



MANAGING MEMBER SPECIAL MEETING

Monday, November 7, 2022

9:30 AM Open Public Meeting

The Conference Center at SEA, 17801 International Blvd, Seattle, WA 98158, WA
and virtually at www.nwseaportalliance.com

1. CALL TO ORDER

Acting Co-Chair Keller called the special meeting to order at 9:32 a.m. She announced an executive would immediately follow the end of the special meeting.

Port of Seattle Commissioners Present: Port of Tacoma Commissioners Present:

Ryan Calkins
Fred Felleman
Toshiko Grace Hasegawa
Hamdi Mohamed

Kristin Ang
Deanna Keller
John McCarthy
Dick Marzano

Port of Seattle Commissioners Excused: Port of Tacoma Commissioners Excused:

Sam Cho

Don Meyer

2. FLAG SALUTE

The Pledge of Allegiance was recited.

3. REPORT BY CHIEF EXECUTIVE OFFICER

CEO, John Wolfe reported that staff is pleased to present the 2023 NWSA budget. He stated the budget represents a balanced approach focused on strategic investments that support business growth within the gateway and the NWSA's financial and environmental responsibilities. He thanked the NWSA's Chief Financial Officer, David Morrison and his team for their work on the budget.

4. PUBLIC COMMENT

None.

5. ACTION AGENDA

A. Budget Adoption

Presenter: David Morrison, CFO.

CFO Morrison presented a comparison of The Northwest Seaport Alliance Scorecard for the years 2021 and 2022 in the areas of cargo volume, financial returns, environmental stewardship, job creation, market share and operations.

- Uncertainty surrounding ongoing negotiations between the Pacific Maritime Association and ILWU has contributed to a shift of cargo from the NWSA gateway to the East Coast and Gulf Coasts.
- Commissioner Felleman expressed appreciation for the criteria used to measure the environmental stewardship category of the Scorecard. He would like a better understanding of the water quality control, and why it is half of what was expected. CFO Morrison will need to get that answer from the environmental team.

Changes to the budget since the October 27, 2022 budget study session were presented and include:

- \$400,000 additional revenue due to a correction of non-cash amortization of APMT stormwater improvements. This applies to all five years of the forecast.
- \$17 million in additional grants from the PIDP Grant Award. This will be used for the gate and container yard projects at Terminal 5 (T5). \$10 million in 2024 and \$7 million in 2025.

Distributable Cash for 2023 is budgeted to be \$124.6 million – including the \$400,000 additional revenue included since the October 27, 2022 study session.

Highlights of the 2023 Operating Budget were presented including:

- Revenue growth of \$25.6 million, much of which is driven by new business.
- Project spending on top of ongoing maintenance includes \$1.5 million in crane rehabilitation and \$2.4 million in maintenance dredging preparation and pier repair in the Seattle Harbor and \$600,000 in the Tacoma Harbor.
- The budget includes significant maintenance projects and increased depreciation due to T5 Phase 2.
- Each homeport is budgeted to receive \$62.3 million in Distributable Cash.

Commissioner Felleman asked if there is a contingency in the budget in the event there is less cargo than forecast. CFO Morrison responded that 75% of the revenue is fixed and 25% is variable. With the variable revenue, if volumes drop, expenses drop. Action can be taken to reduce spending and he also pointed out that the budget includes \$3 million for unplanned expenses.

Line of Business Margins before Depreciation were presented. A comment was made in the October budget study session about a decrease in overall margins. In 2016 there were two terminals bringing revenue (T46 and T7) which have since closed. NWSA revenue has increased just in lower margin lines of business.

CFO Morrison then presented the Eight-Year Administrative Expenses. Historically the NWSA has performed below budget. This is mainly due to delays in technology spending and understaffing. Drivers of the 15% increase from the 2022 administration forecast to the 2023 budget were explained in detail.

Memberships for 2023 are budgeted at \$221,885 and Promotional Hosting is budgeted at \$194,600 significantly below the statutory limit calculated for the NWSA of \$607,750.

Commissioner McCarthy asked whether the increase in allocation costs was due to an increase in the number of service level agreements or the amount being charged. Staff responded that it is a combination increased scope and increased cost.

Commissioners asked for clarity regarding the flow of HMT funds and the status of those policy discussions. Staff will be bringing this discussion to the Managing Members in the next couple of months. The NWSA and homeports are identifying projects that are HMT eligible. They will work together to identify the collective needs and bring the topic for discussion before the Managing Members. Commissioner Calkins emphasized the need for an easy-to-understand explainer of HMT. The way it is described, it sounds like a grant, but it is not. It is money collected as a result of operations by the ports sent to D.C. and then returned to the ports.

The 2022-2027 CIP was summarized. It was presented in detail at a separate meeting in September.

The Port of Seattle and Port of Tacoma have refunded all bonds outstanding at the time of the formation of the NWSA, hence the bond income can be set to \$0.

It was moved and seconded (McCarthy/Keller) to approve the following:

- (Item A) 2023 Operating Budget including Memberships over \$10,000 and Promotional Hosting.
- (Item C) Setting the Bond Income target to \$0.
- (Item D) Delegation to the NWSA CEO approval of the Service Level Agreements between the NWSA and Port of Tacoma, and between the NWSA and the Port of Seattle.

- (Item E) Distribution of Lease Interest cash on a monthly basis consistent with Distributable Cash due to change in accounting due to GASB 87.

Discussion:

- The budget anticipates a 6% increase in CPI for 2023 and 3% thereafter. However, some of the NWSA's major leases have floors and caps on CPI, mainly 5% caps, so there is risk. Staff budgeted a fairly low tariff increase. This can be adjusted when the NWSA enters into new tariffs in July 2023.
- Commissioner Calkins asked when was the last time actuals outpaced the budget forecast. Staff responded that security actuals exceeded budget in 2019, Maintenance in 2017. Commissioner Calkins made the point that continuing to budget conservatively gives the NWSA a bit of room and actuals will likely not exceed the budget if historical trends persist. Staff responded that while true, the point is not to pad the budget and only report good news. The budget allows for surprises to happen, for example failure of a substation.
- The T5 Affirmation is a certainty. The Port of Seattle will owe \$10 million because the NWSA far exceeded the \$320 million even accounting for all the grants.
- Commissioner Calkins asked CEO Wolfe whether it might be time to review the delegation of authority. He stated the Port of Seattle Commission is in discussion to possibly raise the amount of delegated authority to its executive director. CEO Wolfe acknowledged that inflation and things of that nature are definitely impacting the buying power of the \$300,000 delegated authority, but that the amount is a policy decision of the Managing Members. He stated further that he is not opposed to having that discussion, but finds that having such a limit protects the enterprises. Dollar amount is not the only driver to bringing items before the Managing Members and to the public. Risk and political impact are other considerations.
- Commissioner McCarthy commented that the higher the NWSA sets the delegation of authority, the more of just an advisory board, the Managing Members will become.

The motion passed unanimously.

It was moved and seconded (Felleman/Hasegawa) to approve the 2023-2027 Capital Investment Plan, not authorizing any projects, each will still require authorization per delegation or by Managing Member vote (Item B).

Discussion:

- Commissioner McCarthy acknowledged that CIP projects still require authorization by delegation or Managing Member vote, but that he has never seen an NWSA CIP list that has been deviated from. He is struck by the amount of money the NWSA proposes to spend during the forecast time period on Seattle projects. He noted that 59% of the revenue over a nine-year span from 2016 to 2025 comes from the South Harbor and 41% from the North Harbor, but expenditures are just the opposite. He stated there is a need to review how the value of licensed property was calculated. And to look at opportunities to include other types of properties, such as inland hub facilities, in and around the North Harbor as potentially licensed property list that could result in more of a 50-50 split.
- Commissioner Felleman commented on the ability for a public agency to take the long view and make investments that the private sector could never consider based on rates of return, etc. He acknowledged asymmetries along the way, but the resources are then shared between homeports and both benefit in the long run.
- Commissioner Ang asked how the coming on line of T5 and T46 impact the 59-41 split Commissioner McCarthy highlighted. CFO Morrison informed that the NWSA approaches a 50-50 revenue split sometime in the 2026-2027 timeframe. He stated the CIP is skewed toward the North Harbor and that the HMT scale will need to be addressed.
- Expenditures at T46 are purely maintenance expenses to repair or replace failing bulkheads.

- Environmental expenses increase in 2025 due to a \$5 million investment in electric staddle carriers in the North Intermodal Yard and at Husky Terminal.
- Only a portion of the shore power spending in the CIP is reflected in the environmental budget category. Shore power spending at T5 and Husky Terminal is reflected in their own project numbers.
- Commissioner Keller noted the NWSA is a public business enterprise and like any business, capital investments are needed to generate more revenue and the rate of return on investments in T5 and T46 will bring the revenue split to 50-50.
- Commissioner McCarthy stated that the cumulative spending and cumulative income for the period of 2016 through 2023 indicate that the licensed properties did not result in parity in terms of what was going to be spent and what was going to be derived.
- Commissioner Marzano supports the CIP. He believes staff has done a good job of bringing projects to the Managing Members both per the delegation of authority and also when there is the likelihood of reaching or exceeding its limit exists. With regard to concerns highlighted by Commissioner McCarthy, he commented that the NWSA was formed to increase the market share of the homeports as one entity, not to make sure the homeports are equal in any given year.
- CEO Wolfe added that HMT funds remain in the homeports and if the homeports use HMT funds on qualifying projects, that reduces the amount expended by the NWSA.

The motion carried 2-0 by the following vote:

Port of Seattle Commission:

Ryan Calkins - Aye
Fred Felleman - Aye
Toshiko Grace Hasegawa - Aye
Hamdi Mohamed - Aye
Sam Cho – Excused

Port of Tacoma Commission:

Kristin Ang - Aye
Deanna Keller - Aye
John McCarthy - Nay
Dick Marzano - Aye
Don Meyer - Excused

6. GENERAL BUSINESS

A. CEO Announcements. CEO Wolfe introduced Deputy CEO Esterbrook to announce the latest Inland Rail Hub, Millersburg, Oregon. The Linn County Executive Development Council will be holding a ribbon cutting at a future date.

B. Commissioner Comments

Commissioner Marzano commented that the Coos Bay International Gateway is unfeasible in any way, but that this latest rail hub helps.

Commissioner Keller expressed her appreciation to Commissioner Hasegawa for attending and said her thoughts and prayers are with her over the loss of her family member.

Commissioner Felleman asked Co-Chair Calkins to comment on potential competing uses for the Coos Bay Harbor.

Co-Chair Calkins commented on two things making news out of Coos Bay. They announced they are seeking a \$1.2 billion grant for a container cargo facility also looking at a call area off of Coos Bay for an off shore wind installation serviced by Coos Bay. He commented that those do not seem to be compatible uses. There has been speculation as to whether a container terminal is being done in earnest or to encourage other investment. He shared his personal opinion that if the federal government is interested in investing \$1.2 billion on West Coast cargo movement, that there are a number of existing ports that they could be working with.

7. EXECUTIVE SESSION

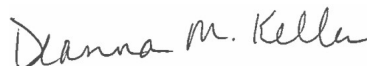
The Managing Members recessed for an executive session pursuant to RCW 42.30.110(1)(i) to discuss with legal counsel representing the agency litigation or potential litigation to which the agency is, or is likely to become, a party, when public knowledge regarding the discussion is likely to result in an adverse legal or financial consequence to the agency. The executive was expected to last 15 minutes, but was extended for five additional minutes.

8. ADJOURNMENT

Following the executive session, there being no further business before the Managing Members, Co-Chair Calkins announced the meeting adjourned at 11:15 a.m.



Ryan Calkins, Co-Chair
The Northwest Seaport Alliance

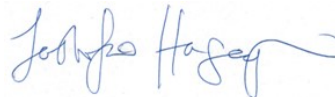


Deanna Keller, Co-Chair
The Northwest Seaport Alliance

ATTEST:



John McCarthy, Co-Secretary
The Northwest Seaport
Alliance



Toshiko Hasegawa, Co-Secretary
The Northwest Seaport Alliance



Leilani Berinobis, Acting Clerk
The Northwest Seaport Alliance