

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	<u>3A</u>
Date of Meeting	<u>November 9, 2020</u>

DATE: November 3, 2020

TO: John Wolfe, Chief Executive Officer

FROM: **Sponsor:** Erin Galeno, Treasurer, NWSA
Project Manager: David Morrison, Deputy Treasurer, NWSA

SUBJECT: 2021 Operating Budget, 2021-2025 Capital Investment Plan, Lease Interest Cash Distribution policy, and Bond Income Adjustment

A. ACTION REQUESTED

Request Managing Member authorization for the following items:

1. The 2021 Annual Operating Budget;
2. The 2021-2025 Capital Investment Plan;
3. Lease Interest Cash distribution policy; and
4. Bond Income Adjustment

B. SYNOPSIS

Managing Member approval of the one-year operating budget, five-year CIP and contribution of funds to Capital Construction are required by The Northwest Seaport Alliance (NWSA) Charter. The NWSA Delegation of Authority delegates authorization of the Interlocal Agreements between the NWSA and homeports for support services to the NWSA CEO.

C. BACKGROUND

1. Section 3.5 of the Charter requires Managing Member approval of the **Annual Budget**, which is the annual operating budget of the NWSA. The preliminary budget was presented during a study session on October 28, and no changes have been made to the operating budget. This budget is in accord with and ratifies the Managing Members' direction by motion in the September 29, 2020 retreat to set the 2021 distributable cash target to homeports at a range of \$100-105 million to be achieved by revenue growth rather than expense cuts

2. Section 3.6 of the Charter requires Managing Member approval of the **Five-Year Capital Investment Plan (CIP)** for all licensed properties. Approval of this budget denotes conceptual agreement only. All projects will need to be approved separately by the Managing Members or by delegation per the Master Policy Delegation of Authority. The 2021-2025 CIP was presented during the October 28 study session. The CIP was updated accelerate T5 spending by approximately \$42 million in 2020/2021 and reduce spending by the same amount in 2022 and 2023. The total T5 project cost did not change.
3. Section 4.1 of the Charter delegates to the CEO the distribution of all Distributable Cash. As currently defined in the Charter, Distributable Cash does not include the Lease Interest cash created by adoption of GASB 87. Previously, this cash would have been included in Distributable cash. Staff requests Managing Member approval to distribute Lease Interest cash when corresponding Distributable Cash is sent to the two homeports. Changes to the Charter to clarify this issue have been submitted to the Federal Maritime Commission for approval and are pending.
4. Section 4.2 of the Charter requires Managing Member approval of the **Bond Income**. The Bond Income is the minimum level of net income from the NWSA required for the homeports to meet their current bond rating covenants. Staff recommends changing the bond income from \$90,000,000 to \$52,650,700 based on refunding of bonds that were outstanding at the time of the formation of the NWSA.

D. PROJECT DESCRIPTION AND DETAILS

N/A

E. FINANCIAL IMPLICATIONS

Source of Funds

Funds for the Operating Capital and Working Capital have been provided by the homeports. No Additional Working Capital is requested.

Financial Impact

The NWSA is budgeted to provide \$103.7 million of distributable cash and \$83.7 million of Net Distributable Revenue that will be shared between the two homeports. Additionally, \$134.6 million is expected to be spent on Capitalized projects in 2021 subject to Managing Members' authorization. Funds will be provided for authorized projects by the homeports to the alliance as necessary.

F. ATTACHMENTS TO THIS REQUEST

1. NWSA Budget Adoption material for November 9th meeting
2. NWSA 2021-2025 CIP details

3. NWSA Budget Study Session material from October 28th updated with 2016 information in spending history charts.

G. PREVIOUS ACTIONS OR BRIEFINGS

Information on the NWSA 2021 budget, 2021-2025 CIP, and 2021-2025 operating budget and forecast have been made available to the public as follows:

- The September 29th Budget Retreat including target setting and 2021 capitalized project spending at which the Managing Members passed a motion to set the 2021 distributable cash target to homeports at a range of \$100-105 million to be achieved by revenue growth rather than expense cuts;
- The October 28 budget study session was an in-depth look at business forecasts, five-year Capital Investment Plan and the 2021 Operating Budget;
- The budget presentation materials were made available on October 27 on the NWSA website for public review; and
- The budget document was made available on October 27 on the NWSA website for public review.

Each homeport will also hold public meetings in November to adopt its statutory budget and tax levy:

- The Port of Seattle Commission will hold meetings on November 10, and November 17; and
- The Port of Tacoma Commission met on November 15 and will meet on November 19.

2021 - 2025 CIP: DISCRETIONARY CAPITALIZED PROJECTS (\$ thousand)

Group	Project Name	Project Description	2021	2021-2025 Total
Maintenance	T18 Full Dock Rehabilitation	Discretionary in timing. Due to concrete aging, the under wharf structure will need to be repaired. T18 provides \$32 million annual revenue	-	69,000
	T46-S Dock Rehabilitation	Less than 10 acres timber dock. Part of the RFP. Part of S. yard. Used for chassis storage. Revenue estimated at \$500k to \$1M. No impact on cruise	-	8,400
	WUT Fender System Replacement	Replace WUT fender system to support larger container ships. WUT Provides \$7.2 million in annual revenue	3,502	3,502
	T46 N. Substation #1 Replacement	Substation in poor condition. Potential need for additional power pending cruise terminal design. Will need to be replaced regardless. Timing may be discretionary. Potential impact to revenue of \$500,000.	2,300	2,950
	PCT Fender Replacement	Replace entire fender system for bigger ships	2,578	2,578
	T46 Central Lighting Controls	For all of T46 including the cruise lease area. Needed for submetering with multiple tenants on T46. Needed before cruise terminal is in place. May impact NWSA expenses due to higher electrical costs	-	1,500
	T18 Water Main & Valve Replacement	Replace 50 yr old water main & vaults	253	1,143
	T7 Berth B-D Ship Service Water Line Replacement	Water line used to provide water to ships is failing. Lease requirement.	-	1,098
	Wapato Creek Bridge & Culvert Removal	Temporary bridge to PCT truck que & then installation of new bridge & removal of failing culvert. Area also used by Auto LOB to access auto parking. Risk is if culvert fails, trucks may back up onto SR 509 and additional auto LOB expense.	800	800
	WUT Roof Replacements (Admin & Marine Bldg)	Replace failing roofs	350	350
	Blair Dock Fender Replacement	Replace 100% of existing fender system	300	300
	HIM Lighting Upgrade	Upgrade yard lighting	122	122
	NIM Lighting Upgrade	Upgrade yard lighting	122	122
	T30 Longshore Parking Lot Lighting Upgrade	Upgrade lighting	-	65
	T5 Hydrant Replacement (small project)	Safety issue to replace defective fire hydrants	25	25
Maintenance Total			10,352	91,955
Infrastructure	USACE Husky Berth Dredging	Berth dredging to be informed by USACE Tacoma Harbor deepening study	-	19,000
	NWSA Unallocated Capital Improvements (placeholder)	Budget for unplanned capital projects. Based on historical amounts	3,000	15,000
	Terminal 3/4 Shorepower	Installation of shorepower at Husky	5,246	5,246
	EB1 Yard Reconfiguration	Potential for additional revenue if the Breakbulk yard is fully paved and gate moved. Subject to financial analysis. Alternate to leasing tribal property. Supports 10 year agreement with WWL by adding additional capacity.	-	2,179

2021 - 2025 CIP: DISCRETIONARY CAPITALIZED PROJECTS (\$ thousand)

Group	Project Name	Project Description	2021	2021-2025 Total
Infrastructure	Clean Drayage System Domestic Terminals - NWSA SH	SH domestic terminal RFID project to meet MM policy for emissions reduction	-	776
	Electric Forklift	Replace tier 1 forklift with tier 4 electric forklift, so far \$35k grant awarded & others are being pursued.	575	575
	WUT Crane Power Relocation	Relocate power for smaller cranes at south end of berth	320	320
	EB1 Lighting Upgrade	Upgrade yard lighting	251	251
	Main Gate Portable Restroom	Replace port-a-potty's with portable restroom, similar to one at EB1	-	145
Infrastructure Total			9,392	43,492
Environmental	T18 Shore Power Design	Install shore power to help meet NWSA air quality & climate goals. Pursuing grant opportunities	100	1,100
Environmental Total			100	1,100
Grand Total			19,844	136,547

2021 - 2025 CIP: DISCRETIONARY EXPENSED PROJECTS (\$ thousand)

Group	Project Name	Project Description	2021	2021-2025 Total
Maintenance	NWSA Unanticipated Repairs/Misc Expenses (placeholder)	Budget for unplanned expense projects. Based on historical amounts. Frequently, projects planned to complete in prior year carry over to budget year.	3,000	15,000
	T46 NW Bulkhead Rehabilitation	Lease obligation & safety concern. Located near the cruise area. Ongoing maintenance not an effective solution. Condition issue due to aging. Causing some paving failure. May impact T46 cruise revenue to NWSA	-	6,000
	W. Sitcum Pier Repairs	Repair various portions of fender system, not one continuous section	1,195	1,195
	Marshall Ave Auto Warehousing Paving Repairs (2020-2024)	Contractual requirement to maintain paving. Potential to delay. This location provides \$1.7 million in revenue for Auto LOB.	244	988
	WUT Maintenance Dredging	Maintenance dredging	592	592
	Alexander Ave Paving	Paving & catch basin repairs to support safe transit in & out of PCT	275	275
	T46 Transformer Repair	Arc flash problem. Add surge protection to substation that feeds south part of terminal. Critical for crane operations. May be delayed	50	200
	PCT Maintenance Dredging	Maintenance dredging	193	193
	E. Sitcum (Lot U) Paving for Autos	Install fencing, place wheel stops, striping, pavement repair so Autos can move here from W. Sitcum due to Matson moving down from T5	185	185
	WUT Pile Repairs	Misc pile repairs	165	165
	T18 Routine Asset Condition Assessment	Scheduled inspection for condition investigation	75	150
	T5 Routine Condition Assessments	Scheduled inspection for condition investigation	-	130
	T30 Routine Asset Condition Assessment	Scheduled inspection for condition investigation	-	130
	Pier 3/4 Maintenance Dredging	Maintenance dredging	127	127
	EB1 Pile Repairs	Misc pile repairs	115	115
	T46 Main Breaker Repair	Address utility condition issues in the south terminal	100	100
	T46W Routine Condition Assessments	Scheduled inspection for condition investigation	50	100
	EB1 Fender Repairs	Misc fender repairs	90	90
	T25 Marine Maintenance Expense Tracking	Small projects done by POS Marine Mnt, not capitalizable	86	86
	T7 Berth D Fender Repairs	Misc fender repairs	84	84
T25 Routine Condition Assessments	Scheduled inspection for condition investigation	-	80	
T46S Routine Condition Assessments	Scheduled inspection for condition investigation	25	50	
T115 Marine Maintenance Expense Tracking	Small projects done by POS Marine Mnt, not capitalizable	47	47	
Husky Pile Repairs	Misc pile repairs	45	45	
T46 Marine Maintenance Expense Tracking	Small projects done by POS Marine Mnt, not capitalizable	30	30	
T115 Routine Condition Assessments	Scheduled inspection for condition investigation	-	25	
T30 Marine Maintenance Expense Tracking	Small projects done by POS Marine Mnt, not capitalizable	16	16	
Maintenance Total			6,789	26,198

2021 - 2025 CIP: DISCRETIONARY EXPENSED PROJECTS (\$ thousand)

Group	Project Name	Project Description	2021	2021-2025 Total
Environmental	NW Ports Clean Air Strategy	Commission policy to reduce NWSA/POT emissions	444	4,244
	NWSA Clean Truck Program	Commission policy to reduce NWSA/POT emissions	182	1,042
	NWSA Environmental Sustainability Initiatives (general)	Funds to investigate ways of reducing NWSA environmental Footprint	80	510
	Air Pollutant Emissions Inventory	Required under NW Ports Clean Air Strategy	20	470
	Electrification Roadmap - SH	Study to plan infrastructure investments to power POT/NWSA SH operations w/ clean energy	145	310
	2020 ISGP Permit Appeal	Negotiate terms for new Industrial Stormwater General Permit	154	154
	Annual Emissions Inventory & GHG (parent MID)	Required under NW Ports Clean Air Strategy	-	80
	T5 Annual Emissions Reporting	Permit condition required for T5 construction	-	80
	Environmental Compliance Support	Support to NWSA for POS environmental work	16	80
	Clean Truck Fund LLR	Loan Loss Reserve (LLR) for 2018 clean truck loan program	10	50
	Green Marine Certification	Industry certification for Green Marine	5	25
Environmental Total			1,056	7,045
Infrastructure	SIM Charging Stations & Infrastructure	Install charging stations & infrastructure to support PRS planned purchase of 6 electric trucks. All costs will be reimbursed through grants & PRS.	550	550
	SIM Electric Trucks	Install charging stations & infrastructure to support PRS planned purchase of 6 electric trucks. All costs will be reimbursed through grants & PRS.	364	364
	West Seattle Bridge - Cost & Hrs Tracking	Address potential & actual impacts of bridge closure to NH	34	86
Infrastructure Total			948	1,000
Grand Total			8,793	34,243

2021 - 2025 CIP: REQUIRED CAPITALIZED PROJECTS (\$ thousand)

Group	Project Name	Project Description	2021	2021-2025 Total
T5	T5 Berth Construction - Phase 2 (1,450' south)	MM approval of T5 redevelopment	75,000	111,000
	T5 Stormwater Treatment System	MM approval of T5 redevelopment	14,000	24,954
	T5 Berth Construction - Phase 1 (1,450' north)	MM approval of T5 redevelopment	10,000	10,000
	T5 Management Reserve - capital	MM approval of T5 redevelopment	2,552	6,821
	T5 Reefer Design & Construction North	MM approval of T5 redevelopment	2,560	2,730
	T5 Marine Building North	MM approval of T5 redevelopment. Lease obligation	1,681	1,681
	T5 RPM Power Supply	MM approval of T5 redevelopment. Lease obligation	250	250
	T5 Clean Truck Gate Equipment	MM approval of T5 redevelopment	60	60
T5 Total			106,103	157,496
Infrastructure	T106 CBP Office & Facility Renovation	One option for improvements at current N. Harbor CBP office. Other options being explored	820	6,200
	Husky Tenant Improvements	MM approved lease agreement to fund terminal improvements at Husky	2,036	2,036
	USACE Tacoma Harbor Deepening Design (Husky & WUT)	Design work for both deepening projects	-	2,000
	GCP Project Oversight & Coordination	Project oversight of Husky managed, NWSA funded improvements per lease agreement	40	40
Infrastructure Total			2,896	10,276
Maintenance	T18 Stormwater Utility Upgrade	Lease commitment with SSA. NWSA splitting cost 50% with SSA	4,000	4,000
	T5 Hydrant Replacement (31) (small project)	Replace 31 fire hydrants, safety issue	-	840
	T-46 Stormwater Improvements - Basin 2	Stormwater improvements. Partially funded by TIGER grant	400	400
	T46 Dock Rehabilitation	T46 wharf improvements. Partially funded by TIGER grant	400	400
	WUT Utility Vault Upgrades	Install new rings imbedded in concrete collars	364	364
	T46 S Timber Apron Sprinkler Replacement	Fire code requirement. Less than 10 acres timber dock. Discretionary. Part of the RFI. Part of S. yard. Used for chassis storage	300	300
	T5 Arrival/Security Bldg Roof Replacement (small project)	Older roof in poor condition needs to be replaced	-	260
	CBP Booth & Utilities (WUT)	Replace old smaller booth with upgraded booth from PCT	248	248
	Parcel 1A (TOTE) Inbound Canopy Roof Replacement	Replace 16,000 sq ft metal roof, safety issue	60	60
	Bldg 900, 700 & Guard Shack Roof Replacements (W. Sitcum)	Replace failing roofs per lease agreement	12	12
	Maintenance Total			5,784
Grand Total			114,783	174,656

2021 - 2025 CIP: REQUIRED EXPENSED PROJECTS (\$ thousand)

Group	Project Name	Project Description	2021	2021-2025 Total
T5	T5 Berth Mod Public Expense (Rail Quiet Zone)	Permit condition required for T5 construction	1,200	6,622
	T5 Berth Mod Public Expense (W Marginal Way SW Closure)	Permit condition required for T5 construction	50	1,500
	T5 Management Reserve - expense	MM approval of T5 redevelopment	1,000	1,300
	T5 Berth Mod Public Expense (Pedestrian Pathway)	Permit condition required for T5 construction	6	1,011
	T5 Berth Mod Public Expense (City Power Supply)	Permit condition required for T5 construction	880	880
	T5 South Reefer Repair	MM approval of T5 redevelopment	700	700
	T5 Berth Mod Public Expense (Access Road Imp)	Permit condition required for T5 construction	12	234
	T5 Gate Queue Management TI Oversight	MM approval of T5 redevelopment	6	25
T5 Total			3,854	12,272
Maintenance	PCT Operating Pavement Repair (parent MID)	Continuation of PCT paving. Requires new MM authorization in 2023.	-	3,900
	PCT Operating Pavement Repair (2018-22)	Ongoing maintenance program for failing paving at PCT	1,500	3,000
	T46 Paving	Paving repairs. Partially funded by TIGER grant	300	300
Maintenance Total			1,800	7,200
Environmental	NWSA MS4 Projects	Policy work to support permit language, development & other initiatives	250	1,518
	NWSA ISGP Projects	Strategic Business Plan to look for cost effective stormwater treatments	250	1,250
	Murray Pacific Environmental Cap Repair (parcel 25) (parent MID)	Consent Decree required maintenance of environmental cap	-	1,000
	Soundkeeper/APMT Clean Water Lawsuit	Legal budget for lawsuit	278	278
	Pony Environmental Cap Repair (parcel 86) (parent MID)	Consent Decree required maintenance of environmental cap	50	250
	Cascade Timber Environmental Cap Repair (parcel 30) (parent MID)	Consent Decree required maintenance of environmental cap	-	200
	ISGP EB1 Terminal	Industrial Stormwater General Permit required	27	167
	ISGP SIM Yard	Industrial Stormwater General Permit required	20	123
	ISGP NIM Yard	Industrial Stormwater General Permit required	18	108
	Clear Creek Phase II Habitat Monitoring (parcel 67)	Consent Decree required monitoring	4	4
Environmental Total			897	4,898

2021 - 2025 CIP: REQUIRED EXPENSED PROJECTS (\$ thousand)

Group	Project Name	Project Description	2021	2021-2025 Total
Infrastructure	Murray Pacific Environmental Cap Repair (parcel 25) 2021	Consent Decree required maintenance of environmental cap	280	280
	USACE Tacoma Harbor Deepening Study - reimbursable	Army Corps of Engineers deepening study	25	25
	USACE Tacoma Harbor Deepening Study - non reimbursable	Army Corps of Engineers deepening study	1	1
Infrastructure Total			306	306
Grand Total			6,857	24,676



THE NORTHWEST
SEAPORT ALLIANCE
Gateway to Solutions

2021 Budget Study Session

Managing Member Meeting
rev. October 28th, 2020

Agenda

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



Budget Schedule

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

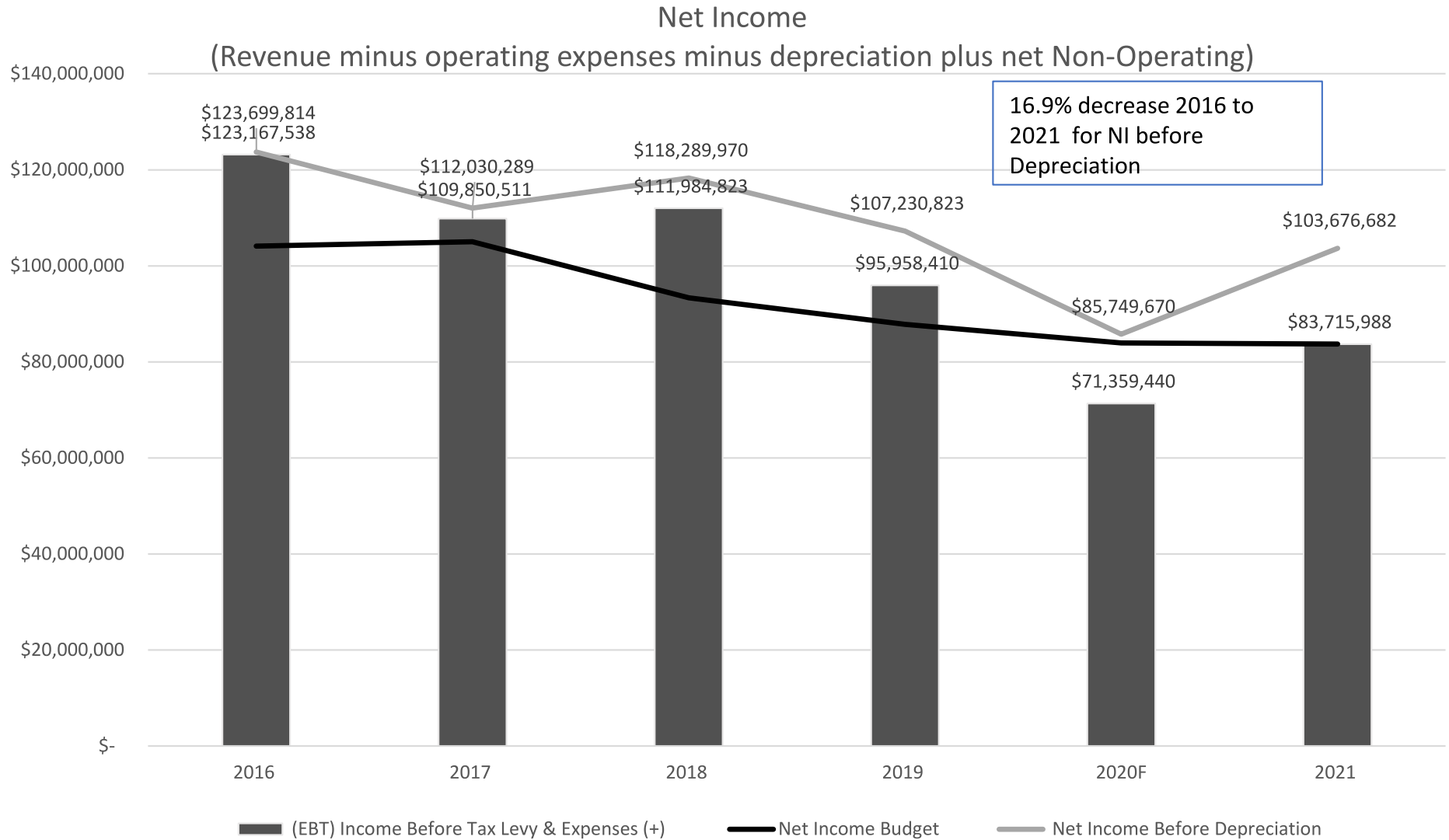


NWSA Objectives

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

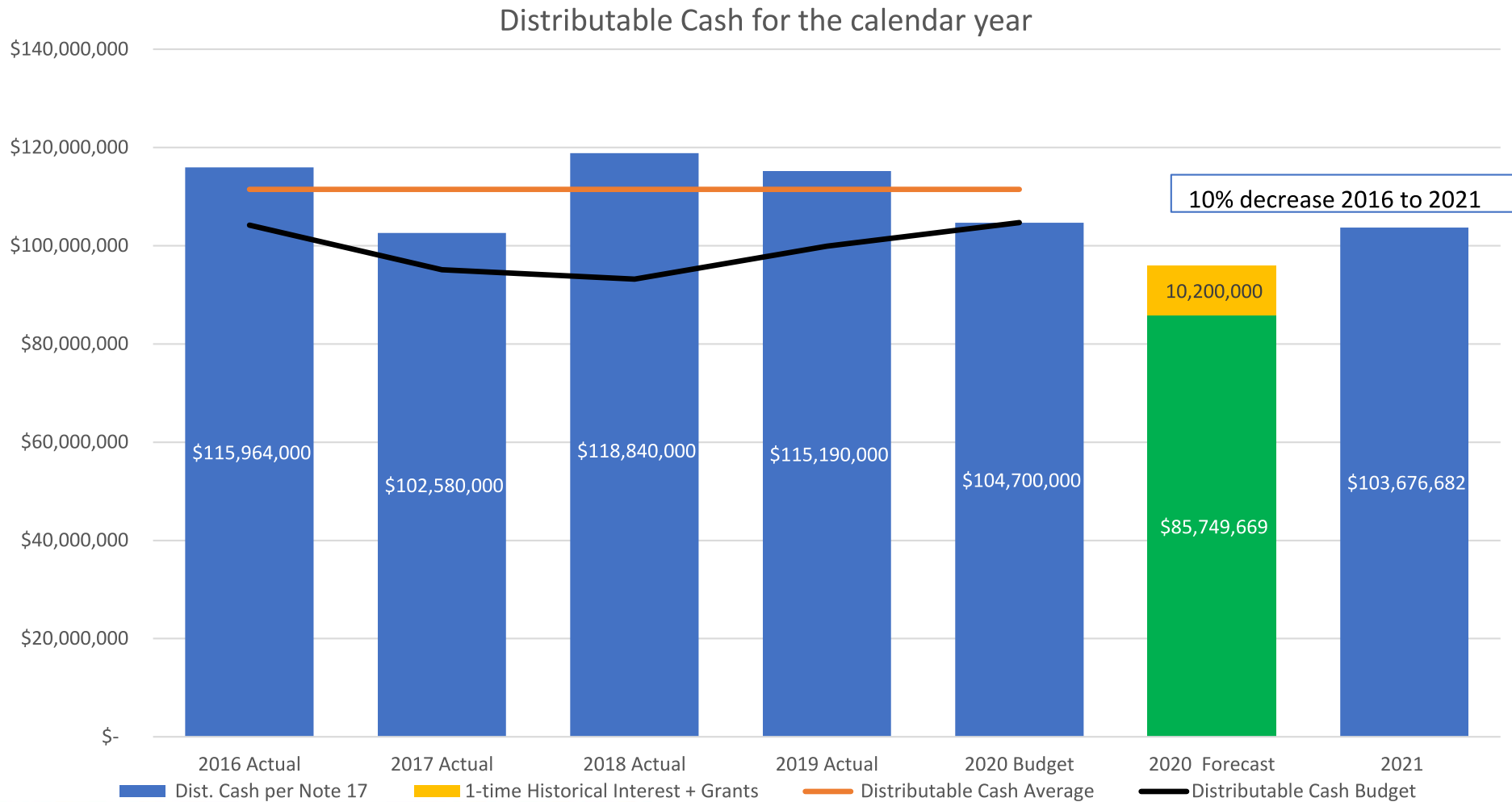


Historical Net Income History



32% decrease 2016 to 2021 for NI after Depreciation

Distributable Cash History



2020 Forecasted Operating Results

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

2019 Forecast vs budget

Revenue – Volume driven
reductions Primarily in Intermodal

Expenses

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

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

Longshore & Direct– lower due to volume

Non-Operating – delayed T5 permit requirement spending

2020 Forecasted Project Spending *(\$ million)*

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

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



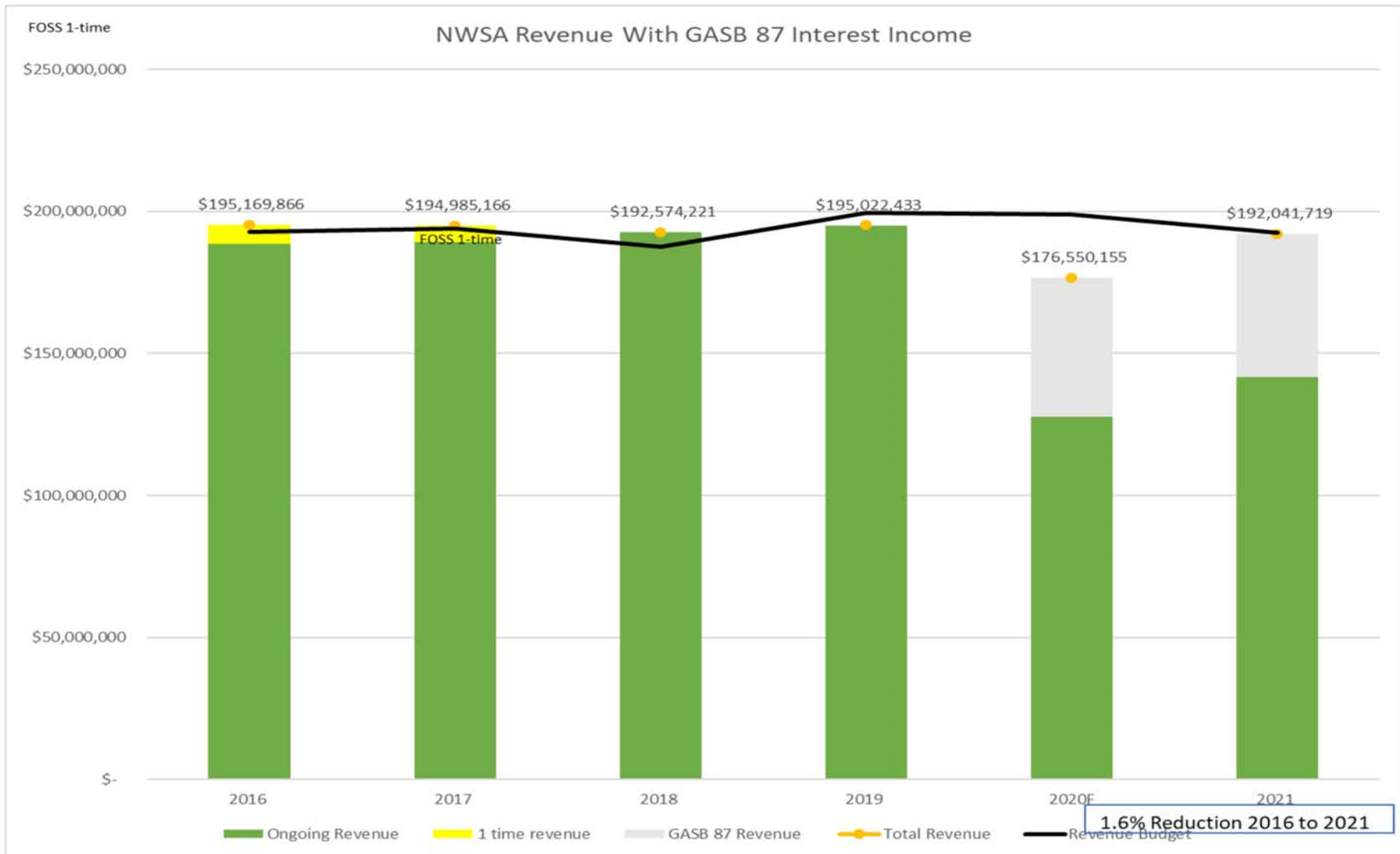
2021 Budget Preview

(\$ millions)

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

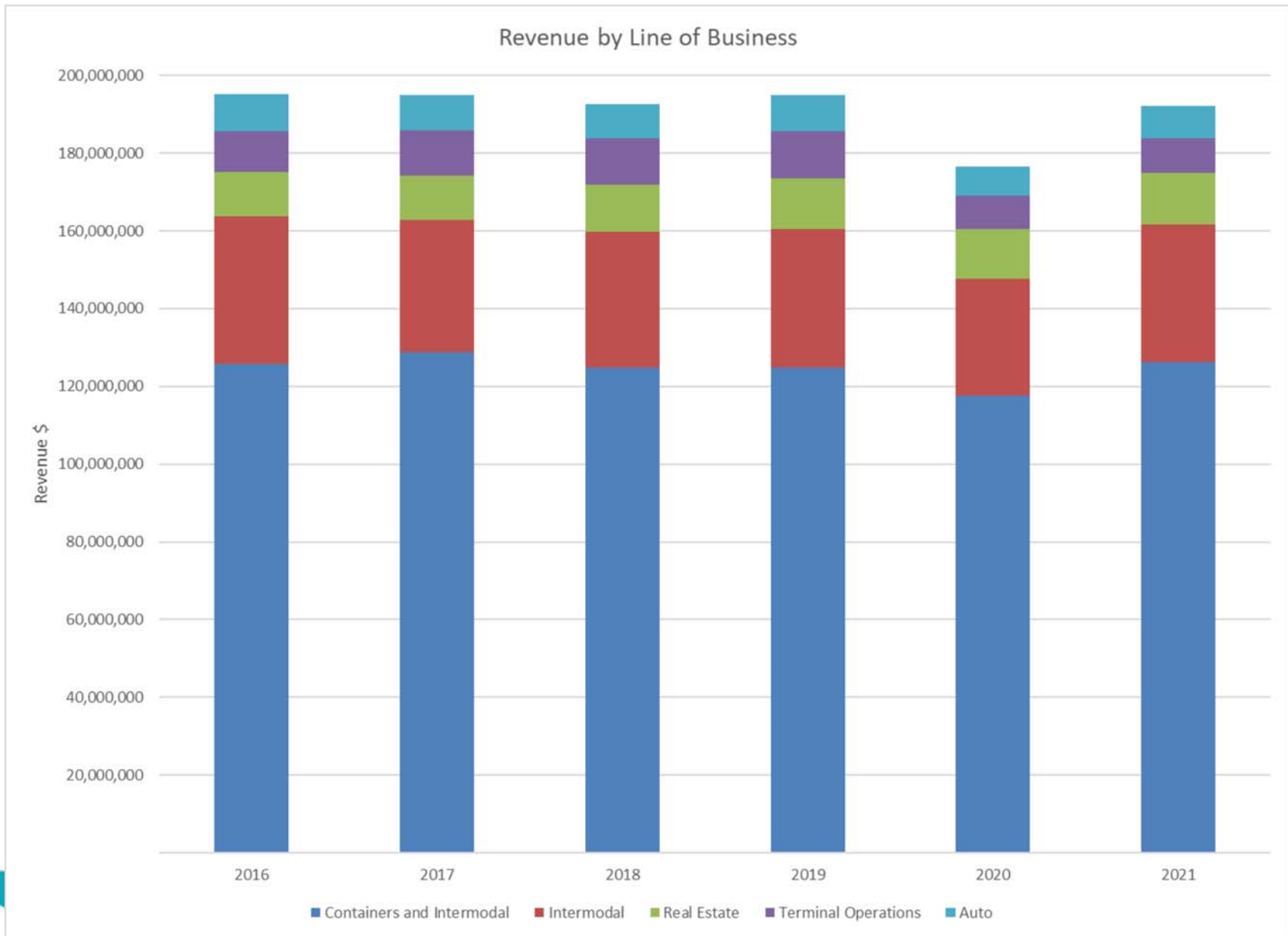


6-year History: Revenue

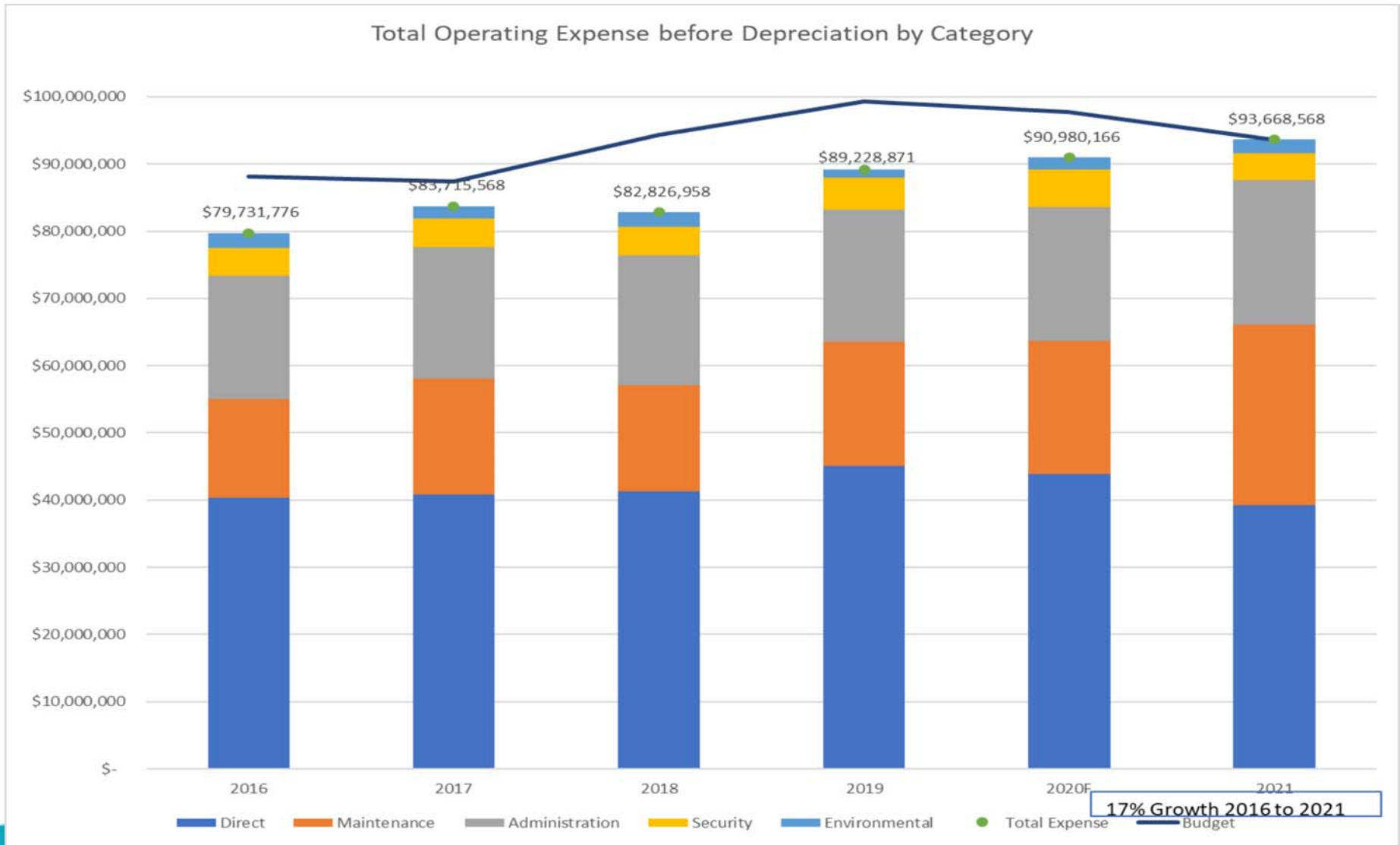


Revenue by Line of Business

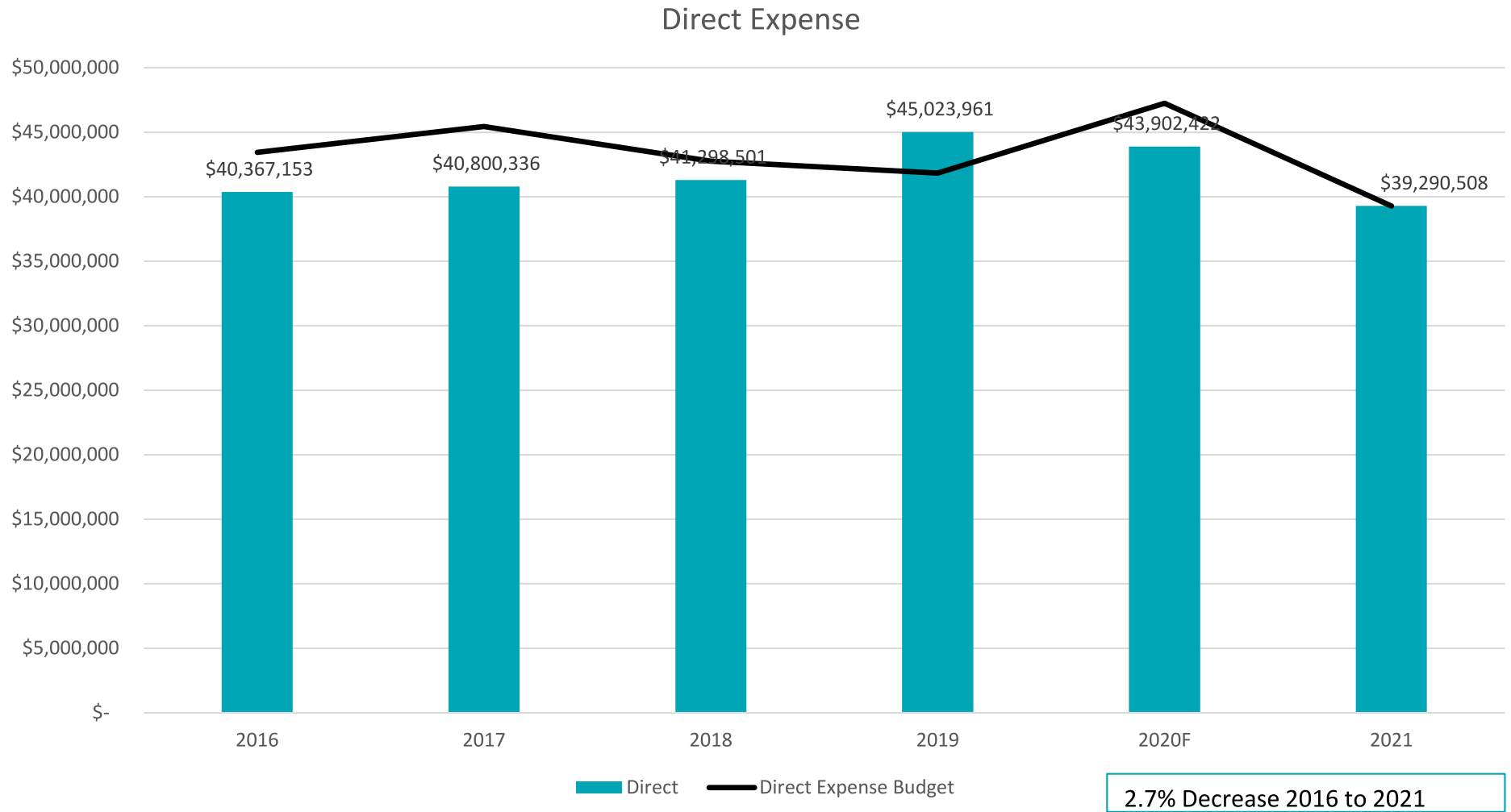
(pre GASB 87 adjustment)



Total Operating Expense before Depreciation



6-Year History: Direct Expense



Direct Expense

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

- **2020 Forecast vs 2021 Budget**

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

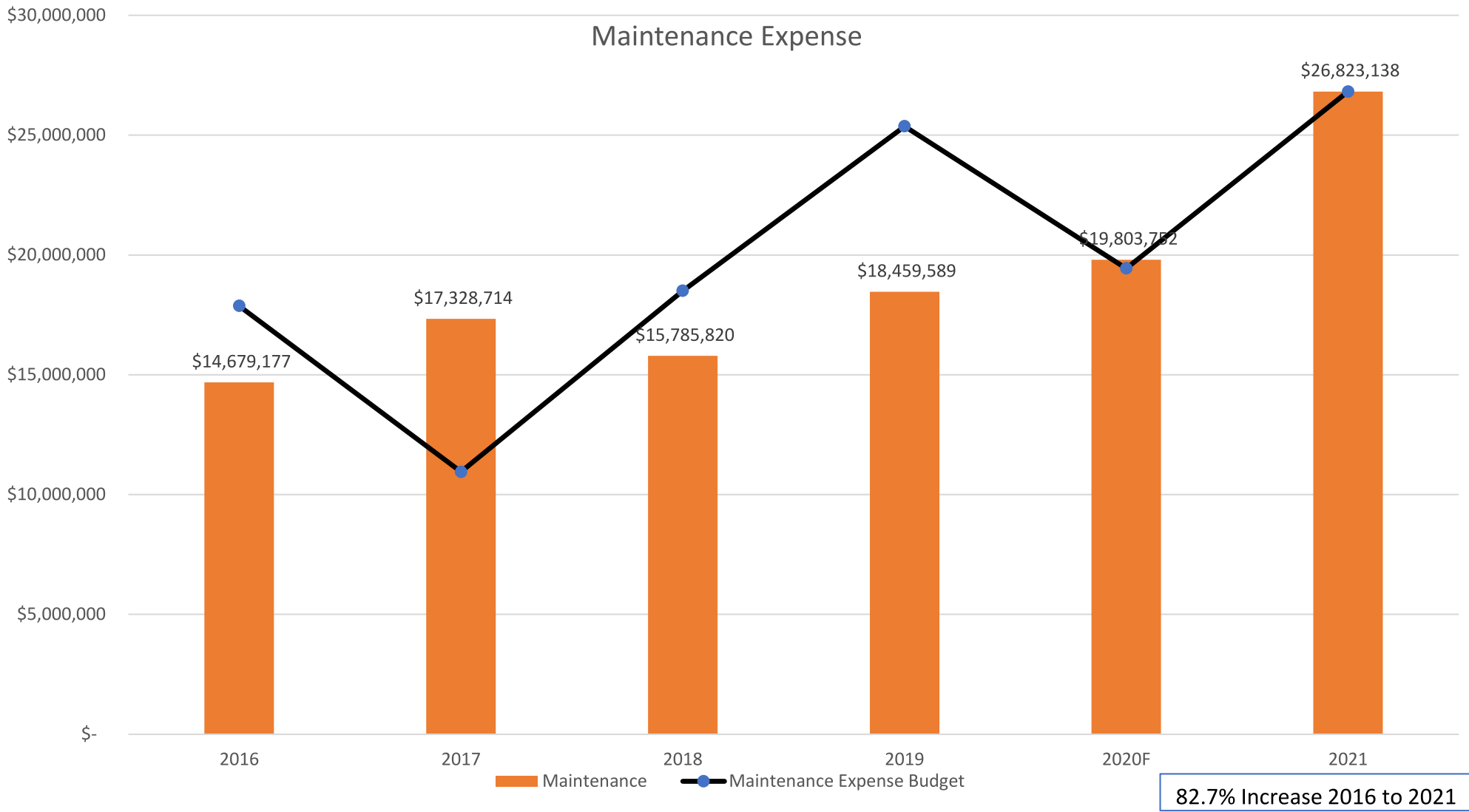
- **2019 Actual vs 2021 Budget**

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



11/4/2020

6-Year History: Maintenance Expense



Maintenance

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

- **NWSA BARS Maintenance**

- Ongoing maintenance expenses vs projects
 - Ongoing paving is maintenance vs 1 time paving may be operations
- Equipment and facilities maintenance from both harbors

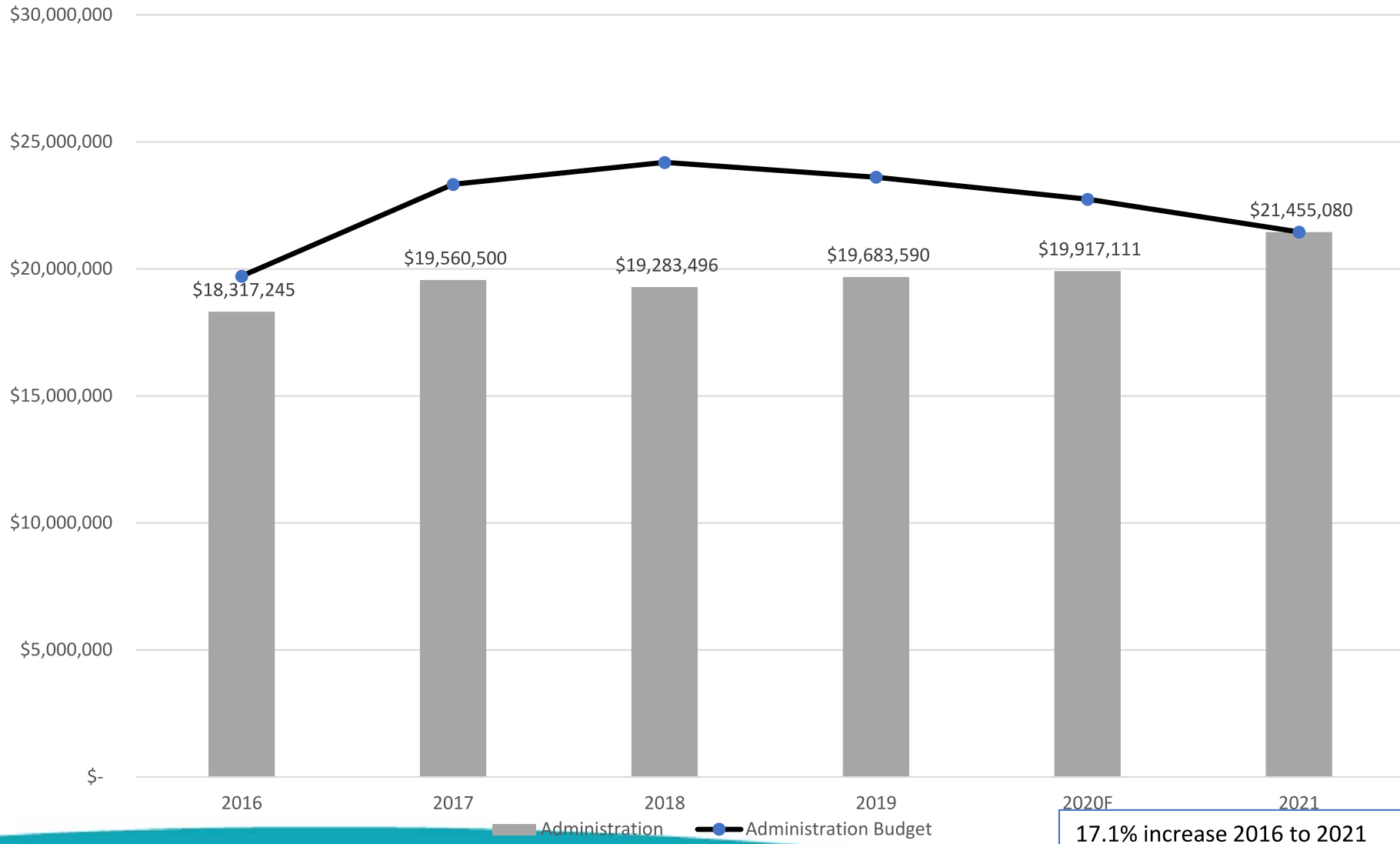
- **2020 Forecast and 2019 Actuals vs 2021 Budget**

- \$3M for unanticipated repairs and expense
- \$1.5M for PCT pavement repair
- \$1.2M for West Sitcum pier repairs
- \$1M for T5 management reserve
- \$700K for T5 south reefer repair



6-Year History: Admin Expenses

Administration Expense



17.1% increase 2016 to 2021



NWSA BARS Administration (\$)

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

- **2020 Forecast vs 2021 Budget**

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



NWSA BARS Administration (\$)

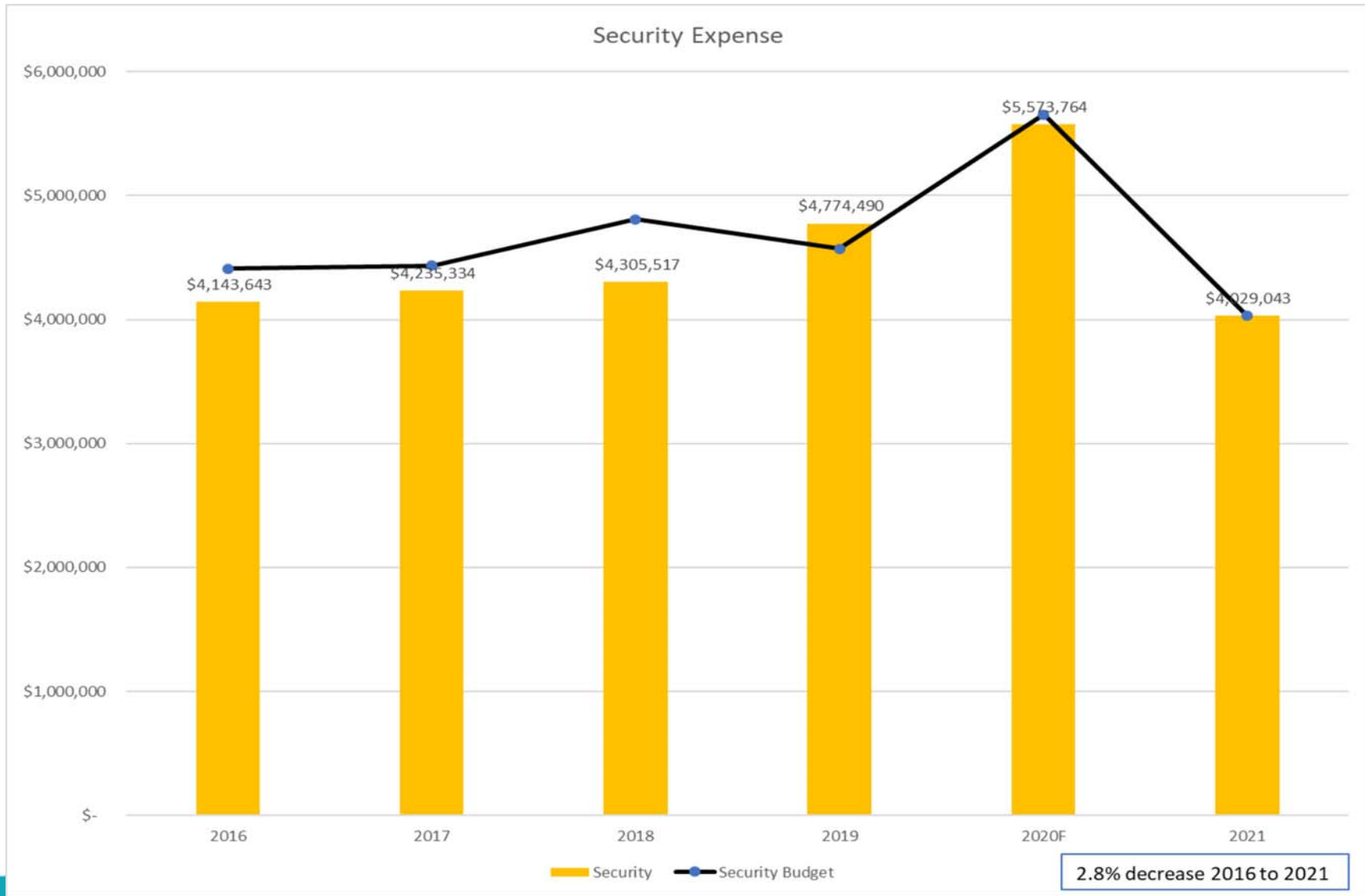
	2019	2020	2021	2020 vs 2021	% Change
Administration Total	19,683,590	19,917,111	21,455,080	1,537,968	7.72%

- **2019 Actual vs 2021 Budget (\$1,771,490)**

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



6-Year History: Security Expenses



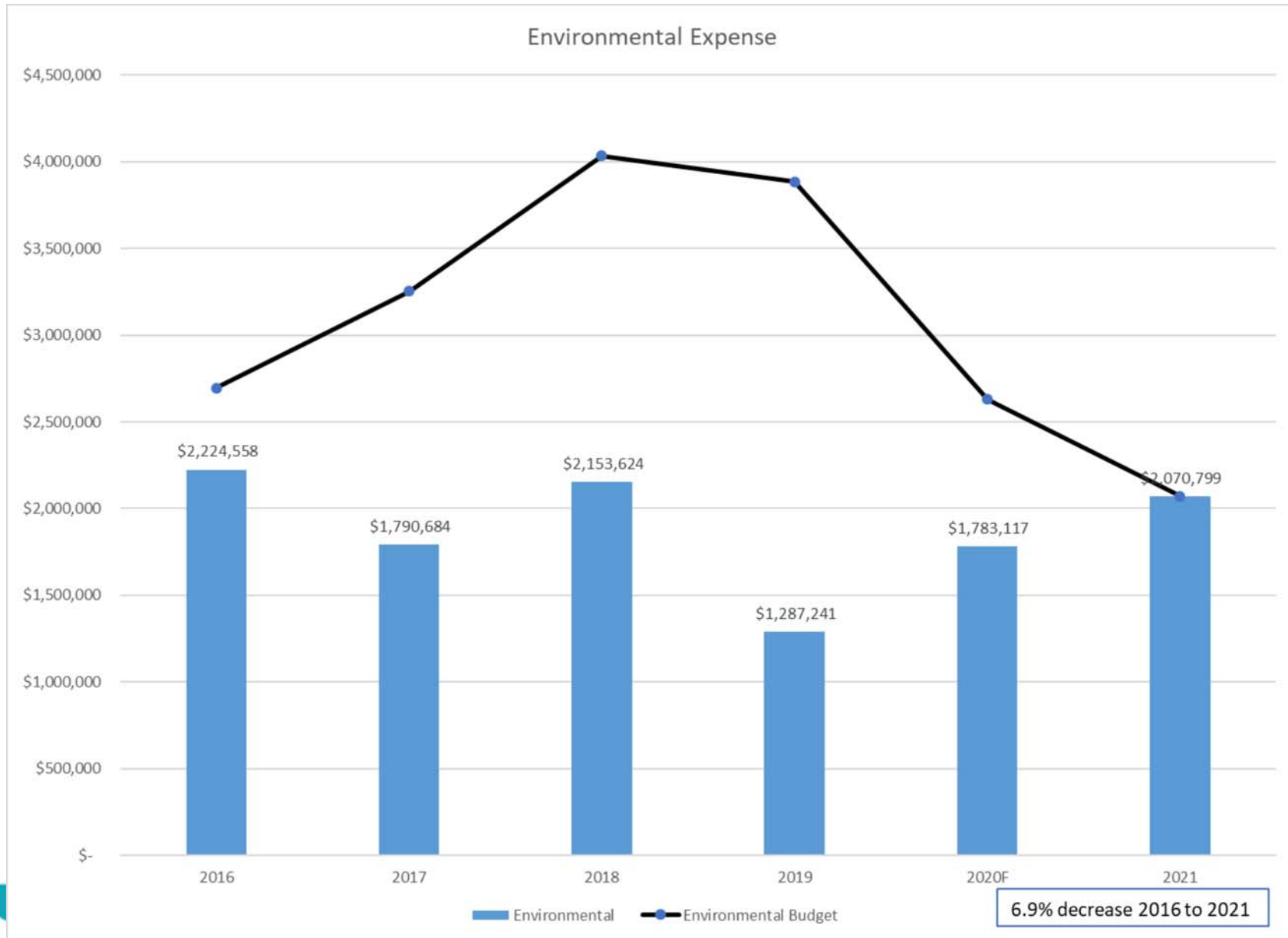
Security

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

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



6-Year History: Environmental Expenses



Environmental

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

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



NWSA Payroll

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

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



Promotional Hosting

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

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

2021 Statutory limit is \$379,250.



MEMBERSHIPS

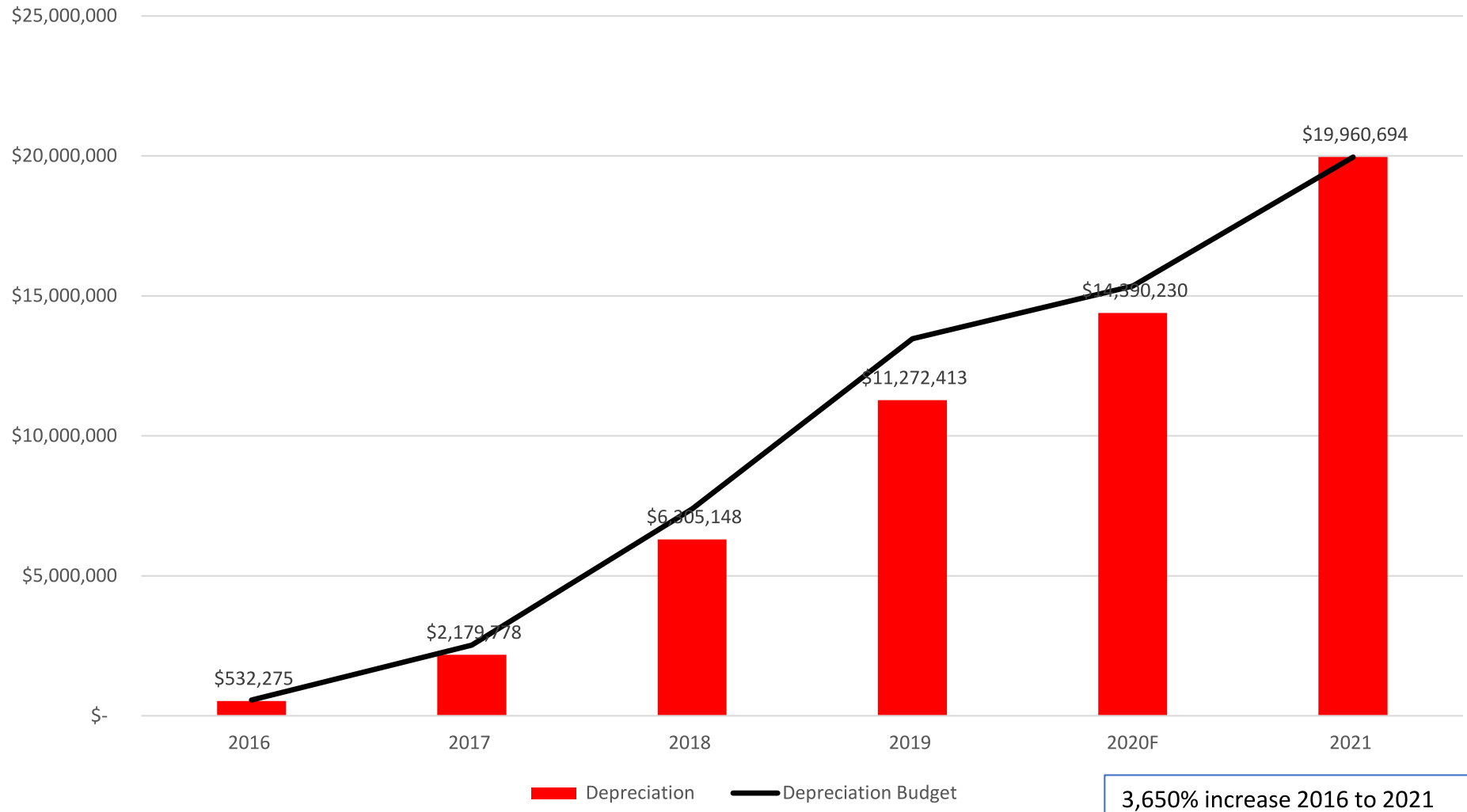
MM approval of NWSA Memberships over \$10,000 required per NWSA Master Policy

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

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



NWSA Depreciation



Budget Non Operating

(\$ millions)

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

GASB 87

T5
public
expense



NWSA 2021 Budget and Four Year Forecast

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



Opportunities to Increase 2021 Distributable Cash by Cost Reductions

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



Opportunities to increase 2021 Distributable Cash by Revenue Growth

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

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



Issues/Opportunities that may Impact Distributable Cash

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



Capital Improvement Plan



CIP Categories

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



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

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

All projects capitalized and expenses, required and discretionary



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

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



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

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



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

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



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

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



2021- 2025 Container Terminal Projects

(\$ million)

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

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



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

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



Budget Summary

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





THE NORTHWEST
SEAPORT ALLIANCE
Gateway to Solutions

2021 Budget Adoption

Managing Member Meeting
November 9th, 2020

NW Seaport Alliance Scorecard

September 30, 2020



CARGO VOLUME

	2019 Total	2020 YTD Actuals	2020 Budget
<u>Containers (TEUs)</u>			
International	3.1 M	1.9 M	3.3 M
Domestic	0.7 M	0.5 M	0.7 M
Break Bulk (Metric Tons NH & SH)	246 K	217 K	306 K
Autos (Units NWSA & POT)	156 K	109K	160 K



JOB CREATION

	2019 Total	2020 YTD Actuals	2020 Target
ILWU Hours	4.7 M	2.7 M	4.7 M



FINANCIAL RETURNS

<i>\$ in millions</i>	2019 Total	2020 YTD Actuals	2020 YTD Budget
Operating Income <i>(Before GASB 87 Adjustment & Depreciation)</i>	\$105.8	\$39.6	\$97.6
Return on assets	7.1%	5.7%	5.8%



ENVIRONMENTAL STEWARDSHIP

	2019 Results	2020 Actuals	2020 Target
Water Quality (Improve Source Control)	195 Acres	Total 79 Acres: NIM - 22, NIM N. - 12 E. Sitcum - 14, Maint. Shop - 3, EB1 - 6, SIM - 22	65 Acres
Air Quality (Reduce Greenhouse Gas Emissions)	15% Terminals; Executed Fuel Efficiency Plans	15% Terminals; Executed Fuel Efficiency Plans	36% Container Terminals Executed Fuel Efficiency Plans



Changes since October 28th Meeting

- **Revised Capital spending timing for T5 construction.**
 - T5 total cost not changed
 - 2020 increased \$17M
 - 2021 increased \$25M
 - 2022 decreased \$30M
 - 2023 Decreased \$11M
- **No changes to P&L**
 - PIDP grant of \$10.6M details still pending (timing). Will be good news when details are determined



Agenda

- **Review 2021 NWSA operating Budget**
- **Review 2021-2025 NWSA Capital Investment Plan**
- **Recommend Approval of:**
 - 2021 Operating Budget including memberships over \$10,000 and promotional hosting
 - 2021-2025 Capital Investment Plan
 - Lease Cash Distribution authorization
 - Bond Income of \$52.65 million



2021 Budget Preview

(\$ millions)

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

2021 Operating Budget Highlights

- **Revenue is essentially flat to 2019 despite changes to leases at T46, East Sitcum, and log dock**
 - CPI increases
 - T5 lease initiates 7/1/2021
- **Project spending on top of ongoing maintenance to fix or repair existing assets includes:**
 - \$1.2M West Sitcum pier repair
 - \$0.7M T5 South reefer repair
- **Includes**
 - Funds for orca study, climate resiliency, impact of organizational changes
- **Provides each homeport with \$52 million in Distributable Dash and lease interest cash**



MEMBERSHIPS

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

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

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



2021 Promotional Hosting

- **Promotional Hosting is “business development.”**
- **RCW 53.36.120 & 130 requires that expenditures for Industrial Development, Trade Promotion, and Promotional hosting be specific budgeted items**
- **The 2021 NWSA budget includes \$224,894 for promotional hosting – up \$22,456 from 2020 budget**
- **2021 statutory limit based on alliance revenue is \$505,104**



2021- 2025 Capital Investment Plan

(\$ million)

	2020	2021 - 2025					
	Forecast	2021	2022	2023	2024	2025	Totals
Capitalized	\$153.0	\$134.6	\$61.4	\$18.7	\$23.5	\$73.0	\$311.2
Operating & Non Op. Expense	\$18.9	\$15.7	\$17.3	\$12.2	\$7.5	\$6.3	\$58.9
Grand Total	\$171.9	\$150.3	\$78.6	\$30.9	\$31.0	\$79.3	\$370.1

- Investment in container business terminal development and maintenance of \$302 million
- Investment of \$68.1 million in infrastructure and environmental projects.

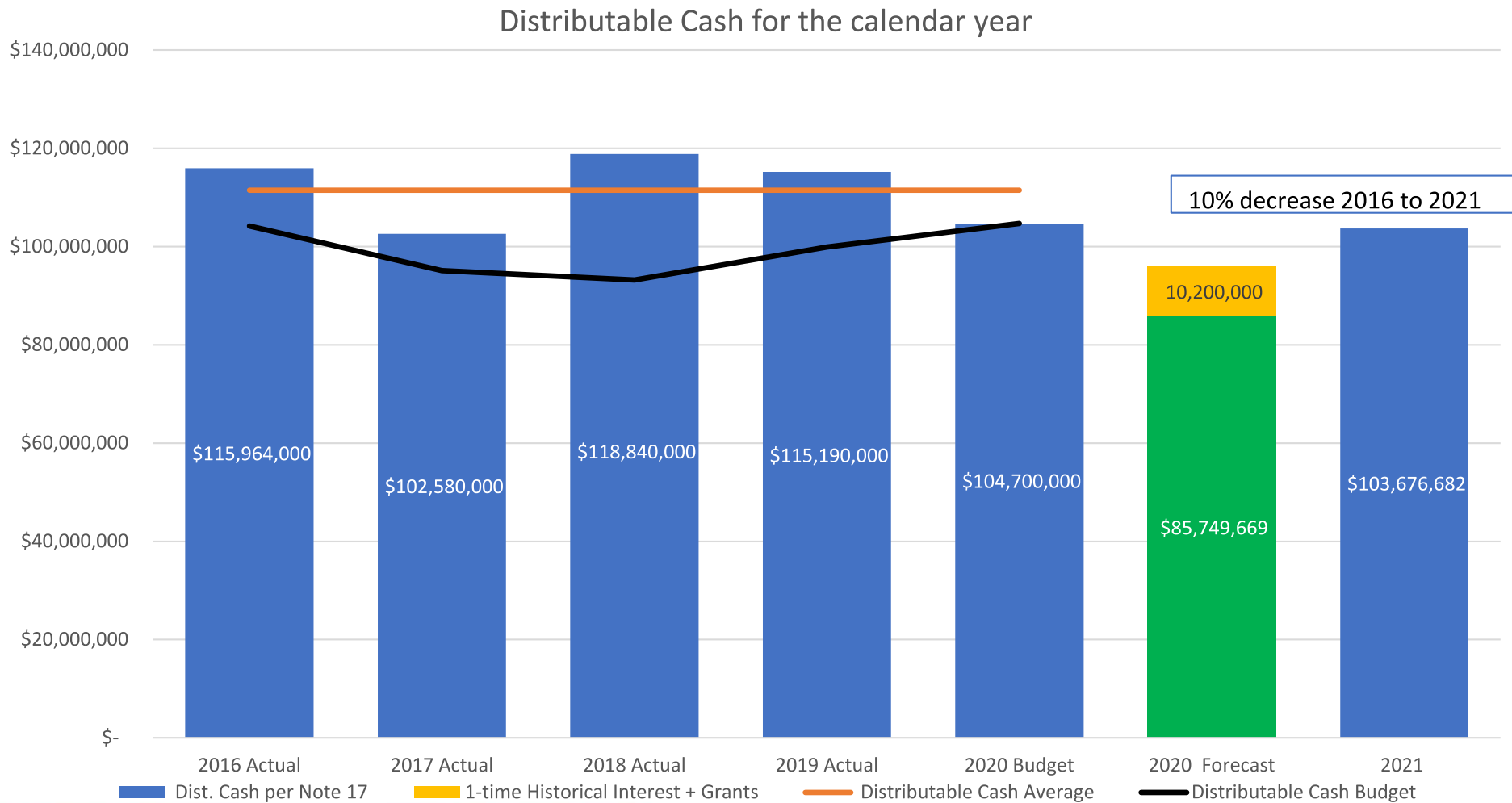


Bond Income Calculation

- **Minimum level of net income required for homeports to meet bond rate covenants for bonds outstanding at the time of the formation of the alliance**
 - Takes into account home port income from other sources
 - Based on the home port with the higher required minimum income
 - Adjusted for lien coverage requirements (senior = 1.35, subordinate = 1)
- **Section 4.2(b) requires annual review of the bond income calculation**
- **Required bond income as defined in the charter is \$52.65 million in total for NWSA**
 - POS requirements. POT has refunded all bonds outstanding at time of formation of the NWSA



Distributable Cash History



Approval Request

- **Request Managing Member approval of following items:**
 - 2021 Operating Budget including Memberships over \$10,000 and Promotional hosting
 - 2021- 2025 Capital Investment Plan
 - Does not authorize any project
 - Approval to distribute Lease Interest cash on a monthly basis consistent with Distributable Cash due to changes in accounting due to GASB 87
 - Approve bond income of \$52.65 million

