

Item No.: 3

Date of Meeting: March 29, 2024

# 2023 Financial Results & NWSA 8-Year History + 2024 Budget

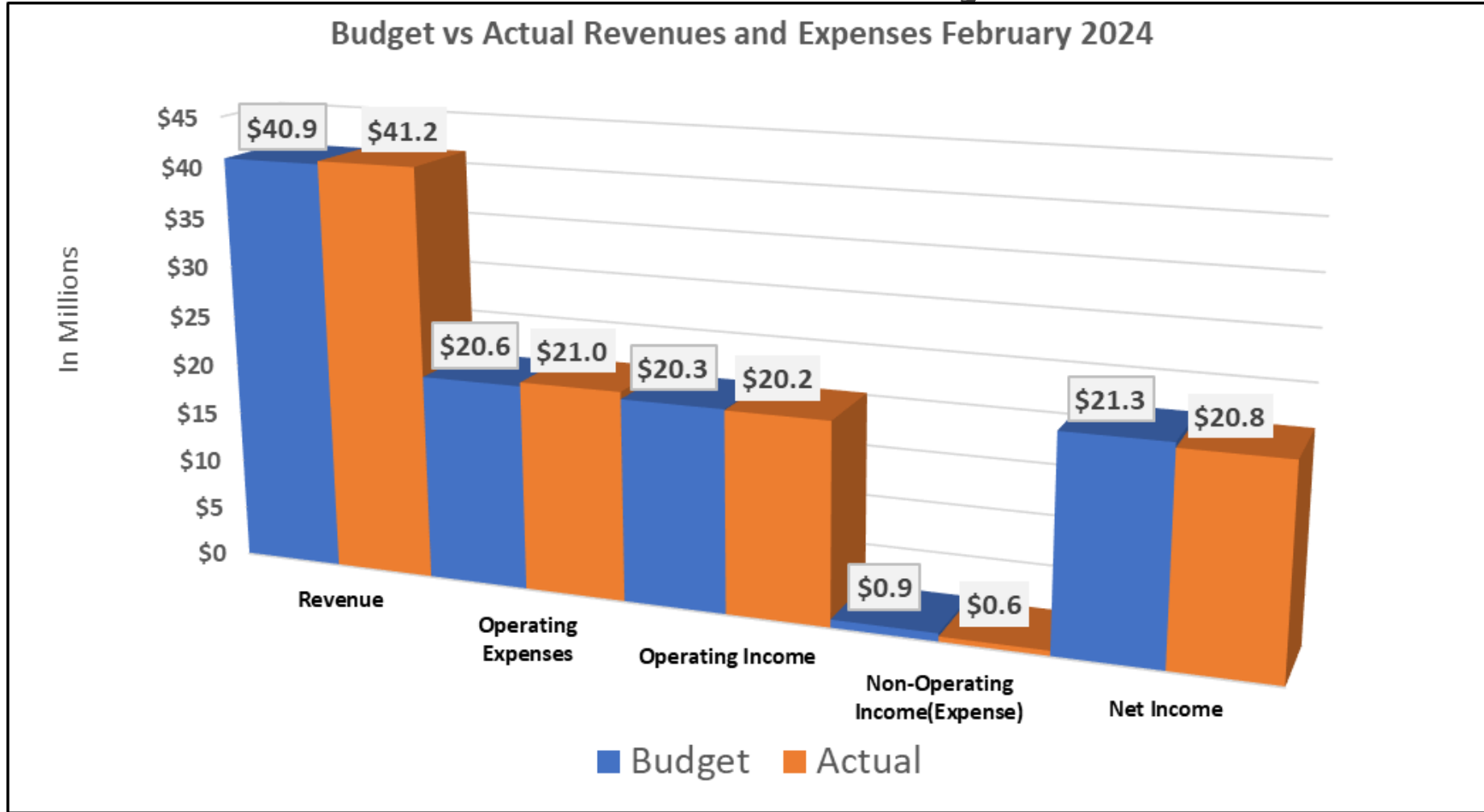


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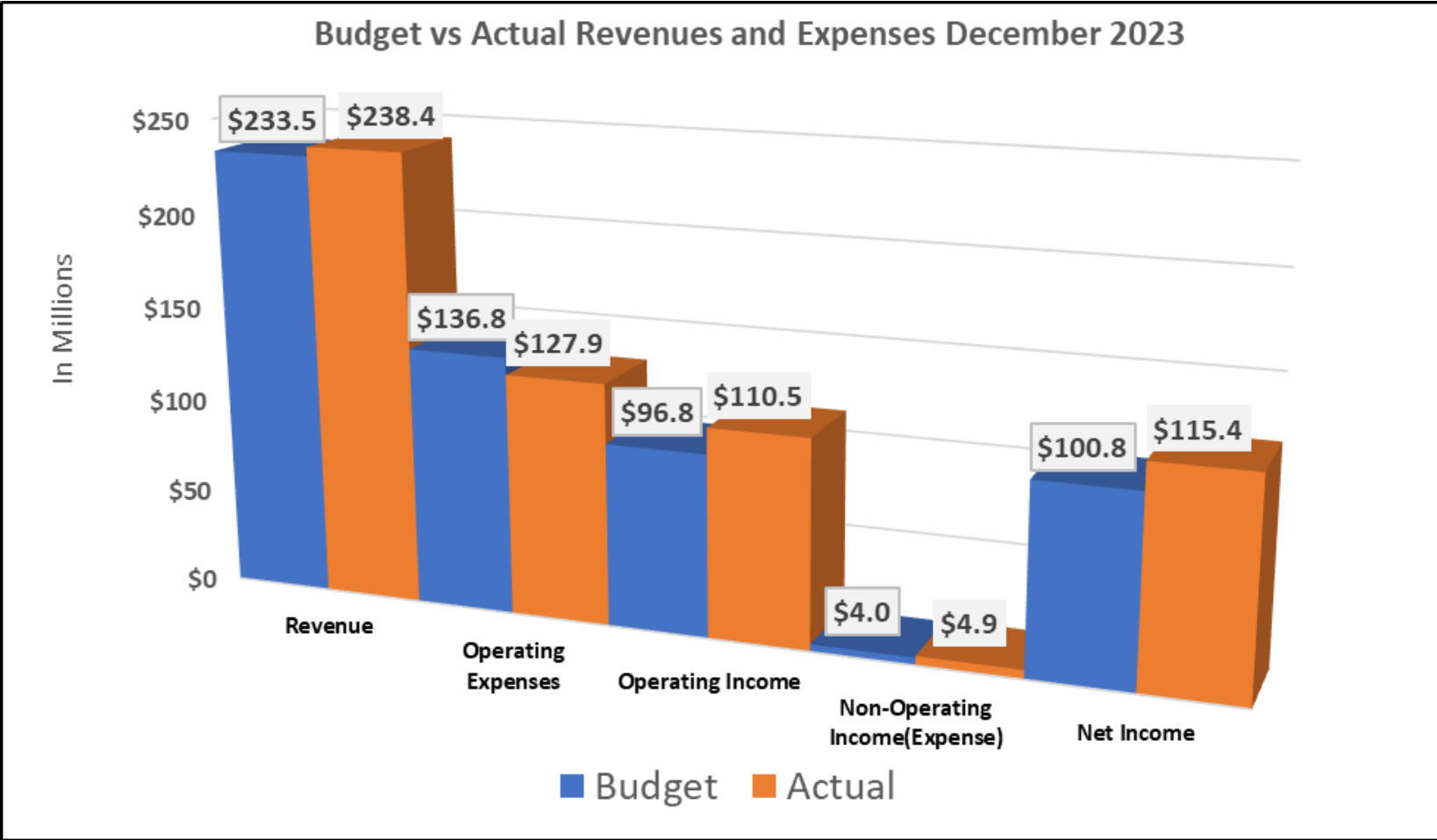
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Presenter Name: Calum Tasker  
Presenter Title: Sr. Financial Analyst

# YTD February



# 2023 Actual vs 2023 Budget Comparison

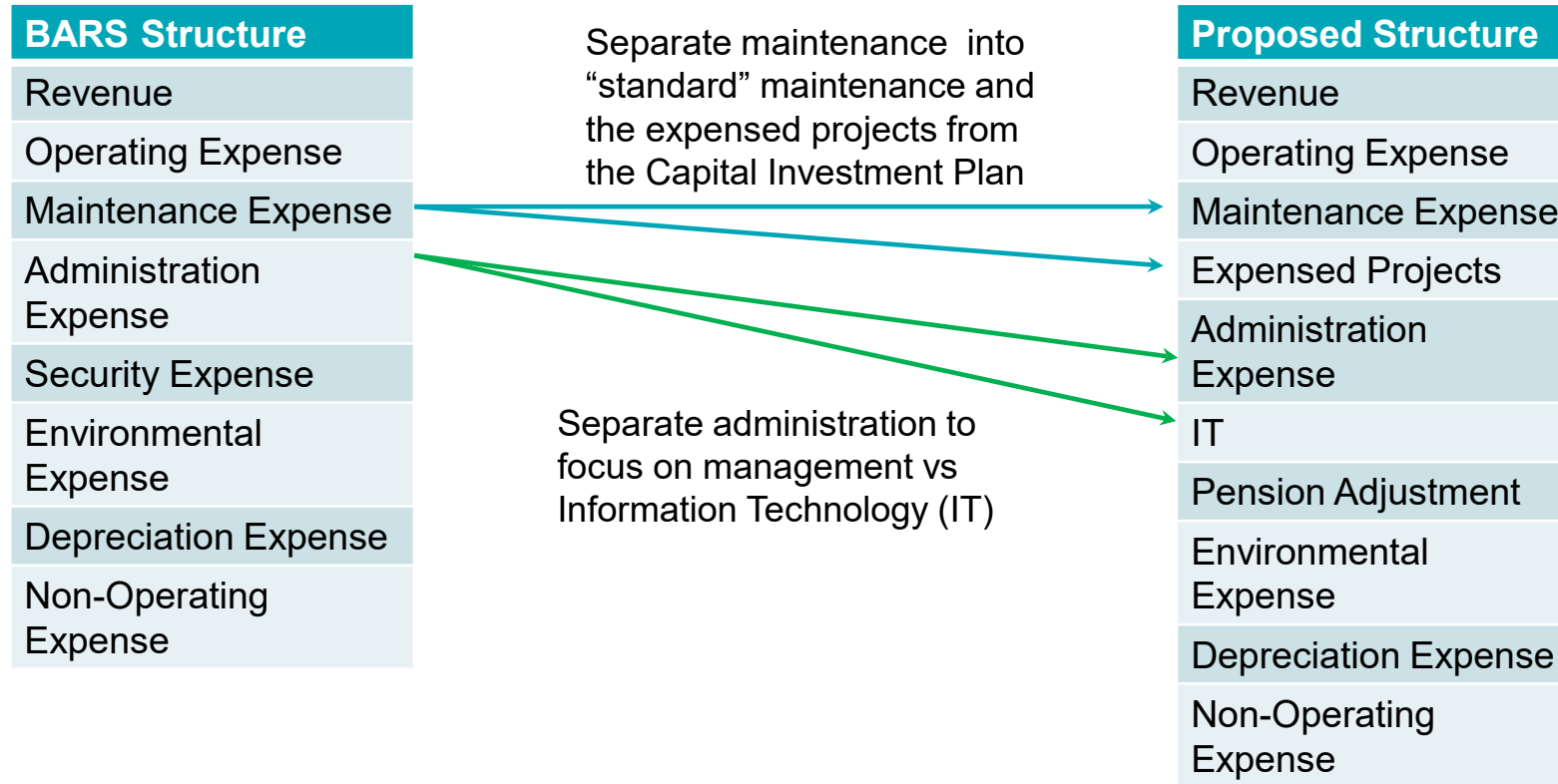


# 2023 Capital Spending Summary (\$000)

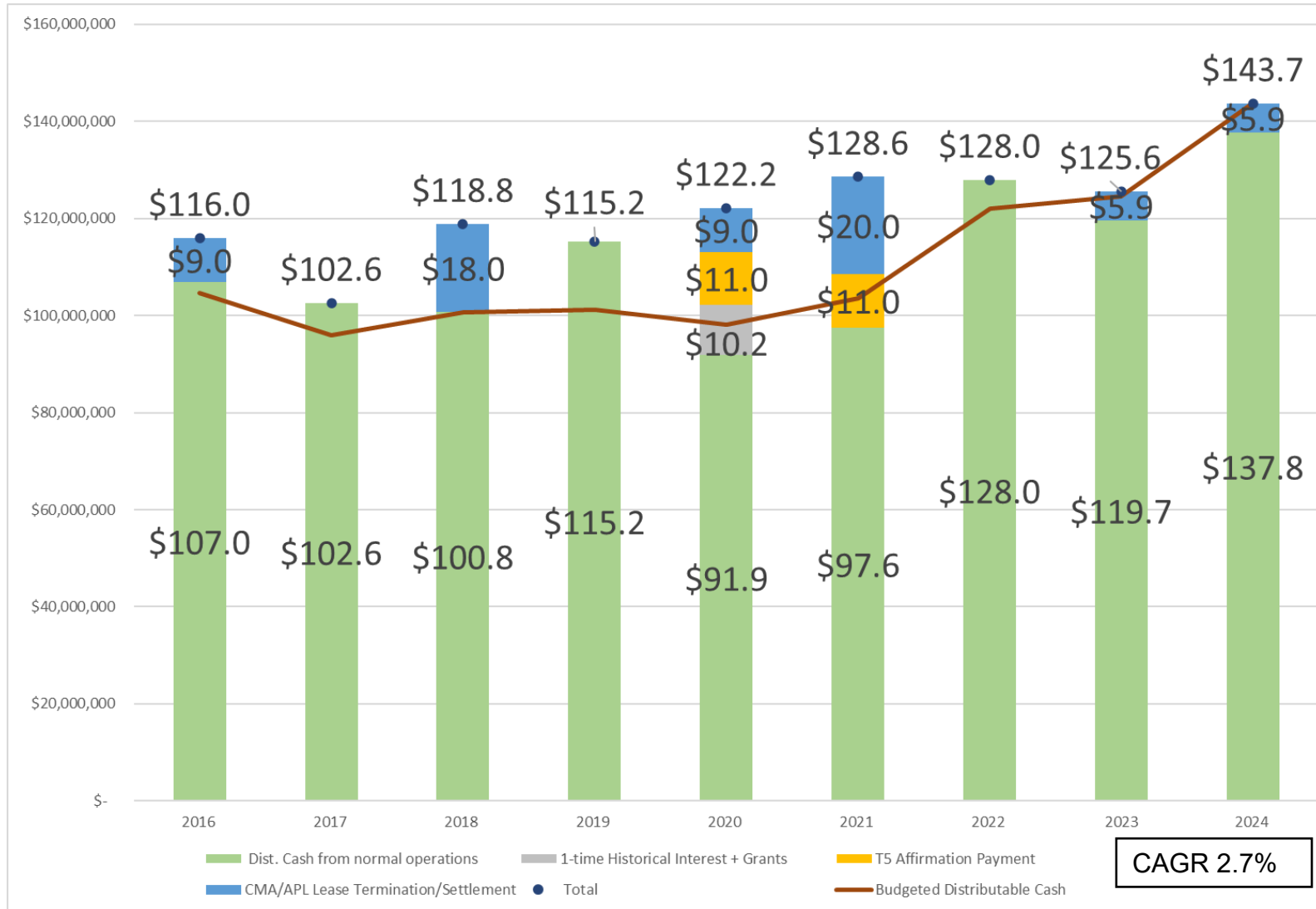
	2023	2022	2021
Terminal 5 modernization	\$ 32,515	\$ 37,836	\$ 66,921
N. and S. Harbor terminal stormwater improvements	10,616	13,968	11,334
Facility and building improvements	6,154	5,475	3,672
Husky Terminal redevelopment and container cranes	-	198	2,479
Terminal 46 dock rehabilitation	-	7	2,412
CBP facility	2,018	243	1,378
Other	407	537	2,398
	<u>\$ 51,710</u>	<u>\$ 58,264</u>	<u>\$ 90,594</u>



# Proposed Budget Financial Structure – Significant Revisions



# Distributable Cash History (excluding HMT)



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# 9-Year Revenue



# Revenue

	2023 Actual	2023 Budget	2024 Budget	2023 Actuals vs Budget	%
Revenue	238,437,735	233,533,560	252,824,301	4,904,176	2.10%

- **2023 Actuals vs 2023 Budget**

- Container revenue increase, \$6.2M
  - Recognized CMA/APL shortfall in 2023, \$5.9M
  - Husky, \$1.3M (driven by crane minimums)
  - Offset by T46, (\$1.4M), container operation didn't materialize
- Breakbulk revenue increase, \$3.9M
  - Increased volume 11%
- Intermodal revenue decrease, (\$5.0M)
  - Decreased lifts, (13%)
- PCC Logistics didn't get to higher rates in 2023, (\$1.5M)



# Revenue cont'd.

- **2023 Actual vs 2024 Budget**
  - 2024 increase in container revenue, \$16.4
    - T5, \$13.1M (phase 2 since delayed)
    - WUT, \$2M (every 5-year CPI increase)
    - T18, \$1.2M (transtainer run payments since delayed)
  - 2024 increase in auto revenue, \$1.2M (14% increase in units)
  - 2024 decrease in breakbulk, (\$5.0M) (only budgeted 2 military vessels)
  - 2024 increase in intermodal, \$0.7M (increased units 16%)
  - 2024 increase in NWSA real estate revenue, \$0.8M

# 9-Year RRS Operations Expense



# RRS Operations

	2023 Actual	2023 Budget	2024 Budget	2023 Actuals vs Budget	%
RRS Operations	59,066,278	53,370,757	57,180,994	5,695,521	10.67%

- **2023 Actual vs 2023 Budget**

- Unbudgeted rail incentive in 2023, \$2.6M
- Rent to support increased auto business, \$1.9M
- Longshore higher than budget, \$2M (to support higher breakbulk revenues)
- Unfilled headcount, (\$1M)



# RRS Operations Cont'd.

- **2023 Actual vs 2024 Budget**

- Decreased longshore labor, (\$3M) (based on lower breakbulk revenues and NIM lifts)
- Decrease in drayage, (\$1M)
- Decrease in stormwater expense as the result of T5 phase 2, (0.8M)
- Offset by an increase in rent expense to support auto business, \$2.2M
- Budgeted to be fully staffed in 2024, \$0.8M

# 9-Year RRS Maintenance Expense



# RRS Maintenance

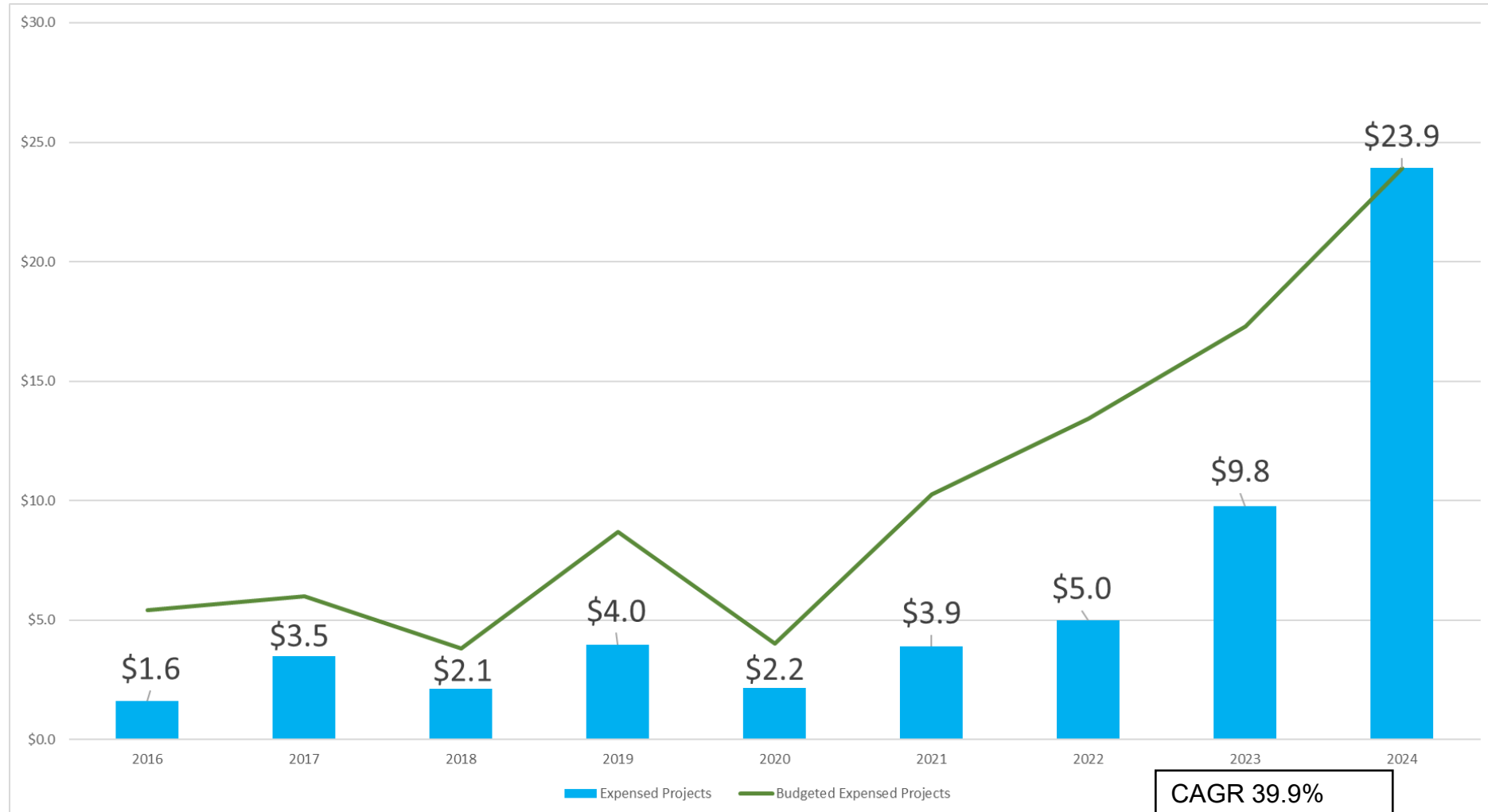
	2023 Actual	2023 Budget	2024 Budget	2023 Actuals vs Budget	%
RRS Maintenance	17,291,994	18,430,303	17,262,084	(1,138,309)	-6.18%

- **2023 Actual vs 2023 Budget**
  - Lower strad maintenance, (\$1.9M)
  - Higher crane maintenance, \$0.4M
  - Higher other equipment maintenance, \$0.4M

# RRS Maintenance Cont'd.

- **2023 Actual vs 2024 Budget**
  - Flat to 2023 actuals
    - Decrease in crane maintenance, (\$0.7M)
    - Increase in strad maintenance, \$0.6M

# 9-Year Expensed Projects





# RRS Expensed Projects

	2023 Actual	2023 Budget	2024 Budget	2023 Actuals vs Budget	%
RRS Expensed Projects	9,757,623	17,286,821	23,921,656	(7,529,198)	-43.55%

- **2023 Actual vs 2023 Budget**

- The following expense projects were either not started or not completed as per the Budget 2023 schedule known at that time
  - Unplanned project bucket, (\$3M)
  - Maintenance dredging at T18, T30 and T46, (\$1.8M)
  - T18 bullrail and pier repairs, (\$0.9)
  - SIM/Milwaukee Wy Crossing Paving Repairs, (\$0.4)
  - Wapato Creek culvert, (\$0.4M)
  - West Sitcum Crane Rail Rehab, (\$0.4)
  - Multiple other projects, (\$0.6M)

# RRS Expensed Projects Cont'd.

- **2023 Actual vs 2024 Budget**
  - T5 increase of \$6.2M (management reserve)
  - PCT increase of \$1.7M (maintenance dredging and culvert repair)
  - Tote increase, \$1.5M (maintenance dredging, pavement and building repairs)
  - Other projects totaling, \$1.9M
  - Unplanned maintenance bucket, \$3M

# 9-Year Admin Expenses



# RRS Administration

	2023 Actual	2023 Budget	2024 Budget	2023 Actuals vs Budget	%
RRS Administration	12,239,814	12,984,577	13,766,785	(744,763)	-5.74%

- **2023 Actual vs 2023 Budget**
  - Under budget in consulting and legal, (\$0.7)



# RRS Administration Cont'd.

- **2023 Actual vs 2024 Budget**

- 2024 increase in consulting and legal expense, \$1.0M
  - Wind Study, \$0.3
  - Grant Application Support, \$0.2M
  - Resilient Gateway, \$0.1M
  - Graphic services, \$0.1M
- Homeport allocation increases, \$0.3M
- 2024 increases in travel, \$0.2M

# 9-Year RRS IT Expenses



# RRS IT

	2023 Actual	2023 Budget	2024 Budget	2023 Actuals vs Budget	%
RRS IT	7,225,647	8,529,232	10,746,946	(1,303,586)	-15.28%

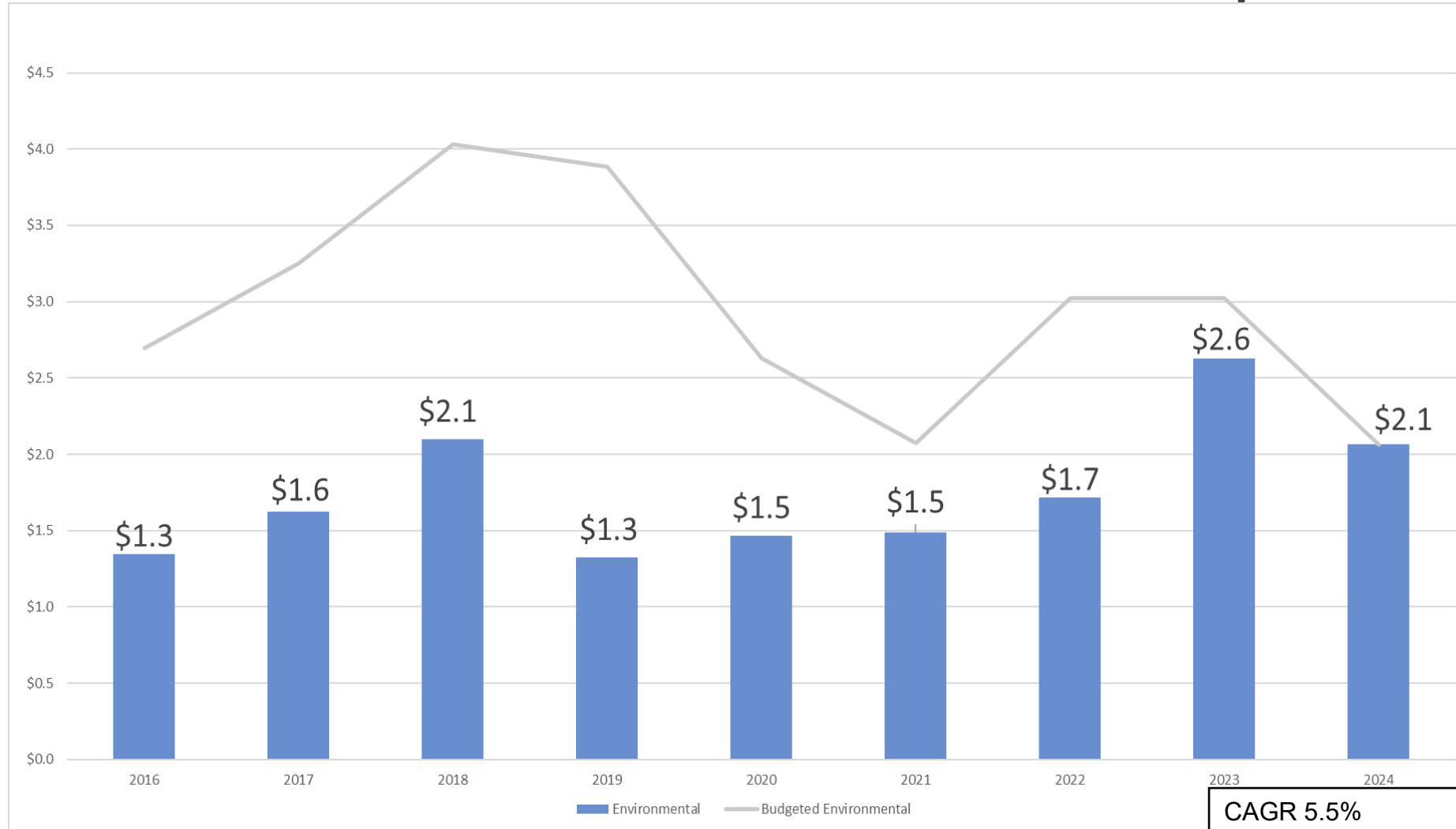
- **2023 Actual vs 2023 Budget**

- Homeport allocations under-budget, (\$1.1M) (consulting, timing of projects and staffing)
- No spend against RFID turn-times and Port Community System projects, (\$0.2M)

- **2023 Actual vs 2024 Budget**

- 2024 increase in Port of Tacoma allocations, \$2.8M (Next Gen)
- Port Community System, \$0.8M

# 9-Year RRS Environmental Expenses





# RRS Environmental Expenses

	2023 Actual	2023 Budget	2024 Budget	2023 Actuals vs Budget	%
RRS Environmental	2,629,190	3,021,727	2,064,717	(392,537)	-12.99%

- **2023 Actual vs 2023 Budget**
  - Underbudget in Air Quality projects, (\$0.5M)
    - The following air quality projects were either not started or not completed as per the Budget 2023 schedule known at that time
      - Clean Handling Equipment, (\$0.1M)
      - Clean Truck-Domestic Terminals, (\$0.1M)
      - Clean Air Strategy, (\$0.2M)
      - Electrification Roadmap, (\$0.1)



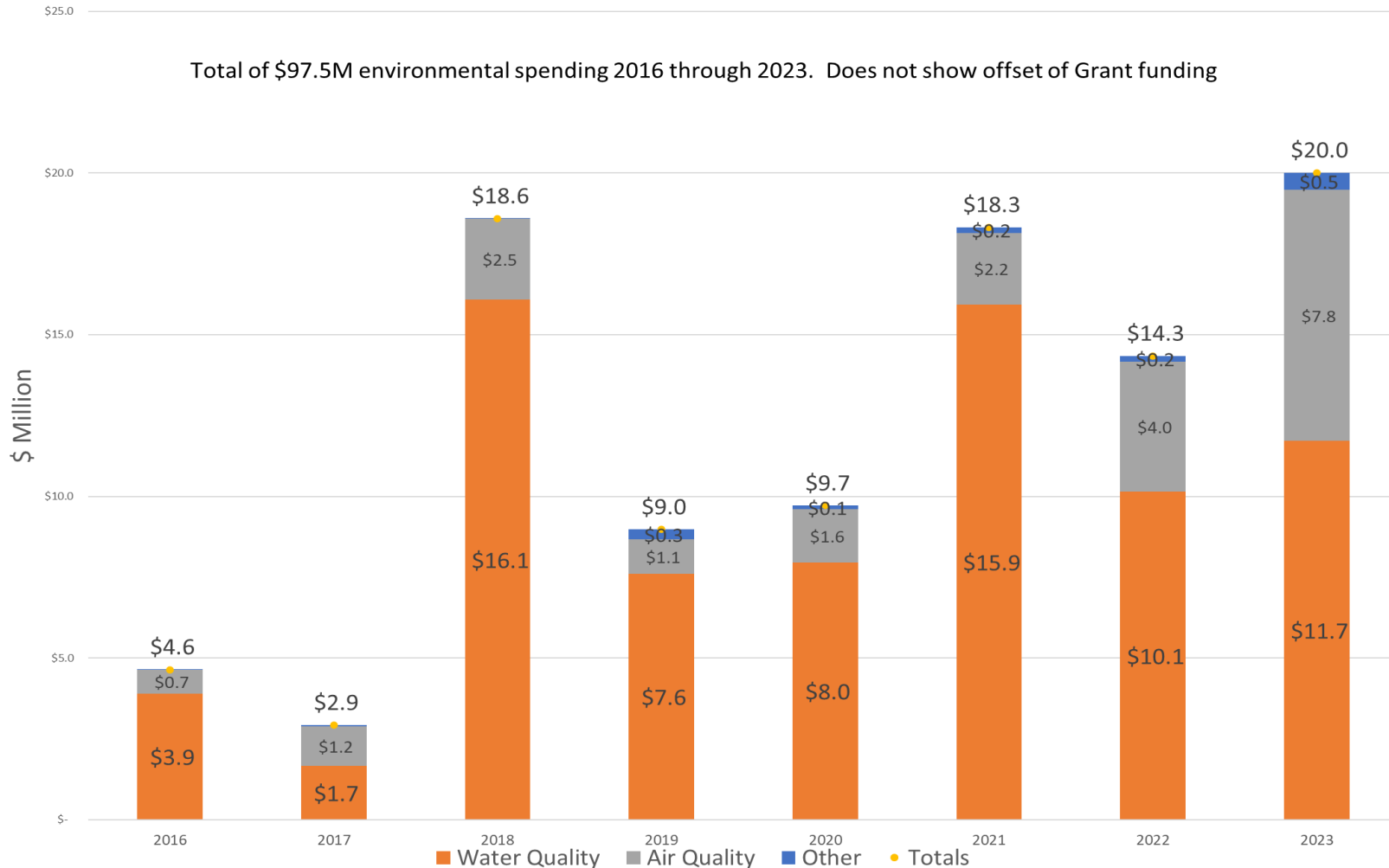
# RRS Environmental Expenses Cont'd.

- **2023 Actual vs 2024 Budget**
  - 2024 decrease in air quality projects, (\$0.2M, Electrification Roadmap work complete)
  - 2024 decrease in stormwater compliance projects, (\$0.1M)
  - Reduction in POS allocations, (\$0.1M)

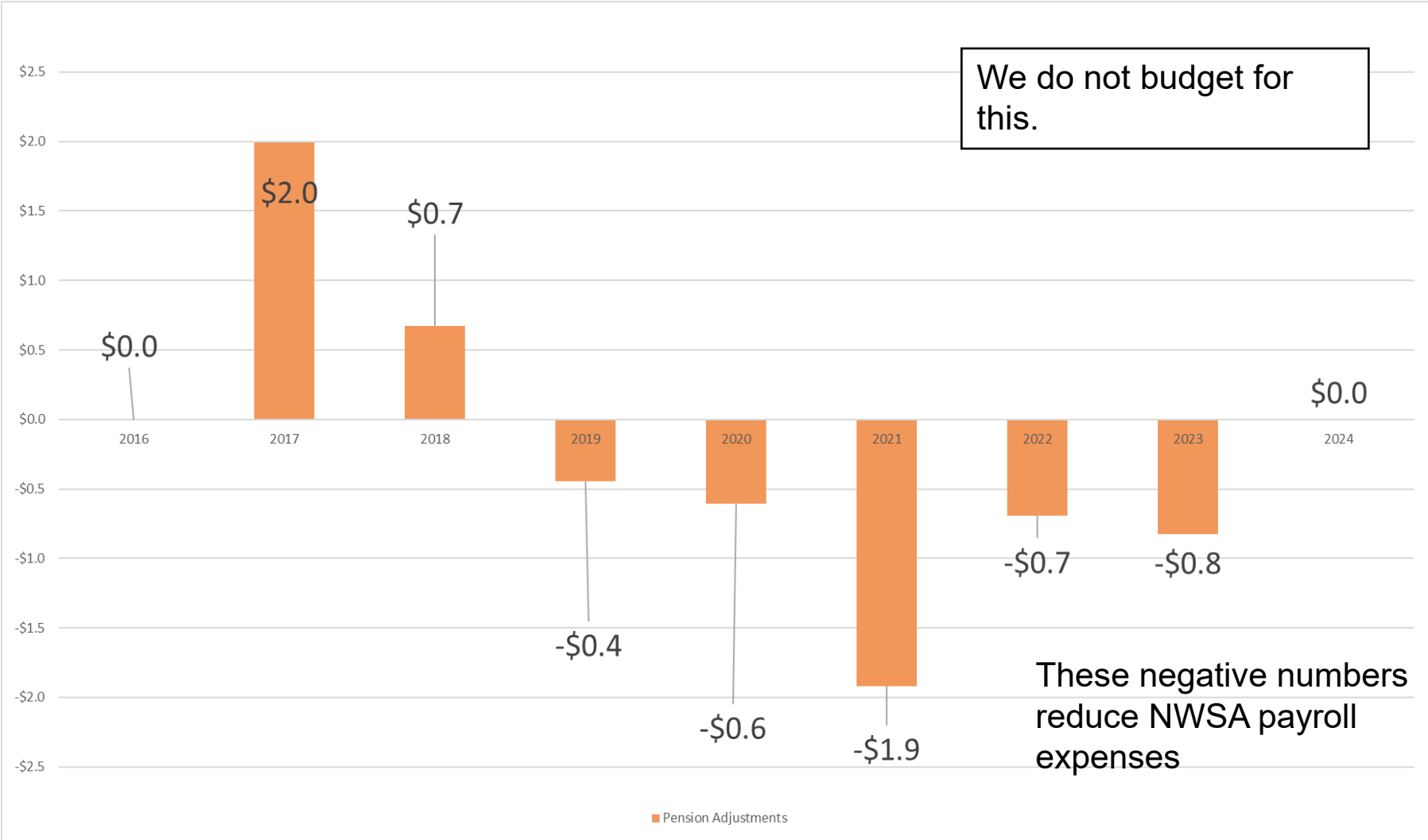
# Total Environmental Spending

Total NWSA Environmental Spending  
(Capitalized, operating expense, non operating expense)

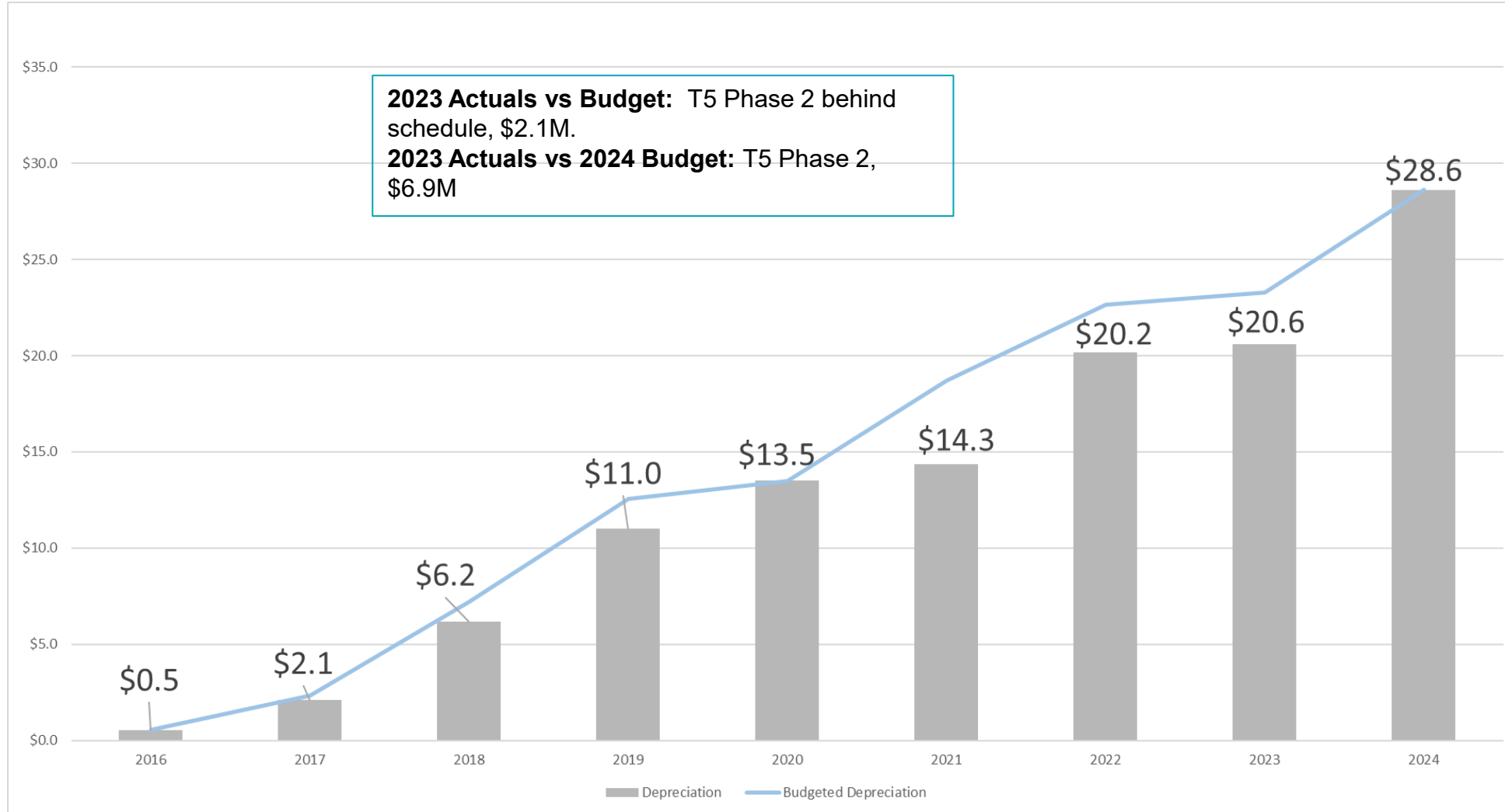
Total of \$97.5M environmental spending 2016 through 2023. Does not show offset of Grant funding



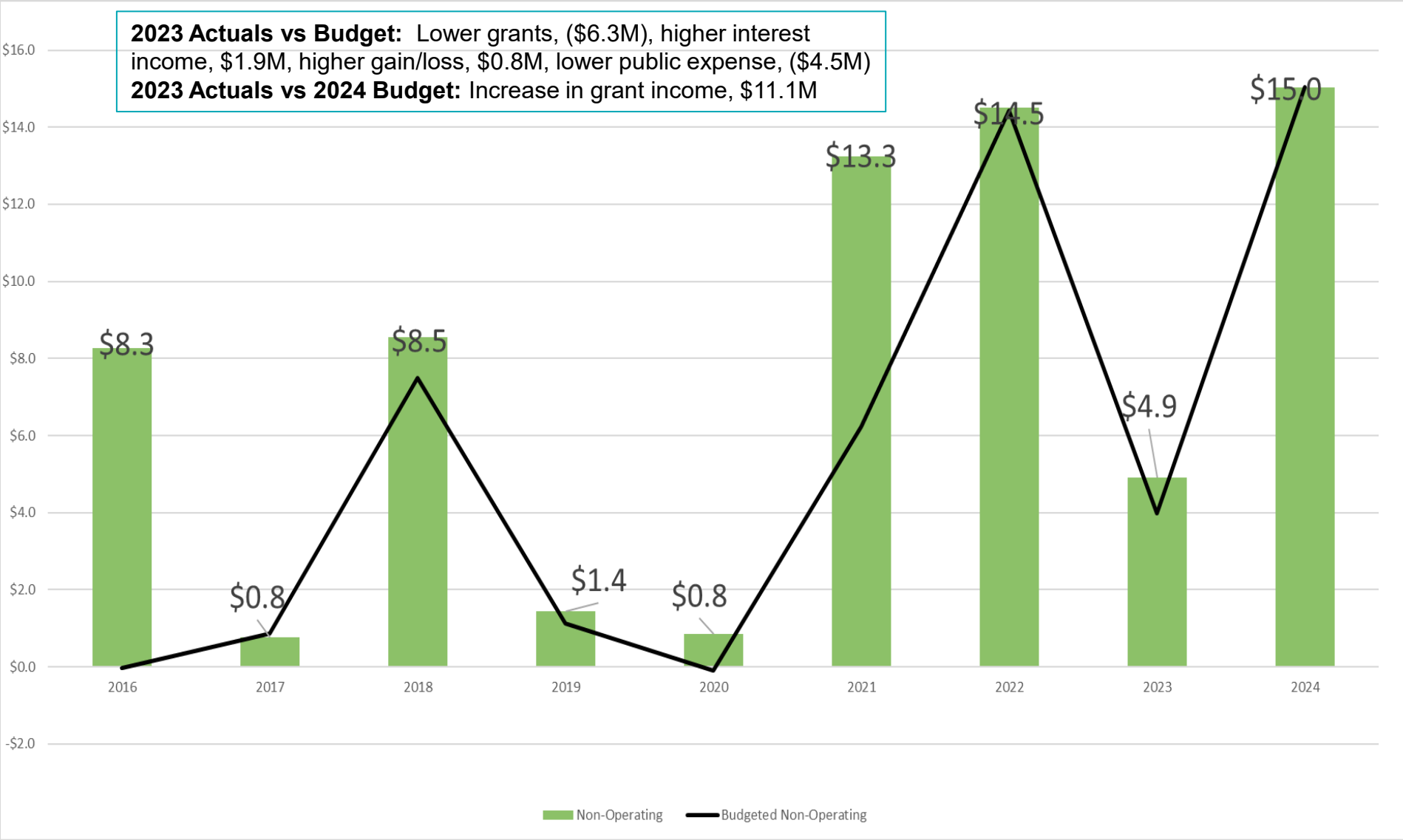
# 9-Year Pension Expense Adjustment



# 9-Year NWSA Depreciation



# 9-Year Non-Operating



# New Metric \$000

		Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	
NWSA Providing Cash	2016-2024 Total	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Distributable cash	1,078,555	115,964	102,580	118,840	115,190	111,156	117,578	127,950	125,586	143,711	
Affirmation Distribution	22,000					11,000	11,000		-		
SIM Rent reduction	4,180						942	1,009	1,091	1,138	
HMT/ WRDA 2106 Receiver	23,208						5,526	5,526	6,078	6,078	
<b>Total</b>	<b>\$ 1,127,944</b>	<b>\$ 115,964</b>	<b>\$ 102,580</b>	<b>\$ 118,840</b>	<b>\$ 115,190</b>	<b>\$ 122,156</b>	<b>\$ 135,046</b>	<b>\$ 134,485</b>	<b>\$ 132,755</b>	<b>\$ 150,927</b>	
Cash from Home Ports (excluding HMT from Gov't)	2016-2024 Total	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Working Capital	51,000	51,000									
Capital Construction	838,069	56,140	69,120	83,326	88,609	129,618	93,920	112,677	60,102	144,557	
Affirmation Contribution	22,000					11,000	11,000		-		
<b>Total</b>	<b>\$ 911,069</b>	<b>\$ 107,140</b>	<b>\$ 69,120</b>	<b>\$ 83,326</b>	<b>\$ 88,609</b>	<b>\$ 140,618</b>	<b>\$ 104,920</b>	<b>\$ 112,677</b>	<b>\$ 60,102</b>	<b>\$ 144,557</b>	
NWSA Provide/(Accept) Cash	\$	216,874	\$ 8,824	\$ 33,460	\$ 35,514	\$ 26,581	\$ (18,462)	\$ 30,126	\$ 21,808	\$ 72,653	\$ 6,370



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Item No.: 4

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# NWSA Financial Metrics & Discount Rate Review



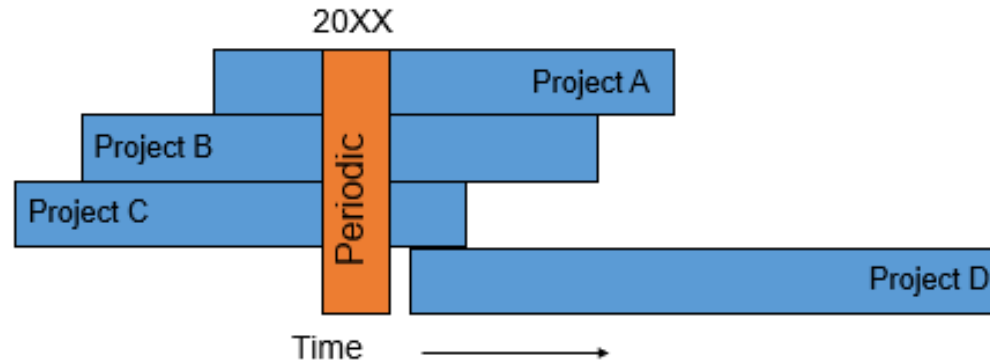
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David Morrison, CFO  
Calum Tasker, Sr. Financial Analyst



# Time vs Project Based Measures



- Periodic Measures: ROA, Net Income, Distributable Cash, Homeport Debt service coverage
  - Can be entity wide measures and/or project specific measures
- Project Measures: NPV (discounted cash flow), IRR, payback period



# BACKGROUND

- The Homeports established financial expectations for NWSA investments (projects) at the time of the formation of the NWSA
  - NWSA manages to a triple bottom line of economic impact, environmental sustainability, and financial return. The financial expectations may not be achieved based on the other considerations
- The financial expectations have been periodically reviewed with the Managing Members to confirm expectations
  - Homeport financial expectations use different methodologies but follow similar concepts
- As borrowing rates change should the discount rate used for financial analysis (currently 8.4%) be revised?

# SUMMARY AND RECOMMENDATION

- Continue to use discounted cash flow (net present value) as the key financial indicator for projects
- Maintain a discount rate of 8.4% consistent with historical NWSA discount rate since 2016 despite current market conditions
  - Current market rates would result in an 9.7% discount rate.
- Projects, regardless of return rate, contribute less cash at the beginning and more cash over time. Need to balance new projects with old projects to provide required cash flow
- Want future projects to exceed the 8.4% so that the NWSA can continue to invest in economic development and environmental projects and provide the Homeports the required financial performance

Item No.:

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# Principles, Methods and Processes for Adding Homeport Property to the NWSA Managed Portfolio



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David Morrison, CFO and Team

# BACKGROUND

- Charter included licensing of properties with business, and licensing of a business w/out property (Breakbulk, domestic rail) – collectively “licensed property”
- NWSA prohibited from purchasing real property (land). Properties are owned by homeports and managed by NWSA
- Charter addresses the addition or removal of licensed homeport properties but not the methodology for maintaining the 50/50 balance
  - We are only going to discuss adding properties today

# Principles for “Adding<sup>(1)</sup>” Homeport Properties

1. Maintain Membership Interest in NWSA at 50/50 to align on the Governance model which will always be 50/50 per Charter
2. The NWSA has a compelling business need for additional property
3. Properties added are limited to NWSA marine cargo business purposes with long-term agreement and do not overlap with homeport businesses
  - By law and charter, could include “maritime activities” not just cargo
4. The business need will determine the approach for adding a property
  - Prefer the least disruptive method
5. No party should benefit at the expense of another party

(1) Adding to the NWSA management portfolio a homeport property or business. NWSA will NOT own or purchase real property

# Methods for Adding Properties

- The NWSA can enter into any agreement with a homeport – provides flexibility beyond just licensing properties
- The preferred method depends on business considerations

	License	Lease	Management Agreement
Description	<p>Homeport licenses a property to the NWSA</p> <ul style="list-style-type: none"> <li>• Controls property – similar to purchasing</li> </ul>	<p>NWSA leases a homeport property</p> <ul style="list-style-type: none"> <li>• NWSA is a tenant for a specific period of time</li> </ul>	<p>Homeport pays NWSA to manage a homeport property</p> <ul style="list-style-type: none"> <li>• Homeport receives all revenue, makes all investment</li> </ul>
Financial considerations	<ol style="list-style-type: none"> <li>1. Both homeports contribute properties of similar value, or</li> <li>2. One homeport contributes property the other contributes money</li> </ol>	<p>NWSA pays homeport per terms of lease – flexibility on lease terms:</p> <ul style="list-style-type: none"> <li>• Profit sharing</li> <li>• Lump sum or over time</li> <li>• Allocate of costs</li> </ul>	<p>Homeport pays NWSA per the terms of the agreement – can include profit sharing</p>

# Methods for Adding Property – Pros & Cons

	Homeport Licenses property to NWSA	Homeport Leases Property to NWSA	NWSA Manages for homeport
Best for	Simulates purchase for a need in perpetuity	Flexible needs	Homeport has a business that aligns with NWSA and NWSA has exercised first right of refusal
Pros for NWSA	Control	Flexible terms for length and for allocation of responsibilities, can be ground lease for developed property, fixed duration.	No payment or capital investment by the NWSA, revenue stream only for managing. NWSA can help set agreement terms
Cons for NWSA	<ul style="list-style-type: none"> <li>Responsible for any “owner” issues</li> <li>Dissolution is complicated if real property is included in valuing the addition</li> </ul>	Control ultimately reverts to homeport	Limited control
Primary risk	NWSA	split	homeport
Example	NA	EB1 Wharf (break bulk)	POT auto business



# Licensing of Real Property

- The value of real property (land) was not considered in the original valuation.
  - Original valuation based on 10- year steady state cash flow
- If a new property is licensed w/out an equivalent value in the other home port, the “owning” home port should be compensated for the value of the land and any existing cash flow
- Other home port should buy into use at 50% of current value based on cash flow or appraisal or combination
  - If Real Property value is used in the valuation, the non-owning home port should receive original buy-in amount plus 50% of appreciated value if NWSA dissolution occurs

# Thorne Road Discussion

- Located in the middle of Tacoma Tideflats
- Includes 3 parcels of land purchased by Tacoma (below)
- Total construction cost of \$54M+/- including construction of an off-dock container yard layout and mitigation site
  - Total cost includes mitigation site with a cost of \$13.7M
  - Offset by \$19.7M in grants
- Completion date of mid-2025
- NWSA issued RFP for tenants Q3 2023 – no viable response

Parcel	Purchase Date	Purchase Price	Acres
72	Oct 1998	\$1.3M	9.1
85	Mar 2006	\$4.9	7
87	May 2006	\$3	8.4

# Thorne Road Discussion

- First explore licensing property
  - Challenge: Process of valuing land: appraisal plus capital investment
  - Challenge: Finding a property in Seattle to license. Could use cash
- Second pursue leasing alternative
  - Challenge: Required return to POT. Lease rate plus 50% of NWSA generated cash flow on Thorne
  - Challenge: Low return may not be attractive to POS