

Item No.: 3A-supp
Date of Meeting: November 13, 2018



**THE NORTHWEST
SEAPORT ALLIANCE**
Gateway to Solutions

2019 Budget Adoption

Managing Member Meeting
November 13th, 2018

Agenda

- **2019-2023 Capital Investment Plan**
- **2019 Budget and Key Messages**
- **Managing Member Authorization**
 - 2019 Annual Operating Budget
 - 2019 - 2023 Capital Investment Plan
 - Capital Construction & Public Expense Contribution



NW Seaport Alliance Scorecard

September 30, 2018



CARGO VOLUME

	2018 YTD Actuals	2018 Target
<u>Containers (TEUs)</u>		
International	2.3 M	3.0 M
Domestic	0.5 M	0.7 M
<u>Break Bulk (Metric Tons)</u>		
	180 K	164 K
<u>Autos (Units)</u>		
	101 K	151 K



JOB CREATION

	2018 YTD Actuals	2017 YTD Actuals
ILWU Hours	3.4 M	3.3 M



FINANCIAL RETURNS

<i>\$ in millions</i>	2018 YTD Actuals	2018 Budget
Operating Income <i>(Before Depreciation)</i>	\$75.0	\$93.3
Return on assets	7.6%	7.2%



ENVIRONMENTAL STEWARDSHIP

	2018 Actuals	2018 Target
Water Quality <i>(Improve Source Control)</i>	243 Acres (135 Acres West Sitcum, 48 Acres T-30, 56 Acres TCT, 4 Acres E. Sitcum)	53 Acres
Air Quality <i>(Reduce Diesel Particulate Emissions)</i>	66% Trucks 2007 Engines or Newer	100% Trucks 2007 Engines or Newer by 2018
<i>(Reduce Greenhouse Gas Emissions)</i>	15% Terminals Executed Fuel Efficiency Plans	36% Container Terminals Executed Fuel Efficiency Plans



Key Financial Terms

Three important terms used on several slides

- 1. Net Distributable Revenue** – The “Net Income” that is split 50/50 between the home ports
 - After all expenses including depreciation
- 2. Distributable Cash** – Per the charter, the “operating” cash per the Cash Flow Statement that is distributed 50/50 back to the home ports
 - Excluded depreciation and other cash flows not categorized as operating
 - Example 1: capital grant revenue is not distributed automatically
 - Example 2: Distributable cash does not hold back cash to pay for non-operating expenses such as the Public expenses for T5
- 3. Bond Income**
 - Minimum level of net income required for homeports to meet current bond rate covenants – defined in Charter
 - Excludes depreciation, capital grants and non operating expenses



Five Year Capital Investment Plan

(\$ million)

	2018	2019 - 2023					Totals
	Forecast	2019	2020	2021	2022	2023	
Capitalized	\$106.9	\$162.7	\$112.1	\$93.0	\$40.0	\$23.3	\$431.1
Operating & Non Op. Expense	\$13.9	\$19.7	\$30.1	\$13.0	\$7.1	\$6.6	\$76.5
Grand Total	\$120.8	\$182.4	\$142.2	\$106.0	\$47.1	\$29.9	\$507.6

- **Capitalized**

- Assets that depreciate over time

- **Operating expense**

- Included in the operating budget

- **Projects need to be approved individually by the Managing Members or delegation via Master Policy**

- Inclusion in the budget does not mean that the projects are authorized



2019 - 2023 Container Terminal Projects

(\$ million)

Project	Amount	Description
T5 Berth Modernization Construction	\$325.6	Develop N. Harbor strategic terminal required to achieve 3M TEU capacity & accommodate Ultra Large Container Ships (ULCSs)
Husky Terminal Crane Purchase	42.8	S. Harbor strategic terminal equipment required to finish strategic terminal & accommodate ULCSs
T46 Dock Rehabilitation	25.3	Rehabilitate maritime asset for continued use
T18 Stormwater Utility Upgrade	5.7	Ensure that the NWSA is doing its part to keep Puget Sound clean
Husky Phase 2 Construction	6.2	S. Harbor strategic terminal equipment required to finish strategic terminal & accommodate ULCSs
Husky Crane Disposal	4.2	Remove obsolete equipment to make room for new cranes
Others	30.5	16 other projects
Total	\$440.3	

2019 - 2023 Non Container Terminal Projects

(\$ million)

Project	Amount	Description
Auto Facility Roof Replacement	\$4.0	Support current auto cargo and associated jobs for existing auto processing customer
Others	4.1	9 projects
Total	\$8.1	



2019 - 2023 Other Projects *(\$ million)*

Project	Amount	Description
Contingency/Unallocated	\$25.0	Capital contingency at \$3M/year, expense at \$2M/year for emergent issues
Northwest Ports Clean Air Strategy	7.1	Reduce diesel particulate matter (DPM) by 80% by 2020 and Green House Gases (GHG) by 15% by 2020
T106 NH CBP Office & Facility Improvements	6.3	Estimated cost ranges from \$1M to \$6.3M
Clean Truck Program	4.8	Est. cost ranges from \$1.8M to \$4.8M (domestic terminals). 2007 or newer trucks reduce DPM emissions by up to 85%
Industrial Stormwater Compliance	3.5	Reduce copper to less than 14 parts per billion, zinc to less than 117 parts per billion
Others	12.7	24 projects
Total	\$59.4	



2019 Operating Budget Key Assumptions

- **Conservative Cargo forecast**
- **Lease revenue per contract**
- **Volume revenue per tariff and contracts**
- **TIGER grants and repair of T46**
- **Continuation of shared support services between the home ports and the NWSA**



2019 Preliminary Budget *(\$ million)*

NWSA \$ Million	2017 Actuals	2018 Forecast	2019 Budget	Budget v Fcst Better/(Worse)
Revenue				
Ongoing Revenue	\$ 189.3	\$ 187.7	\$ 199.4	\$ 11.8
Significant One-Time Revenue	\$ 5.7	\$ -		\$ -
	\$ 195.0	\$ 187.7	\$ 199.4	\$ 11.8
Operating and Maintenance Expenses				
Container	\$ 35.2	\$ 36.3	\$ 37.3	\$ (1.0)
Non Container	8.3	8.6	11.3	(2.8)
Real Estate	0.7	0.7	0.8	(0.1)
Other	13.9	15.9	17.5	(1.6)
Subtotal	58.1	61.4	66.9	(5.5)
Administration	19.6	21.2	23.5	(2.2)
Security	4.2	4.5	5.1	(0.6)
Air & Water Environmental	1.8	4.8	3.9	1.0
Total Operating Expenses before Depr.	\$ 83.7	\$ 91.9	\$ 99.3	\$ (7.4)
Income from Operations	\$ 111.3	\$ 95.8	\$ 100.2	\$ 4.4
Depreciation	2.2	6.8	13.5	(6.6)
Operating Income	\$ 109.1	\$ 88.9	\$ 86.7	\$ (2.2)
Non Operating	\$ 0.8	\$ 6.6	\$ 1.1	\$ (5.5)
Net Distributable Revenue	\$ 109.9	\$ 95.6	\$ 87.8	\$ (7.7)
Return on Revenue	56.3%	50.9%	44.0%	-6.9%
Distributable Cash	\$ 111.4	\$ 95.8	\$ 99.9	\$ 4.2
Bond Income	\$ 112.2	\$ 96.9	\$ 102.1	\$ 5.2

Revenue –

Lease increases in S. Harbor and increased equipment rental revenue

Expenses

Operations – EB1 rent payment to POT and outsourced maintenance at W. Sitcum & Log dock

Administration – Vacant positions to be filled, projects initiated

Non-Operating – T5 permit conditions rail quiet zone and electrical substation



Budget Line Items

NWSA \$ Million	2017 Actuals	2018 Budget	2018 Forecast	2019 Budget
Revenue				
Property Rental	\$ 41.4	\$ 39.2	\$ 40.4	\$ 43.3
Sale of Utilities	0.9	0.9	1.1	1.0
Services Marine Terminals	124.6	119.9	120.5	127.2
Equipment Rentals	17.9	17.6	15.9	18.3
Other Revenue	10.3	9.9	9.8	9.8
Total Revenue	\$ 195.0	\$ 187.5	\$ 187.7	\$ 199.4
Expenses				
Port Salaries & Benefits	\$ 10.3	\$ 9.9	\$ 9.6	\$ 10.0
Outside Services	6.5	6.3	4.8	6.7
Longshore Labor & Fringe	11.9	12.8	11.0	10.4
Direct Expenses	9.6	9.5	10.1	11.1
Marketing & Global Outreach	0.5	1.5	1.1	0.7
Travel & Hosting	0.4	0.7	0.6	0.7
Maintenance	17.3	18.5	21.8	25.3
Office Equipment & Supplies	0.2	0.3	0.3	0.4
Utilities	3.8	4.4	4.5	4.8
Other Employee Exp	0.3	0.3	0.3	0.1
Other Expenses	1.0	1.1	1.1	1.0
Environmental	1.8	3.8	4.8	3.7
Operating Expenses before Allocations	63.7	69.2	69.9	75.1
Allocations	20.0	25.1	22.0	24.2
Total Operating Expenses before Dep.	83.7	94.3	91.9	99.3
Operating Income Before Depreciation	111.3	93.2	95.8	100.2
Depreciation	2.2	7.4	6.8	13.5
Total Operating Expenses	85.9	101.7	98.8	112.7
Operating Income	\$ 109.1	\$ 85.8	\$ 88.9	\$ 86.7

Maintenance –

- 2018 :\$4M for N. harbor crane removal
- 2019: T46 bulkhead repair & paving of \$3M, \$0.9M PCT Paving, \$2M unallocated

Allocations

- 2018 allocations below budget due to staffing and project spending
- 2019 budget less than original 2018 budget

Depreciation

- Increasing due to NWSA investments



MEMBERSHIPS

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

Organization	Annual Dues
American Association of Port Authorities	\$50,000
Pacific Northwest Waterways Association	28,000
WA Council on International Trade	20,000
International Association of Ports and Harbors	11,000
All Other Memberships under \$10,000	44,000
Total NWSA Memberships	\$153,000

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



2019 Promotional Hosting

- **RCW 53.36.120 & 130 requires that expenditures for Industrial Development, Trade Promotion, and Promotional hosting be specific budgeted items**
- **The 2019 NWSA budget includes \$207,350 for promotional hosting – up \$5,000 from 2018 budget**
- **2019 statutory limit based on alliance revenue is \$523,000**



NWSA Service Level Agreements

- **For 2019, both home ports will continue to provide some level of services to the NWSA**
- **Service level agreements are reviewed annually during the budget process and are in effect for one year**
- **The NWSA Master Policy delegates approval of service level agreements to the NWSA CEO**
- **Each homeport Commission will approve Service Level Agreements at the homeport budget adoption**



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 \$90 million in total for NWSA**



NWSA 2019 Budget and Four Year Forecast

NWSA \$ Million	2019	2020	2021	2022	2023
Revenue					
Ongoing Revenue	\$ 199.4	\$ 203.0	\$ 214.6	\$ 223.7	\$ 235.4
Significant One-Time Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Total Operating Expenses before Depr.	\$ 99.3	\$ 104.1	\$ 107.7	\$ 104.3	\$ 106.3
Depreciation	13.5	16.1	24.4	24.7	28.3
Operating Income	\$ 86.7	\$ 82.8	\$ 82.5	\$ 94.7	\$ 100.7
Capital Grants	\$ 3.8	\$ 3.0	\$ 0.6	\$ -	\$ -
Other Non Operating (net)	\$ (2.7)	\$ (7.6)	\$ 2.3	\$ 1.4	\$ 1.4
Net Distributable Revenue	\$ 87.8	\$ 78.2	\$ 85.5	\$ 96.0	\$ 102.1
<i>Return on Revenue</i>	44.0%	38.5%	39.8%	42.9%	43.4%
Distributable Cash	\$ 99.9	\$ 98.9	\$ 106.9	\$ 119.3	\$ 129.0
Bond Income	\$ 102.1	\$ 102.1	\$ 109.3	\$ 120.8	\$ 130.4



2019 Operating Budget Authorization

- **2019 Operating budget produced bond income that exceeds Bond Calculation minimum**
- **Achieved homeport requirements**



2019 Contribution to Capital Construction

- **Do not recommend a one time lump sum contribution from each home port to Capital Construction**
- **Authorize homeport Treasurers to transfer funds up to \$81.4M (50% each o \$162.7 million) during 2019 to fund authorized capital projects and \$2.2 million (50% of \$4.4 million) to fund authorized public expense projects for a total of \$83.6 million**
- **Additional contribution of funds will be authorized through Managing Member action on projects as necessary**
- **Staff will propose changes to the Charter Section 3.12 Capital Construction to streamline future funding of Capital Construction**



Bond Income Level & Working Capital

- **No recommended changes to minimum Bond Income Level of \$90 million**
- **No recommended changes to Working Capital as established at \$51 million (\$25.5 million per home port)**
 - Adequate liquidity



Inter-Local Agreement for Support Services

- **NWSA approval of ILA's delegated to CEO**
- **Each Home port will approve their respective ILA's as part of their budget process**
- **No Action required**



Approval Request

- **Request Managing Member approval of following items:**
 - 2019 Operating Budget including Memberships over \$10,000 and Promotional hosting
 - 2019- 2023 Capital Investment Plan
 - Capital Construction contributions from home port treasurers as requested for authorized projects up to \$83.6 million each port.
 - 50% of \$162.7 million Capitalized project total
 - 50% of 4.4 million Public Expense project total.

