects planned for 2020.

### **Air Quality Program**

#### **Northwest Ports Clean Air Strategy**

The Northwest Ports Clean Air Strategy (NWPCAS) was adopted in 2008 and updated in 2013 as a collaborative effort among Port of Vancouver (Canada), the Port of Seattle, and the Port of Tacoma to reduce air emissions from shipping and port-related activities. The NWPCAS includes goals to reduce emissions of diesel particulate matter and greenhouse gases, and establishes performance targets for various maritime sectors. The NWPCAS will be updated in 2020 to create goals for 2025 and beyond.

The NWPCAS identifies specific measures to achieve beyond compliance air quality and greenhouse gas objectives. NWSA staff will continue ongoing collaboration with NWPCAS partners to share information, conduct joint projects and publish annual progress reports to the community. The NWSA will seek opportunities to partner with customers and other stakeholders on grant-funded emission reduction projects and pilot studies.

#### **Puget Sound Maritime Air Emissions Inventory**

In 2005, 2011 and 2016 the partners in the Puget Sound Maritime Air Forum, consisting of the ports of Tacoma, Seattle, Anacortes, Everett and Olympia; along with Washington State Ferries, Puget Sound Clean Air Agency, Western States Petroleum Association, Pacific Merchant Shipping Association,

and others, collaborated on the development of a Puget Sound Maritime Air Emissions Inventory. The 2005 inventory formed the basis of the Northwest Ports Clean Air Strategy. The latest inventory was based on emissions in calendar year 2016 and was completed in early 2018. As the largest port authority in the Puget Sound Maritime Air Forum, the NWSA managed the 2016 inventory. The results of the 2016 inventory demonstrated that we met both our overarching diesel particulate reductions goals and our greenhouse gas reductions goals four years earlier than anticipated. A scenario tool was also deployed based on the data collected in the inventories. This tool helps Ports evaluate the effectiveness of proposed technology upgrades and new emission reduction programs. NWSA plans to initiate the next emissions inventory in 2021.

### **Clean Truck Program**

The NWPCAS Clean Truck Program targets 100% of trucks serving the gateway to have a 2007 model year or equivalent engine.

In 2019, the NWSA and its terminal operators took the bold step of prohibiting truckers that call at our international marine terminal facilities from entering those terminals if they operated model year trucks of 2006 or older. Radio Frequency Identification Tags (RFID) readers have been installed at all international container terminals and are used to validate that trucks entering the terminals are model year 2007 or newer. In addition, the NWSA partnered with the Washington State Department of Ecology, the Puget Sound Clean Air Agency, the City of Seattle and received a Clean Diesel Grant to pool our resources and created a loan loss reserve fund to assist truckers with purchasing a compliant truck. The loan loss reserve program was discontinued as planned in spring 2019 after the clean truck deadline was successfully implemented.

In order to continue making progress towards phasing out pre 2007 trucks from domestic terminals and providing support for drivers serving the international terminals, NWSA has negotiated for continued use of Clean Diesel Grant funds from the Department of Ecology to provide incentives for drivers who wish to scrap their trucks and replace them with newer models. In close consultation with the trucking community, the NWSA will determine the future

direction of the Clean Truck Program through the 2020 Northwest Ports Clean Air Strategy Update.

### **Greenhouse Gas Reduction Resolution**

In 2017, the NWSA Managing Members revised the greenhouse gas reduction goal outline in the NWPCAS and adopted greenhouse gas reduction targets in keeping with the Paris Agreement and in alignment with the global reductions necessary for keeping warming to within 2-degrees Celsius by 2050. The alliance will reduce greenhouse gas emissions within the Puget Sound airshed as follows:

By 2030:

- 50% below 2005 levels (scope 1, 2 & 3 emissions)

By 2050:

- Carbon Neutral (scope 1 & 2 emissions)
- 80% below 2005 levels (scope 3 emissions)

To accomplish these goals, the alliance will advance initiatives specific to the operations it controls and work to influence other stakeholders whose emissions fall beyond the Port's authority. The alliance is committed to partnering with tenants, cargo owners, shipping lines, manufacturers, warehousing and other key stakeholders to drive demand for cost-effective and innovative greenhouse gas reduction technologies and solutions to meet our collective goals.

### **Green Marine**

Green Marine is a maritime environmental organization that offers a certification program for the North American marine industry. To receive certification, members benchmark their environmental performance each year and have bi-annual verification of results. The NWSA joined this organization in 2016 and began the self-assessment process. This work will continue in 2020, with results scored and published by Green Marine. NWSA staff participate in technical advisory groups to guide updates to the program.

### **Ship to Shore Power Expansion**

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), 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 draft plan for shore power installations throughout the gateway. Pending Managing Member approval, NWSA plans to accept a DERA grant from the EPA that would contribute \$1 million to the installation for shore power at Husky Terminal, with design planned in 2020 and construction in 2021. 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.

### Energy Planning

Zero emission equipment and vehicles are quickly being developed and demonstrated and would provide opportunities to reduce emissions once fully commercially available. In addition, since electrical energy is cheaper than fuel, there is significant potential for the total cost of ownership for electric vehicles and equipment to be lower than diesel if the purchase price is appropriately reduced.

While zero emission equipment and vehicles could provide these advantages substantial infrastructure investments would be necessary to support them. In 2020 and 2021, the NWSA plans to develop an "Electrification Roadmap" for the South Harbor, quantifying the energy needs to power operations at the port, determining the infrastructure required to meet those energy needs, working with the utility to evaluate the grid's capability to supply the required energy, and create a plan for making these infrastructure investments over time. The Port of Seattle is leading a similar effort in Seattle, which will cover NWSA's North Harbor facilities.

### Planning

The Planning Team provides a range of services from strategic to site planning. Some of our primary services include planning for marine terminals and supporting infrastructure, port master planning, optimizing port operations and determining the operational and financial feasibility of new port and marine investments. Port Planning also coordinates

baseline studies to facilitate decision making about investments and operations.

#### Planning Overview:

- **Facility Planning:** Port Planning has experience with developing port industrial lands, equipment costing, industrial warehouse location and layout 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 supports Facilities Development by maintaining a general understanding of all focus areas within the group, especially the environmental specialties. With this overall perspective the team is able to assist with opportunity assessment review and strategic port planning-
- **Economic and Financial Analysis:** Services include: 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:** Services include developing business plans, master plans, and strategic 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 staff support to the Grant Steering Committee.

### **2020 Planning Goals**

The major goals for 2020 include completion of the NWSA Gateway Master Plan, coordination of shoreline permit condition requirements for Terminal 5, coordination with Sound Transit on ST3 link extensions north and south and Sounder expansion, advocacy at Puget Sound Regional Council, and continued coordination with the NWSA Operations and Commercial teams, and coordination of grant applications

Draft 10-11-19



**A Sea Lion in Commencement Bay**

## 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 from the PDA equal to the amount currently required for the Homeports to meet their current bond rate covenants ("Bond Income Calculation"). 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. 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 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 on the CEO's periodic projection of PDA capital project cash flow needs. 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. 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.

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## Appendix C NWSA Full Time Personnel

<i>As of September 30, 2019</i>	<b>NWSA</b>			
	2018 Actual	2019 Budget	2019 Actual	2020 Budget
Executive	12	12	12	13
Commercial Business	22	26	20	23
Operations	10	11	10	11
Facilities Development	9	9	8	9
<b>Total</b>	<b>53</b>	<b>58</b>	<b>50</b>	<b>56</b>

The 2020 staffing budget of \$10,292,969 includes the following:

- \$6,998,670 for salaried employees and \$78,196 for hourly employees which includes;
  - \$149,123.11 for annual pay increases for salaried employees starting April.
  - \$17,543.89 for annual bonus paid to salaried employees in April.
  - \$17,543.89 for marketplace adjustment for salaried employees during the year.
  - Hourly employees will receive a 3% raise in April per contract.
- Total benefits of \$3,208,203

# 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	30,000
Washington Council on International Trade	20,000
Green Marine	11,000
All Other Memberships	61,796
<b>Total NWSA Memberships</b>	<b>\$177,796</b>

## 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.

## Green Marine

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

## **The Northwest Seaport Alliance**

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