

MINUTES
MANAGING MEMBER SPECIAL MEETING
Monday, November 9, 2020

Remote video/teleconference. The meeting was streamed live on the NWSA's website and the call-in number 1-253-617-4257 conference ID: 679 370 884# was provided for the public to listen live.

SEATTLE COMMISSIONERS PRESENT:

Stephanie Bowman
Ryan Calkins
Sam Cho
Fred Felleman
Peter Steinbrueck

TACOMA COMMISSIONERS PRESENT:

Kristin Ang
Deanna Keller
John McCarthy
Dick Marzano
Don Meyer

OTHERS PRESENT:

John Wolfe, CEO
Kurt Beckett, Deputy CEO
Don Esterbrook, Deputy CEO
Dana Henderson, NWSA General Legal Counsel
Tong Zhu, Chief Commercial and Strategy Officer
Eric Johnson, Port of Tacoma Executive Director
Carolyn Lake, Port of Tacoma General Legal Counsel
David Morrison, Dir. Finance and Treasury
Erin Galeno, Chief Financial and Administrative Officer
Leilani Berinobis, Executive Assistant
Juliet Campbell, Clerk

1:00 P.M. - PUBLIC SESSION:

1. **CALL TO ORDER AND PLEDGE OF ALLEGIANCE:** Commissioner McCarthy called the meeting to order at 1:11 p.m. and lead the Pledge of Allegiance.

2. **PUBLIC COMMENT:** None.

3. **ACTIONS:**

A. 2021 Budget, CIP, Lease Interest Cash Policy and Bond Income Adjustment

Presenter: David Morrison

Presentation highlights:

- Approval of the budget and CIP does not authorize projects. Any projects over the CEO's delegated authority will still come before the Managing Members for approval.
- Staff verbally corrected two errors on slide 2 of the presentation. The 2020 YTD Actuals should be \$83.5 million. The \$39.6 million showing on the slide is after GASB 87 adjustments. The operating income 2020 YTD budget of \$97.6 million is the full year budgeted operating income.
- Staff highlighted changes to the draft budget since the October 28, 2020 study session. Including revised capital spending timing for Terminal 5 construction. Specifically spending increases in 2020 and 2021 (\$17 million/\$25 million respectively) and decreases in 2022 and 2023 (\$30 million/\$11 million respectively). The changes do not impact the Terminal 5 total program costs.
- Staff does not have enough details of the PIDP grant of \$10.6 million in order to determine when that money will be received, so it is not included in the budget.
- Staff received information after this presentation was posted and sent to commissioners, that the NWSA will be receiving a grant to assist with PCT culvert repair. Q3 grant income will increase by \$700,000.00 which will flow to income and distributable cash.

- Reductions in Port of Tacoma headcount reduces allocation to the Northwest Seaport Alliance by \$130,000.00.
- Total Operating Revenue (before GASB 87) 2021 budget is \$192 million, down \$3 million from 2019 actuals.
- Distributable cash and lease interest cash will now be \$104.5 million instead of \$103.7 million shown due to the grant for PCT culvert repair and Port of Tacoma staffing. Bond income will also go up by the same amount, approximately \$800,000.00.
- 2021 operating budget highlights were provided. Revenue is essentially flat to 2019. Project spending on top of ongoing maintenance to fix or repair existing assets includes \$1.2 million for pier repair at West Sitcum and \$700,000.00 South reefer repair. Funds are included for an orca study, climate resilience and impacts of organizational changes made in 2020. The proposed budget provides each homeport with \$52 million in distributable cash and lease interest cash.
- The Master Policy requires Managing Member approval of memberships over \$10,000.00. Overall, membership dues are down by \$5,600.00 at \$178,183.00. Promotional hosting (business development) for 2021 is budgeted at \$224,894. The 2021 statutory limit based on NWSA revenue is \$505,104.00.
- A summary of the 2021-2025 CIP was presented, which includes the Terminal 5 spending changes previously mentioned. The grand total of expenses is approximately \$370 million for the five-year period of which \$311 will be capitalized and \$59 million in operating and non-operating expense.
- Bond income was put into the NWSA Charter to protect bond holders for bonds issued before the formation of the alliance. Section 4.2(b) of the Charter requires annual review of the bond income calculation. The Port of Seattle has refunded some bonds. The old number was \$90 million, now the required bond income as defined by the Charter is \$52.65 million. This is driven by the Port of Seattle requirements. The Port of Tacoma has refunded all bonds outstanding at the time of the formation of the alliance.
- The distributable cash history since 2016 was presented. There is a 10 percent decrease 2016-2021. The chart does not include the grant for PCT or the Port of Tacoma headcount adjustment. The 2021 forecast is for \$104.5 million.
- CEO Wolfe reminded Managing Members that part of the reason the administrative costs increase in the 2021 budget is due to accounting rules. Some of the administrative cost in the 2021 budget, resided in other parts of the budget in 2020.

Commissioner Discussion:

- Distributable cash includes outstanding overdue payment from CMA CGM - \$3 million for remainder of 2020 and \$9 million due in August 2021. Terminal 5 acceleration of expenses does not change the profit and loss statement, but changes the timing of the spending from what was presented in the October 28, 2020 Budget Study Session. The budget includes a 3 percent increase for salaried employees and a 3.25 percent increase, per contract, for hourly employees. The budget also includes \$17,000 for potential raises/bonuses and \$17,000 for any marketplace adjustments.
- Commissioner Meyer expressed his concern that operating expenses appear to be increasing faster than revenue. He does not think administrative costs should increase more than three percent.
- Commissioner Keller suggested it would present a clearer picture for constituents if administrative costs were presented in terms of employee-related costs and nonemployee-related costs. She noted salary increases are really cost of living increases and emphasized the need to attract and retain talent at the Port.
- Commissioner Felleman noted the risk associated with COVID was not included in the September 18, 2020 SWOT analysis. He asked for clarification regarding cost of living adjustments. Staff clarified that with cost of living adjustments, come April 2021, that of the \$145,000 only \$60,000 will impact administration. The administrative team for the NWSA consists of the Executive Team and Planning (16 people).

If Managing Members implement a freeze, the administrative bucket will go down \$60,000, but NWSA in total will go down \$150,000 in salaries.

- Commissioner McCarthy noted income is substantially down for the NWSA and the amount distributable to the homeports is down. The purpose of the alliance was to be more competitive and efficient and to serve the homeports. He finds an increase of seven percent in administrative costs unacceptable. He values employees, but notes that the NWSA serves the public first. Accelerated administrative cost compared with flat income will lead to the ultimate elimination of the NWSA.
- Commissioner Bowman commented that the biggest weaknesses facing the NWSA have to do with external market conditions. The NWSA needs talented staff to execute the strategic plan adopted by the Managing Members. She believes that cutting administrative costs based on percentages may be shortsighted.
- Commissioner Felleman commented that the financial impact of a wage freeze for the NWSA may not amount to a significant impact. He is concerned with what appears to be disparity by implementing wage freezes at the Port of Seattle and not doing the same with NWSA staff. He asked how the Port of Tacoma is handling this issue. CEO Wolfe informed commissioners that wage freezes were considered. He said in a perfect world everyone would cooperate in that effort. He noted that contractual obligations present a challenge. He also noted that many Port of Tacoma employees' wages through service agreements are allocated to the NWSA. He suggested perhaps adjustments only to the funds budgeted for performance increases and market adjustments.
- Commissioner Steinbrueck commented that the administrative budget accounts for only 25 – 30 percent of operating expense and it has not increased much in five years. He stated that the total overall expenses have increased 17 percent over the past five years, which he does not view as a huge increase. Other governments show striking and dramatic increases in the cost of government than what was presented here by the NWSA. He agreed with comments by the CEO that parity is needed between represented and unrepresented if looking to ask for sacrifice. He is more inclined to suggest trimming all lines of operating expense. He echoed Commissioner Bowman's comments related to the need for staff with high level expertise to carry out the mission of the NWSA.
- Commissioner Marzano said freezing non-represented sends the wrong message to employees. The employees need the NWSA and the NWSA needs the employees. He stated he firmly doesn't believe that providing raises that staff have duly earned, will jeopardize the future of the NWSA.
- Commissioner Calkins cautioned that cutting staff every time there is a downturn could be a vicious cycle that could leave the alliance without personnel and expertise in place to be able seize opportunities for growth. He noted also the interplay with the delegation of authority. Notwithstanding the oversight role of the Managing Members, he differentiated that role from the decision maker on certain line-item decisions. The Managing Members asked Finance staff to reach a target level for distribution and they did so. He commented that what makes administrative costs appear to jump from one year to the next is that there are positions that have been unfilled for some time now. He is not comfortable with the Government Affairs vacancies. He stated if the tactic to reduce the increase in administrative costs is to freeze those vacancies, he is concerned for the NWSA's ability to advocate for itself. He is confident in the budget presented and will be voting in support.
- Commissioner Ang echoed other commissioner comments and cautioned against being too lean. She stated for the amount saved by a wage/hiring freeze, the effect might actually be negative. She wants to see the alliance more aggressive in competition. She believes the alliance has the team to do it, but stated talent costs money.
- Commissioner McCarthy suggested that instead of a seven percent, that perhaps the Managing Members should consider a three percent increase.
- Commissioners and staff went over headcount. Only once has the NWSA approached the funded headcount.
- Commissioner Felleman expressed that his comments should not be taken as being unsupportive of staff, but rather to support staff by avoiding layoffs. Upon reflection, he noted of the administrative costs, they are more valuable to the employees than to the budget.

- Staff commented that presenting the budget in the BARS format is sometimes bad optics. The budget shows a large increase on one area – administration. He noted that the large increase isn't in staff, it is about reorganization and allocations. The administration expense for the past six years has been going down. Though, to Commissioner McCarthy's point, pay increases show a compound annual growth rate adjusted cost per head is 3.1 percent each year.

It was moved and seconded (Bowman/Steinbrueck) to approve the 2021 Operating Budget including Memberships over \$10,000.00 and Promotional Hosting.

- Commissioner Meyer added that his concern is over direct operational costs in total. Costs are the same as 2019, but revenue is down \$10 million. He said his concern isn't about staff or performance of staff, but the NWSA being able to react to a revenue loss.

It was moved and seconded (McCarthy/Meyer) to amend the 2021 Operating Budget as presented to not increase the Administration Expense for 2021 budget over 2020.

- Commissioner Meyer again stressed the importance of keeping direct operating expenses in line with revenue changes.
- Commissioner Steinbrueck commented that the alliance doesn't pay stockholders in dividends like private entities, but that its 'shareholders' are the citizens, and the dividends are jobs, economic development, stimulus and support to agricultural partners. The alliance is not in the red, it isn't borrowing for operations and he believes the alliance is being fiscally responsible. Cutting the budget too much, to turn out what he characterized as a few extra dollars for the homeports does not keep the NWSA competitive. He noted the alliance should be providing a return to the homeports, but that the 'dividend' is measured in more ways.
- Commissioner Keller cautioned against handcuffing the organization to the point it cannot be nimble and competitive.
- Commissioner Cho stated his support for Commissioner Meyer and McCarthy's efforts to keep costs under control and agrees generally. He said that after listening to the discussion and reviewing the numbers, the effect of the amendment would be a marginal gain. He would rather double down on the people that can help the alliance rebuild when the economy is back and running and believes the return on investment will be high.

The motion to amend did not carry.

The motion as originally presented passed by 2-0 by the following vote:

Port of Seattle:

Stephanie Bowman	Aye
Ryan Calkins	Aye
Sam Cho	Aye
Fred Felleman	Aye
Peter Steinbrueck	Aye

Port of Tacoma:

Kristin Ang	Aye
Deanna Keller	Aye
John McCarthy	No
Dick Marzano	Aye
Don Meyer	No

It was moved and seconded to approve the 2021 – 2025 Capital Investment Plan (CIP) as presented.
The motion passed by 2-0 by the following vote:

Port of Seattle:

Stephanie Bowman	Aye
Ryan Calkins	Aye
Sam Cho	Aye
Fred Felleman	Aye
Peter Steinbrueck	Aye

Port of Tacoma:

Kristin Ang	Aye
Deanna Keller	Aye
John McCarthy	No
Dick Marzano	Aye
Don Meyer	Aye

It was moved and seconded to approve distribution of leases interest cash on a monthly basis consistent with distributable cash due to changes in accounting standard GASB 87.

The motion passed unanimously.

It was moved and seconded to approve bond income of \$52.65 million.

The motion passed 2-0 by the following vote:

Port of Seattle:

Stephanie Bowman	Aye
Ryan Calkins	Aye
Sam Cho	Aye
Fred Felleman	Aye
Peter Steinbrueck	Aye

Port of Tacoma:

Kristin Ang	Aye
Deanna Keller	Aye
John McCarthy	No
Dick Marzano	Aye
Don Meyer	Aye

4. **ADJOURNMENT:** The meeting ended at 2:32 p.m.



John McCarthy, Co-Chair
The Northwest Seaport Alliance



Peter Steinbrueck, Co-Chair
The Northwest Seaport Alliance

ATTEST:



Sam Cho, Co-Secretary
The Northwest Seaport Alliance



Juliet Campbell, Clerk
The Northwest Seaport Alliance



Don Meyer, Co-Secretary
The Northwest Seaport Alliance