



MANAGING MEMBER SPECIAL

Thursday, October 27, 2022

9:30 AM FMC Closed Session

10:30 AM Open Public Meeting

Fabulich Center 3600 Port of Tacoma Road, Tacoma, Washington and

Virtually at www.nwseaportallianc.com

1. CALL TO ORDER

Co-Chair Don Meyer called the meeting to order at 9:30 a.m.

Port of Seattle Commissioners Present:

Ryan Calkins

Sam Cho

Toshiko Grace Hasegawa

Hamdi Mohamed (virtually)

Port of Tacoma Commissioners Present:

Kristin Ang (virtually)

Deanna Keller

John McCarthy

Dick Marzano (virtually)

Don Meyer

Port of Seattle Commissioners Excused:

Fred Felleman

2. RECESS CLOSED FEDERAL MARITIME COMMISSION SESSION

Immediately after calling the meeting to order, the Managing Members recessed for a closed and confidential session authorized under Federal Maritime Commission (FMC) regulations and laws pursuant to 46 U.S.C. § 40306, 46 C.F.R. § 538.608, 46 C.F.R. § 535.701(I)(1) and as authorized by Port of Seattle/Port of Tacoma Alliance Agreement, FMC Agreement #201228. The session lasted approximately 54 minutes. No final actions were taken in closed session.

3. RETURN TO ORDER

The Managing Members reconvened in public session at 10:44 a.m.

4. FLAG SALUTE

The Pledge of Allegiance was recited.

5. REPORT BY CHIEF EXECUTIVE OFFICER

CEO, John Wolfe, invited Commissioner Cho and Jason Jordan, Director, Environmental Planning to present highlights to the Managing Members and public on an opportunity for the NWSA to participate in a United States Department of Energy funded study to establish a green corridor between the NWSA gateway and the Port of Pusan, South Korea.

The study is part of a larger initiative of the Conference of the Parties to the United Nations on Climate Change to establish six green corridors by 2030. Commissioner Cho will represent the NWSA at the 27th Conference of the Parties to the United Nations Framework Convention to be held in Egypt in November 2022.

6. PUBLIC COMMENT

None.

7. BUDGET STUDDY SESSION

A. CARGO FORECAST

CEO Wolfe acknowledged staff's work on preparing the 2023 budget. He called attention to the fact that 70% to 75% of the NWSA's generated revenue is fixed, making it less susceptible to swings in cargo volumes from a financial standpoint. He noted that industry expert, Steven Rothberg from Mercator International will attend the November 1, 2022 NWSA Managing Member meeting to present Mercator's report regarding cargo and capacity forecasts.

Chief Commercial and Strategy Officer, Tong Zhu, gave a presentation on the trade and economic trends for the global and U.S. economies.

Highlights included:

- Side effects of Covid remain for the global economy and trade. Inflation is expected to reach 8.8% this year; the highest level since the global financial crisis in 2008. Drivers of inflation were presented and include strain on the supply chain due to Covid paired with consumer demand, increased e-commerce and reliance on fiscal stimulus.
- China drives the majority of economic activity in Asia. Lower consumptions in the United States and Europe due to inflation and China's strict Covid policies will limit their growth to 3.2% this year.
- Growth with US trading partners is expected to be in the lower single digits.
- Vietnam is growing at an impressive speed, though also impacted by lower global consumption, growth is still expected to reach 7% in 2022 and approximately 6% in 2023.
- The war in Ukraine and an energy crisis have negatively impacted the European Union.
- Overall global growth is expected at 3.2% this year and will further decline in 2023.
- Global trade patterns diversifying away from China to other countries in Southeast Asia will continue. The shift represents challenges for the NWSA gateway as its most competitive shipping routes are with Northeast Asia.
- Geopolitical tensions contribute to trade restrictions and reduced gas supply.
- The long-term effects due to a move toward environmental sustainability and clean fuel were presented, including in the NWSA gateway regarding IMO, emission regulation, shore power and the Clean Truck Program.
- Merchandise trade is expected to slow to 1% in 2023, down from 3% this year.
- U.S. consumers have shifted spending from goods to services
- Railroad congestion is improving, but is still a challenge.
- A strong U.S. dollar is making U.S. exports less competitive for nearly all NWSA trading partners. As a result, the NWSA is seeing a sharp drop in exports.
- Other issues contributing to a fragile state of the US economy include labor shortages, a renewed railroad worker strike and the state of negotiations with ILWU and waterfront employers.
- Overall US export trade is expected to fall from 3.4% in 2022 to 1.4% in 2023.
- Overall US import trade is expected to fall from 8.5% in 2022 to less than 1% in 2023.

Deputy CEO, Don Esterbrook, gave a presentation on industry trends and the implications and opportunities for the NWSA. He focused on opportunities on how the NWSA can manage through the cargo softening and put the NWSA in a better position as it comes out of it.

Highlights included:

- Opportunities include expanding the transload business model. The trend toward transload model is growing exponentially. The second largest logistics company in North America has embraced this

model and has anchored their facility near the Tacoma terminals. This is due, in part, to the Burlington Northern Santa Fe domestic rail lease approved by the Managing Members.

- Other opportunities to include the inland rail hub model. The primary beneficiaries of this model are agricultural exporters. The NWSA has had success in Minot, ND and Pocatello, ID. Efforts continue with Wallula, WA and Richland, WA.
- NWSA continues its efforts to work with Beneficial Cargo Owners to encourage Ocean Carriers to call our gateway and reinstate services put on hold for niche carriers. Efforts will also continue to ensure Marine Terminal Operators provide priority berthing to niche carriers, especially with the bringing on of Terminal 46 (T46) and Terminal 7 (T7).
- Voided calls impact the NWSA as it is often a second port of call. There is a better chance of getting first port of call with niche carriers.
- All West Coast ports are experiencing this softening in the container cargo market; the NWSA has been able to maintain its market share.
- Breakbulk volume forecast for 2023 is 5.3%; thereafter, 3% growth year-over-year through 2027 in the Tacoma harbor.
- Staff expects to see a sharp increase in auto volume in 2023, more than doubling volume. Thereafter a 3% year-over-year increase is expected for the forecast period.

Discussion:

- Commissioner Calkins asked what the NWSA is doing as an institution to gird against worsening trade relations with China. Answers included promoting the NWSA gateway to emerging markets, such as Vietnam and India. CCSO Zhu stated there is a need to continue to advocate for a fair-trade deal with China. Tension so high she is concerned with what this may mean for the NWSA gateway. CEO Wolfe added the NWSA is working to influence federal policy through the American Association of Port Authorities (AAPA).
- Diversification for agricultural exports from Northeast Asia to Southeast Asia and Central and South America are important factors, as is service.
- Commissioner McCarthy questioned whether the NWSA as a landlord port, is doing enough with the major terminal operators to delve into what public policy the NWSA should be pursuing or lobbying for. Staff responded that the NWSA is a strong advocate for any investment made by terminal operators and added that the terminal operators are also doing a great job in marketing the gateway. There is a gap as to policy and there is opportunity there to better address that. CEO Wolfe noted there is an opportunity to package services with the terminal operators in order to provide guarantees to customers, looking for certainty after a couple of challenging years.
- Commissioner Meyer commented changes in distribution strategy resulting from the disruptions experienced in the supply chain and the high degree of uncertainty of transit times. Staff agreed and added that the distribution strategy of large distribution centers in the four-corners is gone and has been replaced by multiple, smaller distribution centers.

B. 2023 BUDGET

Chief Financial Officer, David Morrison, presented a review of the budget schedule, the proposed 2023 Operating Budget, the 2024-2027 Operating Forecast, the 2023-2027 Capital Investment Plan (CIP), and the 2023 Service Level Agreements in preparation for the budget adoption meeting on November 7, 2022.

- NWSA has a triple bottom line – (i) financial performance (ii) economic development/jobs and (iii) environmental impact. Increasing focus on any one area will impact the others. Staff has prepared a 2023 budget to balance these three areas in accordance with the input received from the Managing Members.

- For 2023, staff is proposing a Distributable Income target of \$124 million plus an additional \$10 million for the final payment of associated with the Terminal 5 (T5) affirmation payments per the NWSA Charter.
- Over an eight-year period of 2016 to 2023, the NWSA plus projected Harbor Maintenance Tax (HMT)/Water Resources Development Act (WRDA) 2106 funds will provide \$191.8 million more in cash to be distributed to the two Homeports
- The NWSA benefitted from \$19 million in capital improvements made by customer tenants through lease agreements.
- In 2021 and 2022 the NWSA received approximately \$5.1 million in HMT funds each year. In 2023 this is expected to be \$40 million.
- 2022 Operating Budget results ended with Distributable Cash at \$3.3 million below forecast, but still a strong year at \$118.7 million.
- 2022 forecasted spending is expected to be \$80 million; \$50 million of that on berth construction at T5.
- CFO Morrison then presented a preview of the 2023 Budget. \$124 million in Distributable Cash is forecast, but there are also \$40 million in HMT funds. The NWSA will be asking the Homeports to pass HMT funds to the Alliance mid-2023.
- Revenue trends show growth. There was a dip in 2020 due to Covid, but on the whole the NWSA has met revenue budgets over time. CFO Morrison noted the growth in revenue despite loss of two terminals.
- Container and intermodal lines of business are expected to make of \$175 million of the \$225 million in revenue. The container line of business is expected to grow \$10.1 million, intermodal \$8 million, real estate \$2.9 million, and auto \$3.8 million.
- Of revenue, 75% is fixed, 25% variable.
- Total operating expenses before depreciation are forecast at \$112.9 million.
- CFO Morrison, after providing an overall view, provided details on 2023 budgeted expenses, including direct, maintenance, administration, security and environmental.
- Memberships over \$10,000 require Managing Member approval. The 2023 budgeted membership organizations total \$221,855. It was noted that \$9,000 of the \$13,000 increase in "All Other Memberships under \$10,000 is due to one membership; Clean and Prosperous Washington.
- The Promotional Hosting budget for the NWSA for 2023 is \$196,600 down from \$196,848. The 2023 statutory limit is \$607,750.
- The increase in depreciation from 2022 to 2023 is due to T5 Phase 2.
- Non-Operating Revenue and Expenses show significant growth in grants; over \$12 million in 2023. A slight loss of \$1 million in 2022 reflects a paper loss only, no cash has been lost. CFO Morrison explained that regarding the bonds, no loss is realized until bonds are sold and the NWSA is not selling them. When they mature the NWSA will get the full money back, but will have earned less interest than had it been left in cash.
- Secured grants for 2023 are \$12.5 million. There is opportunity for more.
- Public expenses of \$8.9 million are related to T5 development that moved out from 2022 to 2023.
- The 2023 budget and four-year forecast include a decrease in 2024 in Distributable Cash due to maintenance dredging. The dredging is HMT eligible. So, while an expense, it won't be cash the NWSA has to spend.
- Total Distributable Cash plus HMT will go from \$164.2 million in 2023 to \$219.2 million in 2027.

- A jump in revenue is expected in 2025 as the NWSA will begin seeing the total revenue from T5 (except for the container expansion area) in 2024.
- CFO Morrison then presented the five-year Capital Investment Plan (CIP). He reminded all that although funds for a project are included in the CIP, the project is not automatically authorized to proceed. Managing Member approval is required for all projects over \$300,000 regardless of budget inclusion.
- The split in investment over time in the Homeports shows from 2016-2021 a 50-50 split. For the 2022-2023 period, it is 19% South Harbor to 81% North Harbor. This is due to investment in T5. Over the eight-year period from 2016-2023 investment represents a 60-40 split in the North and South Harbors respectively.
- The 2022-2027 CIP by category was described and CFO Morrison went through spending projects over \$1 million. He showed a list of the projects already authorized by the Managing Members and a list of those projects over \$300,000 that will be requested in 2023. He clarified that though only asking for a portion in 2023, if projects go forward the balance will be requested in future years in the forecast period. For example, authorization for design work in 2023 and construction authorization in 2025.
- Likely and potential sources of federal funds not included in the budget include Port Infrastructure Development Program funds, Diesel Emission Reduction Act funds, Inflation Reduction Act funds and funds through Congestion Management Air Quality. Other potential sources include Consolidated Rail Infrastructure and Safety Improvement, Rebuilding American Infrastructure with Sustainability and Equity, and Maritime Highway funds.
- Potential and likely state funds include Climate Control Act, Clean Energy Fund, Clean Water Fund, and Clean Fuel Standards.
- CFO Morrison highlighted the actions required of the Managing Members at the November 7, 2022 budget adoption.

Discussion:

- A strategic decision was made to have HMT funds go directly to the Homeports, then in turn the NWSA would request transfer of those funds to the Alliance. This is due to the structure/formula used to issue HMT payments. It was noted that the Homeports could decide to keep HMT funds for Homeport projects meeting the criteria for HMT projects. However, this could cause an imbalance in the NWSA.
- Staff has been working with the Homeports to create a list of HMT eligible projects so the policy makers decide on source of funds.
- Staff clarified structure/flow of funds from grants received by the NWSA for projects located in one of the Homeports. Example of a \$100 million project in the South Harbor where the NWSA received a \$10 million grant. The NWSA would recognize the \$10 million as income that is split 50-50 between the two Homeports through Distributable Cash. Then the NWSA would ask the two Homeports for \$50 million each. So, both Homeports contributed \$50 million to fund the \$100 million project, and both Homeports received \$5 million in Distributable Cash so both Homeports have spent \$45 million for the project.
- Commissioner McCarthy noted his concerns regarding the proposed CIP budget and the disparity between where money is being spent and where money is being generated.

- Commissioner Calkins asked whether staff has sufficiently accounted for inflation in the \$36 million budgeted for maintenance projects. CFO Morrison will connect with the engineering to provide that information.
- Commissioner Meyer highlighted Table 4-1 in the Budget Document. It shows that expenses are increasing faster than revenue. In particular he has concern with the administration increase.
- CFO Morrison noted that administration is more than staffing. It includes legal, contracts, the services the NWSA purchases from the two Homeports, travel, training, etc. Commissioner Meyer said he is concerned with the cost of the bureaucracy noting an increase from \$18.6 million to \$21.3 million in 2023. He needs better explanation as to why that's happening.
- CEO Wolfe cautioned against looking at administration expenses in isolation. Other things, such as allocations back to the Homeports for financial services, offset those expenses. CEO Wolfe stated the NWSA can reduce its administration costs another ways. The NWSA purchases a significant number of services from the Homeports because the NWSA has 50 staff members. The NWSA does not control the cost of the services from the Homeports, but it does have control over the amount of services it buys from the Homeports. The NWSA could choose to buy less services, or evaluate purchasing those services from a third party. The NWSA budget reflects staff's understanding of the service level outcomes expected by the Managing Members.
- Commissioner Cho commented that the maintenance budget 2022 versus 2023 shows a \$34.5% increase, though to his calculation it is only \$1.2 million increase as the 34.5% does not account for the \$4 million saved in actual spending. He asked that staff give some thought on how to better illustrate such things for someone perhaps just glancing at the budget document.
- Commissioner Ang commented that perhaps NWSA is running too lean to expand at the rate it wants. Her understanding is the policy direction of the Managing Members was, and is, to fill positions, attract and retain partners and staff.
- Logistics of getting individual input from the commissioners between now and the presentation of the budget for adoption, noting the difficulty in making changes the day of. Commissioner Meyer said that you have the document, if staff receives comments and recognizes a dominating theme or request that staff could prepare to propose that change at the budget adoption. If not, then this is the document that will be voted on subject to motions to amend it at adoption.
- Commissioner Marzano commented all the Commissioners would like to see more Distributable Cash to their Homeport, but need to ask themselves what they want to give up in its place. He stated that delays can be made to projects, but the inevitable will come and it will cost more.
- Commissioner McCarthy commented on the difficulty of commenting on payroll noting the differences between the Homeports and the structure of the NWSA. Administration costs will be discussed as a Homeport at their budget meetings.

8. GENERAL BUSINESS

A. CEO Announcements - None.

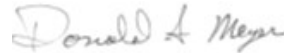
B. Commissioner Comments – None.

9. ADJOURNMENT

There being no further business, the meeting is adjourned at 1:18 p.m.



Ryan Calkins, Co-Chair
The Northwest Seaport Alliance



Don Meyer, Co-Chair
The Northwest Seaport Alliance

ATTEST:



Kristin Ang, Co-Secretary
The Northwest Seaport Alliance



Toshiko Hasegawa, Co-Secretary
The Northwest Seaport Alliance

Leilani Berinobis

Leilani Berinobis, Acting Clerk
The Northwest Seaport Alliance