

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
BRIEFING MEMO

Item No.	<u>3C</u>
Date of Meeting	<u>February 26, 2019</u>

DATE: February 12, 2019

TO: Managing Members

FROM: John Wolfe, Northwest Seaport Alliance (NWSA), CEO
Steve Metruck, Port of Seattle (POS), Executive Director
Project Managers: Dan Thomas (POS) CFO, Erin Galeno (NWSA) CFAO

cc: Executive team, Carolyn Lake, Tom Tanaka, Dan Thomas, Elizabeth Morrison, David Morrison

SUBJECT: NWSA CHARTER - ONE TIME MEMBERSHIP INTEREST AFFIRMATION

A. BRIEFING REQUESTED

This briefing is intended to review the proposed March 19th Managing Member/ Port of Seattle/Port of Tacoma dual actions described below:

Request the Managing Members of the Northwest Seaport Alliance (NWSA) to accept and the Port of Seattle Commission to approve payment of up to \$32,000,000 pursuant to Charter Section 3.1 (c) (i) to the NWSA. This contribution supports the overall \$340,000,000 investment for the redevelopment of Terminal 5 and final resolution of the unsecured revenue for Terminal 5 that was included in the NWSA valuation on behalf of the Port of Seattle. The structure of the payments is outlined in section E of this memo.

Request Managing Members to affirm Membership Interest of 50/50 for each homeport in satisfaction of Charter Section 3.1 (c) (i).

Request Managing Member authorization to distribute any affirmation payments to the homeports per the NWSA charter section 4.1.

B. SYNOPSIS

The Northwest Seaport Alliance (NWSA) Charter included a one-time Membership Interest Affirmation in recognition that certain forecasted revenue streams were not secured by long-term contractual agreements. Each Homeport's contributed value included these forecasted revenue streams. The expectation was that by the end of 2017, the NWSA would have certainty associated with these licensed properties and would be able to determine if there was a significant valuation difference. In March of 2018, it was determined that two of the three unsecured revenue streams had been resolved without an impact to the valuation. A one-year deferral was authorized to allow time to determine the long-term impact of the redevelopment of Terminal 5 in the North Harbor. If Terminal 5 were to remain in its current

interim use state, it is likely that the future revenues estimated during the formation of the NWSA would not be achieved. Therefore, the Port of Seattle has proposed to contribute up to \$32 million in support of the development of a long-term marine cargo solution in the North Harbor based on the anticipated program investment necessary to complete the redevelopment of Terminal 5.

C. BACKGROUND

During the formation of the NWSA various valuation methodologies were evaluated. A ten-year discounted cash 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.

In March 2018, the Managing Members approved a one-year deferral to allow time to resolve the potential future redevelopment of Terminal 5.

D. ALTERNATIVES CONSIDERED

Staff considered two primary alternatives to funding the Terminal 5 Modernization Program.

- 1) Port of Seattle contributes up to \$32 million after completion of the work associated with the \$340 million investment.
 - PRO - This approach would allow for a single payment in 2024
 - CHALLENGE – The \$32 million valuation represents a Net Present Value of future cash flows, which presents challenges if all contributions are held for five years.
- 2) Port of Seattle contributes up to \$32 million in annual increments with a final reconciliation at the completion of the work associated with the \$340 million investment.
 - PRO - This approach would allow the Port of Seattle to align their cash contributions with the construction period.
 - CHALLENGE – There could be a situation where the Port of Seattle has a reimbursement if the project spending is reduced by more than the interim payments.

E. STRUCTURE OF FUNDING APPROACH

If this affirmation is approved by the Managing Members, the Port of Seattle will structure the affirmation payments in alignment with the program spending for the Terminal 5 modernization program as follows:

The first two installments of \$11,000,000 each will be made on or around March 31, 2020 and March 31, 2021, respectively.

The final payment of up to \$10,000,000 will be calculated as follows:

1. If the total program costs equal or exceed \$340,000,000, the Port of Seattle will pay the NWSA \$10,000,000,
2. If the total program costs are between \$330,000,000 and \$340,000,000, the Port of Seattle will pay the NWSA \$10,000,000 less the savings up to \$10,000,000, or
3. If the total program costs are less than \$330,000,000 the Port of Seattle will be due up to \$22,000,000 from NWSA for previous payments.

The following example assumes that the homeports apply the Affirmation Payments are to their contributions to the Terminal 5 modernization program.

Without Affirmation Payment

Total Investment	Port of Seattle	Port of Tacoma
\$340,000,000	\$170,000,000	\$170,000,000

With Affirmation Payment

Total Investment	Port of Seattle	Port of Tacoma
\$340,000,000*	\$186,000,000	\$154,000,000

*The Port of Seattle's affirmation payment will be reduced by the up to \$32,000,000 in program savings. Any reductions in program savings beyond this amount will be shared 50/50 by the homeports.

F. NEXT STEPS

- Return on March 19th for authorization.