Minutes
Managing Member Meeting – Special
Friday, October 27, 2023 9:30 a.m.
The Fabulich Center, 3600 Port of Tacoma Road, Tacoma, Washington
Live streamed on the meetings page at www.nwseaportalliance.com

Commissioners present:

Port of Seattle:	Port of Tacoma:
Ryan Calkins	Kristin Ang
Sam Cho – arrives 10:42 a.m.	Deanna Keller
Fred Felleman	John McCarthy – arrives 9:43 a.m.
Toshiko Hasegawa – via Teams	Dick Marzano
Hamdi Mohamed – excused	Don Meyer

1. Call to Order
   The meeting was called to order at 9:35 a.m. by The Northwest Seaport Alliance ("NWSA" or "Alliance") Co-Chair, Commissioner Keller.

2. Flag Salute
   The Pledge of Allegiance was recited.

3. Chief Executive Officer's Report
   Chief Executive Officer, John Wolfe, attended remotely via Teams and provided opening remarks.

4. Public Comment
   None.

5. Study Session
   A. Cargo Forecast
      Chief Commercial and Strategy Officer, Tong Zhu, gave a presentation on global and U.S. trade and economic trends and their impacts to the Alliance gateway.
      - Critical challenges shaping the global economic outlook includes regional conflict, world-wide inflation, the economic slowdown in China, U.S.-China conflict and protectionism from governments around the world.
      - Challenges to the U.S. economy includes rising interest rates, shifting consumer spending patterns, bloated retail inventory and intense port competition from other North American ports. Examples of competition include from East Coast ports wanting to hold onto market share gained during the pandemic, Port of Virginia increasing on-dock rail by 35%, Port of Savana is increasing its TEU capacity from 6 million TEUs to 9 million by 2025.
      - Staff provided an overview of container and non-container business market trends and impacts to the Alliance gateway, including shifting sources away from China, Panama Canal drought, softening consumer demand shifting production locations and auto inventory levels.

- The projected Average Annual Growth Rate (AAGR) for the Alliance gateway for the 2023-2028 period for international and domestic containers is 2.2%. Breakbulk AAGR is 1.8% and auto AAGR is 2.5%.
- Factors contributing to the forecast for intermodal lifts include congestion in Vancouver, a labor dispute, above average performance at domestic terminals and the Alliance rail incentive. As congestion issues resolves in Vancouver, staff expects a drop in intermodal.
- The Panama Canal issue impacts intermodal. Backlog necessitates diverting to other gateways, and vessels are not able to be fully profiled.
- Commissioner Marzano requested information comparing the percentage of drops in cargo volume in the Alliance gateway and other West Coast ports including British Columbia. Staff will provide the requested comparison. Commissioner Marzano also commented on the importance of the railroads to the Alliance gateway.
- Commissioner Felleman commented on the nearly vertical line on charts representing auto units projected from 2022-2023 and the abrupt leveling off. Lack of space was noted as a constraining factor.
- Commissioner Calkins noted that most of the losses are from the Port of Seattle. Deputy CEO, Don Esterbrook, explained that those losses are related to particular carriers calling Seattle versus operational drivers. CEO Wolfe added there has been significant loss with MSC driven by the fact that they have two terminals in Southern California with MAGs. When the market dropped, they shifted a significant amount of volume down to those terminals creating a shortfall in Seattle.
- Commissioner Calkins also shared that while the financials may be in order now, utilization rates show that The NWSA needs to persistently work to increase utilization rates so finances stay in order. He commented on the Canadian government's investment in their ports and freight infrastructure.
- The NWSA has 43% of the breakbulk business in the Pacific Northwest and 15% market share when including the entire West Coast.
- Commissioner Ang expressed concern over the impact to the Alliance as auto manufacturing shifts to electric vehicles. The Inflation Reduction Act gives a $7500 tax credit incentive to those who manufacture in the U.S. and she is concerned how Hyundai's standing up of a facility in Alabama will impact the Alliance. She also commented on collaboration for inland ports and noted the Ports of Georgia and South Carolina have invested in inland ports.

B. 2024 Operating Budget, 2025-2028 Operating Forecast, and 2023-2028 Capital Investment Plan
Chief Financial Officer, David Morrison and Senior Financial and Budget Analyst, Calum Tasker gave a presentation.

- The Alliance staff manages to a "triple bottom line" of financial performance, economic development and jobs, and environmental impact and sustainability. The budget balances these three areas.
- A nine-year history, regarding Distributable Cash, including the 2023 forecast and 2024 budget was presented. Distributable Cash is trending correctly and expected to increase.

- Distributable Income is forecast to a target of $124.6 million for 2023 from operations and $10 million from the final Terminal 5 Affirmation Payment. For 2024, staff forecasts $137.8 from operations, plus a CMA shortfall payment of $5.9 million. These amounts exclude Harbor Maintenance Tax (HMT) funds.
- CFO Morrison explained net cash provided by the Alliance against cash earned and then sent to the Alliance.
- HMT in 2024 is not included due to pending Congressional Action.
- A slightly lower forecast for Distributable Cash for 2023 is due to decreased intermodal revenue and a container operation at Terminal 46 that was budgeted but did not transpire and additional expenses at Terminal 5.
- 2023 Forecasted project spending is less than the original budget due primarily to timing of Terminal 5 Phase 2 projects moving to 2024. Staff described the top four projects by projected spending.
- Commissioner Marzano asked whether the Alliance is advocating to Congress for reimbursement for spending on Customs and Border Protection (CBP) facilities. CFO Morrison responded he believes that is included on the legislative agenda. He will confirm with the Alliance's Director of Government Affairs.
- CEO Wolfe added that CBP issue was raised at a recent AAPA conference. There is draft legislation to amend the current practice that requires ports to fund CBP facilities. If the bill passes it raises questions regarding how any Alliance investments would be impacted.
- Calum Tasker, Sr. Financial Analyst, presented the proposed 2024 operating budget. Distributable Income is expected to be up in 2024. After adjusting for non-cash items, staff is budgeting Distributable Cash at $143.7 million for 2024. This does not include any HMT funds that the Alliance would receive from the Homeports.
- A nine-year history of revenue was provided. Revenue by line of business was also presented.
- Discussion took place regarding 2024 fixed revenue versus variable. Fixed revenue is 79%, variable is at 21%. CFO Morrison noted that with variable revenue, there are variable expenses.
- Commissioner Ang asked how much of the increase in revenue for the container line of business is attributable to Terminal 5. Growth in the container line of business consists of $13 million for Terminal 5 Phase 2 that comes on line January 1, 2024 and $6 million CMA shortfall payment. Discussion took place regarding Minimum Annual Guarantee (MAG) and how volume increases hopefully drive revenue elsewhere.
- Commissioner Meyer asked how, variable revenue has trended over time, not including the MAG shortfall. Variable has been decreasing year-over-year. From a bond issuing perspective, the Homeports are getting more secured revenue.
- Staff presented the 2024 budget, and a nine-year history of expenses by Budgeting Accounting and Reporting System (BARS) categories.
    - Direct Expense is up approximately $2 million for 2024 due to increases in rent to support the auto business, full year rail incentive, filling open positions, reduction in auto drayage and lower longshore labor.

  - Maintenance Expense is up $10.6 million in 2024 from 2023. Staff emphasized that "maintenance" category is not just routine day-to-day preventative and corrective maintenance. It includes any Capital Investment Plan (CIP) expense projects. Staff provided a list of the CIP expense projects accounting for the increase (including $3 million for unanticipated repairs).
  - Staff clarified for Commissioners that the Terminal 5 management reserve is included in Maintenance Expense due to BARS. Commissioner Ang noted the increases in Maintenance Expense from 2022 to 2024. Staff noted certain one-time expenses for maintenance dredging, fender repair and reserve are included, and timing is also a factor as projects move from year to year.
  - Administration Expenses for 2024 are $4 million over 2023 at $24,438,567 million. Drivers include the Alliance's share of financial software expenses (Next Gen implementation), Port Community System (PCS) and increased allocated Information Technology (IT) costs. Other factors include staffing to support Next Gen, an offshore wind study, the Alliance's share of a Human Resources system implementation, budgeted executive department open positions being filled, and increased legal expense. Discussion took place regarding the accounting treatment of IT expenses.
- Staff presented the Alliance payroll budget information as required by the Master Benefits and Salary Resolution. Staff clarified at the request of Commissioner Calkins, that the $8.6 million in total wages reflects an average of 58 positions. Commissioner McCarthy requested a historical analysis of month-to-month payroll data.
- Staff presented a list of memberships over $10,000 for which it will be requesting Managing Member authorization at budget adoption. Discussion took place regarding the process by which memberships are decided upon. Commissioners recommended staff include information regarding the rationale behind the memberships in the budget process.

Managing Members took a short recess for lunch at 11:27 a.m. and reconvened in public session at 11:37 a.m.

- The Promotional Hosting 2023 budget is $193,939 well below the statutory limit of $657,061. There was an increase driven by increased participation in Trans-Pacific Maritime (TPM) conferences.
- Security Expenses have been trending down due to allocation percentages negotiated with the Homeports.
- Environmental Expenses are budgeted at $2.1 million for 2024. This is a decrease of $300,000 from 2023 due to certain environmental projects ending. Commissioner Felleman noted that dredging and disposal is an environmental liability, but is categorized under Maintenance.
- Depreciation has trended up over time as more fixed assets get capitalized onto the Alliance books. The increase in 2023 to 2024 of $7 million is due to Terminal 5 Phase coming on line in 2024.

- Non-Operating Revenue increases are driven almost exclusively by grants.
- Non-Operating Expense is all driven by Terminal 5 public expense.
- The 2024 budget and four-year forecast was presented.
    - Commissioner Calkins commented that Net Distributable Cash is always incredibly high. CFO Morrison explained this is because the Alliance does not carry the depreciation of the assets that remained with the Homeports.
- Staff provided an update related to Donor Ports' strategy for the 2024 regarding HMT. The teams of both Homeports have worked with Senator Murray, whose position has been clear that HMT should have been distributed this year and should be distributed next year. There is a Senate bill that includes language that the distribution of HMT is mandatory. In the House bill, distribution is not mandatory. Finance staff has only included WRDA 2106 funds in the budget as a conservative approach.
- Commissioner Meyer noted the costs of bonds and interest are not included in the budget expenses. This is because those costs do not flow through the Alliance.
- CFO Morrison then presented the 2023-2025 Capital Investment Plan. He reminded everyone that although funds for projects are included in the CIP, the project is not automatically authorized to proceed. Managing Member approval is required on all projects over $350,000 regardless of budget inclusion.
- The CIP by category was presented, 2023 and 2024 CIP spending on projects over $1 million were listed.
- Staff's approach of using $75 million placeholders for the Homeports for future Alliance projects was explained.
- Staff provided the use of the terms "required" projects and "other" projects. Required includes lease commitments, asset and revenue preservation projects or those statutorily or legally required. As for "other" projects, all are included in the budget, but the Alliance could for example, decide to change the timeline or methodology.
- Staff provided a historical look and forecast of project spending split between the North and South Harbors. A discussion of historical investments in the two Harbors took place.
- Commissioner Meyer is a strong advocate for rebuilding Terminal 7 berths A-C because they are weight limited. He wants more breakbulk opportunity in the South Harbor. Funds budgeted toward design at Terminal 7 contemplate a driveway improvement, not the larger body of work Commissioner Meyer is describing. To pursue such a project, staff would need direction from the Managing Members.
- A discussion took place regarding utilization levels and capacity of existing terminals and where investments should be made. The $80 million costs associated with electrification of Terminal 18 was discussed. Commissioner Ang commented on the need to consider judicious use of funds in the Alliance's approach to addressing GHG emissions and pollutants. She noted that shore power is one tool, and she wants to make sure that when seeking grants and spending funds, that it is actually getting the highest and best value with addressing our public's health and reducing

emissions. Staff is working on a comparison to address concerns raised by Commissioner Ang.

- CFO Morrison summarized the CIP
  - The 2024-2028 five-year CIP totals $501.3 million, the six-year CIP totals $612.9 million. 2024 Managing Member requests will primarily be for design for future maintenance and upgrades and operational upgrades. Significant maintenance and operational upgrades could be requested between 2025-2028.
- The summary of the 2024 budget includes:
  - 2023 Net Distributable Income is projected to $101.1 million. Distributable Cash is calculated to be $123.2 million.
  - 2024 Net Distributable Income is projected to be $114.3 million. Distributable Cash is projected to be $143.7 million.
  - 2023 and 2024 are years impacted with investments to support future growth. Both years are projected to provide over $120 million in cash to be split by the two Homeports.

6. General Business
   CEO Announcements: None.
   Commissioner Comments: None.

7. Adjournment
   The meeting ended at 1:00 p.m.

Sam Cho, Co-Chair
The Northwest Seaport Alliance

Deanna M. Keller

Deanna Keller, Co-Chair
The Northwest Seaport Alliance

ATTEST:

Fred Felleman, Co-Secretary
The Northwest Seaport Alliance

John McCarthy

John McCarthy, Co-Secretary
The Northwest Seaport Alliance

Juliet Campbell

Juliet Campbell, Clerk
The Northwest Seaport Alliance