

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	<u>5A</u>
Date of Meeting	<u>November 7, 2022</u>

DATE: November 2, 2022

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: David Morrison, CFO

SUBJECT: 2023 Operating Budget, 2023-2027 Capital Investment Plan, Bond Income Adjustment, Service level agreement delegation, and GASB 87 Interest in Distributable Cash.

A. ACTION REQUESTED

Request Managing Member authorization for the following items:

1. The 2023 Annual Operating Budget;
2. The 2023-2027 Capital Investment Plan;
3. Approval to distribute Lease Interest cash on a monthly basis consistent with Distributable Cash
4. Bond Income Adjustment; and
5. Authorize the NWSA CEO to enter into and execute the Service Level Agreements (SLAs) with the homeports.

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. State law requires Managing Member approval to delegate authorization of the Interlocal Agreements between the NWSA and homeports for support services to the NWSA CEO and homeport Executive Directors.

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. The revenue and net income have increased by \$400,000 due to an error correction.

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 2023-2027 CIP was presented during the study session and no changes have been made to the CIP.
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 approved by the Managing Members and will be submitted for approval by the Federal Maritime Commission (FMC) once additional charter revisions have been approved for submission to the FMC.
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 \$21,860,000 to \$0 based on refunding of all bonds that were outstanding at the time of the formation of the NWSA.
5. Authorize the NWSA CEO to enter into and execute the Service Level Agreements (SLAs) between the NWSA and POT, and between NWSA and POS. The homeport commissions will be requested to authorize their respective Executive Directors' execution of the SLAs.

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 \$124.6 million of Distributable Cash and \$100.6 million of Net Distributable Revenue that will be shared between the two homeports. Additionally, \$149.3 million is expected to be spent on Capitalized projects in 2023 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

NWSA Budget Adoption material for November 7th meeting

G. PREVIOUS ACTIONS OR BRIEFINGS

Information on the NWSA 2023 budget, 2024-2027 operating forecast, and 2023-2027 CIP have been made available to the public as follows:

- The September 7th CIP Budget study session including target setting and 2023 capitalized project spending;
- The October 27 budget study session was an in-depth look at business forecasts, five-year Capital Investment Plan and the 2023 Operating Budget;
- The budget presentation materials were made available on October 17 on the NWSA website for public review; and
- The budget document was made available on October 25 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 8, and November 29; and
- The Port of Tacoma Commission met on November 3 and will meet on November 17.