

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

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| Item No. | <u>4H</u> |
| Date of Meeting | <u>March 20, 2018</u> |

DATE: March 13, 2018

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Erin Galeno, Chief Financial and Administrative Officer

SUBJECT: CEO One-time Membership Interest Affirmation

A. ACTION REQUESTED

Request Managing Members of the Northwest Seaport Alliance (NWSA) to approve the CEO's recommendation to defer the final review of the One-time Membership Interest Affirmation to March 31, 2019.

SYNOPSIS

The NWSA initial valuation for purposes of establishing the Membership Interest (50/50 for each home port) included certain revenues that were not secured by long-term contractual commitments. As a result, the Managing Members included a membership interest affirmation (valuation review) for these items as part of the NWSA Charter. Per the charter, the review and recommendation completion date is March 31, 2018.

B. BACKGROUND

During the formation of the NWSA various valuation methodologies were evaluated. A ten-year discounted cashflow was determined to best represent the assignment (licensing) of the marine cargo business activities/licensed properties.

The valuation reflected a steady state scenario for revenues, direct expenses, major capital reinvestments to support this steady state and selling, general and administrative support costs.

In recognition that certain revenues were not secured by contractual agreements during this ten-year period, a section in the charter was developed to allow for a one-

time affirmation of the anticipated revenues and expenses associated with these speculative income streams. The end of 2017 was selected due to the expectation that the long-term impact of these situations would be resolved during the first two years of the NWSA.

The identified items were as follows:

1. The West Sitcum terminal in the South Harbor no longer continues to operate at rates equivalent with serving containers after the expiration of the APMT operating agreement.
2. Yang Ming and/or Westwood exits the PNW after the expiration of their agreements at Olympic Container Terminal and Ports America in the South Harbor.
3. Terminal 5 in the North Harbor does not achieve the baseline revenue assumptions associated with the speculative revenue included in the valuation.

NWSA Charter language:

The specific charter language in Article III, section 3.1 (c) (i) is as follows: The CEO shall review the valuation as of December 31, 2017 of the Licensed Properties used to calculate the initial Membership Interests to confirm if there has been a material change to such value (such review, the "Membership Interest Affirmation"). This one-time Membership Interest Affirmation shall be limited to those Licensed Properties where the Marine Cargo terminal revenues were not secured by contractual agreements throughout the time period covered by the Initial Membership Interest valuation. The CEO will complete the Membership Interest Affirmation no later than March 31, 2018. If a material change has occurred, the applicable Membership Interest shall be adjusted by the difference between the initial valuation of the Licensed Property and the recalculated net present value of that same Licensed Property each over the same initial ten-year initial cash flow valuation period, such net present value to be calculated consistently using the methodology used to calculate the Initial Membership Interest under Section 3.1(b) above. Upon recommendation by the CEO, the Managing members shall approve any change in Membership Interest by vote, to include provision for addressing any change to Distributions and allocations as a result of the change in Membership Interest.

The status of the identified speculative income items is as follows:

| Speculative Revenue included in NWSA Valuation | Valuation Impact |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| The NWSA reached a new ten-year operating agreement with SSAT to operate the West Sitcum terminal. | Met criteria |
| Yang Ming has entered a long-term agreement with ITS/Husky and Westwood continues under contract with Port America. | Met criteria |
| Terminal 5 in the North Harbor change from baseline revenue <ul style="list-style-type: none">• 2015-2018 due to limited interim uses• 2019 – 2024 based on forecasted interim uses | <i>(\$5 million) undetermined</i> |

Based on the overall value of the ten-year discounted cash flows, the 50/50 membership interest would remain unchanged by a variance less than \$7 million.

C. FINANCIAL IMPLICATIONS

There are no financial implications associated with this action.

D. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

Financial staff from the NWSA and home ports reviewed the option to forecast a potential financial variance for Terminal 5 for the full ten-year period and determined that there was not sufficient information to determine if the forecasted revenue streams from Terminal 5 would significantly alter the Membership Interest.

No other alternatives were identified.

E. ENVIRONMENTAL IMPACTS / REVIEW

None identified.

F. ATTACHMENTS TO THIS REQUEST

No attachments.

G. PREVIOUS ACTIONS OR BRIEFINGS

Briefing memo provided on March 9, 2018.