

# COMMISSION AGENDA

Item No: 3A

Meeting: 11/05/20

**DATE:** October 28, 2020

**TO:** Port Commission

**FROM:** Eric Johnson, Executive Director  
Erin Galeno, Chief Financial and Administrative Officer  
David Morrison, Director, Financial Planning and Treasury

**SUBJECT:** STUDY SESSION: 2021 BUDGET

**ATTM:** 1) Draft 2021 POT Budget Document  
2) Draft 2021 POT Budget Study Session Presentation

**A. STUDY SESSION:**

The 2021 Port of Tacoma Budget Study Session will review the forecasted 2020 operating results, and the proposed 2021 operating budget, the 2021-2025 Capital Investment Plan (CIP) and the 2021-2025 Plan of Finance (POF).

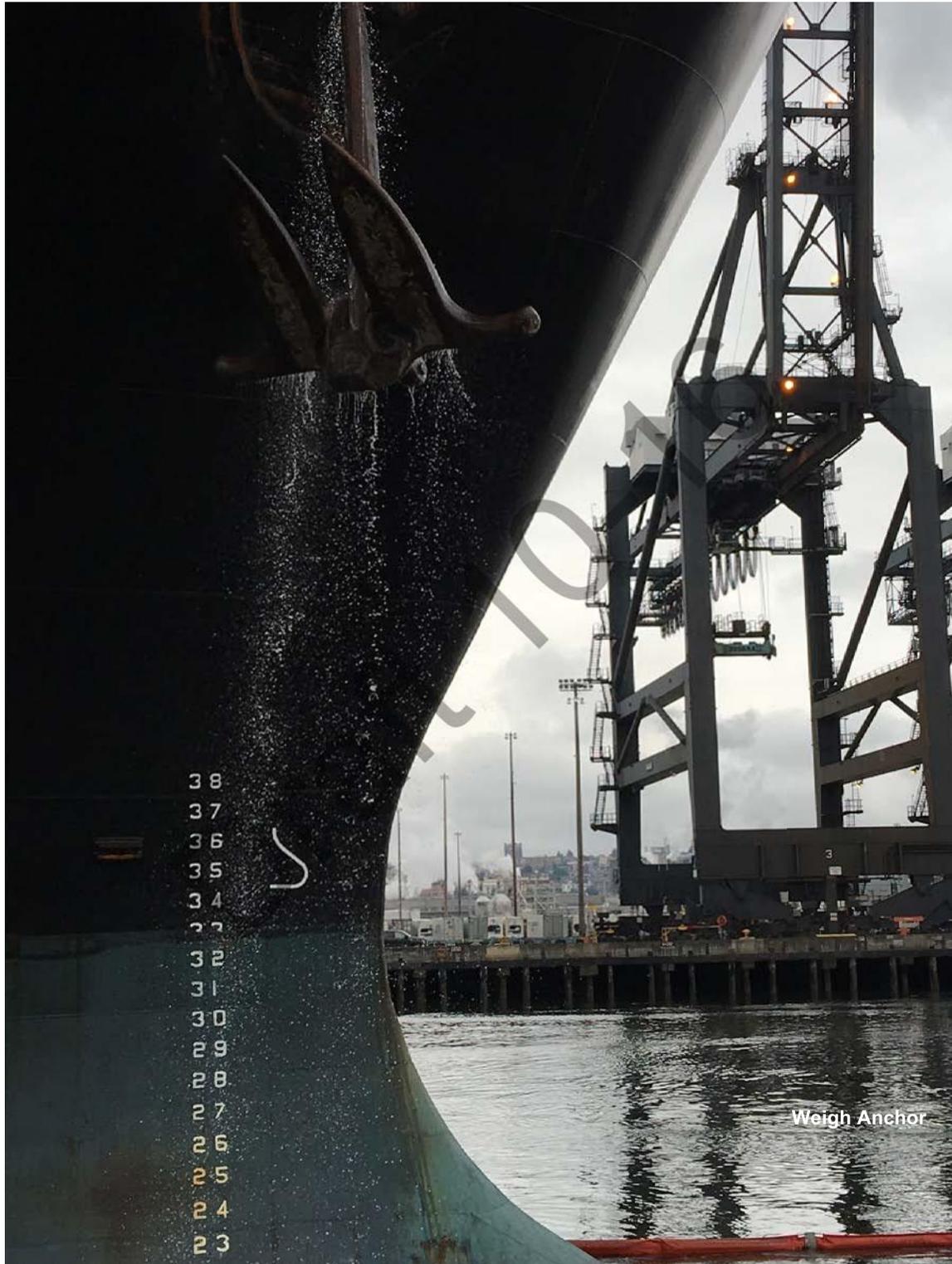
**B. BACKGROUND**

The preliminary Northwest Seaport Alliance (NWSA) 2021 Budget Study Session will be completed prior to the Port study session. The NWSA 2021 budget information, including operating results and the NWSA CIP influence the Port operating budget, CIP and Plan of Finance. The Port's 2021 budget, CIP and POF will include the impact of the NWSA's proposed budget

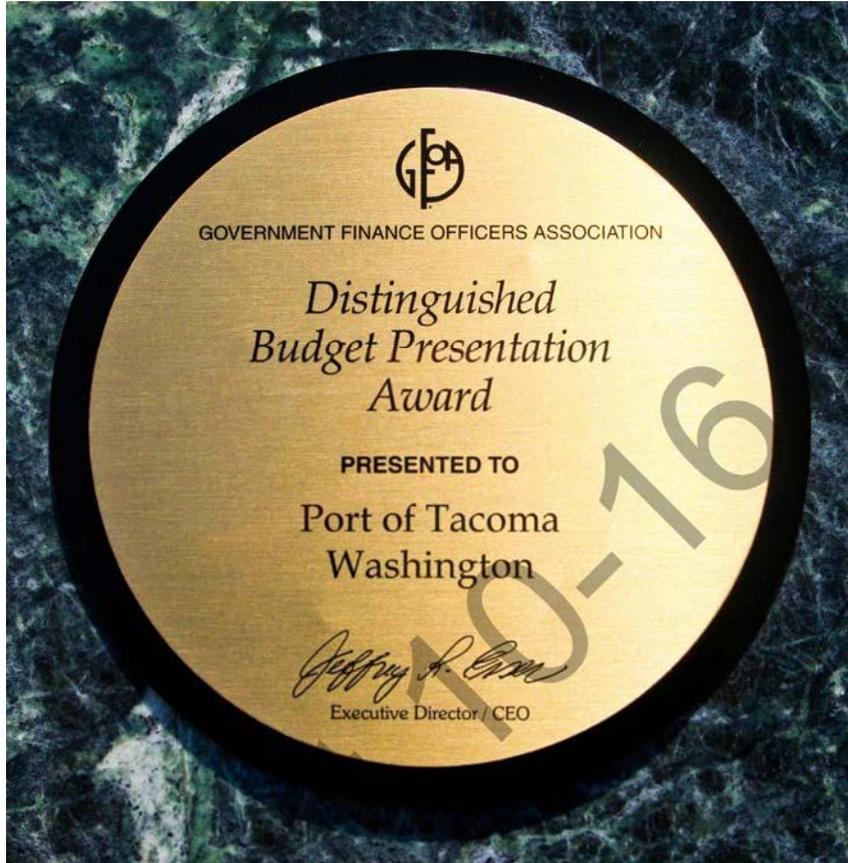
**C. NEXT STEPS**

- NWSA Budget Adoption Tuesday November 9th
- POT Budget Adoption: Thursday November 19<sup>th</sup>

# Port of Tacoma 2021 Budget



Statutory Budget and Tax Levy adopted: November 19, 2020



The Port of Tacoma has been a recipient of the Government Finance Officers Association (GFOA) award every year since 2005\*. It reflects the commitment of the Port and its staff to meeting the highest principles of governmental budgeting and is valid for a one-year period. To receive this award, the Port satisfied nationally recognized guidelines for effective budget presentation.

\* Due to the COVID-19 pandemic, the Port has not yet received GFOA's review of the 2020 budget document. The Port expects to earn the GFOA award for the 2020 document.

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# Memo



**To:** Port of Tacoma Commission

**Date:** November 19, 2020

**Subject:** The Port of Tacoma's 2021 Budget

The Port of Tacoma is pleased to present its 2021 Budget Report. The 2021 adopted budget supports the Port's ongoing work in the strategic priority areas of economic vitality, transportation infrastructure, environmental stewardship, community connections, and organizational health. With a commitment to environmental and fiscal stewardship, the Port of Tacoma drives regional prosperity and contributes to one of our state's largest economic drivers—the maritime industry.

The Port of Tacoma is among the largest container ports in North America and manages more than 2,700 acres of industrial-zoned property for a variety of shipping, manufacturing and distribution business use. The combined ports of Tacoma and Seattle, operated by The Northwest Seaport Alliance (NWSA), are a key gateway for Asia-Pacific trade, providing valuable access to foreign markets to manufacturers and agricultural producers throughout the region and the nation.

This budget is forward looking and prepares us for our work in 2021, but it's also important that we take a moment to reflect on the past year—and 2020 was quite a year. "Unprecedented" doesn't even begin to describe the situation the Port (along with the rest of the region, state and the world) found ourselves in. Flexibility, adaptability and resiliency quickly became important traits we had to adopt as we faced, head-on, the realities of the COVID-19 pandemic starting in early 2020.

To help lessen exposure and spread of the virus, the Port acted quickly to prioritize the health and safety of our employees and the public, by closing public access to the Port's facilities and buildings and moving staff to remote work wherever possible. But even as we—and other businesses in our region and state—took these precautions, COVID-19 continued to spread and was quickly declared a pandemic.

The disease has become not only a global health crisis but a global economic crisis as well, impacting trade, travel, retail, jobs, education—and Port revenues. These fiscal impacts are expected to continue into 2021.

Despite the uncertainty and challenges brought on by these unprecedented times, we are committed to keeping our operations and projects moving forward and working to increase businesses activity and job growth, all in a financially and environmentally sustainable way. The Port is well positioned to weather this storm.

We will continue moving cargo, working with our tenants, and maintaining and investing in critical infrastructure and facilities. The Port is a critical link in the local and regional economy. In 2021 and beyond, we will continue to prioritize investments to grow our competitive advantages and meet our overall strategic goals.

I am proud of the adaptability, strength and resiliency that our staff, commissioners, tenants, and community have shown over the past year. And despite the challenges and uncertainty we face as we move into 2021, we will continue to adapt, we will continue to move forward, and we will continue to serve our region to help ensure the economic prosperity of the Pierce County community.

I am thankful for the past success of the Port of Tacoma, and know that we all look forward to our continued success in the future.

A handwritten signature in blue ink that reads "Eric Johnson".

Eric Johnson, Executive Director

# Budget Document Overview

The Budget Document consists of these major sections:

**I. Port of Tacoma Overview:** This section provides historical information about the Port of Tacoma and the development of other ports throughout Washington state. It examines the economic context of the Port of Tacoma's operating environment, and it outlines the Port's organizational structure.

**II. Budget Message:** This includes an overview of the Port's budget challenges and opportunities, revenue types and expenditures. The Budget Message outlines the Port's priorities and issues for the budget year and describes changes from the previous year.

**III. Business Outlook:** This section describes the Port's overall goals and strategies. It includes assumptions, potential obstacles and trends that Port staff used to develop the forecast. These serve as the foundation for the Operating Budget.

**IV. Operating Budget:** This section provides a summary of the assumptions that form the basis for the Port's operating budget. It includes year over year operating budget comparisons, a snapshot of revenue and expenses by line of business and details of expected non-operating costs, and revenue from NWSA to the Port of Tacoma.

**V. Five-Year Capital Investment Plan (CIP):** The CIP consists of all capitalized and expensed projects that the Port plans to complete in the next five years, excluding investment commitments from the Port of Tacoma to the NWSA. Capitalized projects affect the Port's Profit and Loss statement through depreciation while expensed projects flow directly to the Port's net income the year expenses are incurred. This section provides details on the CIP including the impact of the Capital spending on Port profitability.

**VI. Tax Levy:** The tax levy section provides details on how the Port's tax levy is developed and how the tax levy is used by the Port. Additionally, this section provides historical tax information, and provides data to compare the Port's tax levy to the levy assessed by other entities within Pierce County.

**VII. Plan of Finance:** This section features an explanation of revenue and expense trends and assumptions as well as discussing long-term capital projects and the Port's plan for funding these projects. This section also incorporates the entire impact of the Port of Tacoma and the Port of Tacoma's share of the NWSA's operating income and CIP on the Port's financial performance.

**VIII. Environmental Stewardship:** This section provides a historical context for the environmental challenges facing the Port and our surrounding community. It also outlines the Port's priorities and investments in cleaning up and protecting the land, water and air around Commencement Bay.

**IX. Summary of Significant Accounting Policies:** This section provides a summary of the accounting policies that the Port follows in developing the budget as well as how the Port reports actual financial results. It is an accumulation of all the important financial rules that the Port follows.

**X. Debt Guidelines:** The debt guidelines describe how the Port manages debt, including criteria for issuing, refunding, and retiring debt. This section also describes what tools the Port may use to minimize debt interest rate risks.

**Appendices:** The appendices provide additional information useful to the reader.

**Addendum: The Northwest Seaport Alliance (NWSA):** A separate document describing the NWSA including the operating budget, Capital Investment Plan and other items related to the NWSA.

# I Port of Tacoma Overview

## Washington State Ports

Ports play an important role in the economic vitality of Washington state, the most trade-dependent state in the United States.

Ports in Washington state evolved in much the same way as those in other parts of the world. Wherever people settled near the water, boats, ships and barges were needed to move people and goods. Docks, floats, piers, gangways and other conveniences were built to accommodate marine traffic. From their very start, ports became centers for population, business and trade.

In 1889, the new Washington State Constitution declared that beds of navigable waters belonged to the citizens. The Washington State Legislature designated harbor areas and provided a system for leasing waterfront tidelands and uplands in those areas.

In the late 1800s, most of Washington's port and dock facilities were privately controlled. In 1911, the Legislature enacted laws that enabled citizens the right to establish port districts and oversee their development and operation.

The Port District Act of 1911 was the culmination of a long struggle to achieve public control over areas that were essentially public in their impacts, such as commerce.

"Port districts are hereby authorized to be established in the various counties of the state for the purposes of acquisition, construction, maintenance, operation, development and regulation within the district of harbor improvements, rail or motor vehicle transfer and terminal facilities, water transfer and terminal facilities, air transfer and terminal facilities, or any combination of such transfer and terminal facilities, and other commercial transportation, transfer, handling, storage, and terminal facilities, and industrial improvements" (Revised Code of Washington 53.04.010).

## Port of Tacoma

Created by Pierce County, Washington, citizens on November 5, 1918, the Port of Tacoma plays a major role in international trade as well as in the economic development of Pierce County and the state of Washington. Today, the Port of Tacoma is one of the leading seaports in North America, offering strong trade ties with Alaska, Asia and the rest of the world.

The Port's geographic boundaries lie within Pierce County and is situated on Commencement Bay in Puget Sound. Because of this strategic location, it offers efficient connections to sea, rail, highway and air transportation networks.

The Port of Tacoma is an independent municipal corporation that operates under state-enabling legislation. The Port is a separate entity from the City of Tacoma, Pierce County and the State of Washington. Although each of these are separate entities, they often work together on economic development and transportation projects in order to create more jobs and business opportunities.

In the spirit of working together to improve the economies of Puget Sound, the Port of Tacoma joined forces with the Port of Seattle in August 2015 to create The Northwest Seaport Alliance (NWSA). By combining resources, the Puget Sound becomes the fourth largest gateway for containerized cargo in North America. Please see the addendum for additional information on the NWSA. With most of the maritime assets assigned to the NWSA, the Port's efforts are focused on industrial development, real estate and growth in our bulk business. The Port works to attract major manufacturing and warehouse/distribution centers to Tacoma/Pierce County.

The Port's approximately 2,650 acres are primarily located in the Commencement Bay Tidelands. Today, the Port has about 150 acres of land available for industrial development on Port-owned properties separate from its marine terminal areas.

Port properties include warehouse/industrial sites, a grain terminal, and areas for industrial development. The first site is the Port Commerce Center, comprised

of more than 100 acres of Port land developed in partnership with a private developer.

### **Pierce County**

Pierce County is the second most populous metropolitan area in the State of Washington.

Located about halfway between the Oregon and Canadian borders, Pierce County covers 1,790 square miles. Within this area are 10 hospitals, 15 public school districts, a large number of private schools, two vocational-technical colleges, two community colleges and six four-year colleges and universities.

Pierce County boasts a diversified economy. The manufacturing sector produces forest products, chemicals, metals, aerospace products and a strong agricultural production. It also is home to Joint Base Lewis-McChord, Madigan Army Medical Center and Camp Murray.

### **Port Facilities and Services**

The Port owns and maintains facilities related to maritime commerce, including facilities for containerized cargo, automobiles, dry bulks such as grain, logs, breakbulk cargo, heavy-lift cargo and project cargoes. Many of these assets are now assigned to the alliance.

The Port's two major waterways – the Blair and Sitcum – can accommodate six miles (9.7 kilometers) of deepwater berthing. The waterways are about 51 feet deep. At the Port of Tacoma's facilities, excellent connections to inland highway and rail transportation networks help expedite cargo moving through Tacoma.

In 1981, the Port pioneered on-dock intermodal rail when it opened the North Intermodal Yard, the first of its kind on the West Coast. This innovation helps the Port and its customers efficiently handle international import containerized cargo that heads east via rail to markets such as Chicago and Columbus, Ohio. Three highway interchanges link the Port and its main terminals to Interstate 5 (see Figure I-1 on page I-6). See the NWSA addendum for more information on intermodal services.

### **Port of Tacoma Commission**

The citizens of Pierce County elect a five-member Port Commission to govern the Port of Tacoma. Each Commission seat is elected every four years, on a staggered basis.

The Commission establishes the tax levy collected. The Commission is also the final authority for approval of the Port's annual budget, long-term leases, sales and purchases of land, policies, long-range development plans, financing and all construction projects and spending in amounts exceeding the authority of the Port Executive Director.

The Commission also appoints the Port Executive Director, who is responsible for hiring staff and managing the Port's daily operations. The Port Commissioners at the time of this publication are:

- Kristin Ang
- Deanna Keller
- Dick Marzano
- John McCarthy
- Don Meyer

### **Port Commission Meetings**

Commission meetings are open to the public and are held at:

The Fabulich Center  
3600 Port of Tacoma Road  
Tacoma, WA 98424

For the agenda and the next Commission meeting, as well as minutes for Commission meetings held from 2001 to present, you can visit the Port's website at [www.portoftacoma.com](http://www.portoftacoma.com).

To help improve public accessibility and availability to the Port's decision-making process, the Port started streaming its Commission meetings on the Web in 2008. All Port Commission meetings are streamed live, and then archived on the Port website. Members of the public can easily access archived meetings by typing in a specific topic of interest. All meetings featuring that topic will then come up in a list for quick access and review.

Citizens may contact the Port Commission by calling the Port of Tacoma's Executive Department at

253-383-9402; fax at 253-383-9440.  
Correspondence may be mailed to:

Port Commission  
Port of Tacoma  
P.O. Box 1837  
Tacoma, WA 98401

Please see the addendum for information concerning the NWSA Managing Members.

### **Organizational Structure**

The Port of Tacoma's Executive Director is responsible for Port economic development, compliance and properties not licensed to the NWSA. The Port Executive Director is supported by staff who support both the Port and the NWSA. See the Organizational Chart (Figure I-2 on page I-7

### **Port Leadership**

The Port leadership is comprised of the Executive Director, the Chief Financial and Administrative Officer, the Chief Human Resources Officer, several department directors, and executive administrative support. The Port purchases management oversight for operations, maintenance, security, engineering and environmental services from leaders in the NWSA via an inter-local agreement.

**POT Real Estate Business:** Non-terminal industrial and commercial properties and facilities complement the properties licensed to the NWSA and are a significant source of revenue for the Port. Real estate personnel are responsible for leasing, divesting and managing the Port's real estate portfolio.

Located in an industrial zone with room for growth, port tenants offer a broad range of services for the Port's international and domestic customers including warehousing and distribution, manufacturing and marine services.

The Port retained the grain terminal in the Real Estate business, which has a long-term lease, as well as the East Blair One wharf, which is leased to the NWSA for the NWSA's breakbulk business. Additionally, the Port created a new auto terminal not licensed to the NWSA in 2018. The new auto terminal is leased to Wallenius Wilhelmsen who processes imported autos from several manufacturers.

### **Port Operations**

Led by the Deputy Executive and Chief Operations Officer for the NWSA, the Operations Group is responsible for the daily operations of the Port and is comprised of the Operations, Maintenance and Security Departments.

**Operations Department:** The operations group mainly supports the operations of the alliance. Please see the NWSA Addendum Section I. The operations group will manage the two waterways so that NWSA and Port maritime operations work harmoniously.

This department collaborates with members of the supply chain to promote policies, procedures and technologies that improve operational efficiency.

**Maintenance Department:** The Port's Maintenance group consists of two departments – Equipment and Facilities. Employees of both departments remain Port employees but are responsible for equipment and facility repair/maintenance of Port-owned as well as NWSA licensed assets. Maintenance responsibilities include grounds, buildings and cranes to vehicles and straddle carriers.

**Security Department:** The Port Security Department supports the sustainable, economic viability of the Port by consistently contributing to a safe and secure environment for all through professionalism, respect and integrity. The Security Department supports emergency operations, actively promotes the safety and security of the Port community, maintains the Port's maritime domain awareness and aligns the security practices with the United States' critical infrastructure protection policies. The Port's Security Department also works closely with other entities, including U.S. Coast Guard, Customs and Border Protection, local police and fire departments. Security remains with the Port of Tacoma, but will provide services to NWSA assigned properties through the service level agreement.

The Port of Tacoma Security group also provides security at the West Sicum Terminal (formerly APMT).

## Support Organizations.

**The POT support organizations provide services to the homeport and NWSA. Day to day management of these teams is performed by the leaders in the Port and the NWSA**

Engineering, Environmental and Planning: Led by the NWSA Deputy CEO, the Engineering, Environmental and Planning teams are responsible for long-term planning and development of port assets, and all Port related environmental issues.

**Engineering Department:** The Engineering Department remains with the Port but provides design and construction management services and delivers state-of-the-art facilities to both the Port as well as NWSA. The Engineering and Environmental Departments work collaboratively to abide by and meet local, state and federal regulations.

**Planning Department:** The Planning Department, which is part of NWSA, coordinates with state, regional and local stakeholders to identify regional freight transportation infrastructure needs, provides land-use and preliminary terminal design services and works to maximize terminal through-put and capacity.

**Environmental Department:** The Environmental Department develops and implements comprehensive programs to minimize the effects of Port operations on air, water and sediment quality. Environmental staff are located both in the Port and in NWSA, and provide services to each organization through the service level agreement.

This department works with permitting agencies to facilitate terminal development projects and maintains regulatory compliance.

Department staff monitors and provides input on the drafting of environmental ordinances and regulations significant to the Port and informs the public of the Port's environmental activities.

## Finance and Administration Group

Led by the Chief Financial and Administrative Officer, the Finance and Administration Group is responsible for the administrative tasks that keep the Port and NWSA functioning. This group includes the departments of Finance and Accounting, Contracts, Purchasing, and Public Records. These functions

provide services to the NWSA through the service level agreements.

**Finance and Accounting Department:** The mission of the Finance and Accounting Department is to create value through strategic financial planning and timely accurate accounting practices. In addition to partnering with business leaders to grow profitable businesses and create jobs, its role is to collect, invest and disburse Port funds and provide monthly and annual financial reports in accordance with state and federal laws as authorized by the Commission.

Services provided by the Port's Finance and Accounting Department include general accounting, payroll, accounts payable, accounts receivable, treasury, capital financing, financial planning, budgeting and internal auditing.

**Contracts and Purchasing Department:** The Contracts and Purchasing Department provides support for the acquisition of supplies, materials and services and ensures compliance with public procurement laws and regulations.

**Public Records Department:** The Public Records Departments ensure full compliance with all public records requests submitted to the Port and NWSA. In addition, this department facilitates the development and updates to policies and procedures for both organizations.

**Information Technology:** The Information Technology department work to champion and make possible the innovative application of technologies that enhance the overall performance of the Port. The department partners with Port businesses, functional departments and other Port stakeholders to improve the flow and efficiency of the freight movement through application of technology.

## Human Resources Department

Led by the Chief Human Resources Officer, the Human Resources Department is responsible for:

- Work-force development, which includes attracting, retaining and developing the right people;

- Setting compensation, administering benefits, organization-wide training, and managing employee relations; and
- Creating a constructive, diverse culture.

The Human Resources Department is responsible for personnel assigned to both the Port of Tacoma and the NWSA. Services to the NWSA are provided through the service level agreement.

**Government Affairs Department:** The government affairs staff advances the Port's legislative priorities and manages the organization's relationships with elected and appointed officials at the city, county, state and federal levels. Community relations, meanwhile, manages public outreach programs, including tours, a speaker's bureau, school program and work with community groups.

**Communications Department:** The communications staff develops and implements strategic public affairs and integrated communications programs, as well as initiatives and media relations that support the Port's overall mission, goals and priorities. This department also provides marketing communications and trade media relations and advertising support for each of the Port's businesses.

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Figure I-1.... Port of Tacoma Owned Properties Map

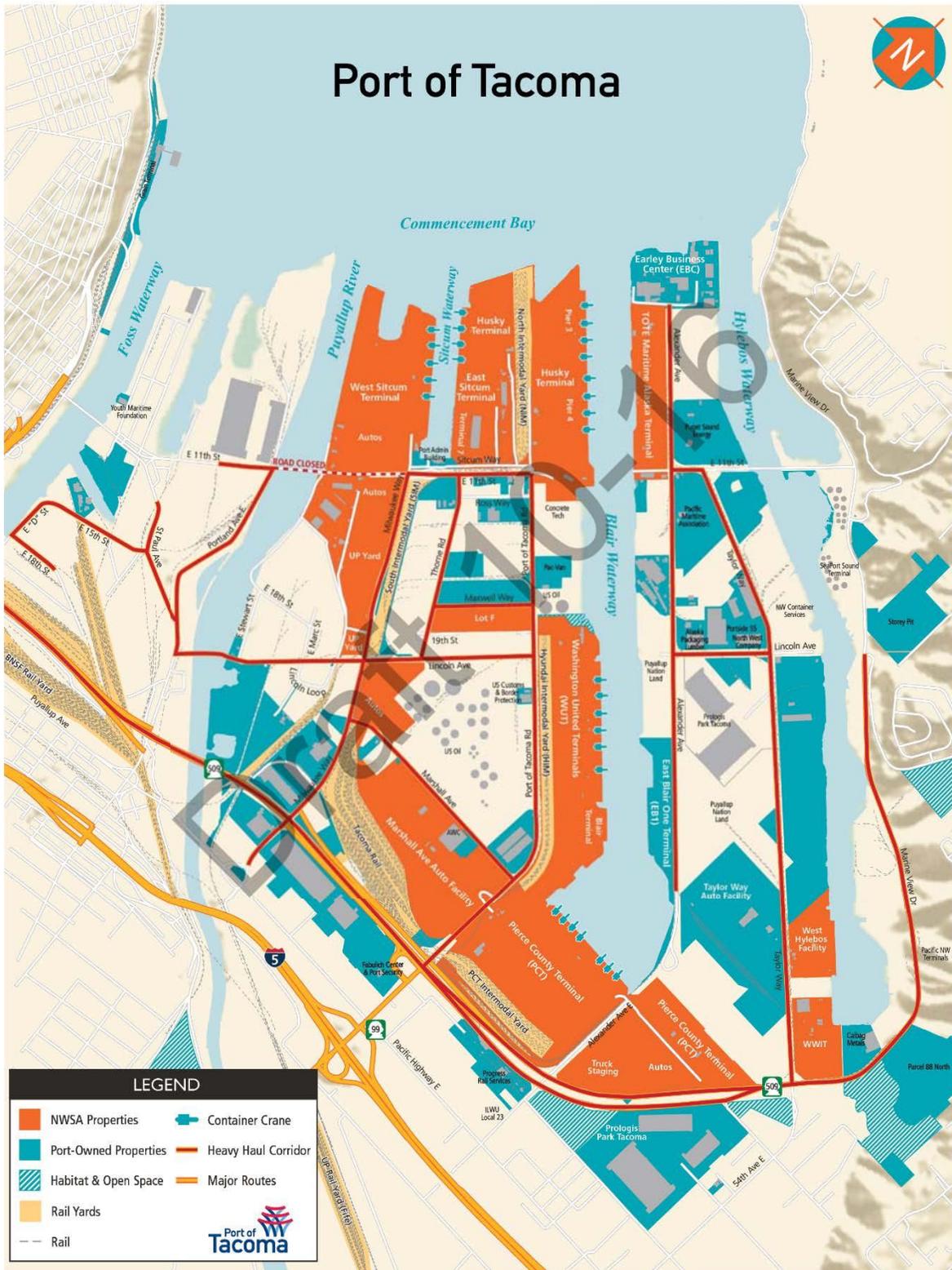
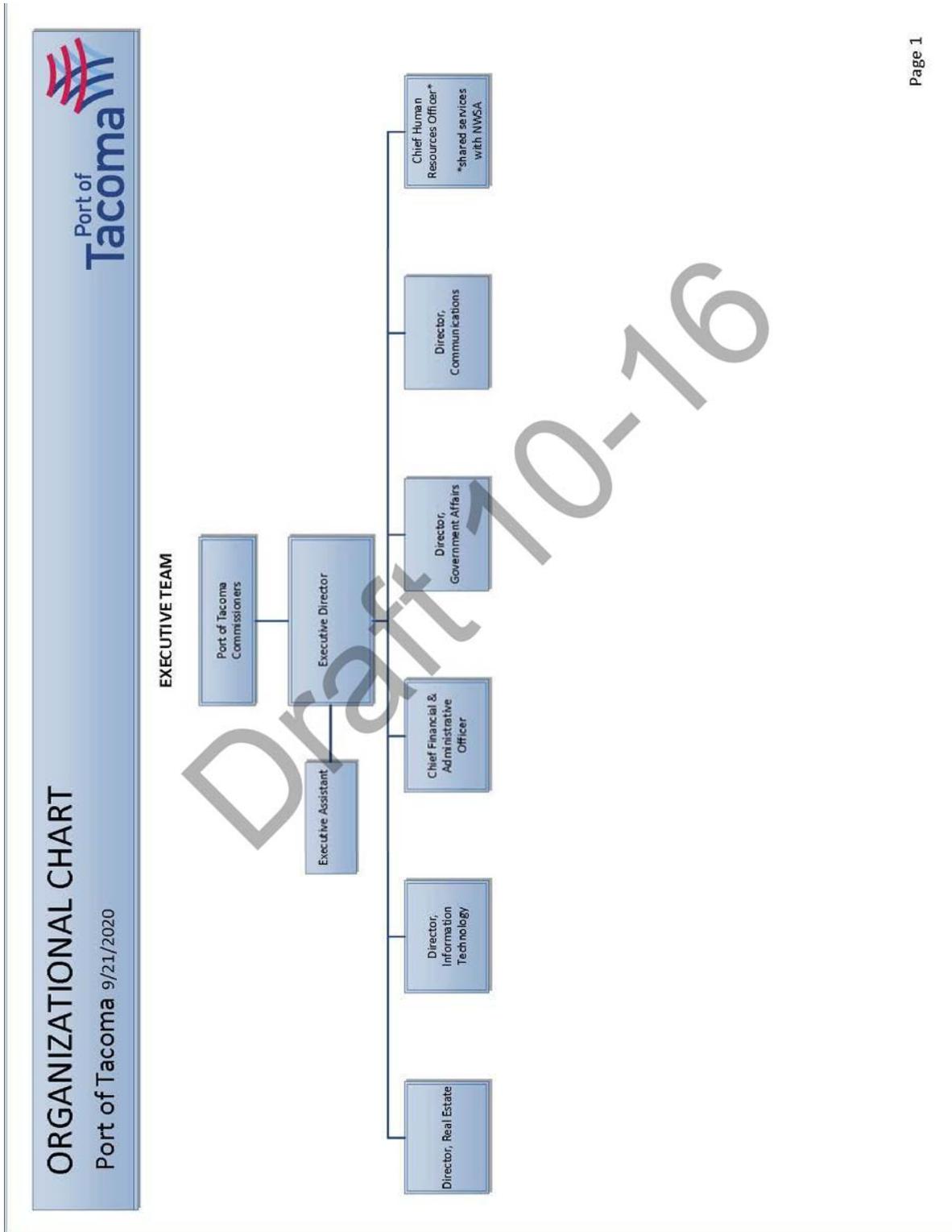


Figure I-2.... Port of Tacoma Organizational Chart





Loading Hay into a container for export

## II 2021 Budget Message

### Strategic Direction

In 2015, the creation of The Northwest Seaport Alliance (NWSA) modified the Port of Tacoma's strategic direction. The NWSA's mission is to encompass the economic the maritime cargo related assets of both the Port of Tacoma and the Port of Seattle to improve economic prosperity, strengthen financial vitality, and continue our environmental stewardship of Puget Sound.

The Commissioners and staff of the Port of Tacoma and Northwest Seaport Alliance recognize the critical role the Port and NWSA play in supporting the nation's economy and the importance of moving cargo efficiently. In 2020, Port staff begin work on a new Strategic Plan to replace the 2012 strategic plan developed before the creation of the NWSA. The new Port of Tacoma strategic plan will focus on the non-marine cargo businesses in which the Port can statutorily engage. The information and insights we gain through this effort will help the Port Commission chart the Port's strategic direction and ensure that the Port meets the needs of our community and supports the NWSA. The Port of Tacoma's Strategic Plan and associated Action Plan are expected to be completed in the first quarter of 2021.

### Mission Statement

The Port's mission is to "deliver prosperity by connecting customers, cargo and community with the world." The creation of the NWSA does not alter our commitment to this mission. It enhances it by bringing additional resources that can improve the region.

### Budget Environment

The NWSA is responsible for the container terminal, container intermodal, break bulk, and auto businesses and a maritime related real estate portfolio. The Port is responsible for its bulk terminal, non-container intermodal, terminal security, and Port auto terminal businesses and a diverse real estate portfolio.

### Revenues and Expenses

The Port receives 50 percent of the net income from the NWSA. Operating income received is treated as revenue per joint venture accounting rules.

Additionally, the Port has both fixed and variable revenue streams from the real estate and bulk lines of business. The majority of Port staff remain with the Port. A large portion of staff costs, however, are charged to the NWSA through service level agreements. See section IV for information on the Port's operating budget.

### 2021 Budget

The Port of Tacoma has developed an overall operating budget with projected revenue of \$63.5 million. Operating income is budgeted to be \$15.6 million, resulting in an operating margin of 24.5 percent. The Port's net income is projected to be \$20.3 million.

The Port's financial performance reflects the investments the NWSA and the Port are making to successfully complete commitments to customers while meeting the Port's financial goals. The operating and capital budgets are based on the cargo forecast in Section III for the Port of Tacoma, and Section III of the Addendum for NWSA.

### Capital Investment Plan Highlights

The Port's projects for the next five years reflect an increased focus on industrial development and utilization of existing terminal capacity. With this focus, the Port has reviewed potential assets for revenue generation to ensure that financial and economic growth goals are met.

Major 2021 capital projects include the following:

- Land acquisitions to continue revenue growth
- Development of environmental mitigation habitat
- Remediation of historically contaminated properties
- Creation of a new port administration building
- Infrastructure Investments

The Port's \$55.6 million 2021 capital budget represents the first year of the Port's 2021-2025 capital plan – a package totaling \$160.5 million in new projects and investments. See Section V for additional details on the Capital Investment Plan.

### **Financial Issues and Measures**

To provide interest rate stability for planned major projects, in 2007 the Port entered into three forward starting payment agreements (aka SWAPS) starting in 2011 totaling \$230 million with third-party partners. Although the planned projects have not moved forward, the SWAPS are still in place and the Port was required to deliver variable rate bonds totaling \$80 million in 2011, \$130 million in 2012, and \$20 million in 2013 to match to the SWAPS. Alternatively, the Port could terminate the SWAPS at market value, which would cost the Port approximately \$91.3 million as of September 30<sup>th</sup>, 2020. The Port has sufficient variable rate debt outstanding to match these swaps as required by state law. An increase in overall interest rates would reduce the cost of terminating these SWAPS, and could result in the SWAPS providing value to the Port. The Port continues to monitor the SWAP valuations and will take the best course of action to minimize the risk and cost to the Port. The Port canceled the Morgan Stanley swap on December 2016 at no cost to the Port.

The Port's financial measures indicate how well the Port plans and executes its operations, capital budget and financing. The measures are shown in Section VII.

### **Tax Levy**

In addition to the global economic climate, other business, political and civic developments can have an impact on the Port's daily operation and long-term goals. Assessed property values in Pierce County increased by approximately 7.8 percent in 2020, and new construction added approximately 1.8 percent in value. Property values continue to increase and new construction or improvement projects are expected to continue to grow in the future.

Please see Section VI for additional details on the Port's tax levy.

### **Legislative Impacts**

Developments in the political arena and changes in legislation often have significant financial implications for the Port. Recent legislation that has impacted the Port of Tacoma includes:

#### Remedial Action Grant Funding

The Port relies upon Remedial Action Grant (RAG) funding authorized by the state's Model Toxics Control Act (MTCA) to help remediate contaminated properties it owns. MTCA imposes a hazardous substance tax (HST) on the first possession of toxics on hazardous chemicals to fund RAG grants and other toxics-related programs. During the 2020 legislative session, state lawmakers authorized \$3.8 million for three Port of Tacoma projects—the Earley Business Center, 721 Alexander Avenue and Portac.

#### Transportation Funding

The Port relies on an efficient and well-maintained road and rail network to ensure the smooth movement of cargo to and from its facilities. The Washington Legislature in 2015 made a significant commitment to infrastructure, passing a 16-year, \$16 billion statewide transportation package. An estimated \$3.3 billion of those funds will be invested in projects benefiting Port terminals.

One project of note is the State Route 167 project. The state intends to complete the remaining six miles of this critical freight corridor, improving connectivity between the Port's marine cargo facilities and Interstate 5 and the Green River and Puyallup River valleys—home to the second largest cluster of warehouses and distribution centers on the west coast. Completion of this highway requires a \$130 million local match. In 2018 the Port entered into a memorandum of understanding (MOU) pertaining to local participation in the SR-167 project with the Washington State Department of Transportation and other local project stakeholders. The MOU stipulates that anticipated financial contributions by the Port and other stakeholders only become binding commitments when embedded in interlocal agreements, and the conditions therein are approved by the proposed funding entity. In December 2018, the Port committed to a \$3 million contribution for Phase 1A of the project. In December 2019, the Port committed to a

\$22 million contribution in future years subject to WSDOT achieving certain construction milestones.

The Port is negotiating an inter-local agreement with the Washington State Department of Transportation to provide an in-kind contribution of real estate and fill material as part of the financial commitment made by the port. Commission action on the agreement is anticipated in late 2020.

## **Port Security**

The Port's security force focuses on physical security and facilitates the Port and NWSA's mission by maintaining proactive vigilance and protecting functions required to sustain safe and free flow of commerce. Port security is committed to protecting the safety of our people, facilities and supporting programs that protect our surrounding community.

Security at the Port of Tacoma involves an integrated, multi-agency approach, including state, local and federal government jurisdictions as well as the private sector. The Port of Tacoma Patrol is responsible for Port-operated facilities and Port-owned land and assets while the tenant companies have responsibility for security at the Port's leased terminals. The Port's Security Department terminal security officers currently provide security at the W. Sitcum Terminal. In addition, the Port supports tenant security when required and coordinates operations with Customs and Border Protection, U.S. Coast Guard, Department of Agriculture, the FBI and state and local law enforcement agencies as necessary on overall security issues that impact the general Port area.

As a steward of public funds, the Port of Tacoma Security Department has been successful in leveraging grant funding received from the Department of Homeland Security (DHS) through the Port Security Grant Program to enhance security infrastructure. In conjunction with Port of Seattle security, we will coordinate our efforts and resources

to enhance the Port's Maritime Transportation Security Awareness. The Port of Tacoma will continue to leverage grant funding as needed to meet regulatory requirements of the Maritime Industry.

Port Security Personnel will continue to reinforce stewardship of public trust by maintaining an active security program that will continue to strengthen our security posture while working with local and regional partners to safeguard people, facilities and the surrounding community.

## **Conclusion**

The realities of the drastic changes in the global economy have led all ports to examine business and operational strategies. This examination helped lead to the formation of the NWSA.

At the Port of Tacoma, we remain focused on maximizing the use of our existing POT and NWSA facilities, working with existing customers to keep them competitive and successful, and continuing to make strategic infrastructure investments that help position the Puget Sound for long-term growth. Additionally, the Port will, through its strategic plan, identify new areas of growth that increase the economic activity in Pierce county in a sustainable, and environmentally responsible manner.

We are also placing increased emphasis on the importance of developing and strengthening relationships with labor partners, industry stakeholders, customers, and local, state and tribal governments, as we work together to achieve the future vision of the NWSA and the Port. This vision must include the road and rail infrastructure that ties the whole system together.

Despite the challenging realities of today's global economy, Port management is confident that the efforts of the alliance and the plans outlined in this budget will help the Port of Tacoma remain financially strong, competitive and successful.



Tugs and a RORO ship in the Sitcum Waterway

### III Business Outlook

#### U.S. Economy

Real gross domestic product (GDP), defined as the value of the production of goods, was -31.7 percent in the second quarter of 2020 and -4.8 percent in the first quarter of 2020, two quarters of negative GDP put the economy in recession. The Department of Commerce Bureau of Economic Analysis (BEA) said, "The decline in second quarter GDP reflected the response to COVID-19, as "stay-at-home" orders issued in March and April were partially lifted in some areas of the country in May and June, and government pandemic assistance payments were distributed to households and businesses. This led to rapid shifts in activity, as businesses and schools continued remote work and consumers and businesses canceled, restricted, or redirected their spending. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the second quarter of 2020 because the impacts are generally embedded in source data and cannot be separately identified."

TTX forecasted real GDP at -32.9 percent in Q2 2020 and expects 2020 GDP to be -5.8 percent. Moody's Analytics projects GDP will not return to pre-COVID-19 levels until early 2022. TTX notes that the second half of 2020 will be difficult to predict given the uncertainty around COVID and economic recovery:

- Will COVID-19 resurge and when will there be a vaccine?
- Will the trade war escalate?
- How long will it take before jobs lost due to the pandemic to return?
- How many businesses forced to close are closed permanently?

The U.S. unemployment rate was at 8.4 percent in August 2020 with 1.4 million jobs added for the month. Most job gains in August occurred in retail trade, professional and business services, leisure and hospitality, and in education and health service sectors.

According to the National Association of Realtors, pending and existing home sales are up 15.5 percent

and 8.7%, respectively, from a year ago. According to Lawrence Yun, NAR's chief economist, "The housing market is well past the recovery phase and is now booming with higher home sales compared to the pre-pandemic days. With the sizable shift in remote work, current homeowners are looking for larger homes and this will lead to a secondary level of demand even into 2021."

The Conference Board reported August Consumer Confidence Index at 84.8, down from 91.7 in July. According to the Conference Board's Senior Director of Economic Indicators Lynn Franco, "The Present Situation Index decreased sharply, with consumers stating that both business and employment conditions had deteriorated over the past month. Consumers' optimism about the short-term outlook, and their financial prospects, also declined and continues on a downward path. Consumer spending has rebounded in recent months but increasing concerns amongst consumers about the economic outlook and their financial well-being will likely cause spending to cool in the months ahead."

#### POT Activity

Grain volumes in 2020 are projected to grow 13.3 percent vs. 2019 and to grow 3.6 percent next year. Global tariffs continue to be a wildcard as is the economy. The upcoming crop year and sales look solid thus far.

Gypsum is a commodity used by a port tenant to make wallboard and other construction material. It is projected to decline in 2020 but grow in 2021.

See the NWSA budget addendum for information on the container, intermodal, breakbulk and auto volume forecast.

Table III-1.... Cargo Activity Five-Year Forecast

	Actual					Forecast								
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024				
<u>Non-Container Forecast (Thousands of Metric Tons)</u>														
<u>Bulk</u>														
Grain	2,566	4,227	4,665	4,622	3,193	3,193	3,321	3,453	3,592	3,735				
Gypsum	223	186	229	221	232	236	236	240	240	245				
<b>Total Bulk Tonnage</b>	<b>2,789</b>	<b>4,413</b>	<b>4,894</b>	<b>4,843</b>	<b>3,425</b>	<b>3,429</b>	<b>3,556</b>	<b>3,694</b>	<b>3,832</b>	<b>3,980</b>				
<i>Year over Year Change</i>	-33%	58%	10.9%	-1.0%	-29.3%	0.1%	3.7%	3.9%	3.7%	3.9%				

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## IV Operating Budget

### Overview

The Port of Tacoma's operating budget is based on 50 percent of the NWSA's net operating income plus lease and cargo related income from Port managed properties. Volume forecasts for the Port and NWSA are shown in Table III-2, page III-4 of this document and the NWSA addendum, respectively. Operating budget expenses were projected based on historical information for the Port. Operational expenses for the NWSA are included in the net income received by the NWSA.

From the Port and NWSA information, Port staff created a realistic budget that supports both the corporate priorities and financial goals of the Port.

Departmental budgets estimate the expenses that will be generated in support of the Port and NWSA.

Expenses fall into one of five categories: Administration, Operations, Security, Environmental or Maintenance. These expenses can be in support of the Port and/or the NWSA. Administration expenses are incurred in the day-to-day management of the Port. Operations, Security and Maintenance expenses support the day-to-day management of business activities. Environmental expenses are a subset of overall environmental spending, and include ongoing compliance and monitoring activities.

Business budgets are projections of revenues earned and expenses incurred in the operation of a particular business line. In addition, the Port of Tacoma expects to receive funds from various other sources including property tax levy, user fees, government grants, bond proceeds and investment earnings.

Although capital project spending is planned within the capital budget, capital projects will impact operating budgets for future years through new sources of revenues, increased operating expenses and depreciation costs. Fifty percent of the NWSA capital project expenses will be included in the Port's plan of finance.

### Nature of Business

Washington law authorizes ports to provide and charge rents, tariffs and other fees for docks, wharves

and similar harbor facilities, including associated storage and traffic handling facilities for waterborne commerce. Ports may also provide freight and passenger terminals and transfer and storage facilities for other modes of transportation, including air, rail and motor vehicles. Finally, ports may acquire and improve lands for sale or lease for industrial or commercial purposes and may create industrial development districts.

The Port of Tacoma operates as an enterprise fund, allowing the Port to operate in much the same manner as a private business. Operating revenues are comprised of charges to its customers to cover costs associated with the service provided and to support investment in future projects.

### Balanced Budget

Based on the Government Finance Officers Association (GFOA) Recommended Budget Practices, a balanced budget "is a basic budgetary constraint intended to ensure that a government does not spend beyond its means."

The Port of Tacoma defines "balanced budget" in the following way: Total revenues are sufficient to cover operating expenses for the budget year and to offset the cost of capital investments (depreciation) and anticipated debt costs for any planned future capital investments.

The Port of Tacoma uses the full-accrual basis for budgeting, consistent with the basis for accounting.

### Budget Process

The Port budget is a guideline used by management to direct strategic and tactical operations. Typically, more projects and spending are budgeted than may actually occur. This conservative approach ensures that Port financial goals are still met if business conditions support the full budgeted spending.

The Port operates on a calendar year budget cycle as shown in Appendix D. The operating budget and the capital budget are the Port's plan for meeting the current needs of its customers, and for implementation of the Strategic Plan initiatives.

The annual budget development begins in July and continues through November. The process begins with the development of strategic objectives and initiatives for the Port and for the NWSA. These objectives are reviewed by the Commission and the Chief Executive Officer for the Port, and the Managing Members and CEO for the NWSA.

Cargo forecasts, available at the beginning of September, are used to develop the operating and capital budgets for both organizations. During separate study sessions, a draft budget is presented to the Port Commission and the NWSA Managing Members.

In November, a public hearing is held to address public interest, and to adopt the Port's tax levy and statutory budget, which includes the Port of Tacoma's portion of net income and CIP from the NWSA. After the Port Commission approves and adopts the statutory budget, it is submitted, with the Commission resolutions, to the Pierce County Council and the Office of the Assessor Treasurer on or before November 30th.

Once filed, the statutory budget is a legal, public document and can be amended only after proper notification is given and a public hearing is held. Any amendments to the budget must be submitted with amended resolutions to the Pierce County Council's office.

After filing the original statutory budget, the Port conducts a subsequent mid-year forecast of operating revenues and expenses and makes any necessary adjustments based on a monthly budget-to-actual analysis. This helps management measure how the Port is progressing. The mid-year update is not filed with the County or adopted by the Commission.

### Major Assumptions

Major drivers of the 2021 operating budget are a result of economic and industry trends represented in the cargo forecast.

#### Revenues

- Fifty percent of the NWSA net income. Please see the NWSA addendum for additional information.

- Lease revenue for POT managed properties per contract.
- Property lease rental rates will increase as specified in contracts.

#### Expense

- Budgeted salary and employee benefits at 3.0% growth. A large majority of staff costs are allocated to the NWSA per service level agreements.
- Allocations and department closing include charges to projects, specific costs at revenue locations, and charges to the NWSA. Total allocations of services to NWSA of \$31.7 million (See Table IV-3)
- Headcount will reduce to 216. The five Port of Tacoma Commissioners and part time security officers are excluded from this number (see Appendix J).
- Increased outside services due to multiple one-time projects and ongoing data services.
- Maintenance expenses increase year over year from budget and increase by \$1.1M from forecast due to unanticipated expense budget of \$1.0M.
- Depreciation is decreasing due to no new significant capital investments in POT in 2020.
- 2021 environmental expenses will be higher than 2020 by \$0.3 million.
- Port and Port staff memberships in professional and trade organizations total approximately \$320,382. See Appendix C.

#### Non-Operating Revenue and Expense

- Grant income of \$0.7 million.
- Net interest income of \$11.1 million. This includes lease interest income from GASB 87
- Net revenue bond interest expense of \$16.5 million.
- Non-operating projects of \$3.6 million
- Tax Levy (see Section VI).

#### Estimating Revenues and Expenses

The Port uses several different methods of projecting revenues, depending upon the nature and materiality of the revenue item and the projection period. Specific revenue projection techniques include:

- **Historical Data:** Future revenues are based on historical trends with the assumption that they will continue in the future. When using historical data as a means for projecting revenues, the Port analyzes as many as 10 years of data to estimate a rate of growth.
- **Business Operations:** Lease/rental agreements, grant agreements and service contracts, provide information for this projection method. These projections may be adjusted to reflect the probable impacts of anticipated changes in the economy, legislation and inflation.
- **Judgment Estimates:** This method relies on a person knowledgeable in the field, often a department director, who prepares a revenue projection based on awareness of past and present conditions including fee changes, development plans, marketing campaigns, usage activity, frequency, volume, weight and similar determinations.
- **Current Data:** This method predicts future revenue based on actual or annualized current year revenues and often is used when historical data and trends are not available, or if used, would result in an inaccurate revenue projection.
- **Volume:** The Port uses the five-year cargo forecast to project budgeted revenues where appropriate.

### Financial Practices

The Port manages its debt and investment portfolios to maximize its financial capacity – to maintain strong debt service coverage ratios and positive cash flows, with a goal of keeping the Port financially sound to better serve its customers, the surrounding business community and the citizens of Pierce County.

### Financial Tools

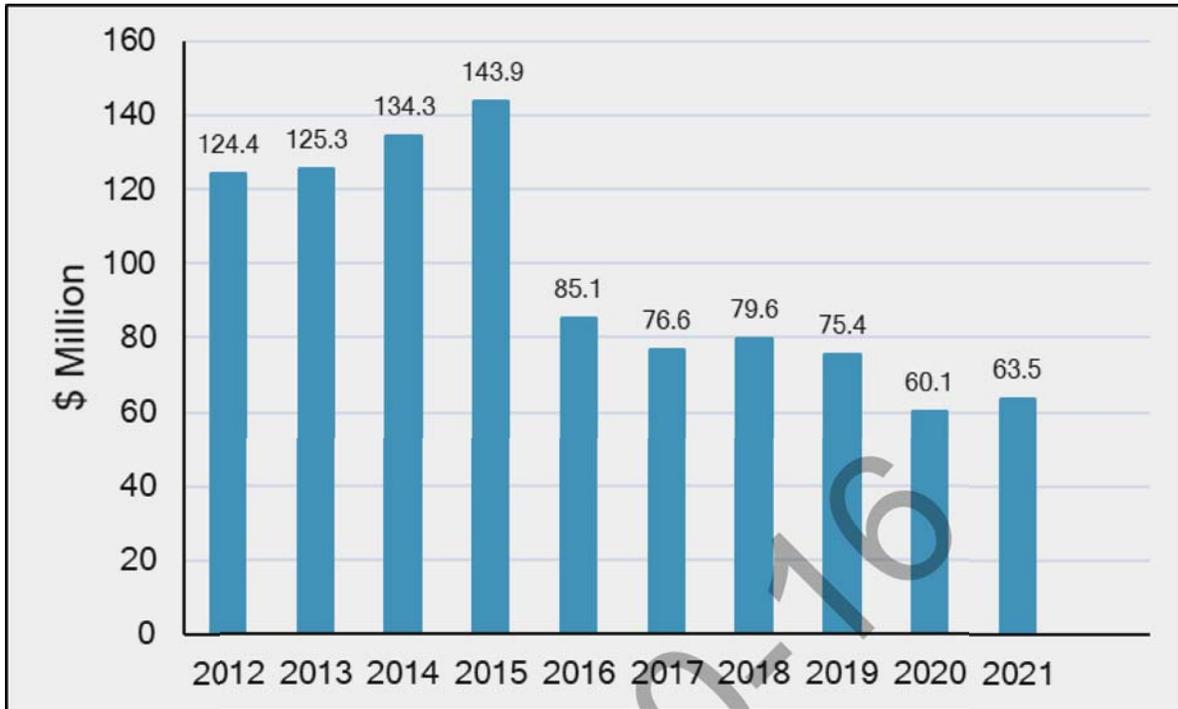
- **Cargo Forecasts:** The Port and the NWSA each create cargo forecasts for the next five years (See Section III).
- **Five-Year Operating Budget:** The operating budget is driven by revenue from the NWSA, volumes from the cargo forecast, and major lease contracts. Planned revenue-generating capital projects are aligned with new revenues and expenses in the five-year operating budget. The operating budget is monitored throughout the year, noting any variances that may require corrective action. The Commission, Chief Executive Officer and Leadership Team review these semi-annually.
- **Five-Year Capital Investment Plan:** This plan ties directly to the strategy developed during the budget process. Updated semi-annually, it identifies all proposed projects. Some projects are capitalized and impact future year forecasts through depreciation while others are expensed in the current year.
- **Plan of Finance:** This is a five-year plan that identifies the Port's ability to fund the Port's business objectives. It evaluates the capital budget, describes debt practices, outlines a plan to fund the Port's projects and reaffirms the Port's system of performance measurements.
- **Financial Analysis of Investments:** The Port reviews significant capital investments and their related assumptions prior to acceptance into the planned capital budget. Revenue generating projects earn a return on revenue that meets or exceeds the Port's standards.
- **Financial Reporting:** The Port creates a variety of reports available electronically or in hard copy.

For additional information on accounting policies, see Section IX.

**Table IV-1....Statement of Revenue, Expenses and Change in Assets by Business**

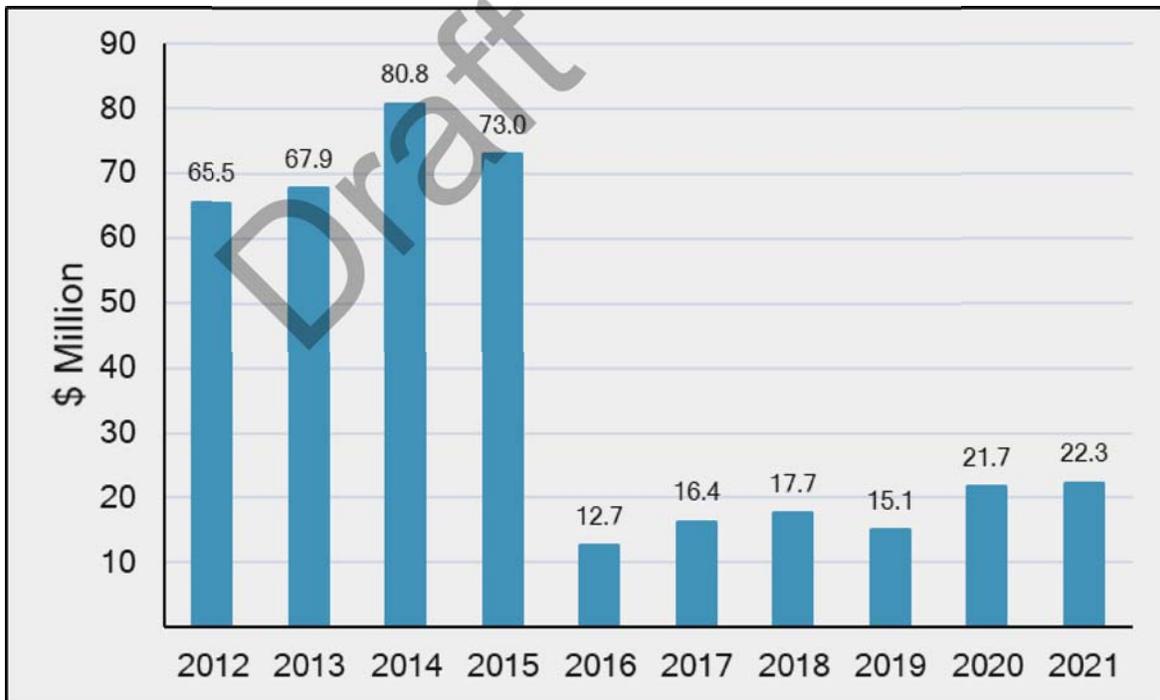
<i>(\$ millions)</i>	<b>2019</b>	<b>2020</b>	<b>2020</b>	<b>2021</b>
	<b>Actual</b>	<b>Budget</b>	<b>Forecast</b>	<b>Budget</b>
<b>Operating Revenues</b>				
NWSA	\$48.0	\$41.9	\$35.7	\$41.9
Container	3.1	3.2	3.2	3.6
Non Container	3.5	2.6	1.0	2.5
Real Estate	20.7	12.3	14.0	15.5
Other	0.0	0.0	0.0	0.0
<b>Total Operating Revenues</b>	<b>75.4</b>	<b>60.1</b>	<b>54.0</b>	<b>63.5</b>
<b>Direct Expenses</b>				
Container	2.6	2.7	2.6	2.9
Non Container	0.4	0.2	0.2	0.3
Real Estate	4.2	5.7	5.0	4.9
Other	1.2	2.9	2.4	2.8
<b>Total Direct Expenses</b>	<b>8.4</b>	<b>11.5</b>	<b>10.2</b>	<b>11.0</b>
<b>Administration</b>	4.1	5.3	3.7	6.4
<b>Security</b>	0.3	0.4	0.4	1.6
<b>Environmental</b>	2.3	4.6	3.1	3.4
<b>Total Op. Expense before Depr.</b>	<b>15.1</b>	<b>21.7</b>	<b>17.4</b>	<b>22.3</b>
<b>Depreciation</b>	26.9	26.9	26.4	25.6
<b>Total Operating Expense</b>	<b>42.0</b>	<b>48.7</b>	<b>43.8</b>	<b>47.9</b>
<b>Operating Income</b>	<b>\$33.4</b>	<b>\$11.4</b>	<b>\$10.1</b>	<b>\$15.6</b>
<i>Return on Revenue</i>	44.3%	19.0%	18.8%	24.5%
Non Operating Income (Expense)	(9.9)	(8.6)	(3.2)	(14.6)
<b>Income before Tax Levy &amp; Expense</b>	<b>23.5</b>	<b>2.8</b>	<b>7.0</b>	<b>1.0</b>
<b>Ad Valorem Tax Levy</b>	20.9	23.1	23.1	23.8
GO Interest	(4.8)	(4.7)	(4.7)	(4.5)
<b>Net Tax Levy</b>	<b>\$16.1</b>	<b>\$18.4</b>	<b>\$18.4</b>	<b>\$19.3</b>
<b>Net Income Before Special Item</b>	<b>\$39.6</b>	<b>\$21.3</b>	<b>\$25.4</b>	<b>\$20.3</b>
Special Item	(22.0)			0.0
<b>Net Income</b>	<b>\$17.7</b>	<b>\$21.3</b>	<b>\$25.4</b>	<b>\$20.3</b>

Figure IV-1...Operating Revenue by Year\*



\*2020 and 2021 include impact of GASB 87 adoption

Figure IV-2...Operating Expense by Year\*



(Excluding depreciation)

\*2020 and 2021 include impact of GASB 87 adoption

**Table IV-2....Operating Revenue and Expense**

(\$ millions)	2019	2020	2020	2021
	Actual	Budget	Forecast	Budget
Property Rental	\$21.0	\$11.1	\$12.9	\$14.4
Sale of Utilities	0.6	0.7	0.7	0.6
Services Marine Terminals	3.9	4.6	2.8	4.6
Other Revenue	49.8	43.8	37.5	43.8
<b>Operating Revenue</b>	<b>75.4</b>	<b>60.1</b>	<b>54.0</b>	<b>63.5</b>
Port Salaries & Benefits	33.0	36.6	35.2	37.4
Outside Services	6.3	8.4	5.9	7.8
Longshore Labor & Fringe	0.0	0.0	0.0	0.0
Direct Expenses	1.7	1.3	1.7	1.7
Marketing & Global Outreach	0.6	0.9	0.6	0.6
Travel & Hosting	0.2	0.3	0.0	0.2
Maintenance	7.2	7.6	7.5	8.6
Office Equipment & Supplies	0.7	0.8	0.6	0.6
Utilities	1.7	1.7	1.7	1.9
Other Employee Exp	0.5	0.7	0.4	0.5
Other Expenses	0.1	2.2	1.3	0.5
Environmental	2.2	4.6	3.1	3.4
Depreciation & Amortization	26.9	26.9	26.4	25.6
Allocations & Department Closings	(39.1)	(43.3)	(40.6)	(40.9)
<b>Total Operating Expenses</b>	<b>\$42.0</b>	<b>\$48.7</b>	<b>\$43.8</b>	<b>\$47.9</b>
<b>Operating Income</b>	<b>\$33.4</b>	<b>\$11.4</b>	<b>\$10.1</b>	<b>\$15.6</b>
<i>Return on Revenue</i>	44%	19%	19%	25%
Non Operating Revenue and Expenses	(9.9)	(8.6)	(3.2)	(14.6)
<b>Income Before Tax Levy &amp; Expens</b>	<b>23.5</b>	<b>2.8</b>	<b>7.0</b>	<b>1.0</b>
<b>Ad Valorem Tax Levy</b>	<b>20.9</b>	<b>23.1</b>	<b>23.1</b>	<b>23.8</b>
GO Interest	4.8	4.7	4.7	4.5
<b>Net Tax Levy</b>	<b>16.1</b>	<b>18.4</b>	<b>18.4</b>	<b>19.3</b>
Net Assets Before Special Items	39.6	21.3	25.4	20.3
Special Items	(22.0)	0.0	0.0	0.0
<b>Increase in Net Assets</b>	<b>\$17.7</b>	<b>\$21.3</b>	<b>\$25.4</b>	<b>\$20.3</b>

2020 and 2021 include impact of GASB 87 adoption May not foot due to rounding.

**Table IV- 3 Allocations and Direct Charges Summary**

(\$ Millions)	2019	2020	2020	2021
	Actual	Budget	Forecast	Budget
Port of Tacoma to NWSA	\$30.4	\$34.6	\$31.8	\$31.7
NWSA to Port of Tacoma	\$1.2	\$1.3	\$1.2	\$1.0

May not foot due to rounding.

**Table IV-4....Non-Operating Revenue and Expense Detail\***

(\$ millions)	2019	2020	2020	2021
	Actual	Budget	Forecast	Budget
<b>Grant Income</b>				
Capital Grant Income	0.2	0.7	0.8	0.5
Non-Capital Grant Income	0.5	0.1	1.0	0.2
<b>Interest Income</b>				
Lease Interest Income	0.0	8.8	8.1	8.1
Interest Income	6.8	4.1	3.4	3.1
Premium Discount	(1.1)	(0.8)	(0.8)	(0.8)
<b>Non Operating Income</b>				
Gain (Loss) Sale Facil	3.5	(1.3)	0.4	(3.4)
Sale of Scrap	0.0	0.0	0.0	0.0
Leasehold Tax Distrib	0.1	0.1	0.1	0.1
St. Forest Board Rcpt	0.1	0.0	0.0	0.0
Purchase Discounts Taken	0.0	0.0	0.0	0.0
Misc Non Op Inc	0.3	0.0	0.8	0.0
<b>Investment Gain Loss</b>	<b>2.1</b>	<b>0.0</b>	<b>2.0</b>	<b>0.0</b>
<b>Non Operating Revenue</b>	<b>12.5</b>	<b>11.7</b>	<b>15.8</b>	<b>7.9</b>
<b>Revenue Bond Interest Expense</b>				
Int Exp Rev Bonds Debt Serv	12.7	12.6	12.4	9.1
Int Exp Commrc Paper	0.4	0.4	0.3	0.0
Other Bond Fees	1.0	0.2	0.2	0.2
Letter of Credit Fee	1.4	1.2	1.0	1.2
Swap Interest Due	9.3	9.0	9.0	8.8
Swap Interest Receivable	(3.7)	(3.3)	(2.7)	(0.4)
Amort Deferred Debt Service (Rev)	0.6	1.3	1.2	1.3
SWAP Refunding Amortization	(0.3)	(1.1)	(1.1)	(1.1)
Bond Premium Debt Service (Rev)	(1.5)	(2.4)	(2.4)	(2.5)
Capitalized Interest	(0.0)	0.0	0.0	0.0
<b>Other Non Operating Expense</b>				
Lease Interest Expense	0.0	0.1	0.0	0.0
Bond Issue Debt Serv	0.0	0.0	0.0	0.0
Election Expense	0.8	0.0	0.0	0.9
Bank Service Fee	0.0	0.0	0.0	0.0
Other Bank Charges (other Investment and debt ex	0.0	0.0	0.0	0.1
Public Expense/LEDIF	0.3	0.3	0.2	3.6
Misc Non Op Exp	1.2	2.1	0.9	1.3
<b>Non Operating Expense</b>	<b>\$22.4</b>	<b>\$20.3</b>	<b>\$19.0</b>	<b>\$22.5</b>
<b>Non Operating Revenue and Expenses</b>	<b>(\$9.9)</b>	<b>(\$8.6)</b>	<b>(\$3.2)</b>	<b>(\$14.6)</b>

\* 2020 and 2021 include impact of GASB 87 adoption.

May not foot due to rounding.

**Table IV-5.... Statements of Revenues, Expenses and Changes in Net Position\***

	2019 Actual	2020 Forecast	2021 Budget	Change from Prior Year Forecast
<i>(\$ Millions)</i>				
Operating Revenue	\$75.4	\$54.0	\$63.5	17.7%
Total Operating Expenses	42.0	43.8	47.9	9.4%
<b>Operating Income</b>	<b>33.4</b>	<b>10.1</b>	<b>15.6</b>	<b>53.4%</b>
<b>Non Operating Revenues (Expenses)</b>				
Ad Valorem Tax Revenues	20.9	23.1	23.8	3.1%
Interest on General Obligation Bonds	(4.8)	(4.7)	(4.5)	-3.1%
<i>Net Ad Valorem Tax Revenues</i>	<i>\$16.1</i>	<i>\$18.4</i>	<i>\$19.3</i>	<i>4.7%</i>
Lease Interest Income	0.0	8.1	8.1	-4%
Interest Income	5.7	2.6	2.3	-11.9%
Net Increase (Decrease) in the Fair Value of Investments	2.1	2.0	0.0	-100.0%
Revenue Bond Interest Expense	(20.1)	(17.8)	(16.5)	-7.2%
Other Non Operating Expenses, net	2.1	1.1	(9.0)	-902.8%
<b>Total Non Operating Income (Expense), net</b>	<b>6.0</b>	<b>14.5</b>	<b>4.1</b>	<b>-71.3%</b>
<b>Increase (Decrease) in Net Position Before Capital Contributions</b>	<b>39.4</b>	<b>24.6</b>	<b>19.7</b>	<b>-19.9%</b>
Capital Grant Contributions	0.2	0.8	0.5	-29.8%
Special Item	(22.0)	0.0	0.0	
<b>Increase (Decrease) in Net Position before Special Item</b>	<b>17.7</b>	<b>25.4</b>	<b>20.3</b>	<b>-20.2%</b>
<b>Net Position</b>				
Net Position Beginning of Year	\$605.6	\$623.3	\$648.7	4.1%
Net Position End of Year	\$623.3	\$648.7	\$669.0	3.1%

\* 2020 and 2021 include impact of GASB 87 adoption.  
May not foot due to rounding.

### **Definition of Net Position (Equity)**

The statement of revenues, expenses and changes in net position is a report indicating whether an organization's financial condition has improved or declined as a result of the year's activities. Changes in net position are reported as the underlying events occur, regardless of the timing of related cash flows.

The Port of Tacoma expects its net position to increase in 2021 by \$20.3 million from the estimated 2020 results.

# V Capital Investment Plan

## Overview

The Port invests in projects to increase the capacity, extend the life or improve the safety or efficiency of Port-owned property and equipment.

The five-year Capital Investment Plan (CIP) identifies all projects planned or under way. The CIP provides a mechanism for tracking and managing project budgets and cash flows for five years into the future. Table V-1 shows historical and planned capital spending of the capital budget for a ten-year time frame. Projects are associated with a program that fall under one of the Businesses or under a category called "Port wide Infrastructure."

Although funds for a project are included in the CIP, the project is not automatically authorized to proceed. Each project is reviewed and approved individually by the Port Commission and must have the necessary permitting before proceeding. The CIP for the NWSA is not included in this section. Please see the NWSA addendum.

To achieve its goals, the Port continues to invest in revenue-generating capital projects that support its businesses. The Port also will invest in infrastructure projects that support the Port's maritime business, as well as increasing rail and road transit of cargo within and surrounding the Tideflats. Often, these infrastructure projects are expensed versus capitalized due to accounting requirements.

In addition, environmental projects are planned for meeting or maintaining regulatory requirements, including the development of mitigation and remediation projects. Projects may be expensed or capitalized according to accounting rules.

## Summary of Major Projects

With the Port's strategic plan completed, the five-year capital budget focuses on road and waterway infrastructure improvements, enhanced security and environmental projects highlighted in the plan. By the close of 2020, the Port will have completed or neared completion of the following capital projects:

- Acquire a strategic property
- Rehabilitated aspects of the Port administration building
- Maintenance and rehabilitation of Port assets

New Development in the five-year CIP includes the following:

- Channel dredging at Husky terminal
- Lower Wapato Creek combined habitat construction
- Replace Banana Yard rail switch
- Maintenance and rehabilitation of Port assets
- Environmental cleanups for land stewardship

Infrastructure improvements will better position the current and future cargo volume levels.

The Port of Tacoma has a strong commitment to the protection and improvement of the environment. Recent examples of this commitment are the cleanup of historic contamination sites, such as the Hylebos Waterway Superfund project, and the protection of existing wetlands and fisheries throughout the Tideflats and Commencement Bay. Other environmental projects include environmental coordination, continued investigations of underground storage tanks contamination and other restoration and monitoring.

Strategic development efforts focus on serving existing customers, attracting new customers and building a diverse, dynamic and resilient business base.

**Table V-1.... Historical and Planned Capitalized Spending**

(\$ Millions)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Historical Capital	80.5	66.7	77.8	82.1						
Planned Capital					17.5	44.6	19.5	16.5	11.2	23.1
<b>Grand Total</b>	<b>\$ 80.5</b>	<b>\$ 66.7</b>	<b>\$ 77.8</b>	<b>\$ 82.1</b>	<b>\$ 17.5</b>	<b>\$ 44.6</b>	<b>\$ 19.5</b>	<b>\$ 16.5</b>	<b>\$ 11.2</b>	<b>\$ 23.1</b>

### Capital Investment Plan Priorities

To efficiently allocate human and financial resources, the Port of Tacoma uses a capital project prioritization methodology. For internal management, the Port uses two categories:

- **Open:** These are ongoing projects or projects ready to move forward that have customer commitment or a high degree of certainty. Only open projects are funded in the Plan of Finance.
- **Estimate:** These are projects based on an identified business need or opportunity, but have not been fully developed in scope and cost.

### Capital Investment Plan Projects by Purpose

While the stage of the planning process determines the budgetary category of a specific project, project purpose determines the source of financing. The Port classifies CIP projects into three types, (as shown below in Table V-2):

- **Revenue-Generating:** Projects developed for a specific customer that will result in a new revenue stream. The Port has designated Port-generated operating cash and revenue bonds to fund most of these projects.
- **Revenue Renewal:** Projects developed to renovate or replace obsolete or aging revenue-producing assets. These projects serve to extend existing revenue streams or ensure existing streams are not lost, and may offer additional revenue if replacements enhance the efficiencies of operations or offer additional capabilities or value. The Port has designated Port-generated operating cash or revenue bonds to fund most of these projects and also may use capital leasing through equipment suppliers or financial institutions.
- **Infrastructure:** Projects developed to enhance infrastructure, support multiple or future

customers or to enhance public infrastructure. Sometimes, other public agencies may participate in funding that otherwise comes from Port-generated operating cash, the property tax levy, and general obligation bonds or revenue bonds. They often are complex in nature, with multiple public agencies involved in the planning process and execution.

Table V-3 shows Open (excludes estimate) project expenditures during the five-year planning horizon as categorized by accounting treatment.

Accounting rules require some spending to be capitalized and depreciated over time, while other spending is expensed as incurred.

Table V-3 shows that the Port intends to implement \$160.5 million worth of planned projects in the next five years, with \$55.6 million of that total earmarked for 2021. Non-operating and operating projects will be expensed as incurred and are included in the operating budget.

Table V-4 shows the five-year CIP by Line of Business. The investments assigned to Rail Equipment and Infrastructure are for infrastructure that the Port of Tacoma is responsible for in supporting the NWSA.

Table V-5 shows the expected increase in depreciation and revenue when all of the projects are completed. The CIP is the total expected spending of 128 projects, 50 of which are capitalized and 78 expensed as incurred. The expensed projects are captured as expenses in the current year budget and five-year Plan of Finance as incurred. The costs of the capitalized projects are captured as depreciation expense over the estimated life of the projects which may extend beyond five years. The Port does not expect any significant increase in operating expenses associated with the additional capital projects.

**Table V-2.... Five-Year Planned Capital Budget by Purpose**

(\$ Millions)

	2021	2022	2023	2024	2025	Total
Infrastructure	\$29.2	\$11.4	\$20.2	\$15.9	\$8.7	\$85.4
Renewal	5.7	5.3	3.1	3.4	18.6	36.0
Revenue	20.7	12.8	4.7	0.8	0.0	39.1
<b>Grand Total</b>	<b>\$55.6</b>	<b>\$29.5</b>	<b>\$28.0</b>	<b>\$20.1</b>	<b>\$27.3</b>	<b>\$160.5</b>

May not foot due to rounding.

**Table V-3.... Five-Year Planned Program Budget by Accounting Treatment**

(\$ Millions)

	2021	2022	2023	2024	2025	Total
Capitalized	\$44.6	\$19.5	\$16.5	\$11.2	\$23.1	\$114.8
Operating Expense	6.4	8.5	10.0	7.7	4.0	36.5
Non-Operating Expense	4.6	1.5	1.6	1.3	0.2	9.3
<b>Grand Total</b>	<b>\$55.6</b>	<b>\$29.5</b>	<b>\$28.0</b>	<b>\$20.1</b>	<b>\$27.3</b>	<b>\$160.5</b>

May not foot due to rounding.

**Table V-4.... Planned Major Capitalized Projects by Line of Business**

(\$ Millions)

	2021	2022	2023	2024	2025	Total
Rail Equip. & Infrastructure	\$0.0	\$1.2	\$1.4	\$1.8	\$17.0	\$21.4
Real Estate	33.4	16.8	14.5	6.3	2.5	73.5
Port-wide Infrastructure	22.1	11.5	12.1	12.1	7.8	65.6
<b>Grand Total</b>	<b>\$55.6</b>	<b>\$29.5</b>	<b>\$28.0</b>	<b>\$20.1</b>	<b>\$27.3</b>	<b>\$160.5</b>

May not foot due to rounding.

**Table V-5.... Depreciation Impact Due To Capital Investments**

(\$ Millions)

	2021	2022	2023	2024	2025	Total
Rail Equip. & Infrastructure	\$ (0.0)	\$ (0.2)	\$ (0.3)	\$ (0.3)	\$ (0.3)	\$ (1.1)
Non Container Business	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	\$ (8.6)
Real Estate	(0.1)	(0.4)	(0.4)	(0.4)	(0.5)	\$ (1.8)
<b>Grand Total</b>	<b>\$ (1.8)</b>	<b>\$ (2.3)</b>	<b>\$ (2.4)</b>	<b>\$ (2.4)</b>	<b>\$ (2.5)</b>	<b>\$ (11.5)</b>

May not foot due to rounding.

### **Capital Budget Project Descriptions**

The following section provides details of major planned improvements within each business and only includes major projects and equipment.

#### **Rail Equipment & Infrastructure**

Planned capital expenditures for container terminals over the next five years will total approximately \$21.4 million. The CIP will provide the funds necessary to channel dredging at Husky Terminal and replace Banana Yard rail switch.

#### **Industrial & Commercial Real Estate**

The Port will invest \$73.5 million in real estate improvements to include land acquisition and cap replacement at Parcel 15. The CIP also includes several site investigations and remediation.

#### **Port-Wide Infrastructure**

This section includes capital expenditures that are not specific to a single business and are in support of the Port's infrastructure or environmental improvements.

- Design and construction of a new administration building
- Environmental Programs: These projects include investigation, reduction and monitoring of emissions, municipal stormwater permit program and ongoing clean-up projects
- Technology: The Port will update and implement technology improvements to increase efficiency and productivity
- Capital and operating expense contingency for emergent issues

#### **Capital Investment Plan Revisions**

The CIP is an integral part of the budget planning process and is reviewed and revised semi-annually. Adjustments in amount and timing are made as required to meet changes in customer or infrastructure requirements.

The Port maintains sufficient cash reserves to meet the CIP requirements, as well as any unexpected capital requirements, without adversely affecting the ongoing operations of the Port.

## VI Tax Levy

### Tax At a Glance

- The levy increases by 694,727 from \$23,157,554 to \$23,852,281. The increase is due to a flat 3% increase in the amount collected, a change from prior years which used a constant levy that fluctuated with changes in property values and increases in first-time taxes on new construction
- Target millage rate of \$0.17302 per \$1,000 assessed value, the same as the Port's targeted millage rate for the last seven years.
- Tax levy for a \$300,000 assessed value home for 2020 will be \$51.91 – less than 2020.
- The total levy will be used for the following:

Interest payments	\$5,785,171
Principal payments & bond retirement	6,578,000
<u>Governmental Projects</u>	<u>11,489,110</u>
Total	\$23,852,281

### Tax Levy Sources

The Pierce County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. The County levies taxes annually (January 1) on property value listed as of the prior May 31. To determine valuation, the County revalues

property every six years. The value of the property placed on the assessment rolls for property tax purposes may not always be the true and fair market value. (RCW 84.04.020 and RCW 84.04.030)

Property owners pay taxes in two equal installments on April 30 and October 31. The Pierce County Treasurer distributes collections to the Port on a monthly basis. By law, the Port can levy up to 45 cents per \$1,000 of assessed valuation for general Port purposes. Tax levy ceiling increases have been limited since 1985 to the lesser of 1 percent or the Implicit Price Deflator plus new construction and improvements.

The Port of Tacoma's preliminary highest lawful regular levy plus refunds amount since 1985 is \$26,278,254.24 well above the proposed levy of \$23,852,281

### Port of Tacoma Levy History

- Figure VI-1 shows the maximum allowed levy versus the actual Port levy from 1997 to the proposed 2021 levy.

Figure VI-1....Actual Port Levy vs. Maximum Port Levy

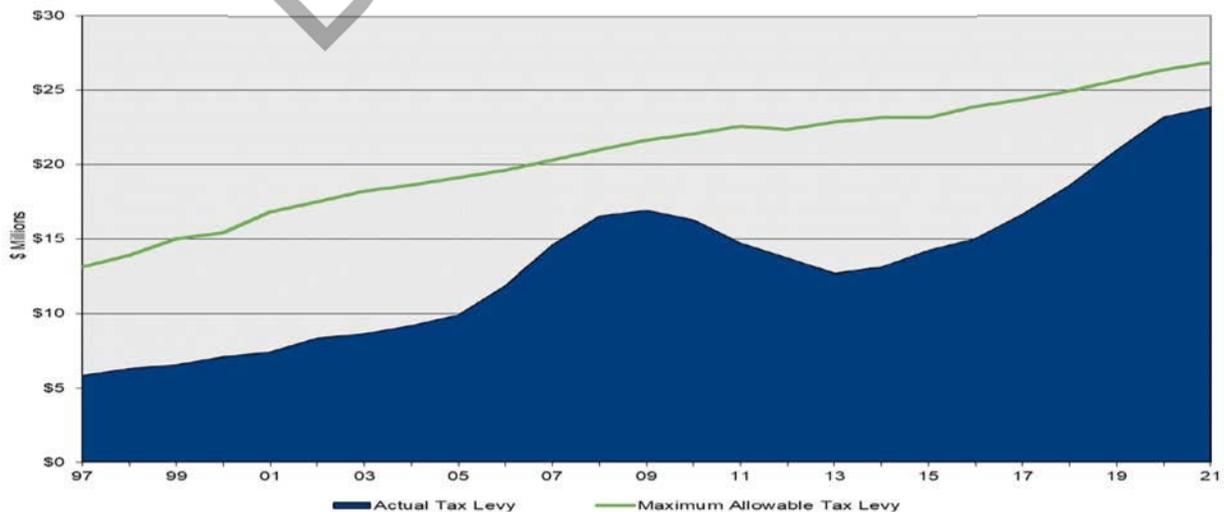
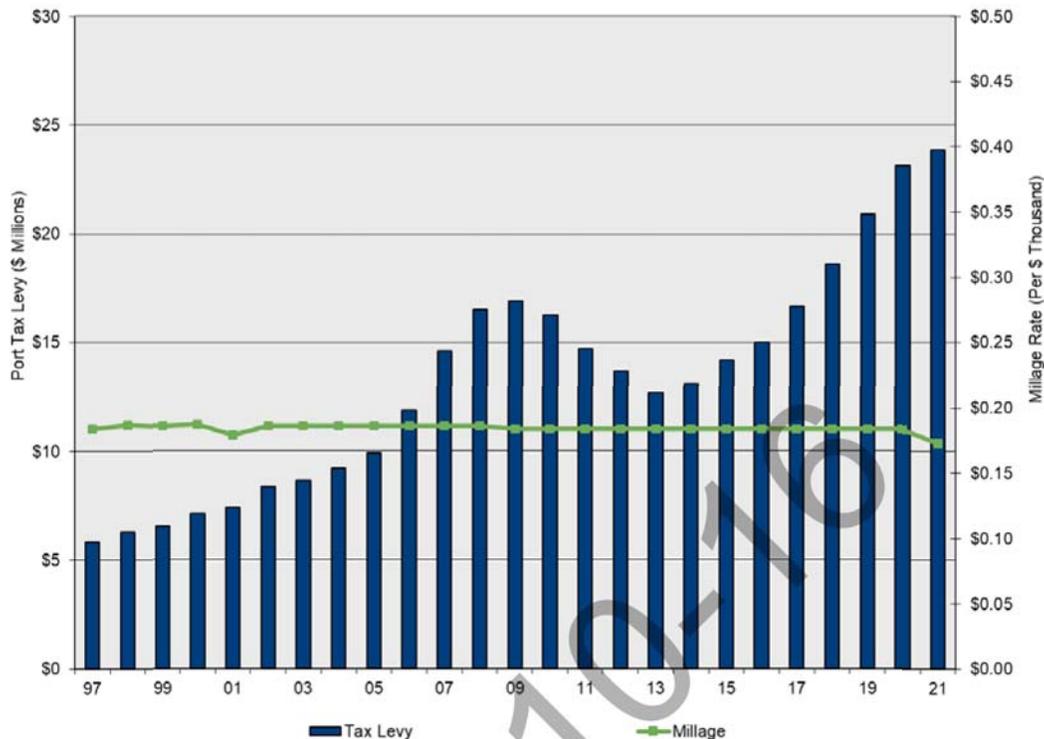


Figure VI-2.... Port Tax Levy vs. Millage Rate



- From 2002 to 2008 the Port has held the target millage rate at or below \$0.1859 per \$1,000 of assessed value. The Port reduced the millage rate in 2009 to \$0.18356 per \$1,000 and has held that rate flat until 2020. The Port altered the process for setting the levy in 2021, resulting in a new millage rate of \$0.17302 per \$1,000 as shown above in Figure VI-2;
- In 1988, the state changed the law so that a port could have a levy at less than the maximum while still preserving the ability to tax up to the maximum in the future (“banking levy capacity”), if the need is justified;
- This law allows a port to tax at a lower level in the years when it doesn’t require the maximum levy, but return to the maximum level in years of need. In an effort to minimize reliance on the levy, the Port has taxed less than the maximum, reducing the taxpayers’ burden by approximately \$186 million over the last 25 years.

**Initiative 747**

Washington voters approved Initiative 747 on November 6, 2001, amending RCW 84.55.005 and 84.55.0101. Initiative 747 impacted local government, including cities, counties and special purpose districts, such as ports, by limiting property tax increases to 1 percent per year unless approved by the voters.

New construction and the “banking capacity” were not affected by this initiative. For the Port, this means that since 2002, the gap between the maximum allowable levy and actual levy collected has decreased.

While the Washington State Supreme Court ruled the initiative unconstitutional in the autumn of 2007 for technical reasons, the Legislature re-imposed the one percent cap during a special session in November 2007.

### Special Tax Levies

Special levies that voters approve are not subject to the above limitations. The Port can levy property taxes for dredging, canal construction, leveling or filling upon approval of the majority of voters within the Port District. This levy is not to exceed \$0.45 per \$1,000 of assessed value of taxable property within the Port District.

### IDD Tax Levies

The Port may also levy property taxes for Industrial Development Districts (IDDs) - under a comprehensive scheme of harbor improvements - for up to 20 years, not to exceed \$0.45 per \$1,000 of assessed value of taxable property within the Port District, with a cap on the aggregate amount to be collected per RCW 53.36. The amount to be

collected by the Port if an IDD was created may vary over the maximum 20-year period.

### Tax Levy Uses

The Port uses the tax levy to pay for debt service, capital improvements and governmental projects. Although the Port strives to maintain its levy rate at a level significantly below its legal limit, this does not preclude the Port from levying taxes at a higher rate in future years. Over the next five years, the Port plans to spend \$157.8 million on governmental projects as shown in Table VI-1.

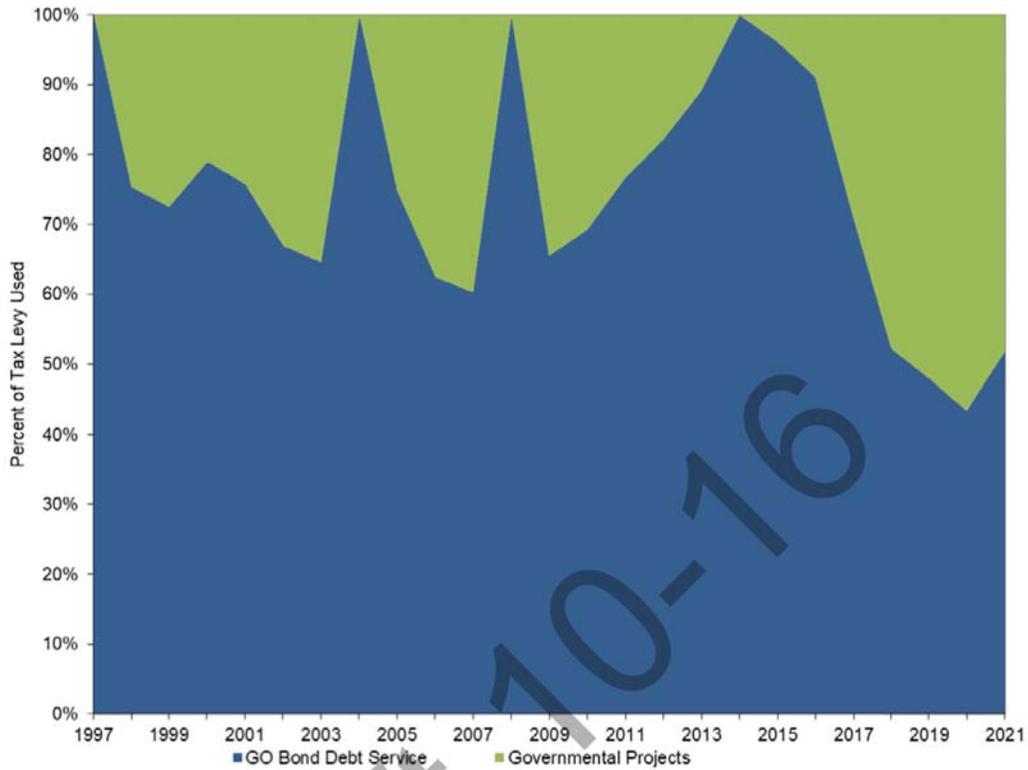
The Port will use the regular levy for the current year's debt service on G.O. bonds (principal and interest) of \$12,363,171. The history of its usage is shown in Figure VI-3. The Port does not use the tax levy for operating expenses.

**Table VI-1.... Governmental Infrastructure Projects**

(\$ Millions)

<u>Initiatives</u>	<u>2021-2025</u>
Land	\$93.3
Environmental	\$30.9
Road	\$4.0
Rail	\$4.4
Technology and other	\$25.2
<b>Total</b>	<b>\$157.8</b>

Figure VI-3....Historical and Projected Use of Port Tax Levy



**Taxpayer Effect**

Figure VI-4 shows the effect of the change in millage over the last 25 years on a \$300,000 assessed value home. In 1994, a homeowner paid \$69.99 compared to the proposed tax for 2020 estimated at \$51.91.

Figure VI-4....Port Tax on a \$300,000 Assessed Value Home

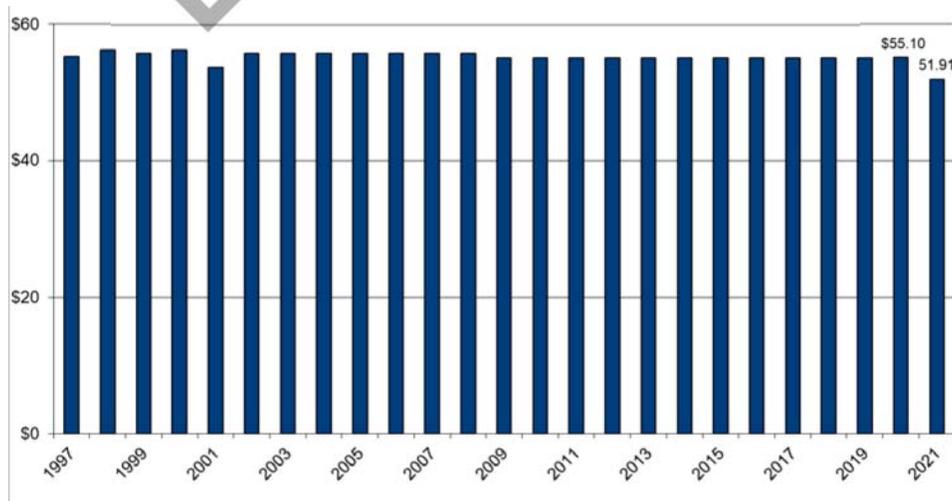


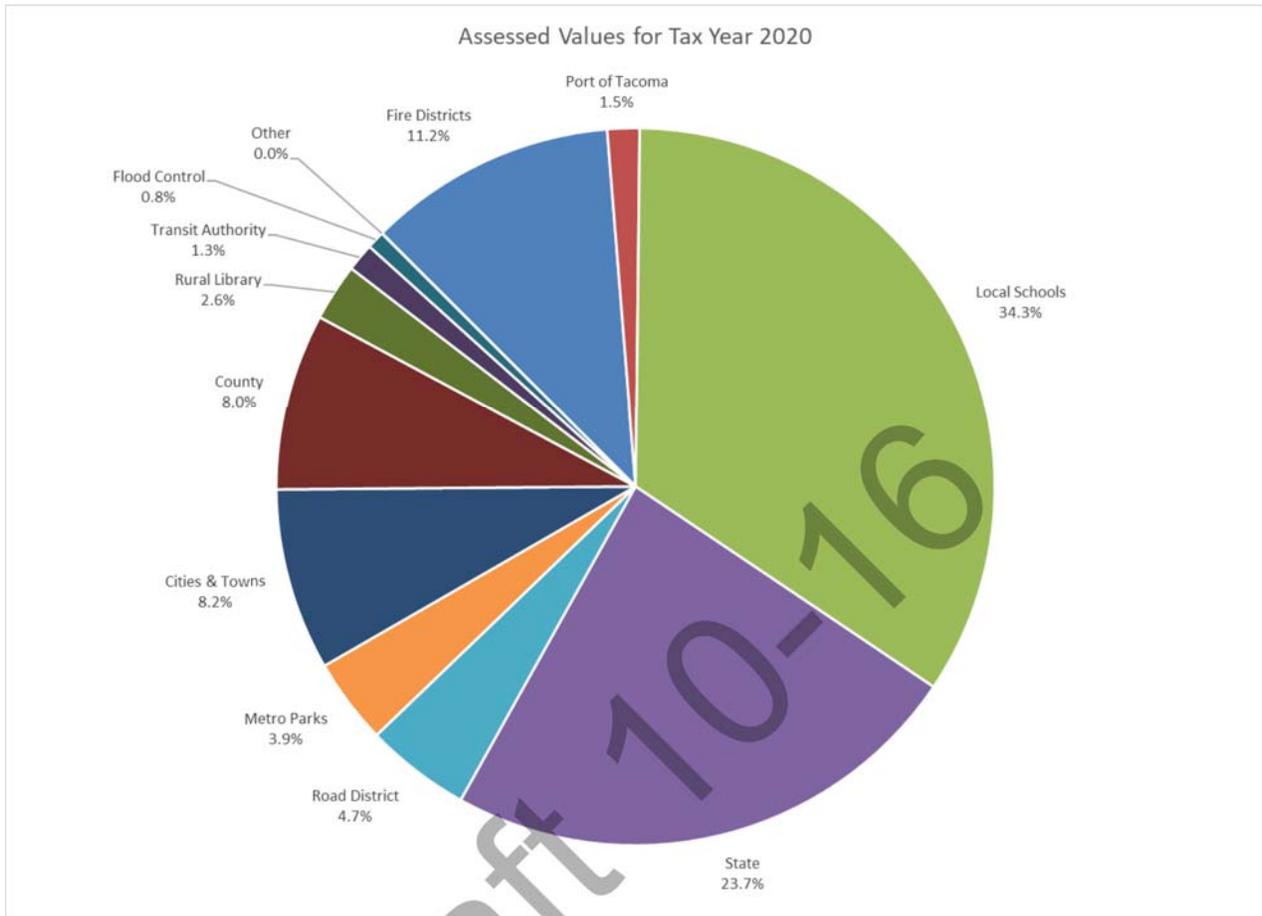
Table VI-2 illustrates the assessed valuation and millage rate from 1997 to 2021. The assessed value has increased from \$31.7 billion in 1997 to \$137.9

billion in 2021, while millage (the rate paid per \$1,000 assessed value) has dropped from \$0.18420 in 1997 to the proposed rate in 2021 of \$0.17302.

**Table VI-2....History of Port Tax Levies for General Port Purposes**

<b>Year</b>	<b>Assessed Valuation</b>	<b>Millage Rate</b>	<b>Actual Tax Levy</b>	<b>G. O. Bond Debt Service</b>	<b>Balance Cap Improvement</b>	<b>Levy on \$300,000 Home</b>
1997	31,696,028,551	0.18420	5,838,408	6,689,255	-	55.26
1998	33,743,693,542	0.18730	6,320,194	4,761,656	1,558,538	56.19
1999	35,243,497,408	0.18590	6,551,766	4,752,256	1,799,510	55.77
2000	37,932,381,976	0.18730	7,104,735	5,608,926	1,495,809	56.19
2001	41,464,254,654	0.17880	7,413,808	5,620,424	1,793,384	53.64
2002	45,019,204,999	0.18590	8,369,070	5,599,749	2,769,321	55.77
2003	46,544,212,196	0.18590	8,652,569	5,591,681	3,060,888	55.77
2004	49,480,808,069	0.18590	9,198,482	9,337,003	-	55.77
2005	53,305,805,336	0.18590	9,909,549	7,416,278	2,493,271	55.77
2006	63,896,092,639	0.18590	11,878,284	7,414,948	4,463,336	55.77
2007	78,663,974,236	0.18590	14,623,633	8,814,166	5,809,467	55.77
2008	88,954,056,815	0.18590	16,536,559	16,536,559	-	55.77
2009	92,203,419,317	0.18365	16,933,218	11,092,164	5,841,054	55.10
2010	88,620,295,184	0.18365	16,275,174	11,278,176	4,996,998	55.10
2011	80,212,403,519	0.18365	14,731,007	11,280,976	3,450,031	55.10
2012	74,702,110,479	0.18365	13,719,043	11,274,976	2,444,067	55.10
2013	68,966,999,872	0.18365	12,665,791	11,280,226	1,385,565	55.10
2014	71,417,153,388	0.18365	13,115,760	13,115,760	-	55.10
2015	77,353,617,531	0.18365	14,205,992	13,669,076	536,916	55.10
2016	81,750,009,927	0.18365	15,013,389	13,665,814	1,347,575	55.10
2017	90,713,390,689	0.18365	16,659,527	11,849,566	4,809,961	55.10
2018	101,406,430,390	0.18365	18,623,291	9,711,419	8,911,872	55.10
2019	114,011,707,624	0.18365	20,938,250	10,046,522	10,891,728	55.10
2020	126,096,129,224	0.18365	23,157,554	10,046,636	13,110,918	55.10
2021	137,859,221,328	0.17302	23,852,281	12,363,171	11,489,110	51.91

**Figure VI-5....2020 Tax Levies by Taxing District**



**Table VI-3....Tax Levy Detail**

**Certified Assessed Value Subject to Regular Levy**

\$137,859,221,328

**Application to G.O. Bond Debt Service**

\$0.08968	Per \$1,000 Assessed Value for G.O. Bond debt payment	\$12,363,171
\$0.08334	Per \$1,000 Assessed Value Available for Governmental Projects & Additional Debt Retirement	\$11,489,110
\$0.17302	Per \$1,000 Assessed Valuation	\$23,852,281

**Tax Levy Detail**

Details of the 2020 tax levy are provided on the following pages in Figure VI-6 and Figure VI-7.

Figure VI-6....2019 Preliminary Pierce County Assessed Values for 2020 Tax Levy



**Pierce County**  
**Mike Lonergan, Assessor-Treasurer**  
 2401 South 35th Street  
 Tacoma, WA 98409-7498  
 (253) 798-6111 FAX (253) 798-3142  
 ATLAS (253) 798-3333  
 www.piercecountywa.org/atr

September 22, 2020

OFFICIAL NOTIFICATION TO: PORT OF TACOMA

RE: 2020 PRELIMINARY ASSESSED VALUES

FOR REGULAR LEVY

Total Taxable Regular Value	137,859,221,328
Highest lawful regular levy amount since 1985	26,278,254.24
Last year's actual levy amount (including refunds)	23,157,554.00
Additional revenue from current year's NC&I	413,202.08
Additional revenue from annexations (RCW 84.55)	0
Additional revenue from administrative refunds (RCW 84.69)	29,973.74
<i>No additional revenue from administrative refunds will be allowed if you are limited by your statutory rate limit.</i>	
Prior Year's Additional revenue from increase in state-assessed property	0.00

FOR EXCESS LEVY

Taxable Value	135,217,802,034
Timber Assessed Value	
Total Taxable Excess Value	135,217,802,034

2020 New Construction and Improvement Value 2,245,273,607

*If you need assistance or have any questions regarding this information, please contact Kim Fleshman  
 253.798.7114 kim.fleshman@piercecountywa.gov*

Figure VI-7....Preliminary Tax Levy Limit: 2019 for 2020



**Pierce County**

**Mike Lonergan, Assessor-Treasurer**

2401 South 35th Street  
 Tacoma, WA 98409-7498  
 (253) 798-6111 FAX (253) 798-3142  
 ATLAS (253) 798-3333  
 www.piercecountywa.org/atr

**PRELIMINARY HIGHEST LAWFUL LEVY LIMIT 2020 FOR 2021**

PORT OF TACOMA

> 10,000

**REGULAR TAX LEVY LIMIT:**

	2019
A. <b>Highest regular tax which could have been lawfully levied beginning with the 1985 levy</b> [refund levy not included] times limit factor (as defined in RCW 84.55.005).	26,278,254.24 1.0060152 26,436,323.19
B. Current year's assessed value of new construction, improvements and wind turbines in original districts before annexation occurred times last year's levy rate (if an error occurred or an error correction was made in the previous year, use the rate that would have been levied had no error occurred).	2,245,273.607 0.184031949462 413,202.08
C. Current year's state assessed property value in original district if annexed less last year's state assessed property value. The remainder to be multiplied by last year's regular levy rate (or the rate that should have been levied).	1,442,056,864 1,442,056,861 3.00 0.184031949462 0.00
<b>D. REGULAR PROPERTY TAX LIMIT (A + B + C)</b>	<b>26,849,525.27</b>

**ADDITIONAL LEVY LIMIT DUE TO ANNEXATIONS:**

E. To find rate to be used in F, take the levy limit as shown in Line D above and divide it by the current assessed value of the district, excluding the annexed area.	26,849,525.27 137,859,221,328 0.194760459371
F. Annexed area's current assessed value including new construction and improvements times rate found in E above.	0.00 0.194760459371 0.00
<b>G. NEW LEVY LIMIT FOR ANNEXATION (D + F)</b>	<b>26,849,525.27</b>

**LEVY FOR REFUNDS:**

H. RCW 84.55.070 provides that the levy limit will not apply to the levy for taxes refunded or to be refunded pursuant to Chapters 84.68 or 84.69 RCW. (D or G + refund if any)	26,849,525.27 29,973.74 26,879,499.01
<b>I. TOTAL ALLOWABLE LEVY AS CONTROLLED BY THE LEVY LIMIT (D,G,or H)</b>	<b>26,879,499.01</b>
J. Amount of levy under statutory rate limitation.	137,859,221,328 0.450000000000 62,036,649.60
<b>K. LESSER OF I OR J</b>	<b>26,879,499.01</b>

## VII Plan of Finance

### Sources of Port Capital Funding

The Plan of Finance (POF) is a tool that is used to determine borrowing needs and identify the impact of project spending on the Port's financial statements. The POF is built using the forecasted five year operating budget and CIP. Since the POF is a scenario tool, the POF may include additional revenue, expense, or capital spending to show the impact of "what if" scenarios on the Port's future financial performance. The POF forecasts the Port's current and future profitability, identifies any future borrowing needs, and calculates numerous standard financial metrics.

The Port uses this tool to determine its ability to fund new opportunities and to adapt to changing market conditions. The Port derives its funds from the following sources:

- NWSA Net Income: One half of the net income from the NWSA is included as revenue to the Port;
- Property Rentals: The Port leases facilities and land primarily for industrial activities and storage;
- Terminal Services: The Port's bulk operations include dockage, cargo handling, storage and related activities;
- Tax Levy: Ad valorem property tax receipts net of existing G.O. Bond payment obligations; and
- Non-Operating Income: Primarily grants and interest on the Port's cash and investments.

While actual revenue growth will depend on international and domestic economic developments

as well as timely implementation of planned capital projects, the Port's blend of revenue sources, including the NWSA and long-term leases, makes future revenue streams reasonably predictable. See Table VII-1 for historical and projected port operating revenue.

The Port projects that annual tax levy receipts will grow from \$23.9 million in 2021 to \$26.8 million in 2025. The Plan of Finance assumes an increase in the Tax Levy dollars collected of 3% per year.

The Port of Tacoma uses the tax levy to pay general obligation bond debt service as well as the costs of infrastructure and environmental projects directly.

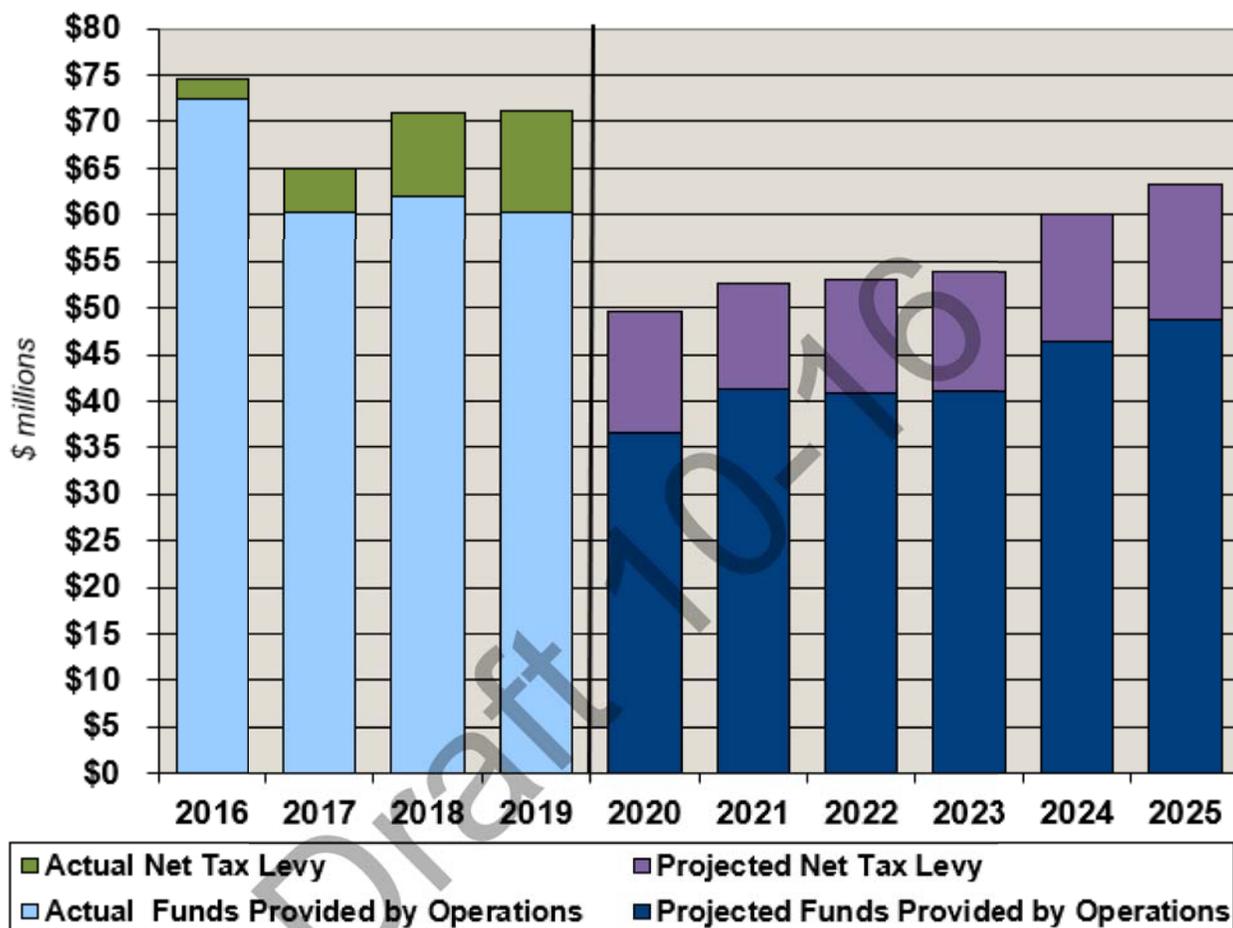
The Port monitors its customers' needs and offers changes in facilities and services tied to extensions in customer lease commitments. The Port attempts to negotiate customer lease terms that minimize the risk of multiple expirations occurring over a short period of time. This helps to secure a steady revenue stream and spreads out periodic rent increases for steady revenue growth.

The 2021-2025 Plan of Finance assumes that the forecasted revenue from the NWSA will be as shown in the NWSA addendum. The NWSA revenue is combined with the forecast for Port managed properties to create the combined income forecast. Additionally, the capital spending included in the Plan of Finance represents the combination of 50 percent of the NWSA CIP along with all the POT planned capital project spending.

Table VII-1.... Historic and Planned Port Operating Revenue

(\$ millions)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenues	\$85.1	\$76.6	\$79.6	\$75.4	\$54.0	\$63.5	\$65.8	\$68.4	\$72.3	\$71.6

Figure VII-1.... Actual and Planned Sources of Funds



### Summary of Debt Guidelines

Historically, the Port has used long-term debt to finance capital asset acquisition and construction, matching the life of the asset to the term of the underlying debt. The practice has been to borrow against an asset for up to 100% of its useful life.

Using only long-term, fixed-rate debt makes the Port's debt portfolio subject to interest rate risk. When interest rates change, the value of a particular debt

position also changes. This is true on both sides of the debt equation, whether the Port is the lender, as in its investment portfolio, or the borrower, as in its debt portfolio.

The Port's historic reliance on fixed-rate debt has achieved budget certainty and relatively low borrowing costs, particularly when refinancing outstanding, fixed-rate bonds. Yet tax law limitations and early redemption restrictions have prevented the Port from taking full advantage of lower borrowing costs.

Selective use of variable-rate borrowing has enabled the Port to meet two objectives: achieve better asset-liability management and lower overall borrowing costs. The Port's debt guidelines include the following elements:

- The legal framework of debt issuance;
- The roles and responsibilities of the Commission, Chief Financial Officer and other Port professionals in carrying out debt issuance;
- The preferred selection process of financial and legal professionals;
- Guidelines for the sale of Port debt;
- Communication guidelines regarding the management of relationships with ratings analysts;
- Compliance guidelines involving the investment of proceeds, arbitrage liability management, continuing disclosure and Bond Users Clearinghouse;
- Guidelines and strategies for the use of payment agreements;
- Guidelines and strategies for the use of variable rate debt;
- Other guidelines regarding refunding, conduit financing, capital program spending, debt database management and debt issuance accounting; and
- Detailed information on specific practices such as refunding, the role of the Bond Sales and Finance Team, arbitrage considerations, reporting and other communication with investors.

Although the Port's debt guidelines are flexible to allow adjustments to changing conditions, they indicate how the Port manages its debt structure, and how it should approach issuing future debt. In addition, the Port retains reserves of invested cash to meet its financial obligations (see Appendix H for Port minimum cash details). See Section X for the complete Port of Tacoma Debt Guidelines.

### Limits on Debt

Several types of debt make up the Port's total outstanding debt. Each type of debt comes with its own limits.

State statute sets General Obligation (G.O.) bond limits; non-voted G.O. bonds are limited to one quarter of one percent of the assessed value of the

Port District; and voted G.O. bonds are limited to three quarters of one percent of the assessed value within the Port District.

Coverage factors limit the dollar amount of revenue debt that the Port sustains. While bond resolutions require a coverage amount of 1.35 for senior revenue debt and 1.0 for subordinate revenue debt, the Port intends to maintain a higher, blended coverage factor to preserve the Port's desired credit rating.

Commission policy is to maintain a two-times debt service coverage on all revenue debt.

### Credit Ratings

In issuing their ratings, credit rating agencies look at a variety of factors, including the Port's ability to generate cash flow beyond the amount needed to cover the debt.

Ratings are issued for different debt classes and may change over time. If ratings go down, the cost of future debt goes up – as does the cost of obtaining bond insurance.

**Table VII-2.... Credit Ratings**

	Senior Revenue	Subordinate Revenue	General Obligation
Moody's Investor Services	Aa3	A1	Aa2
Standard & Poor's Corp.	AA-	A+	AA

### Lien Structure & Debt Service Coverage

The Port evaluates the potential benefit of each available tier of debt to enhance overall financial capacity. There are at least five tiers of debt available:

- G.O. bond tier is the lowest cost debt tier because of the pledge of the Port's tax base;
- General revenue bonds secured by a senior lien on operating revenues has a first priority claim on all operating revenues of the Port and are the lowest-cost revenue debt instruments;
- General revenue bonds secured by junior lien operating revenues carry a claim on all operating revenues after payment of all parity senior lien revenue bonds. There may be one or more tiers

of junior-lien debt, and Tax Exempt Commercial Paper programs are generally financed as junior lien revenue bonds. General revenue bonds secured by subordinate liens on operating revenues are payable from operating revenues only after all other revenue bonds are paid;

- Special revenue bonds secured by a lien on a single source of revenue have a claim only on the revenue source pledged; and
- Liens on specific equipment or assets have a claim only on the asset pledged. If, for example, the Port pledged a crane to secure the loan used to acquire the crane, it would be a specific equipment/asset debt.

The Port has created multiple tiers of debt to place debt at the appropriate lien level. Debt issued in the lower-lien levels requires a lower debt service coverage ratio. The Port forecasts debt coverage for the senior and subordinate lien revenue bonds and total revenue bonds outstanding.

### **Asset-Liability Management**

The concept of managing exposure of assets or liabilities to changing market conditions through manipulation of the opposite sides of the balance sheet is referred to as Asset-Liability Management.

The Port is exposed to fluctuations in interest rates through its investments in short-term assets and short-term debt. When the Port has an equal amount of variable rate debt as it has short-term investments, it can remain indifferent to changes in short-term rates.

The introduction of variable-rate debt to the Port's debt structure using the Tax Exempt Commercial Paper program and variable rate Demand Note issues has provided a partial hedge against changing rates on the asset side of the balance sheet. Changes in interest earnings on the Port's investments due to rising or falling interest rates are offset by a corresponding increase or decrease in the Port's debt cost.

The objective of Asset-Liability Management is to reduce risk and create predictability in the Port's cash position, which facilitates budgeting and capital planning.

### **Quantifying Risk**

The Port uses several measures to quantify the financial risks of its debt portfolio, including the following:

- Debt service coverage ratio goal of 2.0 based on operating revenues (see Table VII-3);
- External rating agency information (see Table VII-2); and
- Unhedged Variable-rate debt to total Debt ratio (see Table VII-4).

The Port's outstanding variable rate debt, excluding Commercial Paper, is hedged by outstanding swap agreements. The Port is using our variable rate commercial paper to affect our Asset-Liability Management philosophy discussed earlier.

### **Financing Strategy**

The Capital Funding Plan is a fusion of the five-year Cash Flow Forecast and the five-year capital budget. It allows the Port to estimate and plan for the amount and types of debt required to carry out the capital budget. This POF estimates that the net annual operating cash flow will increase from approximately \$40.7 million to \$48.8 million during the five-year period. The Port may use this income directly for capital investment or for the payment of debt service on money borrowed to pay for capital improvements.

Cash flow forecasts use the tax levy assumptions listed in the tax levy section (Section VI). The cash flow forecasts also assume that business operations revenue grows as discussed in the operating budget section (Section IV). As such, the plan provides for adequate debt service coverage during the five-year period.

Customer-driven changes in revenue, expenses and capital expenditures could alter the projected outcomes.

**Table VII-3.... Plan of Finance Cash Flow Forecast**

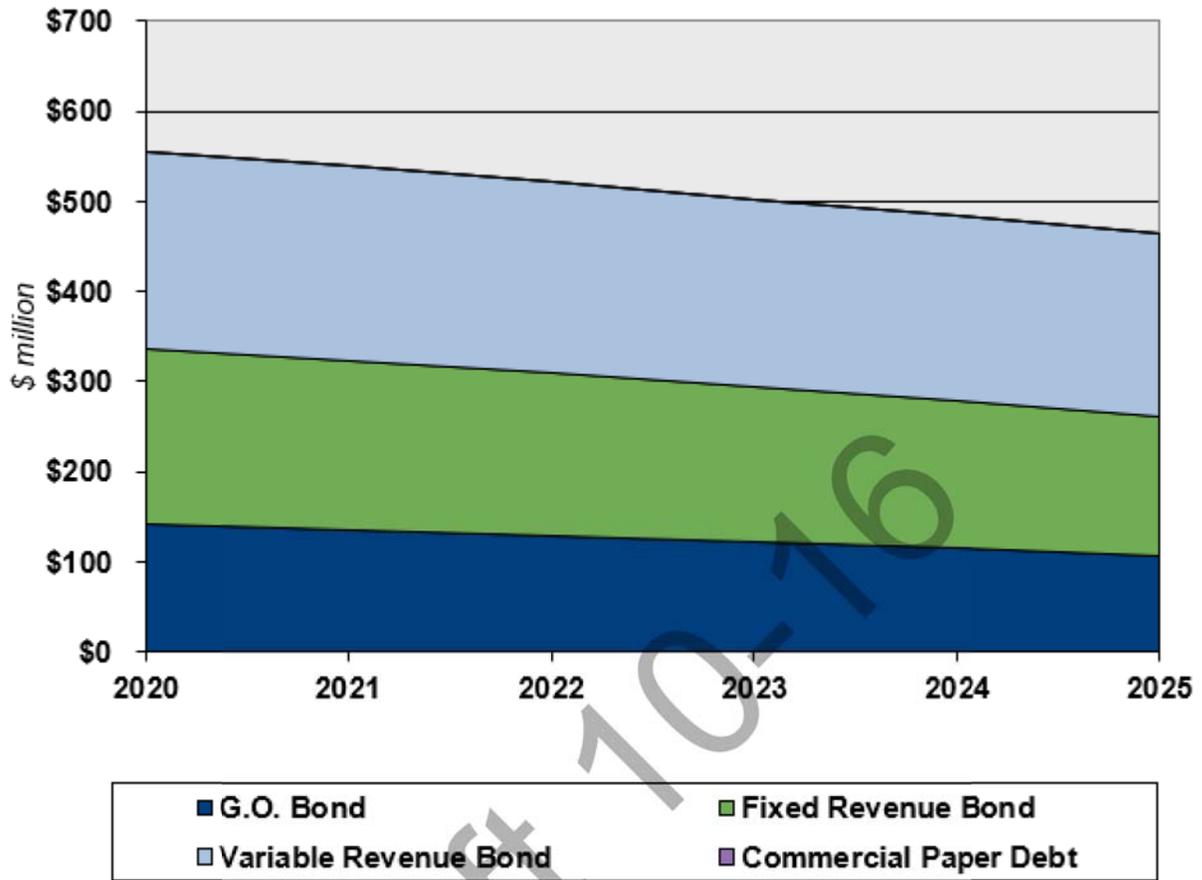
**Cashflow Forecast**

<i>(\$ Million)</i>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Beginning Cash &amp; Investments</b>	\$166.4	\$109.6	\$88.3	\$99.9	\$130.8
<b>Projected Sources of Funds</b>					
<b>Revenues</b>	63.5	65.8	68.4	72.3	71.6
Expenses	(22.3)	(25.0)	(27.4)	(25.9)	(22.8)
<b>Funds Provided by Operations</b>	41.2	40.8	41.0	46.4	48.8
Interest Income	10.4	8.8	9.3	9.6	10.7
NWSA Depreciation Cash Add back	10.0	11.6	11.9	14.9	15.7
Other, Net	(5.2)	(0.3)	(2.3)	(1.3)	(1.5)
Other Contributions	5.5	0.0	0.0	0.0	0.0
Ad valorem tax revenue (net)	23.8	24.5	25.3	26.0	26.8
<b>Projected Sources of Funds</b>	85.7	85.5	85.1	95.5	100.4
<b>Projected Uses of Funds</b>					
Investment in Northwest Seaport Alliance	54.8	45.7	15.3	11.8	36.5
Debt Payments (Principal and Interest) - GO Bonds	12.4	12.4	12.4	12.4	12.4
Debt Payments (Principal and Interest) - Revenue Bonds	27.5	29.4	29.5	29.4	29.3
Debt Payments (Principal and Interest) - Commercial Paper	0.0	0.0	0.0	0.0	0.0
Capital Spending - Planned Projects	47.8	19.3	16.4	11.2	40.1
<b>Projected Uses of Funds</b>	142.4	106.8	73.5	64.6	118.3
<b>Projected Borrowing</b>					
<b>Total Borrowing</b>	0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Projected Ending Cash &amp; Investments</b>					
<b>Minimum Cash</b>	\$73.5	\$75.0	\$76.2	\$75.5	\$73.9
Sr. Lien Rev. Bond Debt Service Coverage	4.53	3.99	4.09	4.67	4.98
Fully Diluted Revenue Bond Debt Service	2.36	2.23	2.29	2.62	2.81

**Table VII-4....Debt Outstanding at Year End**

<i>(\$ Million)</i>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
<b>Debt Outstanding at year end</b>						
Un-voted <u>G.O. Bond</u> , Fixed Rate	\$142.1	\$135.6	\$128.8	\$121.8	\$114.7	\$107.2
<u>Senior Revenue Bond</u> , Fixed Rate	193.6	188.0	180.1	171.9	163.3	154.3
<u>Subordinate Rev Bond</u> , Variable Rate	219.4	216.2	212.9	209.4	205.8	202.1
Commercial Paper, Variable Rate	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Debt Outstanding</b>	\$555.2	\$539.8	\$521.8	\$503.1	\$483.8	\$463.7
<i>Unhedged Variable Revenue Bond &amp; Unhedged Variable CP % of Total Debt Outstanding</i>	1%	2%	3%	3%	5%	6%

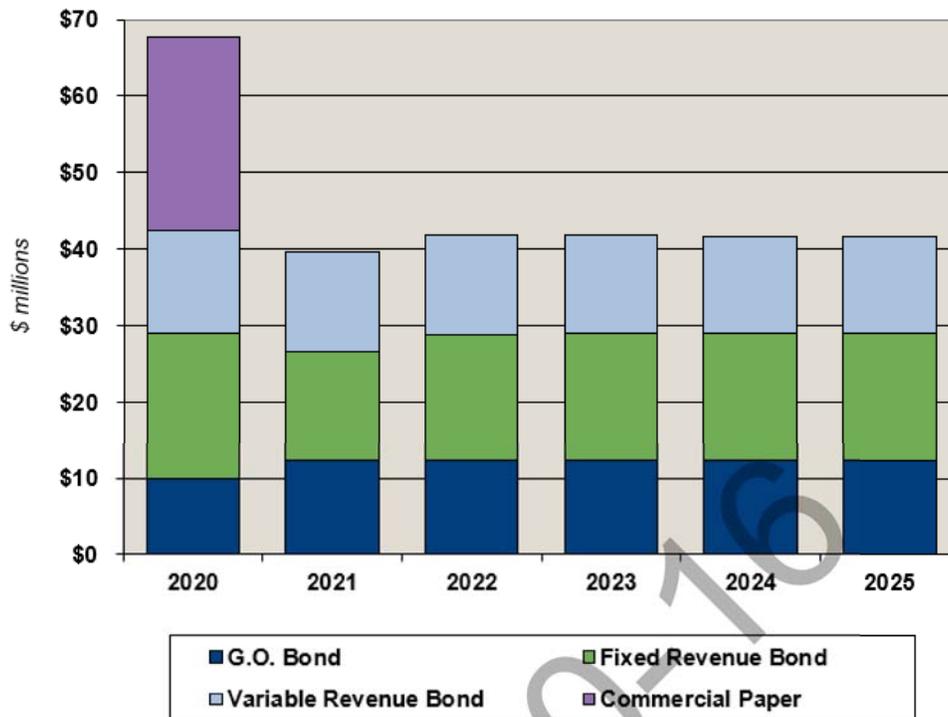
Figure VII-2.... Projected Debt Outstanding at Year End



With the goal of increasing financial capacity, the Port has subordinated short-term variable-rate debt (Tax Exempt Commercial Paper or TECP) to require one-times debt service coverage. In comparison, the Port's senior revenue debt requires 1.35 times debt service coverage.

As the Port repays the short-term, variable-rate debt by issuing long-term debt, the refunding debt may be either G.O. or Senior or Subordinate Revenue bond debt. The use of subordinate-lien structures for certain types of projects will keep senior lien debt capacity in reserve.

Figure VII-3.... Projected Annual Debt Service



The goals of the Plan of Finance are to achieve a high degree of flexibility and expanded debt capacity.

Table VII-5 below shows projected financial capacity at two times debt service coverage for revenue bonds:

Table VII-5.... Summary of Financial Capacity

Summary of Financial Capacity (\$ Million)	2021	2022	2023	2024	2025	5-Year Change
Unvoted G.O. Bond Capacity	\$209.1	\$221.9	\$234.9	\$251.9	\$269.4	
Revenue Bond Capacity	67.4	63.3	72.5	153.6	198.8	
Less: TECP Program Debt Outstanding	0.0	0.0	0.0	0.0	0.0	
<b>Total Non-voted Debt Capacity</b> <i>(Capacity cannot be less than zero)</i>	<b>\$276.5</b>	<b>\$285.1</b>	<b>\$307.4</b>	<b>\$405.6</b>	<b>\$468.2</b>	<b>\$191.8</b>
Remaining G.O. Bond Capacity - <u>Voted</u>	689.3	701.3	713.5	733.2	753.4	
<b>Total Voted Debt Capacity</b>	<b>\$965.8</b>	<b>\$986.4</b>	<b>\$1,020.9</b>	<b>\$1,138.7</b>	<b>\$1,221.6</b>	<b>\$255.9</b>

### Financing Principles

Implementation of the Port's Plan of Finance requires the following steps:

- Continue using TECP as interim financing for capital budget expenses;
- Use TECP and long-term variable rate bonds in conjunction with fixed rate bonds to achieve lowest overall cost of capital;
- Issue long-term debt at lowest interest rates;
- Apply Asset-Liability Management using variable rate long-term debt; and comply with the Port's Debt Guideline.

## External Financing

The Port of Tacoma’s capital program anticipates no long-term external funding requirements over the next

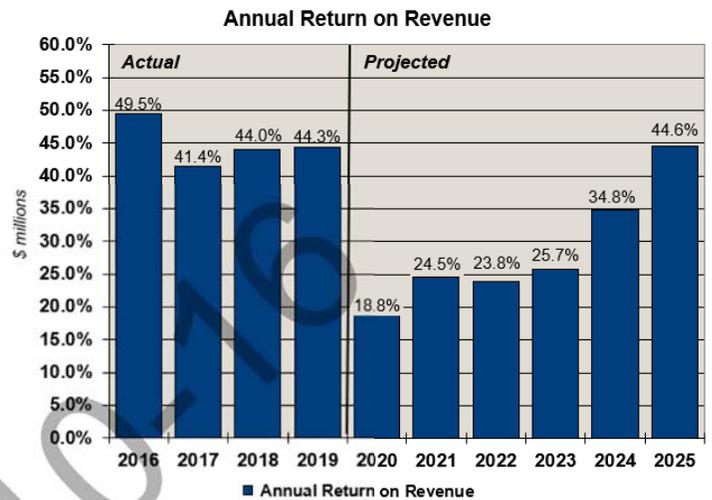
five years. External financing may vary depending upon the timing of customer needs.

## Financial Performance Measures

**Figure VII-4.... Operating Margin (Return on Revenue)**

Measured as a percentage, Return on Revenue is defined as operating income divided by total operating revenues. Operating income is the excess of revenues over operating expenses (operations, maintenance, administration, environmental, and depreciation).

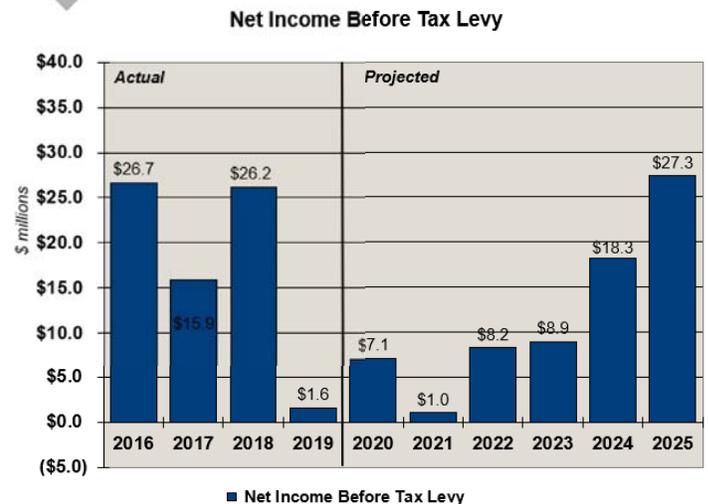
- Understanding Data:* Operating margin measures management’s ability to maintain profitability. It also indicates profit generated by operation and administration of normal ongoing Port business activity. Profits enable the Port to reinvest in new capital projects.



**Figure VII-5....Net Income Before Tax Levy (NIBTL)**

NIBTL is operating income plus or minus non-operating revenues and expenses (excluding the tax levy and general obligation bond interest expense).

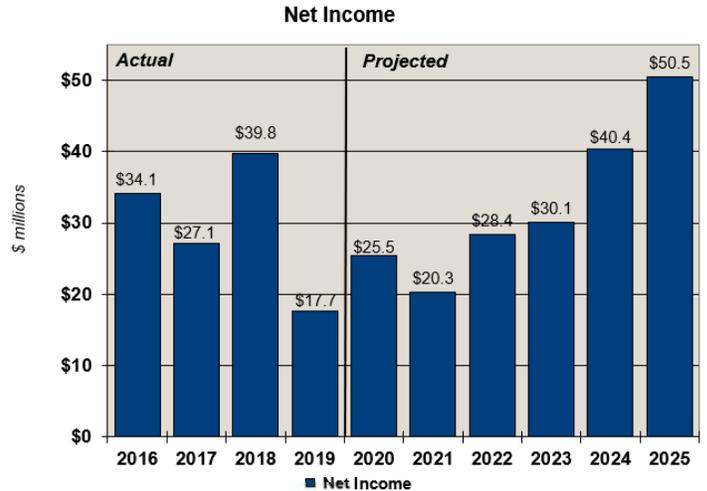
- Understanding Data:* NIBTL is a measure of the Port’s ability to generate revenue sufficient to pay for all operating and net non-operating expenses, leaving the residual tax levy (levy amount in excess of annual debt service) to pay for infrastructure and environmental projects. In years where NIBTL is not positive, the residual tax levy does not pay for operating expenses.



**Figure VII-6....Net Income**

Net Income is total operating revenue less total operating expense, plus non-operating revenue & expenses plus net Ad Valorem tax revenue, plus capital contributions.

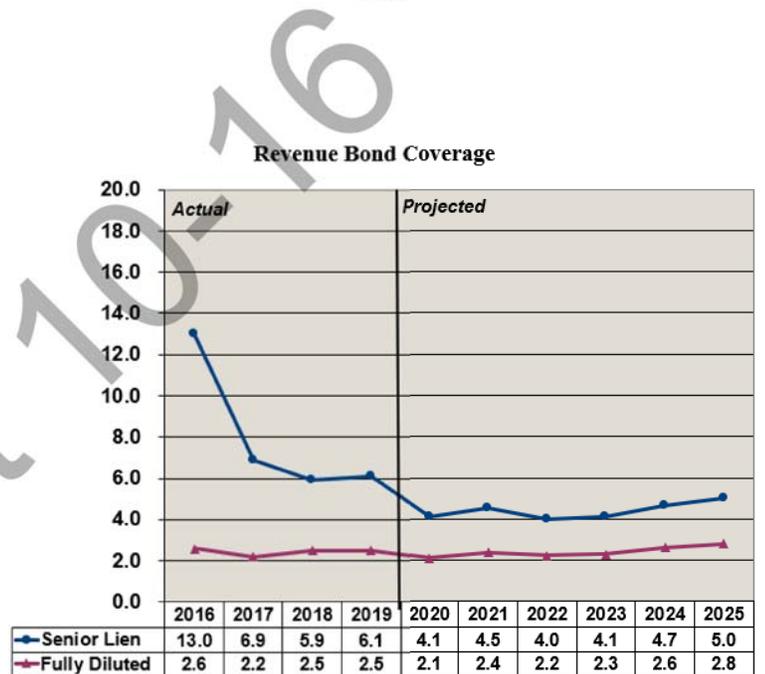
- *Understanding Data:* Net Income measures the ability of the Port to pay for its operations.



**Figure VII-7... Revenue Bond Coverage**

Debt service is the revenue bond principal and interest due each year. Debt Service Coverage is the number of times that revenue bond debt service could be paid with net revenues available for debt service. Net revenues available for debt service are gross operating revenues less operating, maintenance, administration, and overhead expenses (excluding depreciation). Port bond covenants require coverage of 1.35 times revenue bond debt service for senior debt and 1.0 times for subordinate revenue debt. The Port's target is 2.0 times for the fully diluted debt service coverage ratio.

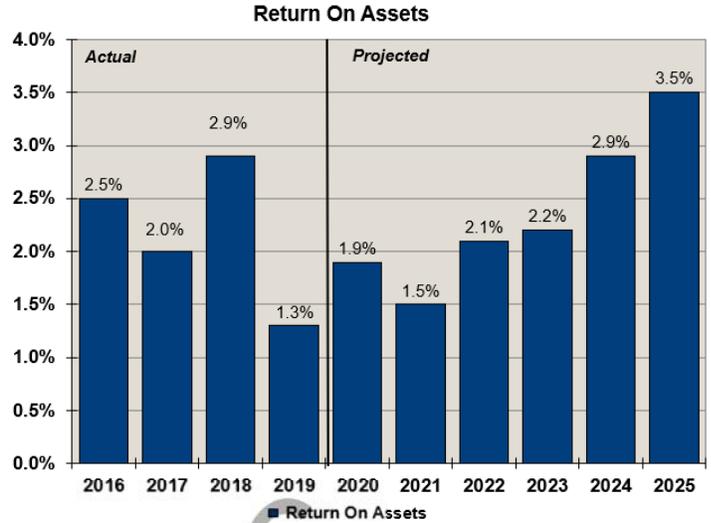
- *Understanding Data:* This metric measures the ability to repay debt. The higher the ratio, the less the risk, which may result in a lower interest rate when the bonds are issued. The Port's goal is to meet or exceed a fully diluted revenue debt coverage ratio of 2.0 times.



**Figure VII-8.... Return on Assets**

To calculate ROA, divide net income by total assets. The higher the number the better.

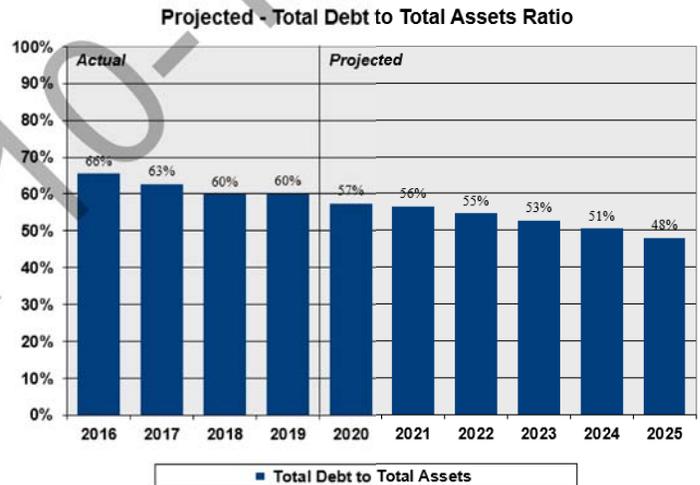
- *Understanding Data:* Return on assets measures how much the Port earns on each dollar it has invested into its assets. This measures the productivity of the Port's assets.



**Figure VII-9.... Debt-to-Asset Ratio**

To calculate Debt to Asset Ratio, divide debt by total assets. The lower the number the less assets funded by debt.

- *Understanding Data:* The higher the ratio, the greater risk will be associated with the Port's operation. In addition, a high debt to assets ratio may indicate low borrowing capacity, which in turn will lower the Port's financial flexibility.



## VIII Environmental Stewardship

The Port of Tacoma understands that clean water, clean air, healthy habitats, and a thriving Puget Sound are key elements that make our region a special place to live, work, and play. In collaboration with tribal, government, and industry partners, as well as our near-port communities and nonprofit organizations, we strive to integrate an ethic of environmental stewardship and sustainability into all that we do.

Increasingly, the Port’s environmental programs are integrated within all aspects of the organization, including business development, facility construction, real estate transactions, terminal operations, maintenance, customer service and external outreach. Advancing environmental stewardship has become a key part of the Port’s development and redevelopment activities, as well as the ongoing operations of the Port and its customers.

The Port has a long history of environmental stewardship, even before the term came into common use. It has combined redevelopment plans with habitat development and Superfund site cleanup, creating a competitive advantage for Tacoma business by providing Port access for larger vessels and by increasing container storage space in the Port areas. This creates jobs while protecting air and water quality and cleaning up the environment. Over the past 30 years, the Port of Tacoma has remediated approximately 450 acres of waterway sediments within the Blair, Sitcum, Hylebos and Thea Foss waterways, and cleaned up over 700 acres of upland property, returning the land to productive maritime-related use. The Port has created approximately 152 acres of high-quality intertidal and wetland habitat including associated buffers as habitat mitigation for the Port’s development impacts. This includes the recently constructed 40 acres of prime salmon habitat on Clear Creek in unincorporated Pierce County. The Port has preserved another 70 acres of high value open space, much of which provides a buffer between Port-related industrial activities and neighboring non-industrial uses. The Port has invested over \$300 million cleaning up Commencement Bay and providing high functioning habitat sites. The Port’s environmental objectives for the coming years are closely aligned with the Port’s plan for advancement

of environmental stewardship, by identifying and addressing the following environmental issues:

- Implement cleanup actions on priority contaminated properties to support Environmental Stewardship and the Port’s business opportunities
- Implement a long-term habitat mitigation plan
- Identify and develop additional maritime industrial stormwater treatment best practices
- Develop a maritime Environmental Stewardship Sustainability Program
- Continue to update and implement the Northwest Ports Clean Air Strategy
- Transition to the new generation of cost effective, low carbon or renewable energy systems

### Cleanup Actions

In 2012, the Port set a goal to cleanup 200 acres in 10 years by 2022. The Port met this goal in 2017 and is now working on enhancing this achievement.

The Port continues to make progress on multiple agreed order sites, working towards remedy selection.

Summary of 2020 Remediation Action Progress on Port Lead Projects	
Parcel 1B – Earley Business Center (EBC)	Due to a change in Ecology’s expectations, the Port and Ecology have been discussing the need for conducting additional investigation work and possibly changing the Site’s cleanup action plan. The Port has stopped its remedial design and permitting efforts needed to implement the cleanup action plan. Efforts are underway to resolve outstanding disagreements with Ecology to allow remedial design to resume in 2021.
Parcel 2 – Alexander Avenue Tank Farm	The draft Feasibility Study submitted to Ecology in 2019 was revised and resubmitted in June 2020. Ecology provided additional comments in September. Approval of the Final Feasibility Study is anticipated before the end of the year. A draft Cleanup Action Plan will be prepared in 2021.
Parcel 15 – Former Portac	The Port prepared and submitted a Draft Cleanup Action Plan to Ecology in June 2020. Ecology approved the plan in July. Before the end of the year it is anticipated that the Port will enter into

	an Agreed Order with Ecology to implement the cleanup action, beginning design in 2021.
Parcel 91 – Former Sound Mattress	Following \$3.9M settlement in 2018 with the former property owners, this project was paused due to staffing limitations at Ecology. In Q2 2020 Ecology assigned a project manager, and AO negotiations between Ecology, Wyeth and the Port were started. An AO to complete a draft cleanup action plan will be brought to Commission for authorization in Q4 2020 or Q1 2021.
Parcel 99 – Former Arkema Manufacturing	The Feasibility Study was started 2020. A memorandum detailing proposed cleanup alternatives for the site was submitted to Ecology and the EPA July 2020. Comments were received in September. These comments will be incorporated into the Draft Feasibility Study which will be drafted and submitted to Ecology in Q1 2021
Parcel 103 – Former City Steam Plant	In Q3 2020 staff completed a 2-year cost recovery negotiation with Tacoma Power. The Port will receive \$661K for past expenses, and Tacoma Power will pay for 84% of the cleanup going forward. The Port and TPU will begin planning for property cleanup in 2021.

In 2021, the Port will continue working toward characterizing and remedy selection at 8 properties and conducting long-term monitoring at 14 properties where legacy containment remedies were implemented. Also in 2021, remedial design/remedial actions are planned at three Port properties.

### Habitat Mitigation

The Port of Tacoma has constructed, participated in, or preserved approximately 213 acres of habitat and associated buffers over the past 30 years to mitigate for habitat lost to terminal and other business development. This includes approximately 68 acres of intertidal habitat ideal for salmon. These mudflats and shallow subtidal areas provide a substrate for the marine invertebrates that juvenile salmon consume and afford a safe place for young salmon to hide from larger predators. During high tide, juvenile Pink, Chum, Coho, and Chinook salmon find food and shelter among marsh vegetation. At low tide, areas of exposed mudflats teem with tiny critters, supplying a food source for visiting shorebirds, ducks and fish, including juvenile salmon. Additionally, the Port created approximately 57 acres of riverine and associated riparian habitat that is home to a diverse array of native plants, more than 100 types of birds and a variety of mammals, fish, reptiles and

amphibians. All three Endangered Species Act (ESA)-listed salmonid species have been documented using Port-created habitat sites. Furthermore, the Port has purchased and preserved another approximately 70 acres of mature forested hillside along Marine View Drive to both protect the natural areas and buffer adjacent residents from industrial activities.

Port staff worked closely with the Port Commission to develop a Port-wide Habitat Mitigation Strategy, originally adopted October 18, 2012, and updated it in March of 2014. The habitat strategy focuses on providing high value habitat in support of future Port industrial growth that focuses on salmon recovery efforts, being cost-effective and preserving working waterfront activities. The strategy also provides tools to help decision makers better understand how to maximize ecological and economic value by identifying the best locations and timing for future mitigation sites.

Stemming from the habitat strategy, the Port will focus on three large mitigation areas for concurrent, advance and mitigation banking opportunities:

**Upper Clear Creek:** The Upper Clear Creek Mitigation Site began construction in 2014 and is complete. This 40-acre site located in unincorporated Pierce County provides mitigation for wetland impacts due to required snail eradication efforts as well as mitigation banking for future Port expansion projects. The Port is actively purchasing property for site expansion.

**Lower Wapato Creek:** This project is uniquely located within the City of Tacoma, adjacent to the City of Fife and next to a neighborhood containing several Puyallup Tribe members. Working closely with our external partners, this site will meander a currently channelized Wapato Creek, provide as much as 20 acres of intertidal, marsh and forested wetland habitat to mitigate for impacts due to future development along Port of Tacoma Road near Maxwell and as advance mitigation for future Port projects. This site is in design. The Port plans to begin construction Q3 2021.

**Saltchuk:** The Port continues to plan for the Saltchuk Aquatic Habitat site. The Port is working with the US Army Corps of Engineers to use material from the potential Tacoma Harbor Deepening Project to build approximately 60 acres of prime nearshore habitat.

An additional potential Port-sponsored project would focus on the approximately 12 acres of intertidal zone and shoreline areas. Improvements could include adding large rock mixed with large woody pieces along the site's waterside edge and filling behind those rocks and wood to cover wood waste, creating more intertidal and salt marsh area. Further, the upland shoreline area could be heavily planted to protect the slope and improve the buffer between Marine View Drive and the bay. This site could be used to mitigate for impacts associated with marine development.

**Mitigation Banking:** In 2014, the Port started the process of establishing the first umbrella (meaning multi-site) mitigation bank in the state of Washington.

Credit from mitigation projects built in advance of need will be credited in the bank for use on future Port expansion. The first phase of the bank was officially certified June 2020 and the first available credits will arrive from the Upper Clear Creek mitigation project in Q4 2020. The process of establishing a bank has proven to be difficult and time consuming. However, it is clear considerable demand exists for these credits. The Port is continually approached by both public and private parties inquiring about purchasing credits. Environmental staff are working with the Executive Director and Commission to develop policies surrounding the use of banked credits and expect to have those in place by Q1 2021.

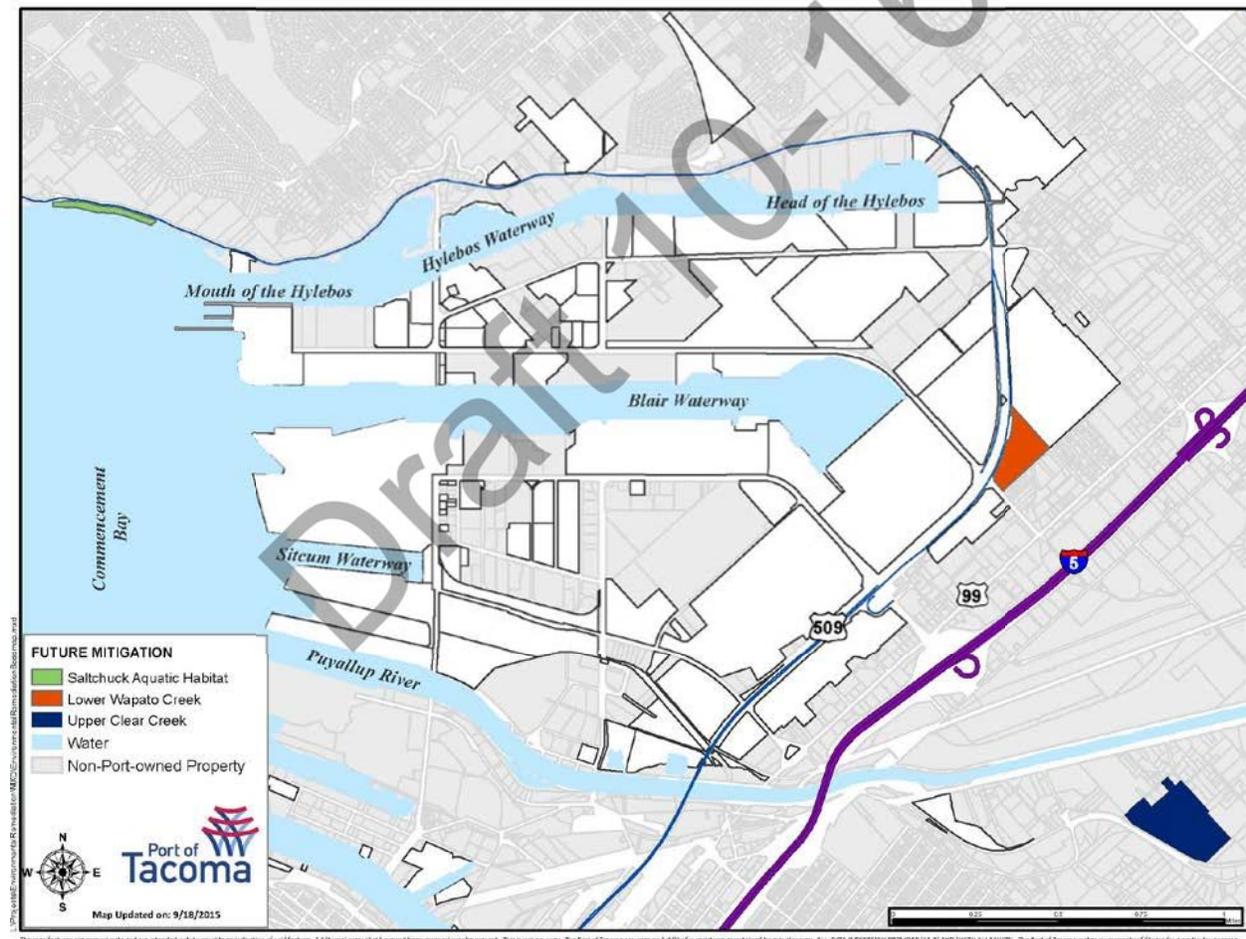


Figure VIII-1.... Future Mitigation Opportunities

- Water Quality Program Foundational Work
- Maintain permit compliance at Port-operated properties
- Continue researching emerging stormwater treatment technologies

## **MS4 Stormwater Permit Best Management Practices (BMPs)**

The Port of Tacoma's Municipal Separate Storm Sewer System Permit (MS4) focuses on best management practices (BMPs) and Operations and Maintenance standards. The Water Quality (WQ) Team supports our customers in meeting their environmental obligations through technical support, research, and training. This permit affects every tenant and operation on Port-owned property.

The Port of Tacoma updated its Stormwater Management Manual to provide guidance to current and future tenants and customers with facilities and operations at the Port and licensed NWSA properties. The goal is to assist tenants so that their facilities are compliant under the Port of Tacoma's MS4 permit. The WQ Team also provides technical assistance and recommends BMPs, treatment selection guidance, and compliance tools, when requested by tenants to help them meet their compliance obligations.

Since there are so many sites to manage, the WQ Team invested in an electronic inspection program. It was fully functional in 2019. In 2020, the WQ team embarked on a process improvement process with the Maintenance team to clarify roles, manage all the obligations and better document the good work Maintenance is doing. As we explored the work and how it is done, staff will evaluate in 2021 if it makes sense to consolidate the inspection tool with other project scheduling tools so that all information about stormwater compliance is in one database for ease of retrieval and reporting.

In 2020, the WQ Team performed a deep dive into the surface water rates the City of Tacoma charges to Port properties. We found some discrepancies and are working through those with the City of Tacoma. We expect that work to be complete by the end of 2020 so we can start 2021 with the correct rate on all Port properties.

This year, the WQ Team negotiated a 4½ year Interlocal Agreement (ILA) with the City for permit coordination and cooperation. This new ILA describes a Port specific Covenant and Easement (C&E) for Inspection and Maintenance on those properties that have stormwater discharges into City infrastructure. This C&E tightly describes the area and activities the City can access the property as well as laying out

tenant and port notification for entry as compared to the generic City C&E which allows greater access with no notice to the tenant of the impending inspection. The ILA retains the courtesy stormwater system review for those sites which do not drain to City infrastructure which substantially decreases permitting timelines. In 2021, we will continue implementing this ILA with joint City and Port inspections.

## **Mapping and GIS Updates**

During 2020, Water Quality staff completed uploading stormwater infrastructure construction plans to the GIS database. All of the pipes currently in the ground are now classified as to the type of construction material, age of installation, and direction of flow. This will be very useful in 2021 as the Port develops new projects.

## **Researching a durable funding source**

One of the challenges we face with some of our aging stormwater infrastructure is funding. While we enjoy a lower fee for those properties that discharge directly to the waterways via Port infrastructure, the Port and its tenants pay approximately \$2.5M in fees to the City of Tacoma. In order to fund our infrastructure needs independently of a commercial lease, the WQ Team is researching options to keep Port of Tacoma surface water fees in the Tidelands focused solely on Port infrastructure.

## **Researching the Next Best Treatment Solution**

Stormwater permits are designed to drive industrial operations to install treatment. The goal for the WQ Team is to continue to locate and source those treatment solutions that remove pollutants and are cost effective. In the past, the Port has piloted membrane filtration solutions and mixed blends of various media that adsorb pollutants. Scientists are currently looking at ceramic/clay materials as a filtration solution. We look forward to trying these out in 2021 as well as any other promising solutions.

## **Port of Tacoma Endowed Chair**

In June 2005, the Port of Tacoma invested \$1M to establish an endowed research chair at the University of Washington Tacoma. The Port of Tacoma Endowed Chair leads research on environmental

science initiatives critical to urban waterfront communities. Research areas are expected to include bioremediation, aquaculture and invasive species control.

### **Commencement Bay Maritime Fest**

At Tacoma's annual Commencement Bay Maritime Fest, the Port provides free boat tours of the Port. Unfortunately, in 2020, these tours were postponed due to the Covid-19 pandemic. However, Port staff is hoping those tours will start up again in 2021. Visitors tour the Sitcum and Blair Waterways, and view cargo ships and terminal equipment from a unique vantage point – the water. The festival is a project of the Youth Marine Foundation, a local non-profit sponsoring the Puget Sound chapter of Sea Scouts, which offers educational marine programs to Washington's teen youth and the public.

### **Air Quality & Sustainable Practices Program**

The Air Quality & Sustainable Practices Program jointly serves the Port of Tacoma and The Northwest Seaport Alliance (NWSA) and focuses on two goals: 1) reducing – and, ultimately, phasing out – air and climate pollution from seaport related activities; and 2) promoting environmentally sustainable corporate practices. The program collaborates with a wide range of internal and external partners to develop, find funding for, and implement a suite of initiatives, including the Northwest Ports Clean Air Strategy (NWPCAS), the Clean Truck Program, and the Shore Power Program. In addition, the Port of Tacoma works to continuously improve the environmental sustainability of its buildings, facilities, vehicles, equipment, and operations. In 2020, the team focused the majority of their efforts on updating the current NWPCAS. This included significant community engagement, stakeholder input and project planning.

Key 2021 goals for the Air Quality & Sustainable Practices Program include the following:

- Finalize, adopt, and begin execution on both the NWPCAS and a customized implementation plans for the Port of Tacoma;

- In collaboration with the NWSA, Tacoma Public Utilities, and others, launch the South Harbor Electrification Road Map (SHERM) to assess the infrastructure needs associated with transitioning to zero-emission vehicles, equipment, and operations;
- Support implementation of a project at the South Intermodal (SIM) Yard to replace six diesel-powered yard tractors with zero-emission, all-electric tractors;
- Support implementation of cost- and energy-saving exterior lighting upgrades at three properties – North Intermodal (NIM) Yard, Hyundai Intermodal Yard, and East Blair One Terminal – and identify additional opportunities for increasing the energy efficiency and environmental sustainability of the Port's buildings, facilities, vehicles, equipment, and operations;
- Establish a joint Port of Tacoma/NWSA Clean Air & Climate Action Team (C-CAT) to guide implementation of the NWPCAS and the Port's associated implementation plan;
- Strengthen the cross-departmental "Green Team" to drive continuous improvement of the Port's Sustainable Practices Program, with a focus in 2021 on fleet management;
- Continue to participate in Tacoma Power's Evergreen Options, which supports the development of new wind generation projects in Washington and Oregon. Combined with hydropower, this makes 100% of Port-purchased electricity renewable;
- Support finalization and implementation of the Port of Tacoma Strategic Plan, including goals related to promoting sustainable industries on the Tideflats;
- Continue to identify, pursue; and secure grants and other external financial and technical assistance to help advance the Port's clean air, climate, and sustainability goals

## Planning

The Planning Team provides a range of services from strategic to site planning. Some of our primary services include planning for marine terminals and supporting infrastructure, port master planning, optimizing port operations and determining the operational and financial feasibility of new port and marine investments. Port Planning also coordinates baseline studies to facilitate decision making about investments and operations.

### Planning Overview:

- **Facility Planning:** Port Planning has experience with developing port industrial lands, equipment costing, industrial warehouse location and layout analysis
- **Operations, Planning, and Research:** Planning supports Port Operations in optimizing gates and terminals, analyzing traffic flow and circulation, and evaluating new communications and data collection technologies.
- **Project Feasibility Development:** The Planning Team supports the Environmental and Engineering Departments by maintaining a general understanding of all focus areas within the group, especially the environmental specialties. With this overall perspective, we are able to assist with opportunity assessment reviews and strategic port planning.
- **Economic and Financial Analysis:** Services include: cost benefit studies, economic risk analysis, financial analysis, market studies, multi-modal and system optimization of transportation networks, and defining development concepts and economic strategies.
- **Strategic Planning:** Services include: developing business plans, master plans, and financial projections. The Planning Team reviews and provides comment on new and updated local, state, and federal policy and regulatory documents to protect the interests of the Port. These plans can range from State Freight Master Plans to City Comprehensive Plans.

- **Grant Coordination:** Planning helps coordinate grant application efforts to ensure a unified and sensible approach. We look for grants to help offset the cost of facility, technology, and planning work whenever feasible. Our coordination efforts encompass tracking priority projects and possible grants, and also keeping up to date on the progress of projects that benefit from grant dollars. We provide staff support to the Grant Steering Committee.

### 2020 Accomplishment Highlights

- Supported kick-off of the Tideflats Subarea Plan in coordination with the City of Tacoma, City of Fife, Puyallup Tribe of Indians, and Pierce County.
- Lead staff support for the Port of Tacoma Strategic Plan update.
- Updated bathymetric survey data for our navigational channels.
- Updated the Port's Region 5 All Hazard Mitigation Plan.
- Coordination of the Investment Development Decision Program (IDDP) for the Environmental and Planning Department.
- Provided GIS and technical support for numerous commercial opportunities.
- Engaged in and provided technical advice on significant projects, such as the Puget Sound Gateway and Sound Transit Tacoma Dome Link extension and Sounder south capacity expansion.
- Represented the Port at local and regional transportation and land use policy and regulatory bodies, supporting such efforts as Vision 2050 update at the Puget Sound Regional Council.

### 2021 Planning Goals

Our major goals for 2021 include Completion of the Port of Tacoma Strategic Plan, participation in the Tideflats Subarea Plan process with the City of Tacoma, the City of Fife, the Puyallup Tribe of Indians, and Pierce County, continued coordination

with Sound Transit on the ST3 Tacoma Dome Link Extension (TDLE) project and Sounder expansion, continued port advocacy at Puget Sound Regional Council (PSRC) staff committee meetings, management of Port related grant applications as well as ongoing coordination with Port government

relations, engineering, commercial, NWSA operations and environmental teams, and partner agencies.

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An Osprey flying over Port property

## **IX Summary of Significant Accounting Policies**

### **Reporting Entity**

The Port of Tacoma (the Port) is a municipal corporation of the State of Washington created in 1918 under provisions of the Revised Code of Washington (RCW) 53.04.010 et seq. The Port has geographic boundaries coextensive with Pierce County, Washington, and is situated on Commencement Bay in Puget Sound.

The Port is independent from Pierce County government and is administered by a five-member Board of Commissioners elected by Pierce County voters. The Commission delegates administrative authority to a Chief Executive Officer and administrative staff to conduct operations of the Port. The County levies and collects taxes on behalf of the Port. Pierce County provides no funding to the Port. Additionally, Pierce County does not hold title to any of the Port's assets, nor does it have any right to the Port's surpluses.

The Port reports the following funds: The Enterprise Fund accounts for all activities and operations of the Port except for the activities included with the Post-Employment Health Care Benefits Trust Fund.

### **Nature of Business**

The Port is authorized by Washington law to provide and charge rentals, tariffs and other fees for docks, wharves and similar harbor facilities, including associated storage and traffic handling facilities, for waterborne commerce. The Port may also provide freight and passenger terminals and transfer and storage facilities for other modes of transportation, including air, rail and motor vehicles. The Port may acquire and improve lands for sale or lease for industrial or commercial purposes and may create industrial development districts.

The Post-Employment Health Care Benefits Trust Fund accounts for the assets of the employee benefit plan held by the Port in its trustee capacity.

### **Basis of Accounting and Presentation**

The financial statements of the Port have been prepared in conformity with accounting principles

generally accepted in the United States of America, as applied to government units, and the Port reports all of its activities and operations except for the activities included with the Port's Post-Employment Health Care Benefits Trust Fund in the Enterprise fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port is accounted for on a flow of economic resources measurement focus.

The accounting records of the Port are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09, Revised Code of Washington. The Port also follows the Uniform System of Accounts for Port Districts in the State of Washington.

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements. Significant estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates made by the Port include depreciation and environmental liabilities. Actual results could differ from those estimates.

### **Significant Risks and Uncertainties**

The Port is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include economic conditions, collective bargaining disputes, federal,

state and local government regulations, and changes in law.

The formation of the NWSA is intended to eliminate pricing competition between the home ports by creating a unified gateway to allow for coordination of customer relationships, to improve capacity utilization between the home ports and to rationalize strategic capital investments. The formation of the NWSA may or may not successfully address these risks, and may create new risks, including the risks associated with undertaking a new joint venture with an outside entity, the risk associated with the operating and financial performance of additional facilities, and exposure to the financial strength of the Port of Seattle to make future capital expenditures.

### **Cash**

Cash represent cash and demand deposits. The Port maintains its cash in bank deposit accounts, which are covered by the Public Deposit Protection Commission of the State of Washington.

### **Trade Accounts Receivable**

Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying delinquent accounts and by using historical experience applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

### **Investments**

Investments, unrestricted and restricted, are stated at fair value, based on quoted market prices, plus accrued interest. The Port also has investments in the State Local Government Investment Pool (LGIP). The LGIP is similar to a money market fund recognized by the Securities and Exchange Commission. The LGIP invests in U.S. Agency Securities, Repurchase Agreements, U.S. Treasury Securities, Interest Bearing Bank Deposits, and Certificates of Deposits. The investments are limited to high-quality obligations with limited maximum and average maturities. These investments are valued at amortized cost. Interest income on investments is

recognized in non-operating revenues as earned. Changes in the fair value of investments are recognized on the statements of revenues, expenses and changes in net position. The Port's general policy is to not hold more than 20% of its holdings in any one investment.

### **Restricted Investments – Bond Reserves**

Restricted investments - bond reserves are set aside as restricted assets, for bond reserves and unspent bond proceeds, if any, and are not available for current expenses when constraints placed on their use are legally enforceable due to: 1) externally imposed requirements by creditors; 2) laws or regulations of other governments; and 3) constitutional provisions or enabling legislation.

**Investment in joint venture:** The Port adopted joint-venture accounting beginning January 1, 2016, to account for its 50% share in the NWSA. The Port's investments and the Port's 50% share of NWSA's net income and cash distributions will be presented on the statements of net position as investment in joint venture. The Port's 50% of the NWSA's net income and losses are presented on the statements of revenues, expenses and changes in net position as Joint Venture income.

**Prepayments and other current assets:** Consists of prepaid expenses for various items as well as maintenance supplies. Maintenance supply inventories of \$3,663,000 and \$4,998,000 at December 31, 2019 and 2018, respectively, are valued at net realizable value, which approximates cost using the weighted-average method.

### **Capital Assets and Depreciation**

Capital assets are recorded at cost. Donated assets are recorded at fair market value on the date donated.

The Port's policy is to capitalize all asset additions greater than \$20,000 and with an estimated life of more than three years. Depreciation is computed on the straight-line method. Amortization expense on assets acquired under capital lease obligations is included with depreciation expense. The following lives are used:

- Buildings and improvements: 10-75 years
- Machinery and equipment: 3-20 years

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Annually, a review is completed and costs relating to projects ultimately constructed are transferred to the appropriate capital asset account; charges that relate to abandoned projects are expensed when the project is abandoned.

**Intangible assets:** Intangible assets consist of assets that lack physical substance, are nonfinancial in nature and whose initial useful life extends beyond one reporting period. Intangible assets primarily consist of a land exchange and right-of-way rights and are classified with capital assets in the accompanying financial statements. Management has determined that there are no factors that would limit the useful life of these assets; therefore, they are considered indefinite lived assets and are not being amortized.

### **Capitalized Interest**

In 2020, the Port discontinued its policy of capitalizing interest due to the adoption of GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.

### **Net Position**

Net position consists of net investment in capital assets, restricted and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflow of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debts should be included in this component of net position. This calculation excludes unspent debt proceeds, if any.

The Port's net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

The unrestricted component of net position is the net amount of the assets and deferred outflows of resources, less liabilities and deferred inflows of resources that are not included in the determination of

net investment in capital assets or the restricted components of net position.

### **Retentions Payable**

The Port enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Port. The Port's policy is to pay the retention due only after completion and acceptance have occurred.

### **Federal and State Grants**

The Port may receive federal and state grants as reimbursement for construction of facilities and other capital projects. These grants are included in capital contributions on the accompanying statements of revenues, expenses and changes in net position.

### **Commercial Paper and Current Portion of Long-Term Debt**

Commercial paper includes borrowings with original maturities of less than one year and current portion of long-term debt is the portion of long-term debt payable within 12 months.

### **Interest Rate Payment Agreements**

The Port accounts for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) on the statements of net position at fair value.

### **Refunds of Debt**

Proceeds from bond defeasance are deposited in an irrevocable trust, with an escrow agent to service the debt on the refunded bonds. Accordingly, the defeased bonds are not recorded on the Port's financial statements. The difference between the reacquisition price and the carrying amount of defeased debt results in either a gain or a loss that is amortized using the effective interest amortization method over the life of the new debt or old debt, whichever is shorter. (For detailed discussion of debt guidelines, see Section X.)

## Employee Benefits

The Port accrues unpaid vacation and sick leave benefit amounts as earned and payable upon termination. These benefits are accrued at current rates of compensation.

The Port also provides post-employment health care benefits for eligible retired employees aged 60 to 69 through a fully funded trust.

## Pensions

The Port participates in the Washington Department of Retirement Systems (the Plan) cost-sharing, multiple-employer, defined benefit public employee retirement plans. The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Washington State Department of Retirement Systems Plan (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## Environmental Remediation Costs

The Port environmental remediation policy requires accrual of pollution remediation obligation amounts when:

(a) one of the following specific obligating events is met and (b) the amount can be reasonably estimated. Obligating events include: imminent endangerment to the public; permit violation; Port named as party responsible for sharing costs; Port named in a lawsuit to compel participation in pollution remediation; or commenced or legally obligated to commence pollution remediation. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the Port's pollution remediation obligation. Costs incurred for pollution remediation obligations are typically recorded as non-operating environmental expenses unless the expenditures relate to the Port's principal ongoing operations, in which case they are recorded as operating expenses. Costs incurred for pollution remediation obligations can be capitalized if they meet specific criteria. Capitalization criteria include: preparation of property

in anticipation of a sale; preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated; performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment; or acquisition of property, plant and equipment that have a future alternative use not associated with pollution remediation efforts.

## Operating and Non-Operating Revenues and Expenses

Terminal services and property rental revenues are charges for use of the Port's facilities and are reported as operating revenue. Joint Venture income is the Port's proportionate share of the NWSA net income earned on licensed home port assets and is reported as operating revenue.

Ad valorem tax levy revenues and other revenues generated from non-operating sources are classified as non-operating. In 2020 the adoption of GASB Statement 87 Leases resulted in an increase to non-operating interest revenue and a reduction to operating revenue (no change in net income).

Operating expenses are costs primarily related to the terminal services and property rental activities. Interest expense and other expenses incurred not related to the operations of the Port's terminal and property rental activities are classified as non-operating.

### Deferred outflow and inflow of resources:

Deferred outflow of resources is a consumption of net position that is applicable to a future reporting period(s). The Port reports deferred outflows on the statements of net position for its pension and OPEB plans and for the deferred cost of advance refunded bonds. Deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period(s). The Port records deferred inflow of resources on the statements of net position for its pension and OPEB plans.

## Reclassifications

Certain reclassification have been made to prior year amounts to conform to the current presentation. These reclassifications have no effect on previously reported changes in net assets.

# X Debt Guidelines

## Section I. Introduction

### Purpose and Overview

The Port of Tacoma established its Debt Guidelines to ensure that debt is issued prudently and cost effectively. This document sets forth comprehensive guidelines for the issuance and management of all financings of the Port of Tacoma. The NWSA is prohibited from issuing debt.

## Section II. Legal Governing Principles

In the issuance and management of debt, the Port of Tacoma shall comply with the state constitution and with all other federal, state and local legal requirements, rules and regulations. The following section highlights the legal framework of the debt issuance and roles and responsibilities in debt issuance.

### Governing Law

**State Statutes** — The Port of Tacoma may contract general obligation indebtedness according to chapter 53.36 RCW. Revenue indebtedness is otherwise provided for under Title 53; however, most revenue bonds that the Port expects to issue will be of the type authorized under chapter 53.40 RCW. General obligation indebtedness is subject to the limitations on indebtedness according to RCW 39.36.020 and Article VIII of the Washington State Constitution. The Port shall issue and sell bonds evidencing such indebtedness in accordance with chapters 39.46 and 53.36 RCW. There is no statutory nor constitutional limitation on the aggregate dollar amount of revenue indebtedness that the Port may issue.

**Federal Rules and Regulations** — The Port of Tacoma shall issue and manage debt, and may enter into any related payment agreements pursuant to Section VII, below, in accordance with the limitations and constraints that federal rules and regulations impose, including, if applicable, the Internal Revenue Code of 1986, as amended; the Treasury Department regulations there under; the applicable provisions of the Securities Acts of 1933 and 1934; and the

applicable provisions of the Commodity Exchange Act.

### Permitted Debt by Type

The Port of Tacoma may legally issue debt using only the debt instruments described below:

**Unlimited Tax General Obligation Bonds** — The state authorizes the Port of Tacoma to sell Unlimited Tax General Obligation Bonds under chapter 53.36 RCW, subject to the approval of the voters of the Port and the Commission.

**Limited Tax General Obligation Bonds** — The state authorizes the Port of Tacoma to sell Limited Tax General Obligation Bonds, under chapters 53.36, 39.44 and 39.46 RCW, subject to the approval of the Commission.

**Revenue Bonds** — The state authorizes the Port of Tacoma to sell Revenue Bonds under chapter 53.40 RCW and chapter 39.46, subject to the approval of the Commission.

**Special Assessment Bonds** — The state authorizes the Port of Tacoma to sell Local Improvement Bonds under RCW 53.20.050, subject to the approval of the Commission.

**Short Term Debt** — The state authorizes the Port of Tacoma to sell short-term debt under chapter 39.50 RCW, subject to the approval of the Commission. Short-term debt may include revenue anticipation notes, general obligation notes in anticipation of the issuance of long-term debt and also would include grant anticipation notes. The Port may issue commercial paper as revenue based or general obligation based. The Port issues commercial paper as subordinate lien revenue obligations.

**Other Debt Instruments** — The state authorizes the Port of Tacoma to enter into financing leases, conditional sales contracts and other debt instruments, under RCW chapters 53.08 53.36 and 53.40, subject to the approval of the Commission. Under authority that the Port Commission delegates to the Chief Executive Officer, he or she may enter

certain financing leases, provided that the dollar amount of the lease is not in excess of \$75,000.

### **Purpose for Borrowing**

The Port of Tacoma shall issue long-term debt for the purpose of financing the cost of design, acquisition and/or construction of capital projects defined in the Capital Investment Plan (CIP).

**Unlimited Tax General Obligation Bonds/Limited Tax General Obligation Bonds** —The Port of Tacoma expects to use General Obligation Bonds for the purpose of funding strategic projects that are not directly associated with revenue generation, such as waterway, road, highway, and rail improvements, environmental mitigation, and public waterfront access. These projects are generally designated as infrastructure in the CIP.

**Revenue Bonds** — In general, the Port of Tacoma expects to use revenue bonds to finance projects that it has designated as “revenue generating,” “renewal,” in the capital budget (CIP), or refinancing revenue bonds.

**Special Assessment Bonds** — The Port of Tacoma expects to use Special Assessment Bonds to provide a source of funding from a targeted group or area that will benefit from a particular infrastructure improvement project.

**Special Revenue Bonds** — The Port of Tacoma may issue special revenue bonds, from time to time, under special circumstances. The Port may use special revenue bonds to finance facilities that it owns and leases to its tenants. Under the terms of the lease, the Port would expect the tenant to make payments sufficient to pay the debt service on special revenue bonds that it issues. The Port would not pledge its general revenues to pay the debt service on special revenue bonds; however, the Port may have the option of paying debt service on such special revenue bonds from its general revenues. Special revenue bonds may provide Port tenants with access to tax-exempt financing for assets that they use at the Port and that promote the Port’s short and long-term economic development objectives.

**Short-Term Debt** — The Port of Tacoma expects to use Short-Term Debt for interim financing of the CIP.

### **Limitations on Debt Issuance**

**Legal Debt Limits** — State statute sets general obligation debt limits. The state limits non-voted General Obligation bonds to 1/4 of one percent of the assessed value of the Port district; and voted General Obligation bonds to 3/4 of one percent of the assessed value within the Port district (RCW 53.36.030). General obligations include:

General Obligation Bonds (Voted and Non-voted), including bond anticipation notes which the Port pays off with bond proceeds. Interest is included only if it has matured and is due and payable.

For deep discount debt (e.g., zero coupon bonds), the face amount of the bond less the unamortized portion of the discount.

Warrants and registered warrants issued against the general (current expense) or other tax supported funds.

Executory conditional sales or installment sales contracts pledging the full faith and credit of the taxing district (RCW 39.30.010).

Other obligations of the general or other tax supported funds, except for loan agreements (statutory limit only) with agencies of the state of Washington or the U.S.A. dated on or after April 3, 1987. (RCW 39.36.060 and 39.69.020).

**Debt Service Coverage** — The Port determines debt service coverage annually. This refers to the ratio of annual net revenue available for debt service to revenue bond debt service payment obligations for the year. The Port’s senior lien bond resolutions require a minimum debt service coverage ratio of 1.35 times. The Port’s subordinate lien bond resolutions require a minimum debt service coverage ratio of 1.0 times. To maintain a strong financial position and credit ratings, the Port intends that its annual debt service coverage ratio will be no less than 2.0 times annual debt service on all outstanding revenue obligations, including junior lien and lowest lien obligations such as commercial paper and capital leases.

### **Use of Rate Stabilization Account for Debt Service Coverage Ratio Calculation Purpose**

The Port may withdraw from or deposit to the rate stabilization account anytime and use it for the purpose for which the gross revenue may be used. Per the subordinate lien bond resolution, deposits may be made as long as the fully diluted debt service coverage ratio does not fall below 2.0. Withdrawals should only be made to pay down principle or to increase the subordinate lien debt service to be above 1 times per bond resolution. Withdrawals should not be made to maintain the fully diluted debt service coverage ratio above 2.0.

### **Roles and Responsibilities**

**Commission** — By law, the Commissions responsibilities are:

- Approve indebtedness
- Approve Operating Budgets sufficient to provide for the timely payment of principal and interest on all debt.

**The Chief Financial Officer** — The Chief Financial Officer or designee will manage long-term debt and make appropriate recommendations to the Commission consistent with the terms of the Port's Debt Guidelines.

The Chief Financial Officer shall:

- Evaluate debt options for obligations that the Port does not expect to pay from current operating funds; debt options include both the type and duration of debt instrument that may be available and appropriate;
- Report to the Commission the available options and recommend the appropriate option, taking into consideration: (a) outstanding debt obligations of the Port; (b) market considerations; and (c) the appropriate financing mechanism to use to achieve the Port's objectives under these guidelines;
- Approve appointment of independent financial advisor, underwriter(s), bond counsel, and swap advisor;
- Provide for the issuance of debt at appropriate intervals and in reasonable amounts to fund approved capital expenditures;

- In consultation with the Port of Tacoma's General Counsel, financial advisor, and bond counsel, determine the most appropriate instrument for a proposed bond sale;
- Recommend to the Commission the manner of sale of debt;
- Monitor opportunities to refund debt and recommend such refunding as appropriate;
- Monitor compliance with applicable Internal Revenue Service (IRS), Securities and Exchange Commission (SEC), and Municipal Securities Rulemaking Board (MSRB) rules and regulations governing the issuance and maintenance of outstanding debt;
- Monitor anticipated cash requirements to provide for the payment of operating expenses as well as the scheduled payment of principal and interest on debt instruments;
- Work with the Port's financial advisor, general counsel and bond counsel to establish the process and implement the issuance and sale of debt instruments, including the method of sale as well as the preparation and review of documentation, and disclosure documents;
- Provide recommendations to the Commission, consistent with the foregoing, in respect to the issuance of debt from time to time as appropriate;
- Following the issuance of debt, monitor compliance with contractual and statutory requirements, such terms to include those set forth in borrowing resolutions, regulations of the IRS, contractual terms, as may be included in agreements with bond insurers and other issuers of credit support and agreements for ongoing disclosure;
- Report regularly to the Commission regarding outstanding indebtedness and compliance procedures, including, at appropriate intervals, a discussion of the Port's obligations, showing allocations to long-term and short-term, general-obligation and revenue and fixed and variable-rate debt;
- Distribute to appropriate repositories information regarding the Port's financial condition and affairs at such times and in the form required by law, regulation and general practice, including SEC Rule 15c2-12 regarding continuing disclosure;
- Maintain regular communications with rating agencies and other market participants, including, but not limited to, bond insurers; and

- Maintain a current database detailing all outstanding debt.

### **Ethical Standards Governing Conduct**

Port of Tacoma staff and Commission members will adhere to standards of conduct that the Public Disclosure Act, chapter 42.17 RCW; and Ethics in Public Service Act, chapter 42.52 RCW, stipulates.

### **Section III. Professional Services**

The Port of Tacoma shall procure professional services to execute financing transactions and to advise on non-transaction related work, as required. Professional services may include, but not limited to, Consultants (Financial Advisor, Legal Counsel) and Service Providers (Trustee, Underwriter, Verification Agent, Investment Banker, Printer, and Credit Enhancement Provider).

**Appointment of Financial Advisor** — The Port of Tacoma will select a financial advisor (or advisors) to assist in the issuance and administration of all debt. The firm(s) will provide a full range of advisory services in connection with the Port of Tacoma's financing programs.

**Appointment of Bond Counsel** — All debt that the Port of Tacoma issues shall include a written opinion by legal counsel affirming that the Port is authorized to issue the proposed debt, that the Port has met all federal, state, and local legal requirements necessary for issuance and a determination of the proposed debt's federal income tax status. A nationally recognized legal firm with extensive experience in public finance and tax issues shall prepare this approving opinion and other documents relating to the issuance of debt. Unless otherwise justified, the Port will make the appointment from among nationally recognized law firms with significant operations in Washington State. The Port will expect the firm selected as bond counsel to provide the full range of legal services required in connection with: a) the successful issuance and delivery of the bond issues; and b) on-going legal services for the Port of Tacoma financing programs.

**Appointment of Letter of Credit or Liquidity Facility Provider** — In order to comply with the requirements of the bond documents and to provide liquidity and marketability for variable rate debt, the

Chief Financial Officer may procure a letter or line of credit. The Chief Financial Officer will develop and administer the process for the selection of the letter of credit/liquidity provider. Appointment criteria shall include, but not be limited to:

- The short and long-term credit ratings of the bank;
- Experience providing liquidity facilities to municipal bond issuers;
- Competitiveness of facility fees, interest charged on liquidity draws, maximum legal and administrative fees;
- Ability to agree to the Port of Tacoma's legal terms and conditions; and
- Trading value of the bank in the current market.

The Chief Financial Officer will report his/her recommendation regarding the appointment of a letter of credit/liquidity provider and recommended approval of the accompanying legal documentation to the Commission. Following the issuance of the letter of credit and/or liquidity support, the Chief Financial Officer will monitor the credit ratings of the provider and their impact on the pricing of the Port's bonds.

**Appointment of Qualified Independent Swap Advisor** — The Swap Advisor, which may be the financial advisor, shall satisfy the requirements of a Designated Qualified Independent Representative and provide written confirmation of compliance with CFTC Regulation 23.450(b)(1). The Swap Advisor will be expected to provide advice, information and recommendations, which includes supporting analysis and schedules, to assist the Commission with the following: monitoring and updating policy, portfolio analysis and asset management, ongoing portfolio feedback, complying with Accounting Standards such as GASB Statement No. 53 – Accounting and Financial Reporting for Derivatives Instruments, preparing financial statement disclosures, all matters relating to swap terminations and swap restructurings, the tasks as described below and preparation of the Annual Swap Report. The Swap Advisor will be expected to perform or to assist with all matters related to the Commission's swap agreements in effect during the period of the Swap Advisor agreement.

The Chief Financial Officer will develop and administer the process for the selection and ongoing monitoring of the qualified independent Swap Advisor.

Appointment and monitoring criteria shall include, but not be limited to:

- Demonstrated ability serving on Swap transactions with similar complexity to planned transaction(s);
- Demonstrated ability to structure Swaps efficiently and effectively;
- Demonstrated ability to sell Swaps to institutional and retail investors;
- Demonstrated ability to monitor and report swap performance;
- Demonstrated ability to perform effectiveness testing as required by GASB Statement No. 53;
- Demonstrated compliance with applicable rules and regulations;
- Experience and reputation of assigned personnel; and
- Fees and expenses.

**Appointment of Underwriters** — If debt will be sold through a negotiated process, the Port will select underwriter(s) using a process developed by the Chief Financial Officer.

Criteria used in the appointment of qualified underwriters shall include, but not be limited to:

- Demonstrated ability serving on financial transactions with similar complexity to the planned transaction;
- Demonstrated ability to structure a debt issue efficiently and effectively;
- Demonstrated ability to sell debt to institutional and retail investors;
- Demonstrated ability to put capital at risk;
- Experience and reputation of assigned personnel; and
- Fees and expenses.

**Appointment of Escrow Agent** — The Chief Financial Officer shall, when deemed necessary or when required, procure the services of an escrow agent in connection with refundings and/or defeasance of outstanding debt.

**Appointment of Arbitrage Rebate Calculation Firm** — The Chief Financial Officer shall, when deemed necessary or when required, procure the services of an arbitrage rebate calculation firm to provide arbitrage rebate compliance services in accordance with the Internal Revenue Code of 1986, as amended

(“Code”). The scope of services may include, but not be limited to, the following:

- Determine if the Port has met the requirements of the spending exception applicable to a debt issue;
- Prepare initial rebate calculations if the Port has not met the spending requirements;
- Prepare annual computations to update the initial calculations as needed to determine the rebate amount as described in the Code;
- Prepare computations if proceeds remain following the temporary period as described in the Code to determine if Internal Revenue Service requires any yield reduction payments; and
- Consult with the Chief Financial Officer as requested concerning arbitrage regulations and related issues including control procedures and industry practices.

#### **Section IV. Transaction-Specific Guidelines**

##### **Method of Sale**

**Competitive Sale** — Under most circumstances, the Port will sell its long-term, fixed-rate debt through a competitive bid process. The Port’s Chief Financial Officer, with the assistance of the Port’s Financial Advisor, will establish the date, time, place, method and terms of the competitive bid.

**Negotiated Bid Method** — In certain market circumstances, it is appropriate for the Port to issue and sell certain types of debt (e.g., variable rate debt) through a negotiated process. If the Port sells its debt on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, underwriting or remarketing fees and commissions. The Chief Financial Officer, with the assistance of the Port’s Financial Advisor, shall evaluate the terms that the underwriting team offers.

**Private Placement** — Under certain circumstances, if deemed appropriate because of timing and structure, the Port may sell its debt through a private placement. For example, the Port may acquire equipment through a financing lease that it places with the vendor or a financial institution.

If appropriate, the Port shall provide a post-sale analysis and report the results to the Commission.

## Structural Elements

**Maturity** — Long-term debt will have a final maturity of not more than 40 years from date of issue.

**Debt Service Structure** — If the Chief Financial Officer deems it appropriate, the Port may use long-term debt to finance interest during construction and up to 12 months following completion of construction as well as costs of issuance, within the limitations state law permits (and federal tax law if the debt is issued on a tax-exempt basis). The Port may find it appropriate to require debt service reserves for outstanding bond resolutions to minimize financing costs. Generally, the term of the debt should be shorter than the life of the assets being financed. The payment of a principal may be structured around existing bond issues to achieve a level debt service each year. Other debt service structures may be used taking advantage of market conditions where lower interest rates can be achieved at issuance.

**Maturity Structure** — The Port of Tacoma's long-term debt may include serial and term bonds.

**Price Structure** — The Port of Tacoma's long-term debt may include par, discount, and premium bonds.

**Redemption Features** — For each transaction, the Port of Tacoma shall evaluate the costs and benefits of provisions for the redemption of debt prior to its scheduled maturity. Provisions allowing the redemption of debt prior to scheduled maturity may give the Port the ability to restructure debt (in the event of lower interest rates); however, the Port will evaluate the cost of an early redemption in conjunction with this flexibility.

**Bond Insurance/Credit Enhancement** — When appropriate for the type of debt, the Port shall evaluate the costs and benefits of bond insurance or other credit enhancements. The Port of Tacoma shall procure any credit enhancement purchases through a process the Chief Financial Officer determines in order to minimize costs and interest expense under current circumstances.

**Tax-exemption** — Unless otherwise required and appropriate, the Port of Tacoma shall issue its debt on a tax-exempt basis in order to obtain the lowest borrowing rates.

## Section V. Communication Guidelines

### Rating Agencies

The Chief Financial Officer shall manage relationships with the rating analysts assigned to the Port of Tacoma's credit using both informal and formal methods to disseminate information. Communication with the rating agencies shall include:

- Disclosure, on an annual basis, of the financial condition of the Port of Tacoma;
- A formal presentation, on a regular basis, to the rating agencies, covering economic, financial, operational and other issues that impact the Port of Tacoma's credit;
- Timely dissemination of the Annual Financial Report, following its adoption; and
- Complete and timely distribution of any documents pertaining to the sale of bonds.

**Credit Objective** — To the extent of factors within its control, the Port intends to maintain and improve its ratings. From time to time, in consultation with the Port's Financial Advisor, the Chief Financial Officer will review the performance of the rating agencies and determine whether it is appropriate to seek additional long- or short-term ratings.

## Section VI. Compliance Guidelines

### Arbitrage Liability Management

For each issue of tax-exempt debt subject to arbitrage rebate considerations, the Chief Financial Officer shall establish a process for monitoring investments and the expenditure of debt proceeds. As provided in the legal documentation associated with the debt issuance, the Port of Tacoma may require rebate calculations from time to time. The Port shall, when deemed prudent, contract with a qualified third-party for preparation of the arbitrage rebate calculation. At least once annually, the Chief Financial Officer will review the Port's outstanding bond issues to determine whether any accruals or set asides for arbitrage rebate liabilities should be established.

### Continuing Disclosure

Under Securities and Exchange Commission Rule, 15c2-12 requires the Port to subject certain outstanding debt issues to written agreements to

provide continuing disclosure. The Chief Financial Officer shall monitor the Port's compliance with its written agreements for continuing disclosure.

## **Section VII. Payment Agreement Guidelines**

### **Purpose**

The Port of Tacoma may enter into payment agreements for the following two purposes: 1) To lower the Port's net cost of borrowing with respect to the related bonds or reduce the amount or duration of the Port's exposure to changes in interest rates; or 2) To allow a refunding of bonds that cannot be refunded in advance, thereby lowering the net cost of borrowing with respect to the bonds. By using swap agreements in a prudent manner, the Port of Tacoma can take advantage of market opportunities to reduce costs and reduce interest rate risk. The Port must directly tie the use of swap agreements to Port debt instruments. The Port shall not enter into swap agreements for speculative purposes.

### **Authority**

The Port will not use payment agreements unless permitted by law and approved in advance by the Port of Tacoma Commission. State law authorizes the Port of Tacoma to enter into interest rate swap agreements, caps, collars and swaptions ("swap agreements") (Chapter 39.96 RCW). In addition, the Port shall not use a swap agreement without an analysis by a qualified financial advisor, including without limitation the analysis required by RCW 39.96.030.

### **Overview**

A derivative is a financial arrangement whose returns are limited to, or derived from, some underlying published index, interest rate, or rate of exchange, stock, bond, currency, or other asset. The Port of Tacoma can enter into the following payment agreements: (1) Interest Rate Swap Agreements, (2) Cap and Collar Agreements, (3) Swaptions (Chapter 39.96 RCW).

**Interest Rate Swaps** — An interest rate swap agreement allows for an exchange of payments based on interest rates. An interest rate swap agreement could provide that the Port of Tacoma will pay the contracting party based upon a fixed- or

floating-interest rate and will receive payments based upon a fixed- or floating-interest rate. The floating rate resets at regular dates and is usually based upon the LIBOR index, SIFMA index or other published interest rate index. The settlement is payment or receipt of the net amount or "spread" as provided under the terms of the swap agreement.

**Caps and Collars** — In addition to swap agreements, the Port could reduce variable interest rate risk and exposure by limiting the yield, or spread, of the swap agreement. These limits called collars, consist of a "cap" or maximum rate, and the "floor" or minimum rate in which the Port of Tacoma and the contracting party agree.

**Swaptions** — The current sale of a right to enter into an interest rate swap on a future date. If the swap has value to the counterparty, it would exercise its right to enter into the swap. If the swap has no value to the counterparty, it will allow the swap to expire unexercised and the Port retains swaption premium and call option on underlying bonds. The swaption premium that the counterparty pays the Port represents the intrinsic value of the swap.

### **Swap Management**

In entering into a swap agreement, the Port of Tacoma will address the following:

- Purpose of the swap agreement;
- Swap counterparty rating;
- Cash flow projections detailing the net swap payments;
- Analysis of basis risk, rollover risk, termination risk, and counterparty risk;
- In addressing the termination risk, identify the events that trigger an early termination, estimate the likelihood of early termination, and estimate the size of potential termination payments; and
- Determine key personnel involved in monitoring the terms of transaction and counterparty creditworthiness.

### **Legality/Approval**

To enter into a swap agreement, the Port must receive: 1) approval from the Commission; 2) an opinion from bond counsel acceptable to the Chief Financial Officer that the swap agreement is a legal, valid and binding obligation of the Port of

Tacoma and that entering into the transaction complies with applicable Washington State and federal laws; 3) an opinion of counsel to the counterparty that the swap agreement is a legal, valid and binding obligation enforceable against the counterparty in accordance with its terms; and 4) financial advisor certification pursuant to RCW 39.96.030.

### **Form of Swap Agreements**

Each swap agreement shall contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, as amended, and such other terms and conditions including schedules and confirmations an Authorized Representative deems necessary.

### **Methods of Soliciting and Procuring Swaps**

The Port can procure swaps via competitive bids or on a negotiated basis. The competitive bid should include a minimum of three firms with each firm having a rating in the highest single A category (A1 and A+). Any firm rated below AA must post collateral at 102 percent of market value.

An Authorized Representative may procure swap agreements by negotiated methods in the following situations:

1. The Authorized Representative determines that a negotiated bid method would result in the most favorable pricing because of the complexity of a particular transaction.
2. An Authorized Representative makes a determination that, in light of the facts and circumstances, a negotiated bid method will promote the Port's interests by encouraging and rewarding innovation.

### **Limitations on Notional Amounts of Derivative Agreements**

The Port of Tacoma will not enter into swap agreements where doing so would result in aggregate notional amounts in excess of the projected underlying liability.

### **Management of Swap Transaction Risk**

When the Port enters into any swap transaction, it creates certain risks. In order to manage the associated risks, guidelines and parameters for each risk category are as follows:

**Counterparty Credit Risk** — Counterparty credit risk is the risk that the counterparty to the swap agreement will not be able to perform under the swap agreement, or that its credit will deteriorate triggering the termination of the swap agreement. To limit counterparty risk, the Port should require that counterparties at least meet the ratings and collateralization requirements set forth in RCW 39.96.040. The Port of Tacoma may enter into a swap transaction with a qualified counterparty if the cumulative mark-to-market value that the counterparty (and its unconditional guarantor, if applicable) owes to the Port is less than or equal to \$30 million.

The \$30 million limitation shall be the sum of all mark-to-market values between the subject counterparty and the Port, regardless of the type of swap transaction, net of collateral the counterparty posts. Collateral will consist of cash, U.S. Treasury securities and Federal Agency securities guaranteed unconditionally by the full faith and credit of the U.S. Government. The counterparty shall deposit collateral with a third-party trustee acceptable to the Port of Tacoma, or as mutually agreed upon between the Port and the counterparty.

The Port bases specific counterparty limits on the cumulative mark-to-market value of the swap(s) and the credit rating of the counterparty. The limits are as follows:

**Counterparty Long-Term Debt Rating (lowest prevailing rating from S & P's/ Moody's)** — If a counterparty's credit rating is downgraded below A- and A3 the counterparty must provide other credit enhancement that is satisfactory to the Port and ensures compliance with these guidelines. If the counterparty does not provide credit enhancement and comply with these guidelines, the Port should terminate the agreement.

The Port also will consider counterparty's capitalization and presence in the municipal swap industry in the counterparty selection process.

**Termination Risk** — In the event that the swap agreement terminates – whether because of actions of the Port of Tacoma or due solely to actions of the counterparty (such as a decrease in credit rating, bankruptcy, misrepresentation, or default) – the counterparty may require the Port of Tacoma to make a termination payment, and the termination payment could be substantial. The Port of Tacoma shall consider the merits of including a provision that permits this action to optionally terminate a swap agreement at any time over the term of the agreement (elective termination right). The Port of Tacoma also should consider limiting the events giving rise to mandatory termination of the agreement and seeking extended payment terms.

**Basis (Index) Risk** — Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the Port of Tacoma. Basis risk is the risk of a mismatch between actual variable rate debt service and variable rate indices used to determine swap payments. For example, if the Port were to receive a variable rate payment from a swap counterparty, based on the LIBOR index, and used this payment to pay interest on the Port’s related variable rate bonds, basis risk is the risk that the LIBOR index will deviate from the variable rate on the Port’s bonds. To mitigate basis risk, any index used as part of an interest rate swap agreement shall be a recognized market index, including but not limited to, the Securities Industry and Financial Markets (SIFMA) Index or the London Interbank Offered Rate (LIBOR). The Port may consider mitigating basis risk through the maintenance of an interest rate reserve.

**Tax Risk** — Tax risk is the risk that tax laws will change, resulting in a change in the interest rate paid with respect to the swap agreement or the related bonds. For example, if the Port were to receive a variable rate payment from a swap counterparty, based on the taxable LIBOR index, and used this

payment to pay its related tax-exempt variable rate bonds, tax risk is the risk that a change in marginal tax rates – or another change in the tax code – will make the Port’s tax-exempt variable rate bonds less attractive, resulting in a divergence between the taxable LIBOR rate received and the tax-exempt rate the Port pays. The Office of Finance will need to document tax risk for a contemplated swap transaction as part of the approval process.

**Rollover Risk** — Rollover risk is the risk that the swap contract is not coterminous with the related bonds. In the case of the synthetic fixed-rate debt structure, rollover risk means that the issuer would need to re-hedge its variable rate debt exposure upon swap maturity and incur re-hedging costs. The Port can mitigate rollover risk by closely monitoring the interest rates and by having guidelines in place to extend the swap or enter into a new swap if the rates drop.

**Reporting Requirements**

The Annual Financial Report the Port of Tacoma prepares and presents to the Commission will include the status of all swap agreements. The report shall include a list of all swaps with notional value and interest rates, a list of counterparties and their respective credit ratings, and other key terms.

Each quarter, the Port will revalue the net asset or liability exchange market position. In addition, the Port will report this information in the consolidated monthly financial statements, in accordance with the Government Accounting Standards Board Statements. The Port of Tacoma’s annual report will describe active derivative agreements and comply with all applicable General Accounting Standards Board (GASB) disclosure requirements.

**Section VIII. Variable Rate Debt Guidelines**

**Overview**

The municipal bond market has developed several vehicles that allow municipalities to borrow at variable interest rates, including variable rate demand obligations, commercial paper, and auction rate securities. These products are structured

Counterparty Long-Term Debt Rating (lowest prevailing rating from S & P's/ Moody's)	Maximum Cumulative Mark-to-Market Value of Swaps Owed to System by Counterparty (net of collateral posted)	Minimum Collateral % Required
AAA / Aaa	\$30 million	102%
AA+ / Aa1	\$20 million	102%
AA / Aa2	\$20 million	102%
AA- / Aa3	\$20 million	102%
A+ / A1 and below	-0-	102%

as a rolling series of short-term investments that are resold periodically, and therefore are priced at the short end of the yield curve at low interest rates. By accepting the risks inherent in variable interest rates, the Port of Tacoma, as the issuer, can take advantage of variable rates available on the current market.

### **Purpose**

The Port may use variable interest rate debt instruments for the following purposes:

1. As a balance sheet management tool, offsetting the risks inherent in variable rate assets. The maintenance of variable rate debt liabilities in an amount equal to or less than the amount of variable rate assets prudently reduces the Port's risk of exposure to changes in interest rates. For example, the Port currently maintains significant exposure from variable rate assets in the form of the short-term investment of available cash, while a large portion of its liabilities are in the form of fixed-rated debt. When interest rates fall, the Budget experiences reduced revenues. Offsetting this exposure with variable rate liabilities would serve to hedge against such interest rate risk. The Chief Financial Officer will provide an analysis of asset and liability balance and include it in its report to the Executive Office and/or Commission when recommending variable rate debt.

To achieve an expected lower net cost of borrowing with respect to the Port's debt by accepting a limited level of interest rate risk. Since the inception of municipal variable rate products in the early 1980s, variable interest rates have borne an average rate that is substantially below the average for fixed rates. Accordingly, issuers who have accepted variable rate risk have experienced reduced costs of borrowing. One of the goals of these guidelines is to define a prudent range of risk exposure.

As a tool for interim financing. Since the expectations of variable-rate investors are, by their nature, short-term, the Port can redeem variable rate debt at short notice without any penalty in the form of a call premium or higher initial interest rates. This feature makes variable-rate debt a preferred tool for financing projects for which a prepayment or restructuring is a high probability. The Port can issue certain variable

rate products, such as commercial paper to finance current construction. This method can reduce the long-term cost of construction financing. Often, the Port will refund commercial paper with a long-term financing option when the project is completed.

### **Criteria for Use of Variable Rate Debt**

The following criteria set forth the Port of Tacoma's practice for using variable rate debt. Any staff recommendation for the use of variable rate debt should consider these criteria.

Balance sheet risk mitigation: To determine the appropriate amount of variable rate debt the Port should issue for risk mitigation purposes, decision makers should consider the following factors, depending upon the basis of the fund or funds that will be repaying the debt:

- The historic average of cash balances analyzed over the course of several prior fiscal years.
- Projected cash balances based on known demands on a given fund and on Port fund balance guidelines.
- Any basis risk, such as the difference in the performance or duration of the Port's investment vehicle compared with the variable rate debt instrument the Port would use.

Risk exposure: It may be appropriate for the Port to accept a moderate exposure to interest rate risk to benefit from what has been the historic out-performance of the variable rate market. The risk exposure analysis should be performed on the basis of "net" risk; that is, variable rate liability exposure net of any interest rate hedge provided by the availability of cash or risk mitigation tools such as interest rate swaps. Net variable rate exposure does not include outstanding commercial paper or other interim funding vehicles.

Interim financing: The Port will consider issuing commercial paper in connection with its major debt-financed construction programs.

Synthetic fixed rate: The Port may simultaneously issue variable rate debt and enter into corresponding swap agreements that have the effect of creating a net fixed rate obligation at a lower net interest cost

than the cost of issuing traditional fixed rate debt (while assuming increased risks (such as tax risk) and foregoing call features). The Port should consider the use of variable rate debt in those instances where the issuance of synthetic fixed rate debt is a viable and cost-effective alternative, subject to the provisions of the Port's swap guidelines.

### **Monitoring and Reporting**

The Chief Financial Officer will manage the Port of Tacoma's variable rate programs, including:

1. Whether balances remaining at the end of the fiscal year, accruing from actual interest rates lower than those assumed in the Budget process, will be reserved for future interest rate stabilization or otherwise applied for interest rate management.

The performance of the individual remarketing agents as compared to other remarketing agents, other similar programs and market indices.

The factual circumstances, such as balance sheet factors or the relative amount of debt that supported the original issuance of variable rate debt.

Responsibility for reflecting variable rate debt in accordance with Generally Accepted Accounting Principles (GAAP) and with rules promulgated by the General Accounting Standards Board (GASB).

### **Section IX. Other Guidelines**

#### **Refunding Savings Thresholds**

The Port will conduct refunding transactions in accordance with the Refunding Bond Act, chapter 39.53 RCW. Unless otherwise justified, the Port will refinance debt to achieve savings as market opportunities arise.

Unless otherwise justified, an "advance refunding" transaction whether accomplished conventionally or through a swap arrangement will require a present value savings of three percent of the principal amount of the refunding debt being refunded.

A "current refunding" transaction will not be subject to a minimum savings threshold.

**Selection of maturities to be refunded** — unless otherwise justified, all callable maturities of an issue will be included in a refunding.

### **Evaluating Capital Investment Plan Spending**

The Port of Tacoma shall integrate its debt issuance with its Capital Investment Plan (CIP). Prior to each meeting of the finance team to discuss the need for debt financing, the Chief Financial Officer shall report to the Port Commission the status of spending of the capital budget and any proposed debt funding. The report shall include:

- Projected capital funding requirements, collected from the primary capital budget project managers;
- Projected near-term financing needs;
- Projected near-term available resources, including cash, and bond proceeds; and
- An analysis showing the impact of the proposed financing on cash flows.

### **Modeling the Impact of Capital Investment Plan Needs**

The Port shall develop and maintain a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition. To that end, the Chief Financial Officer shall oversee the ongoing maintenance of quantitative modeling that includes, but is not limited to, the following:

- Historic and projected cash flows for capital and operating expenditures;
- Historic and projected fund balances;
- Historic and projected debt service coverage; and
- Projected revenue requirements.

### **Debt Database Management**

The Port shall maintain complete information on its outstanding debt portfolio in a database format. The information in the database shall include, but not be limited to, the following:

- Issue Name
- Initial Par Amount of the Issue
- Dated Date and Sale Date of the Issue
- Purpose of the Issue

- Security Type (Fixed or Variable) of the Issue
- Issue Type (New Money or Refunding) of the Issue
- Sale type (Competitive or Negotiated) of the Issue
- TIC, Arbitrage Yield, Average Life, and Underwriting Discount of the Issue
- Underwriter(s) of the Issue
- Principal Amounts by Maturity
- Principal Amounts Outstanding by Maturity
- Coupon Rate and Coupon Type (Current Interest or Zeros) by Maturity
- Original Yield and Original Price by Maturity
- Interest Payment Frequency by Maturity
- First Interest Payment Date by Maturity
- Call Provisions by Maturity
- Sinking Provisions by Maturity
- Credit Enhancement, if any, by Maturity

### **Accounting for the Issuance of Debt**

The Port of Tacoma shall account for the issuance of debt using generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) and applicable statutes, rules and regulations of the State of Washington.

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## Appendix A Bond Indebtedness and Debt Service Requirements

Projected as of 12/31/20

Debt Instrument	Due Date	---- 2021 Debt Service Payments ----			Outstanding 12/31/2021*
		Principal	Interest	Total	
<b>General Obligation Bonds:</b>					
2016 G.O. Bonds	06/01/21		\$184,622		
	12/01/21	\$3,483,000	\$184,622	\$3,852,244	\$14,592,000
2016A G.O. Bonds	06/01/21		\$2,435,025		
	12/01/21	\$2,320,000	\$2,435,025	\$7,190,050	\$103,835,000
2017 G.O. Bonds	06/01/21		\$272,939		
	12/01/21	\$775,000	\$272,939	\$1,320,878	\$17,135,000
<b>TOTAL G.O. BONDS</b>		<b>\$6,578,000</b>	<b>\$5,785,171</b>	<b>\$12,363,171</b>	<b>\$135,562,000</b>
<b>Revenue Bonds:</b>					
2008 Subordinate Refunding*	06/01/21				
	12/01/21	\$3,205,000	\$100,508	\$3,305,508	\$55,945,000
2008B Subordinate Revenue*	06/01/21				
	12/01/21	\$0	\$207,610	\$207,610	\$122,180,000
2016A Senior Refunding	06/01/21		\$871,925		
	12/01/21	\$0	\$871,925	\$1,743,850	\$36,535,000
2016B Senior Revenue and Refunding	06/01/21		\$2,517,531		
	12/01/21	\$655,000	\$2,517,531	\$5,690,063	\$100,515,000
2019A Senior Refunding	06/01/21		\$807,375		
	12/01/21	\$2,450,000	\$807,375	\$4,064,750	\$29,845,000
2019A Subordinate Refunding*	06/01/21				
	12/01/21	\$0	\$64,765	\$64,765	\$38,115,000
2020 Senior Refunding	06/01/21		\$159,536		
	12/01/21	\$2,505,000	\$159,536	\$2,824,073	\$21,130,000
Net Swap Interest			\$8,399,955	\$8,399,955	
Direct Purchase/LOC Fees			\$1,154,899	\$1,154,899	
<b>TOTAL REVENUE BONDS</b>		<b>\$8,815,000</b>	<b>\$18,640,472</b>	<b>\$27,455,472</b>	<b>\$404,265,000</b>
Commercial Paper		\$0	\$0	\$0	\$0
<b>TOTAL ALL EXISTING BONDS**</b>		<b>\$15,393,000</b>	<b>\$24,425,644</b>	<b>\$39,818,644</b>	<b>\$539,827,000</b>

\* Variable rate debt paid monthly. The numbers provided are estimated total annual interest payments.

# Appendix B Port of Tacoma Statutory Budget

## Introduction

The statutory budget as defined in RCW 53.35.010 is to portray “the estimated expenditures and the anticipated available funds from which all expenditures are to be paid.”

As a cash budget, the Statutory Budget shows “the estimated expenditures and the anticipated available funds from which all expenditures are to be paid” and is not used as an operating budget.

The “port commission may adopt by resolution one or more supplemental budgets at any time during the fiscal year” (RCW 53.35.050). The function of controlling and managing the operations of the Port is accomplished with the Operating Budget.

The Preliminary Statutory Budget was provided to the Ports Commissioners and made available to the general public as required by law (RCW 53.35.010 and RCW 53.35.045).

Notice of the Public Hearing, with an announcement stating that copies of the preliminary budget are available for distribution to any interested persons, are published no less than nine days and no more than twenty days prior to the date of the hearing as required by law (RCW 53.35.020 and RCW 53.35.045). The Notices are published in the Tacoma News Tribune, The South Pierce County Dispatch, and The Daily Index.

The final statutory budget must be filed with the Pierce County Council by November 30th of each year.

## Port of Tacoma Statutory Budget

<i>(\$ Thousands)</i>	<b>2021</b>
<b>Beginning Cash &amp; Investments</b>	\$166,359
 <b><u>Projected Sources of Funds</u></b>	
<b>Revenues</b>	\$63,496
Expenses	(21,881)
Memberships	(321)
Promotional hosting POT	(20)
Promotional hosting NWSA (POT share)	(112)
<b>Funds Provided by Operations</b>	41,162
Interest Income	10,373
NWSA Depreciation Cash	9,980
Other, Net	(5,159)
Other Contributions	5,500
Ad valorem tax revenue (net)	23,817
<b>Projected Sources of Funds</b>	\$85,673
 <b><u>Projected Uses of Funds</u></b>	
Investment in Northwest Seaport Alliance	54,814
Debt Payments - GO Bonds	\$12,363
Debt Payments - Revenue Bonds	27,455
Debt Payments - Commercial Paper	0
Capital Spending - Planned Projects	47,783
<b>Projected Uses of Funds</b>	\$142,415
 <b><u>Projected Borrowing</u></b>	
Commercial Paper Borrowing	0
<b>Total Borrowing</b>	\$0
 <b>Projected Ending Cash &amp; Investments</b>	 \$109,617

# Appendix C Port Memberships

## Overview

The Port and port staff are members of several organizations. The Port believes that participating in these partnership organizations plays a key role in advancing the Port's business objectives and ensures Port staff is knowledgeable and productive.

## Port Authority Organizations

These memberships assist the Port's lobbying efforts on both the state and national levels and keep staff informed about major issues and developments that affect Port operations. Membership with the Washington State Public Ports Association remains with the home ports, while membership with the American Association of Port Authorities is now managed by the NWSA.

## Economic Development Organizations

Economic development is a major part of the Port's mission. For that reason, the Port maintains memberships and works closely with a variety of economic development groups. These memberships help strengthen the Port's visibility throughout the world through trade missions, trade shows and other activities.

## Regional Organizations

Memberships in regional organizations demonstrate the Port's commitment to trade on a statewide and regional basis.

## Industry Associations and Professional Organizations

These associations and organizations ensure that staff obtains the latest in technical development by taking advantage of meetings, networks and special programs offered by them.

## Trade Promotion Organizations

These memberships give the marketing and sales staff important contacts and current industry trade information that enhances the Port's overall marketing efforts.

## Community Service Groups

The Port maintains memberships in these groups as part of its effort to build better community relations, to work more effectively with the business people and to ensure that the Port's interests and concerns are addressed in the community.

## Annual Port Memberships & Personnel Memberships (estimated)

Organization	Annual Dues
WA Public Port Association	\$215,000
Puget Sound Regional Council	50,700
Tacoma/Pierce County Chamber	24,740
All Other Memberships	29,942
<b>Total Port Memberships</b>	<b>\$320,382</b>

## Summary

Three Port memberships represent more than 90% of the membership budget for 2021. These memberships assist the Port with policy and economic development initiatives.

## Washington Public Ports Association

Washington Public Ports Association promotes the interests of the state's port community through effective government relations, ongoing education, and strong advocacy programs.

## Puget Sound Regional Council

The Council brings the central Puget Sound counties (King, Kitsap, Pierce and Snohomish), cities, towns, ports, tribes, transit agencies to work together to develop policies and make decisions about regional issues. The Council works with local government, business and citizens through three major activities: building the region's growth strategy; comprehensive long-range transportation planning; and advancing the area's economic strategy.

**Tacoma – Pierce County Chamber of Commerce**

The Chamber enables individuals and businesses to make a difference in their community by having its membership focused and involved in top civic,

business, and social priorities. The Chamber strengthens and nurtures the ties between businesses and communities as they are dependent on each other for success.

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# Appendix D Budget Calendar

Task	Start	Duration	Current Year					Budget Year						
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
<b>NWSA Budget</b>	Jul	18 Weeks	[Bar spanning Jul to Nov]											
Goals, Priorities, Key Projects & assumptions	Jul	4 Weeks	[Bar spanning Jul to Sep]											
Capital Budget	Aug	7 Weeks		[Bar spanning Aug to Oct]										
Staffing Plan	Aug	7 Weeks		[Bar spanning Aug to Oct]										
Department Budgets	Sep	3 Weeks			[Bar spanning Sep to Oct]									
Revenue and Expense Budgets	Sep	3 Weeks			[Bar spanning Sep to Oct]									
Public Presentations	Oct	3 Weeks			[Bar spanning Oct to Nov]									
<b>Port of Tacoma Budget</b>	Jul	23 Weeks	[Bar spanning Jul to Nov]											
Goals, Priorities, Key Projects & assumptions	Jul	4 Weeks	[Bar spanning Jul to Sep]											
Capital Budget	Aug	7 Weeks		[Bar spanning Aug to Oct]										
Staffing Plan	Aug	7 Weeks		[Bar spanning Aug to Oct]										
Department Budgets	Sep	3 Weeks			[Bar spanning Sep to Oct]									
Tax Levy	Sep	12 weeks			[Bar spanning Sep to Dec]									
Revenue and Expense Budgets	Sep	3 Weeks			[Bar spanning Sep to Oct]									
Combine with NWSA	Sep	6 Weeks			[Bar spanning Sep to Nov]									
Public Presentations	Nov	3 Weeks			[Bar spanning Nov to Dec]									
Submit Final Budget and Tax Levy to County	1-Dec													
<b>Port of Tacoma Midyear Update</b>														
Program Budget	May	3 Weeks										[Bar spanning May to Jun]		
Revenue and Expenses	May	2 Weeks											[Bar spanning May to Jun]	
Public Presentation	Jun	30-Jun											[Bar spanning Jun]	

## Budget Processes: The Creation of the Detailed 5-Year Budget Forecast

### Goals, Priorities, Key Projects and Assumptions:

This process defines the goals and priorities that need to be addressed in the Port's operating and capital budgets. Assumptions concerning the macro-economic conditions, as well as customer specific issues are determined in this phase.

**Capital budget:** This process identifies the Port's investments in capitalized and expensed projects necessary to achieve the Port's goals and priorities.

**Staffing Plan:** This process includes identifying alternatives to staffing changes as well as the financial impact of any proposed staffing changes.

**Department Budgeting:** The detailed budgeting process for departments, excluding costs directly associated with revenue, includes such items as travel, training, office supplies, outside services, utilities, and other expenses.

**Tax Levy:** The process of identifying the levy desired to cover General Obligation bond debt service (principal and interest) as well as additional levy for infrastructure and environmental projects.

**Revenue and Expense Budget:** The detailed revenue and associated revenue based expenses for the Port. Includes lease revenue and volume driven revenue from Port owned cranes and straddle carriers, as well as volume driven revenue from Port operated terminals, and the auto and intermodal lines of business. Expenses include utilities and costs associated with providing the volume driven services.

**Public Presentations and Hearings:** The Port has three scheduled public meetings to review the details of the tax levy, and capital and operating budgets. The Port has additional information available for the Citizens of Pierce County including a one hour presentation called Port 101 that gives an overview of Port operations and the budgeting process.

**Midyear Update:** The midyear update only focuses on revising the capital budget and the revenue and revenue driven expenses for the current year and the next four years. Departmental budgets are not updated, nor are there changes to the tax levy.

## Appendix E Glossary of Terms

**Accrual** – Adjustment made to reflect when a receipt or disbursement occurs, not when it is received.

**Ad Valorem Tax** – A tax which varies based on the value of the property on which it is levied.

**Allocation** – The distribution of expenses based on set criteria (volume, hours, etc.). Used as an internal costing methodology.

**Arbitrage** – The simultaneous purchase and sale of similar commodities in *different markets* to take advantage of a price discrepancy.

**Assessed Value**– The County Assessors valuation set upon real estate and personal property as a basis for levying taxes. In the State of Washington, assessed value may not always be the true and fair market value. RCW 84.04.020 and RCW 84.04.030.

**Balanced Budget** – The Port of Tacoma defines “balance budget” as Total revenues are sufficient to cover operating expenses for the budget year and to offset the cost of capital investment (depreciation) and anticipated debt costs for any planned future capital investments.

**Banking Capacity** – The amount of money still available under the Port’s legal levy limit. The difference between the highest lawful levy that could have been made and the actual levy imposed.

**Beneficial Cargo Owner** – (BCO) refers to the importer of record, who physically takes possession of cargo at destination.

**Berth** – (verb) To bring a ship to a berth. (noun) The wharf space where a ship docks. A wharf may have two or three berths, depending upon the length of incoming ships.

**Bond Users’ Clearinghouse** – A collection of information regarding the identity, amount, type and cost of municipal bonds being issued. The bond users’ clearinghouse serves as an information source for local governments regarding the municipal bond market and as a public record of municipal bond issues. (WAC 365-130-010).

**Breakbulk Cargo** – Non-containerized general cargo stored in boxes, bales, pallets or other units to be loaded onto or discharged from ships or other forms of transportation. Examples include iron, steel, machinery, linerboard and wood pulp.

**Brownfield** – A parcel of industrial or commercial property that is abandoned or underused; it is often environmentally contaminated; considered as a potential site for redevelopment.

**Bulk Cargo** – Loose cargo (dry or liquid) that longshoreman load (shovel, scoop, fork, mechanically convey or pump) in volume directly into a ship’s hold; e.g., grain, coal and oil.

**Cant** – After a log is debarked, the sawyer cuts off the rounded slab or outside portion of the log. The remaining square or rectangular portion of the log is called a cant. Lumber is cut from the cant.

**Capacity** – The available space for, or ability to handle, freight.

**Capital Budget (CB)** – A detailed plan of proposed expenditures arising from the acquisition or improvement of fixed assets and the means of financing them.

**Cargo** – The freight (goods, products) carried by a ship, barge, train, truck or plane.

**Carrier** – An individual, partnership or corporation engaged in the business of transporting goods or passengers.

**Conditional Sales Contract** – Contracts for the sale of property where the buyer has possession and use, but the seller retains title until the conditions of the contract have been fulfilled.

**Conduit Financing** – Conduit financing is the issuance of debt by an entity for the benefit of another party. The conduit is the nominal issuer of the debt; however, repayment of the debt is secured by obligations of the third party and/or credit enhancers. Most conduit financings in the United States are designed to permit a non-public party to access federally tax-exempt financing.

**Container** – A steel box used to transport cargo by ship, rail, truck or barge. Common dimensions are 20' x 8' x 8' (called a TEU or twenty-foot equivalent unit) or 40' x 8' x 8' (called an FEU). Variations are collapsible containers, tank containers (for liquids) and “rag tops” (open-topped containers covered by a tarpaulin for cargo that sticks above the top of a closed box). In the container industry, containers are called boxes.

**Container Crane** – Usually, a rail-mounted gantry crane located on a wharf for the purpose of loading and unloading containers on vessels.

**Container Freight Station** – The facility for stuffing and stripping a container of its cargo, especially for railroad movement.

**Container Terminal** – A specialized facility where ocean container vessels dock to discharge and load containers, which is equipped with cranes with a safe lifting capacity of 35-40 tons and booms able to reach 120 feet to access the outside cells of vessels. Most such cranes operate on rail tracks and have articulating rail trucks on each of their four legs. This enables them to traverse along the terminal, working various bays on the vessel and allowing more than one crane to work a single vessel simultaneously.

**Contribution Margin** – Operating margin minus depreciation.

**Counterparty** – A participant in a swap or other derivative agreement that exchanges payments based on interest rates or other criteria with another counterparty.

**Debt Service** – The series of payments of interest and principal required on debt over a given period.

**Demurrage** – A penalty assessed when cargo is not moved off a wharf before the free time allowance ends.

**Departmental Expenses** – Individual department expenses based on criteria each department sets.

**Depreciation** – A non-cash item that represents the use of long-term assets. Port assets are given a useful life when they become active, and each year some of that useful life is used up or depreciated.

**Derivative** – A derivative is a financial arrangement whose returns are limited to, or derived from, some underlying published index, interest rate, or rate of exchange, stock, bond, currency or other asset.

**Dock** – (verb) To bring in a vessel to tie up at a wharf berth. (noun) A dock is a structure built along, or at an angle from, a navigable waterway so that vessels may lie alongside to receive or discharge cargo.

**Dockage** – A port authority charge for the length of water frontage used by a vessel while tied up at a wharf.

**Draft** – The depth of a loaded vessel in the water taken from the level of the waterline to the lowest point of the hull of the vessel; depth of water or distance between the bottom of the ship and waterline.

**Drayage** – Transport by truck for short distances; e.g. from wharf to warehouse.

**Dredge** – (noun) A waterborne machine that removes unwanted silt accumulations from the bottom of a waterway. (verb) The process of removing sediment from harbor or river bottoms for safety purposes and to allow for deeper vessels.

**Dry Bulk** – Minerals or grains stored in loose piles moving without mark or count. Examples are potash, industrial sands, wheat, soybeans and peanuts.

**Dunnage** – Wood or other material used in stowing ship cargo to prevent movement.

**Duty** – A government tax on imported merchandise.

**Elevator** – A complex that includes storage facilities, computerized loading, inspection rooms and docks to load and unload dry bulk cargo such as grain or green coffee.

**Enterprise Fund** – An Enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises.

**Equity** – The excess of assets over liabilities.

**External Financing** – Financing through the issuance of debt or equity.

**Foreign Trade Zone (FTZ)** – Known in some countries as a free zone, a foreign trade zone (FTZ) is

a site within the United States (in or near a U.S. Customs port of entry) where foreign and domestic goods are held until they are ready to be released into international commerce. If the final product is imported into the United States, duties and taxes are not due until the goods are released into the U.S. market. Merchandise may enter a FTZ without a formal Customs entry or the payment of Customs duties or government excise taxes. In the zone, goods may be stored, tested, sampled, repackaged, cleaned or relabeled, combined with other products, repaired or assembled.

**Freight** – Merchandise hauled by transport lines.

**GASB 87**- It establishes a single model for lease accounting. While financial statement changes will be significant there will be no net effect on P&L.

**Gantry Crane** – Track-mounted, shoreside crane used in the loading and unloading of breakbulk cargo, containers and heavy lift cargo.

**General Central Peninsula** – The portion of the Port of Tacoma bounded by the Sitcum and Blair Waterways containing Husky and TCT Terminals and the North Intermodal rail yard.

**General Cargo** – Consists of both containerized and breakbulk goods, in contrast to bulk cargo. See breakbulk, container, bulk, dry bulk). General cargo operations produce more jobs than bulk handling.

**General Obligation (G.O.) Bond** – A debt obligation payable from all legally available resources of the issuer. Most debt that is denominated as a “general obligation” is issued by governmental units with taxing power.

**Governmental Project** – A project that creates something that is available to, and is undertaken for, the benefit of all citizens. Examples include transportation and environmental projects.

**Grain Elevator** – Facility where bulk grain is unloaded, weighed, cleaned, blended and exported.

**Grand Alliance** – A vessel-sharing alliance, including Hamburg Süd, Hapag-Lloyd, NYK Line, and Orient Overseas Container Line

**Gross Tonnage** – The sum of container, breakbulk and bulk tonnage.

**Harbor** – A port of haven where ships may anchor.

**Heavy Hauler** – A truck equipped to transport unusually heavy cargoes (steel slabs, bulldozers, transformers, boats, heavy machinery and others).

**Heavy Lift** – Very heavy cargoes that require specialized equipment to move the products between ship, truck, rail, barge and/or terminals. This heavy lift machinery may be installed aboard a ship designed specifically for such transport. Shore cranes, floating cranes and lift trucks also may be adapted for such heavy lifts.

**Hedge** – A transactional option to reduce exposure to market fluctuations.

**Highest Lawful Levy (HLL)** - The highest levy a district could have levied since 1985.

**Installment Sales Contract** – A contract providing for a buyer to purchase a property by making installment payments to a seller.

**Interchange** – Point of entry/exit for trucks delivering/picking up containerized cargo.

**Interest Rate Swap (or “Swap”)** – A transaction in which two parties agree to exchange future net cash flows based on predetermined interest-rate indices calculated on an agreed notional amount. The swap is not a debt instrument, and there is no exchange of principal.

**Intermodal** – Movement of freight using a combination of transportation modes, i.e. truck, rail, ocean or air transportation.

**ISDA Master Agreement** – The ISDA (International Swaps and Derivatives Association) Master Agreement is the basic governing document that serves as a framework for all interest rate swap, swap enhancement and derivative transactions between two counterparties. Standard throughout the industry, it is typically negotiated once prior to the first transaction and remains in force for all subsequent transactions.

**Landlord Port** – At a landlord port, the port authority builds the wharves, which it then rents or leases to a terminal operator (usually a stevedoring company). The operator invests in cargo-handling equipment (forklifts, cranes, etc.), hires longshore laborers to

operate such lift machinery and negotiates contracts with ocean carriers (steamship services) to handle the unloading and loading of ship cargoes. (See also – operating port.)

**Letter of Credit** – A commitment by a bank for the benefit of a third party (the account party) to make payments to an identified beneficiary under terms set forth in the letter of credit.

**LIBOR** – The London Interbank Offered Rate at which banks borrow funds from other banks. It is a commonly used benchmark for interest rate transactions ranging from one month to one year.

**Lien** – A legal claim against a property to secure an obligation.

**Local Improvement District (LID)** – A financing mechanism whereby specially benefited properties are assessed the costs of constructing public improvements.

**Maintenance of Way (often abbreviated as M of Way, MOW or MW)** – Refers to the maintenance of railroad rights of way. It can include procedures from the initial grading of the right of way to its general upkeep and eventual dismantling.

**Maritime** – (adjective) Located on or near the sea. Commerce or navigation by sea. The maritime industry includes people working for transportation (ship, rail, truck and towboat/barge) companies, freight forwarders and customs brokers, stevedoring companies, labor unions, chandlers, warehouses, ship building and repair firms, importers/exporters, pilot associations, etc.

**Metric Ton-** A metric ton equals 1,000 kilograms or 2204.6 pounds.

**Millage** – The tax levy rate on property, expressed in mills per dollar value of the property or per 1,000 of the county's assessed value.

**Mitigation** – Strategies, policies and activities that serve to avoid, minimize, rectify or compensate for the impacts to, or disruption of, elements of the human and natural environment.

**Municipal Separate Storm Sewer System – (MS4)** Public entities that own or operate a MS4 system that are designed to reduce the amount of sediment and

pollution that enters surface or ground water from the storm sewer system.

**Net Income** – Income from operations after all expenses have been deducted from operating revenues. The excess of revenues over outlays in a given period of time.

**Net Position** – The statement of revenues, expenses and changes in net position is a report indicating whether an organization's financial condition has improved or declined as a result of the year's activities. Changes in net position are reported as the underlying events occur, regardless of the timing of related cash flows.

**Non-Operating Expenses** – Cost or charges that do not arise from the normal operation of business.

**Non-Operating Revenues** – Revenues that do not result from the normal operation of business.

**Non Vessel Operating Common Carrier – (NVOCC or NVO)** A freight forwarder is a person company that organizes shipments for a corporation to get goods from a manufacturer to a final point of distribution.

**Notional Amount** – The size of the interest rate swap and the dollar amount used to calculate interest payments.

**Operating Income** – Operating revenues minus operating expenses.

**Operating Expenses** – Cost or charges that arise from the normal operation of business (operating, maintenance and administrative expenses).

**Operating Port** – At an operational port, the port authority builds the wharves, owns the cranes and cargo-handling equipment and hires the labor to move cargo in the sheds and yards. A stevedore hires longshore labor to lift cargo between the ship and the dock where the port's laborers pick it up and bring it to the storage site.

**Operating Revenues** – Gross earnings or billings from operations that results from facilities and/or equipment leased or operated.

**Panamax** – Ships are of the maximum dimensions that will fit through the locks of the Panama Canal.

**Payment Agreement** – A written agreement that provides for an exchange of payments based on interest rates for ceilings or floors on these payments, for an option on these payments, or any combination, entered into on either a current or forward basis.

**Pier** – Area alongside the water that contains the pilings. There are usually one or more berths per pier.

**Port** – This term is used both for the harbor area where ships are docked and for the agency (port authority), which administers use of public wharves and port properties.

**Port-of-Call** – Port where a ship makes a stop along its itinerary. Calls may range from five to 24 hours. Sometimes referred to as transit port and destination port.

**Project Cargo** – The materials and equipment to assemble a special project overseas, such as a factory or highway.

**Railyard** – A rail terminal where traditional railroad activities for sorting and redistribution of railcars and cargo occur.

**RCW** – Revised Code of Washington.

**Revenue Bonds** – A type of borrowing, which is repaid from a special fund into which the issuer pledges to deposit all or a fixed proportion of an identified source of revenues.

**Seaport Alliance** – The Port of Tacoma and Port of Seattle plan to unify the management of the ports' marine cargo terminals and related functions under a single Seaport Alliance in order to strengthen the Puget Sound gateway and attract more marine cargo for the region.

**SEC RULE 15c2-12** – A rule promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 setting forth certain obligations of underwriters to receive, review and disseminate official statements prepared by issuers of most primary offerings of municipal securities, to obtain continuing disclosure agreements from issuers and other obligated persons to provide material event disclosures and annual financial information.

**Service & Facilities** – Care, custody, count and control of the cargo while it is on the terminal.

**Short Ton** – A short ton equals 2,000 pounds.

**SIFMA Index** – The Securities Industry and Financial Markets Association Municipal Swap Index, the principal benchmark for the floating rate payments for tax-exempt issuers. The index is a national rate based on a market basket of high-grade, seven-day, tax-exempt, variable-rate bond issues.

**Special Assessment Bond** – A bond payable from special assessments levied against property within an area that is specially benefited by the public improvement being financed with the bond.

**Special Revenue Bond** – Any bond, note, warrant, certificate of indebtedness or other obligation for the payment of money issued by a public body that is payable from designated revenue source (as opposed to the general revenues of the issuer).

**Steamship Line** – A steamship (ocean carrier) service running on a particular international route.

**Stevedores** – Labor management companies that provide equipment and hire workers to transfer cargo between ships and docks. Stevedore companies also may serve as terminal operators. The laborers stevedoring firms hire are called longshore workers.

**Straddle Carrier** – Motorized container terminal equipment that runs on rubber tires and straddles a single row of containers. It is used to move containers around the terminal, transports containers to and from the transtainer and load/unload containers from truck chassis.

**Straight Line Depreciation** – A method of computing depreciation by dividing an asset's cost by the number of years it is expected to be used.

**Swap Agreement (SWAP)** – A contract between two parties that exchange a series of fixed rate and variable rate interest payments over an agreed period of time. No principal amount is exchanged.

**Tariff** – Schedule, system of duties imposed by a government on the import/export of goods; also, the charges, rates and rules of a transportation company as listed in published industry tables.

**Tax Levy** – The total amount of dollars that government entities need from taxpayers to provide governmental programs and services next year.

**Terminal** – The place where longshoremen handle cargo (also called a wharf).

**Transit Shed** – The short-term storage shed on a wharf that is designed to protect cargoes from weather damage.

**True Lease** – A contract that qualifies is considered as a “lease” under generally accepted accounting principles (as opposed to a lease that constitutes a “financing agreement” because of its terms). The regulations under the Internal Revenue Code also include criteria for classification of leases as “true leases” as opposed to “capital leases.”

**TEU** – A unit of measurement equal to the space occupied by a standard twenty foot container unit. Used in stating the capacity of container vessel or storage area. One 40-foot container equals two TEUs.

**TWIC** – Transportation Worker Identification Credential: A tamper-resistant biometric identification card system established through the U.S. Congress Maritime Transportation Security Act (MTSA) and administered by the Transportation Security Administration (TSA) and U.S. Coast Guard.

**Vessel** – A ship or large boat.

**WAC** – Washington Administrative Code. State agency rules and regulations that implement state law.

**Warrant** – A type of security that entitles the holder to buy a proportionate amount of common stock or preferred stock at a specified price for a period of years. Warrants are usually issued together with a loan, bond or preferred stock and act as sweeteners to enhance the marketability of the accompanying securities. They also are known as stock-purchase warrants and subscription warrants. In the State of Washington, the term warrant also means the instrument that the state and municipal corporations use to make payments. The governmental entity issues a warrant in satisfaction of its monetary obligations.

**Wharf** – A landing for docking, loading and unloading ships.

**Wharfage** – Space rental for having cargo on the real estate called “wharf” (includes no labor).

**Yard** – A system of tracks with a certain area used for making up trains, storing cars, placing cars to be loaded or unloaded and other activities.

## Appendix F Acronyms and Abbreviations

<b>Admn</b>	Administration	<b>GA</b>	Grand Alliance
<b>AEI</b>	Automated Electronic Interchange	<b>G.O.</b>	General Obligation (Bond)
<b>ANWR</b>	Arctic National Wildlife Refuge	<b>GAAP</b>	General Accepted Accounting Principles
<b>ARRA</b>	American Reinvestment and Recovery Act	<b>GASB</b>	Gov't Accounting Standards Board
<b>AWC</b>	Auto Warehouse Company	<b>GCP</b>	General Central Peninsular
<b>BHP</b>	Blair Hylebos Peninsular	<b>GDP</b>	Gross Domestic Product
<b>BNSF</b>	BNSF Railway	<b>GFOA</b>	Gov't Finance Officers Association
<b>BPA</b>	Bonneville Power Administration	<b>Gov't</b>	Government
<b>CB</b>	Capital Budget	<b>HIM</b>	Hyundai Intermodal Yard
<b>CBN/T</b>	Commencement Bay Nearshore/Tideflats	<b>HR</b>	Human Resources
<b>CDF</b>	Confined Disposal Facility	<b>ICT</b>	International Container Terminals
<b>CFS</b>	Container Freight System	<b>IDD</b>	Industrial Development Districts
<b>CIP</b>	Capital Investment Plan	<b>ILWU</b>	International Longshore and Warehouse Union
<b>CHB</b>	Citizens for a Healthy Bay	<b>IT</b>	Information Technology
<b>CMS</b>	Contract Management System	<b>ITOS</b>	Intermodal Terminal Operating System
<b>CPC</b>	Central Point of Coordination	<b>ITS</b>	International Terminal Service
<b>CPI</b>	Consumer Price Index	<b>JIIC</b>	Joint Inland Infrastructure Committee
<b>DHS</b>	Department of Homeland Security	<b>LAGS</b>	Lincoln Avenue Grade Separation
<b>EB1</b>	East Blair Terminal 1	<b>LEED</b>	Leadership in Energy and Environmental Design
<b>EBC</b>	Earley Business Center	<b>LIBOR</b>	London Interbank Offered Rate
<b>EBI</b>	Earn Base Increase	<b>LID</b>	Low Impact Development
<b>EDI</b>	Electronic Data Interchange	<b>LNG</b>	Liquid Natural Gas
<b>EPA</b>	Environmental Protection Agency	<b>LTCA</b>	Local Toxics Control Account
<b>FAST</b>	Freight Action Strategy Corridor	<b>MLLW</b>	Mean Lower Low Water
<b>FMS</b>	Financial Management System	<b>MTCA</b>	Model Toxics Control Act
<b>FPR</b>	First Point of Rest	<b>NIM</b>	North Intermodal Yard
<b>FTE</b>	Full-Time Equivalent	<b>NOI</b>	Net Operating Income
<b>FTZ</b>	Foreign Trade Zone	<b>NPDES</b>	National Pollution Discharge Elimination System

<b>NRDA</b>	Natural Resources Damage Assessment	<b>TECP</b>	Tax Exempt Commercial Paper
<b>NSCSA</b>	National Shipping Company of Saudi Arabia	<b>TEU</b>	Twenty-Foot Equivalent Unit
<b>NWB</b>	Northwest Building	<b>TOTE</b>	Totem Ocean Trailer Express
<b>NWSA</b>	Northwest Seaport Alliance	<b>TPU</b>	Tacoma Public Utilities
<b>OGT</b>	Office of Grants and Training, administrator of Homeland Security Grants	<b>TWIC</b>	Transportation Worker Identification Credential
<b>OSC</b>	Operation Safe Commerce	<b>UAO</b>	Unilateral Administrative Order
<b>OTIS-M</b>	Off Tidelands Study and Modeling	<b>UP</b>	Union Pacific
<b>PBC</b>	Port Business Center	<b>USDA</b>	U.S. Department of Agriculture
<b>PCT</b>	Pierce County Terminal	<b>UWT</b>	University of Washington Tacoma
<b>PDA</b>	Public Development Authority	<b>WPPA</b>	Washington Public Ports Association
<b>PIERS</b>	Port Import Export Reporting Service	<b>WRDA</b>	Water Resources Development Act
<b>PIM</b>	Pierce County Intermodal Yard	<b>WSDOT</b>	Washington State Department of Transportation
<b>PMA</b>	Pacific Maritime Association	<b>WTC</b>	World Trade Center
<b>POT</b>	Port of Tacoma	<b>WTO</b>	World Trade Organization
<b>PRP</b>	Potentially Responsible Parties	<b>WUT</b>	Washington United Terminals
<b>PSA</b>	Puyallup Settlement Agreement		
<b>RAMP</b>	Regional Access & Mobility Project		
<b>RCW</b>	Revised Code of Washington		
<b>ROA</b>	Return on Assets		
<b>ROD</b>	Record of Decision		
<b>ROI</b>	Return on Investment		
<b>SIFMA</b>	Securities Industry and Financial Markets Association		
<b>SIM</b>	South Intermodal Yard		
<b>SR 167</b>	State Route 167		
<b>SSA</b>	Stevedoring Services of America		
<b>ST</b>	Short tons		
<b>SWAP</b>	Forward Starting payment Agreement		
<b>T3</b>	Terminal 3		
<b>T4</b>	Terminal 4		

## Appendix G Cash Flow Forecast Assumptions

### **Budget Year (\$ Million)**

Cash & investments at beginning of the budget year	\$166.4
Minimum cash & investments	\$73.5
Gross tax levy	\$23.9

### **Revenue Assumptions:**

Container TEUs average growth percentage	3.7%
Intermodal lifts average growth percentage	3.2%
Breakbulk tonnage average growth percentage	4.8%
Autos average growth percentage	10.0%
Interest income investment rate	0.09%-2.69%
Average tax levy growth rate	3.0%

### **Expense Assumptions:**

Average annual inflation used for expenses	2.5%
Average annual Port labor Increase	3.0%
Borrowing rate for new fixed rate G.O. bond debt	1.83%-4.15%
Borrowing rate for new fixed rate revenue bond debt	2.03%-4.35%
Borrowing rate for new variable rate revenue bond debt	0.17%-2.55%
Term of new bond debt	30
Borrowing rate for Commercial Paper	0.24%-2.5%

## Appendix H Minimum Amount of Cash and Investments on Hand

The Port has established an approach for determining the minimum amount of cash and investments on hand to meet its financial obligations during a period of adverse operating conditions that would substantially impair its revenue stream. It has based the components of this approach on prudent financial management considerations but has incorporated elements from bond covenants. The Port regularly reviews the components to ensure that the amount adequately meets the specified criteria.

The Port minimum cash below does not include the Port of Tacoma's contribution to the NWSA Working Capital. The Port has provided \$21.8 million to the NWSA Working capital as a 6 month reserve plus \$3.7 million for liquid working capital for a total contribution to NWSA from POT of \$25.5 million. Additionally, the Port of Seattle contributed \$25.5 million to the NWSA Working Capital for a total NWSA Working capital amount of \$51 million.

### Minimum Port of Tacoma Cash & Investments

	<u>(\$ Millions)</u>
Port cash and investments to cover 6 months operating expenses	\$11.2
Prorated revenue bond payments	2.3
Prorated G.O. bond payments	1.0
Revenue bond reserves	57.6
Industrial insurance reserve	0.4
Self insurance reserve	1.0
Minimum Port of Tacoma cash & investment balance	<u><u>\$73.5</u></u>

## Appendix I Demographic and Economic Information

The Port operates within Pierce County. The City of Tacoma, the county seat of and largest city within the County, is located in the west-central part of Washington State near the southern tip of Puget Sound. It is the third largest-city in the state with a 2018 population of approximately 210,000 people.

(1) Projected  
(2) Preliminary Estimate

### Population: Pierce County and City of Tacoma

Year	Tacoma	Pierce County
<b>2020</b>	<b>213,300</b>	<b>900,700</b>
2019	211,400	888,300
2018	209,100	872,220
2017	208,100	859,400
2016	206,100	844,490
2015	202,300	830,120
2014	200,900	821,300
2013	200,400	814,500
2012	199,600	808,200
2011	198,900	802,150
2010	204,200	814,600
2009	203,400	813,600

Source: Washington State Office of Financial Management; U.S. Census for 2010 figure, Estimate for 2020

### Pierce County and Washington State Median Household Income

Year	Pierce County	Washington State
2019	\$71,629	\$74,992
2018	\$70,321	\$73,294
2017	\$65,517	\$69,288
2016	\$61,042	\$65,500
2015	\$59,566	\$63,439
2014	\$59,998	\$60,153
2013	\$57,238	\$57,284
2012	\$57,162	\$56,444
2011	\$56,114	\$55,500
2010	\$55,531	\$54,888
2009	\$56,555	\$55,479
2008	\$57,674	\$56,995

Source: Washington State Office of Financial Management

### Pierce County and City of Tacoma Taxable Retail Sales (\$ Thousands)

Year	Pierce County	City of Tacoma
<b>2019</b>	<b>\$17,791,134</b>	<b>\$5,887,579</b>
2018	\$17,592,772	\$5,821,935
2017	\$16,081,078	\$5,465,164
2016	\$14,878,551	\$5,015,372
2015	\$13,846,294	\$4,641,369
2014	\$12,697,318	\$4,317,891
2013	\$12,089,378	\$4,280,299
2012	\$10,983,336	\$4,046,579
2011	\$10,428,906	\$3,826,546
2010	\$10,547,024	\$3,849,213
2009	\$10,397,773	\$3,815,491
2008	\$11,711,653	\$4,288,739

Source: Washington State Department of Revenue, Research Division

**Tacoma Metropolitan Area (Pierce County) Resident Civilian Labor Force and Employment and Average Civilian Non-agricultural Wage and Salary Employment (1)**

	2020 (1)	2019	2018	2017	2016
<b>Resident Civilian</b>					
<b>Labor Force</b>					
Employment	402,803	418,898	400,526	391,545	380,113
Unemployment	51,276	25,164	20,872	21,659	24,058
<b>Total</b>	<b>454,079</b>	<b>444,062</b>	<b>421,398</b>	<b>413,204</b>	<b>404,171</b>
Percent of Labor Force					
Unemployed	11.3%	5.7%	5.0%	5.2%	6.0%
<b>Nonagricultural Wage and Salary Workers</b>					
Natural Resources and					
Mining	300	300	300	300	300
Construction	23,000	25,600	25,600	24,100	22,200
Manufacturing	16,300	17,800	17,600	17,100	17,400
<b>Total Goods Producing</b>	<b>39,600</b>	<b>43,700</b>	<b>43,500</b>	<b>41,500</b>	<b>39,900</b>
Transportation, warehousing and utilities					
	19,200	19,200	19,000	19,600	13,900
Wholesale trade	11,500	13,300	13,300	12,700	12,600
Retail trade	35,500	35,700	36,600	35,700	40,600
<b>Total Trade, Transportation, &amp; Utilities</b>	<b>66,200</b>	<b>68,200</b>	<b>68,900</b>	<b>68,000</b>	<b>67,100</b>
Information					
	2,000	2,200	2,500	2,600	2,700
Financial Activities	14,400	14,700	14,600	14,900	14,100
Professional and Business Services	34,500	34,800	34,400	31,600	29,800
Educational and Health Services	57,000	57,900	53,900	51,200	52,900
Leisure and Hospitality	24,500	34,000	34,000	32,300	31,200
Other Services	12,600	14,800	14,600	14,400	14,000
<b>Government</b>					
Federal	11,700	11,800	11,900	11,900	12,100
State	11,100	11,100	11,000	11,000	11,600
Local	32,500	36,700	34,400	33,900	35,000
<b>Total Government</b>	<b>55,300</b>	<b>59,600</b>	<b>57,300</b>	<b>56,800</b>	<b>58,700</b>
<b>Total Nonagricultural Wage and Salary Workers</b>	<b>306,100</b>	<b>329,900</b>	<b>323,700</b>	<b>313,300</b>	<b>310,400</b>

## Appendix J Full-Time Personnel Schedule

As of September 30, 2019	Port of Tacoma				NWSA				NWSA & POT			
	2019	2020	2020	2021	2019	2020	2020	2021	2019	2020	2020	2021
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Executive	1	1	1	4	11	13	12	11	12	14	13	15
Human Resources	3	3	2	4			-	-	3	3	2	4
External Affairs ( Public Affairs & Communications)	7	9	7	9			-	2	7	9	7	11
Finance And Administration	50	52	48	50			-	-	50	52	48	50
Commercial Business	5	6	4	6	20	23	20	21	25	29	24	27
Operations	124	125	121	122	9	11	9	10	133	136	130	132
Facilities Development	20	25	21	21	8	9	9	10	28	34	30	31
<b>Total</b>	<b>210</b>	<b>221</b>	<b>204</b>	<b>216</b>	<b>48</b>	<b>56</b>	<b>50</b>	<b>54</b>	<b>258</b>	<b>277</b>	<b>254</b>	<b>270</b>

**Notes:**

The Port and/or the NWSA may choose not to hire up to the budgeted Full Time Equivalent Headcount

### Port of Tacoma Average Compensation

The 2021 staffing budget of \$37,440,135 includes the following:

- \$9,175,100 for salaried employees and \$14,648,343 for hourly employees which includes;
  - \$194,410 for annual pay increases for salaried employees starting April.
  - \$22,867 for annual recognition program paid to salaried employees in April.
  - \$22,867 for marketplace adjustment for salaried employees during the year.
  - Hourly employees will receive a 3.25% raise in April per contract.
  - Average salary of \$107,612
- Total benefits of \$9,334,075

### Changes in Port of Tacoma Full Time Personnel from prior budget

Executive: Reorganization moved 2 positions from NWSA and 1 position from Finance

Human Resources: Reorganization added 1 position from NWSA

Finance and Administration: Reorganization eliminated 1 position and moved 1 to Executive

Operations: Equipment maintenance Eliminated 3 positions.

Facilities Development: Eliminated 3 positions and 1 position moved to NWSA

See the NWSA addendum for additional information on NWSA compensation and personnel.

## **PORT OF TACOMA**

### ***Administrative Offices***

#### ***Street Address***

One Sircum Plaza  
Tacoma, WA 98421

#### ***Mailing Address***

P.O. Box 1837  
Tacoma, WA 98401

***Phone: 253-383-5841***

***FAX: 253-593-4534***

***Website: [www.portoftacoma.com](http://www.portoftacoma.com)***

Item No.: 3A  
Meeting Date: Nov. 5, 2020

# ***2020 Forecast Update & 2021 – 2025 Budget Study Session***

***Commission Meeting  
November 5, 2020***



# Agenda



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2021 Budget Schedule

2020 Key Messages & Forecast Update

2021 Key Messages

2021 - 2025 Budget

- Capital Investment Plan
- Tax Levy
- Operating Budget
- Discretionary Items
- Plan of Finance
- Financial Measures

# Budget Schedule



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## November 5

### **Study Session to review the proposed:**

- 2020 Forecast Update Summary
- 2021 – 2025 Capital Investment Plan
- 2021 Tax Levy
- 2021 Operating Budget
- 2021 Statutory Operating Budget
- 2021-2025 Plan of Finance

## November 19

- Public Hearing
- Adopt 2021 Statutory Operating Budget & 2021 Tax Levy
  - Includes Joint Venture revenue from the NWSA operating budget

# Presentation Summary



- 2020 POT Net income will be positive and above budget at \$25.4 Million
  - Budget was \$21.3 million
  - Net income before Tax Levy of \$7.0 million
  - POT has managed economic uncertainty by decreasing spending
- Proposed tax levy of \$23.8 Million, a \$0.7 million increase (3%)
  - Reduced millage rate of \$0.17302 per thousand (5.9% reduction)
- 2021 Tax Levy funded eligible projects total \$49.9 million
- With New POT leadership and NWSA reviewing scope of services, some costs have shifted back to the Port of Tacoma.
  - Rebalancing cost allocations between NWSA and POT result in increased POT costs for administration (**\$1.77M**) and security (**\$1.16M**)

# Presentation Summary



- POT revenues remain stable
  - 2021 NWSA Distributable income flat to 2020 budget
- The 5-year POT CIP includes \$115M of capitalized projects and \$45M of expensed projects included in the operating budget
  - CIP is highest in 2021 with \$20m budgeted for land purchases
- The 2020-2025 Plan of finance shows:
  - Revenue bond borrowing capacity of \$199 million at 2 times debt service in 2025
  - Ending cash in 2025 is \$39.1 million above minimum cash
    - Ending cash of \$113M
    - Minimum cash of \$73.9M
  - Fully Diluted Debt service coverage above 2 times in all years

# 2020 P&L Forecast

(\$ millions)



(\$ millions)	2019	2020	2020	Forecast vs Budget
	Actual	Budget	Forecast	Better / (Worse)
<b>Operating Revenues</b>				
NWSA	\$48.0	\$41.9	\$35.7	-\$6.3
Container	3.1	3.2	3.2	(0.0)
Non Container	3.5	2.6	1.0	(1.6)
Real Estate	20.7	12.3	14.0	1.7
Other	0.0	0.0	0.0	0.0
<b>Total Operating Revenues</b>	<b>75.4</b>	<b>60.1</b>	<b>54.0</b>	<b>(6.2)</b>
<i>Revenue before GASB 87</i>	<i>\$75.4</i>	<i>\$68.9</i>	<i>\$62.1</i>	<i>-\$6.8</i>
<b>Total Direct Expenses</b>	8.4	11.5	10.2	1.4
<b>Administration</b>	4.1	5.3	3.7	1.6
<b>Security</b>	0.3	0.4	0.4	0.0
<b>Environmental</b>	2.3	4.6	3.1	1.4
<b>Total Operating Expense before De</b>	15.1	21.7	17.4	4.4
<b>Depreciation</b>	26.9	26.9	26.4	0.5
<b>Total Operating Expense</b>	<b>42.0</b>	<b>48.7</b>	<b>43.8</b>	<b>4.9</b>
<b>Operating Income</b>	<b>\$33.4</b>	<b>\$11.4</b>	<b>\$10.1</b>	<b>(1.3)</b>
<i>Return on Revenue</i>	<i>44.3%</i>	<i>19.0%</i>	<i>18.8%</i>	
Non Operating Income (Expense)	(9.9)	(8.6)	(3.2)	5.4
<b>Income before Tax Levy and Expen</b>	<b>23.5</b>	<b>2.8</b>	<b>7.0</b>	<b>4.1</b>
<b>Ad Valorem Tax Levy</b>	20.9	23.1	23.1	(0.0)
GO Interest	(4.8)	(4.7)	(4.7)	0.0
<b>Net Tax Levy</b>	<b>\$16.1</b>	<b>\$18.4</b>	<b>\$18.4</b>	<b>\$0.0</b>
<b>Net Income Before Special Item</b>	<b>\$39.6</b>	<b>\$21.3</b>	<b>\$25.4</b>	<b>\$4.1</b>
Special Item	(22.0)			0.0
<b>Net Income</b>	<b>\$17.7</b>	<b>\$21.3</b>	<b>\$25.4</b>	<b>\$4.1</b>

**2020 Forecast vs '20 Forecast Revenue** – NWSA reduction and decrease in POT auto terminal volumes offset by lease revenue

## Expenses

Direct –lower security cost \$153K, lower than budgeted write off of roof replaced \$848K, consulting \$256K

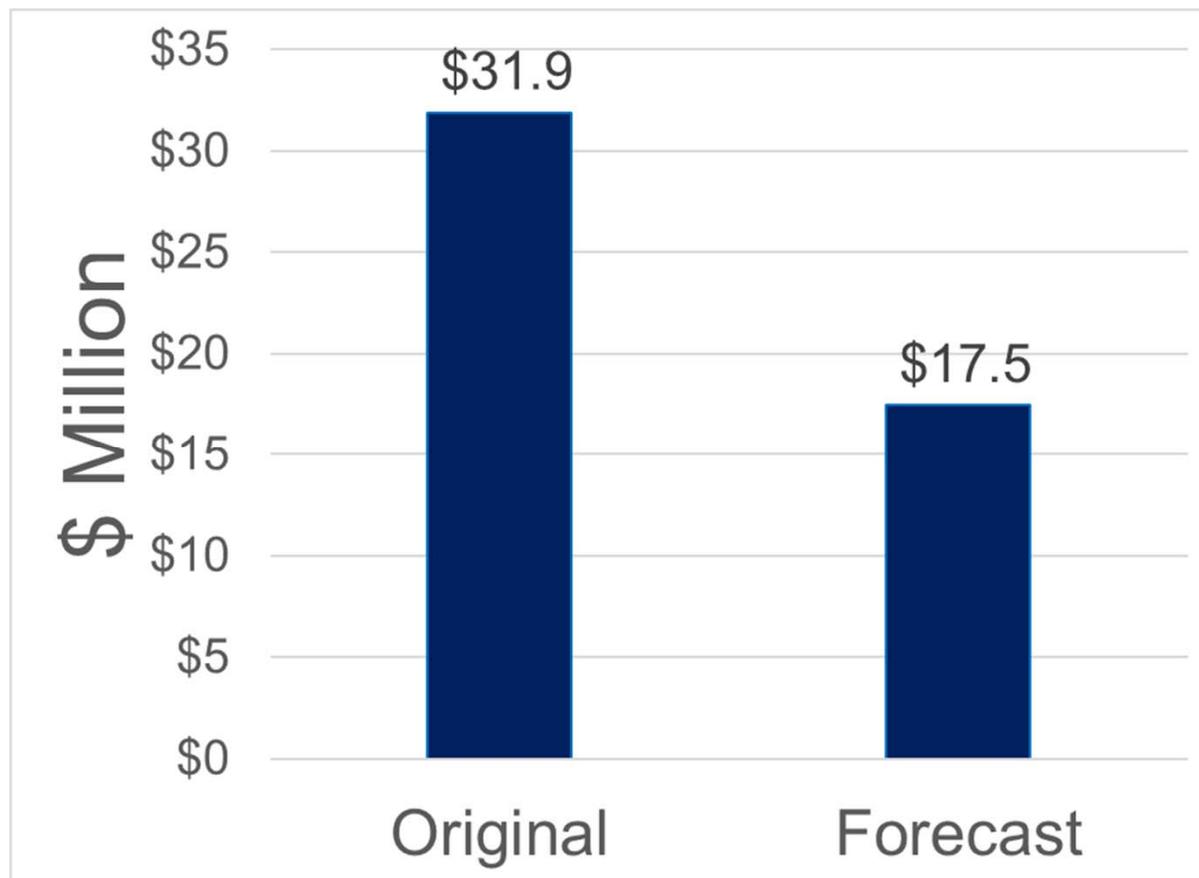
*Administration* – Unfilled positions \$498K, IT consulting \$600K, meeting streaming \$314K, publications \$240K, travel \$116K

*Environmental*-EBC Remediation delayed, \$1.5M

*Non operating* – Gain on sale of 2602 POT Road, Hylebos Settlement, and investment gains

2020 forecasted results subject to change

# 2020 Capitalized Project Spending



# 2020 Capitalized Spending Forecast

(\$ millions)



Type	2020 Forecast	Major Projects
Land (incl. remediation)	\$12.4	Land acquisition, Parcel 14 habitat and Arkema remediation
Environmental, Technology and Port-Wide Infrastructure	\$2.8	Municipal Stormwater Permit Program, Upper Clear Creek Mitigation Bank
Building	\$1.4	EBC and Administration buildings roof replacement
Terminal Development	\$0.9	Parcel 77 Auto Terminal and Thorne Rd Stormwater
<b>Total</b>	<b>\$17.5</b>	

Note: May not foot due to rounding

# Cargo Forecast



- The cargo forecast for containers, autos, breakbulk, and the majority of intermodal volumes was presented as part of The Northwest Seaport Alliance budget presentation
- The Port of Tacoma revenue is now mainly fixed through real estate leases. Variable revenue for Port of Tacoma may include:
  - Volume above Minimum Guarantee at the new Taylor Way Auto Facility
  - Tariff at the Gypsum dock
  - Industrial intermodal volume (non-container)
  - Auto short-term storage revenue on Port property not licensed to the NWSA

# Capital Investment Plan

# Total View: Five Year Planned CIP 2021 – 2025\*



<i>\$ Million</i>	<b>2020</b>						<b>2021 - 2025</b>
<b>POT Only</b>	<b>Forecast</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Totals</b>
Capitalized	\$17.5	\$44.6	\$19.5	\$16.5	\$11.2	\$23.1	\$114.8
Operating Expense	4.8	6.4	8.5	10.0	7.7	4.0	36.5
Non-Operating Expense	0.9	4.6	1.5	1.6	1.3	0.2	9.3
<b>Grand Total - POT Only</b>	<b>\$23.1</b>	<b>\$55.6</b>	<b>\$29.5</b>	<b>\$28.0</b>	<b>\$20.1</b>	<b>\$27.3</b>	<b>\$160.5</b>

<i>\$ Million</i>	<b>2020</b>						<b>2021 - 2025</b>
<b>POT + 50% NWSA</b>	<b>Forecast</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>Totals</b>
Capitalized	\$94.0	\$111.9	\$50.1	\$25.8	\$22.9	\$59.6	\$270.4
Operating Expense	12.4	12.7	13.1	16.1	11.4	7.1	60.3
Non-Operating Expense	2.7	6.2	5.6	1.6	1.3	0.2	14.9
<b>Grand Total: POT &amp; 50% NWSA</b>	<b>\$109.1</b>	<b>\$130.7</b>	<b>\$68.8</b>	<b>\$43.5</b>	<b>\$35.6</b>	<b>\$67.0</b>	<b>\$345.6</b>

Note: May not foot due to rounding

\*Excluded Tribal  
Cutback/Dredge  
commitment

Capitalized:

- Assets that depreciate over time
- Non-depreciating land purchases

Operating/Non-operating expense

- Included in the budget as spending

# 2021 Port of Tacoma CIP Spending

(Does not include NWSA CIP) (\$ millions)



Type	2021 Budget	Major Projects
Building and Land (incl. remediation)	\$34.4	Parcel 1b remediation, land acquisition placeholder, EBC building
Habitat/ Mitigation Dev	\$7.2	Lower Wapato Creek Combined Habitat (parcel 14)
Admin Building Design and Construction	\$4.8	
Unanticipated Projects	\$4.0	\$3M capitalized projects and \$1M operating expenses
Others	\$2.9	Equipment, Tideflats Subarea Plan, etc
Technology	\$1.8	
Roadway Infrastructure Funding	\$0.5	
<b>Total</b>	<b>\$55.6</b>	

Note: May not foot due to rounding

# 2021 - 2025 Port of Tacoma CIP

(Does not include NWSA CIP & Tribal dredge commitment) (\$ millions)



Type	2021-2025 Budget	Major Projects
Building and Land (incl. remediation)	\$64.6	Arkema, Parcel 82 and Land Acquisitions Placeholder
Habitat/ Mitigation Dev	\$30.4	Lower Wapato Creek Combined Habitat (parcel 14), EBC remediation design & construction
Terminal Development	\$20.3	Husky channel dredging and Thorne Rd Stormwater
Admin Building Design and Construction	\$4.8	
Rail	\$4.4	Switches in the Banana Rail Yard
Roadway Contribution	\$3.5	Roadway infrastructure funding
Contingency for Emergent Projects	\$22.0	\$15M capitalized projects and \$7M operating expenses
Others	\$10.5	IT, Demolition, Maytown oversight
<b>Total</b>	<b>\$160.5</b>	

# CIP Categories



- **Categorization is subjective**
  - **Required means**
    - per lease requirements (which can be negotiated away) or contract with another entity
    - Safety
    - legal or environmental compliance
  - **Discretionary can mean timing or need to complete is discretionary (flexible)**
    - Timing –could be delayed
    - New Need/Opportunity – new business opportunities which may have several alternatives

# 2021- 2025 Required Projects by Category

(\$ thousand)



New Category <input type="button" value="v"/>	2021	2022	2023	2024	2025	Total Budget 2021-25
Beyond Compliance	60	61	62	63	65	311
Commission	475	200	-	-	-	675
Habitat Monitoring	144	86	144	130	100	604
Habitat/ Mitigation Dev	-	90	-	-	-	90
Maintenance	728	-	-	-	-	728
Miscellaneous	-	50	50	50	250	400
Remediation	1,629	5,225	13,613	5,214	545	26,226
Remediation Monitoring	455	472	693	465	663	2,748
Stormwater Compliance	377	279	279	300	300	1,535
<b>Grand Total</b>	<b>3,868</b>	<b>6,463</b>	<b>14,841</b>	<b>6,222</b>	<b>1,923</b>	<b>33,317</b>

# 2021- 2025 Discretionary Projects by Category (\$ thousand)



New Category <input type="text"/>	2021	2022	2023	2024	2025	Total Budget 2021-25
Air Quality	125	175	155	165	170	790
Beyond Compliance	515	490	490	525	525	2,545
Demolition	490	484	-	-	-	974
Habitat/ Mitigation Dev	10,685	1,125	1,875	2,600	2,000	18,285
Infrastructure	1,241	1,000	2,664	2,629	-	7,534
Land	20,458	10,000	-	-	-	30,458
Maintenance	8,507	480	480	480	480	10,427
Miscellaneous	177	50	50	50	17,050	17,377
Operational Upgrades	6,684	4,600	4,500	4,500	4,500	24,784
Remediation	847	2,463	280	543	-	4,133
Remediation Monitoring	89	189	159	154	328	919
Stormwater Compliance	40	40	40	40	40	200
Support Systems	1,866	1,906	2,492	2,217	315	8,796
<b>Grand Total</b>	<b>51,724</b>	<b>23,002</b>	<b>13,185</b>	<b>13,903</b>	<b>25,408</b>	<b>127,222</b>

# 2021 - 2025 Port of Tacoma CIP



## Land Purchases

- This budget includes \$20M of funding for land acquisition in 2021
  - The budget does not include any associated revenue from this budget
- The Plan of Finance (POF) [to be reviewed later] shows funds are available for strategic property purchase
  - The POF can be updated to show the revenue and land purchase cash impact when known.

# 2021 Tax Levy

# Tax Levy Usage



State law allows tax levy dollars to be used for paying general obligation debt and for “...general port services.”

Port of Tacoma policy is to use remaining tax levy after paying annual GO bond debt service for “governmental” purposes.

- GO bond Debt retirement
- Road and rail infrastructure
- Environmental projects
- Land Purchases

# Tax Levy Eligible Projects

(\$ millions)



Description	2021 Budget
Potential Land Acquisitions	\$20.0
Environmental Monitoring & Remediation	\$11.7
Admin Building Design and Construction	\$4.8
Technology	\$1.8
Roadway infrastructure funding	\$0.5
Park Contribution	\$0.3
Others	\$10.8
<b>Total</b>	<b>\$49.9</b>

# Tax Levy Proposal



- 
- Property values increased 7.7% plus another 1.8% for new construction resulting in total 9.5% increase
  - Port could increase levy by 9.5% or \$2.16M
  - Propose a simple 3% increase over prior year
    - \$694,727 increase to \$23,852,281

# Tax Levy Proposal



- 
- New millage rate of \$0.17302
    - 5.8% decrease from \$0.18365
    - Will impact growth of ceiling in future years
  - Preserve tax levy capacity to pay debt service on future GO bond to fund a \$45M dredge if needed
    - \$2.5M annual debt service on \$45M at 3% over 30 years
    - Ceiling minus levy must be greater than \$2.5M with this strategy

# Tax Levy Proposal



- 
- Tax levy limit increases by the lesser of 1% or actual “inflation” plus new construction additions at the previous year millage rate
  - Inflation is 0.6%, so tax levy ceiling increase (excluding new construction) is less than 1%
  - Commission can vote to raise the ceiling by 1% instead of 0.6% resulting in \$92,630 if needed in the future
    - Additional resolution required
  - Bank tax levy per past practices

# 2021 Tax Levy



	2020 Forecast	2021 Budget
Assessed Valuation*	\$126,096,129,224	\$137,859,221,328
Target Millage Rate (per \$1,000 valuation)	\$0.18365	\$0.17302
Total Port Tax Levy **	\$23,157,554	\$23,852,402
Debt Service on G.O. Bonds	\$10,046,636	\$12,363,171
Remainder for Governmental Projects	\$13,110,918	\$11,489,231

\* 2021 Preliminary assess valuations as of September 2020

\*\* Based on 2020 preliminary valuations and targeted millage rate

# Port Millage Rate for Single Family Residences



Tax Collection Year	2018	2019	2020	2021
Avg. Assessed Value	\$ 358,441	\$ 347,703	\$ 373,437	\$ 405,559
Port Millage Rate (per \$1,000)	0.18365	0.18365	0.18365	0.17302
Annual Tax Levy	\$ 65.83	\$ 63.86	\$ 68.58	\$ 70.17
Monthly Tax Levy	\$ 5.49	\$ 5.32	\$ 5.72	\$ 5.85
Tax Levy if at Maximum Rate	\$ 96.23	\$ 85.51	\$ 78.09	\$ 84.80
Monthly Tax Levy at Max Rate	\$ 8.02	\$ 7.13	\$ 6.51	\$ 7.07

# Tax Levy

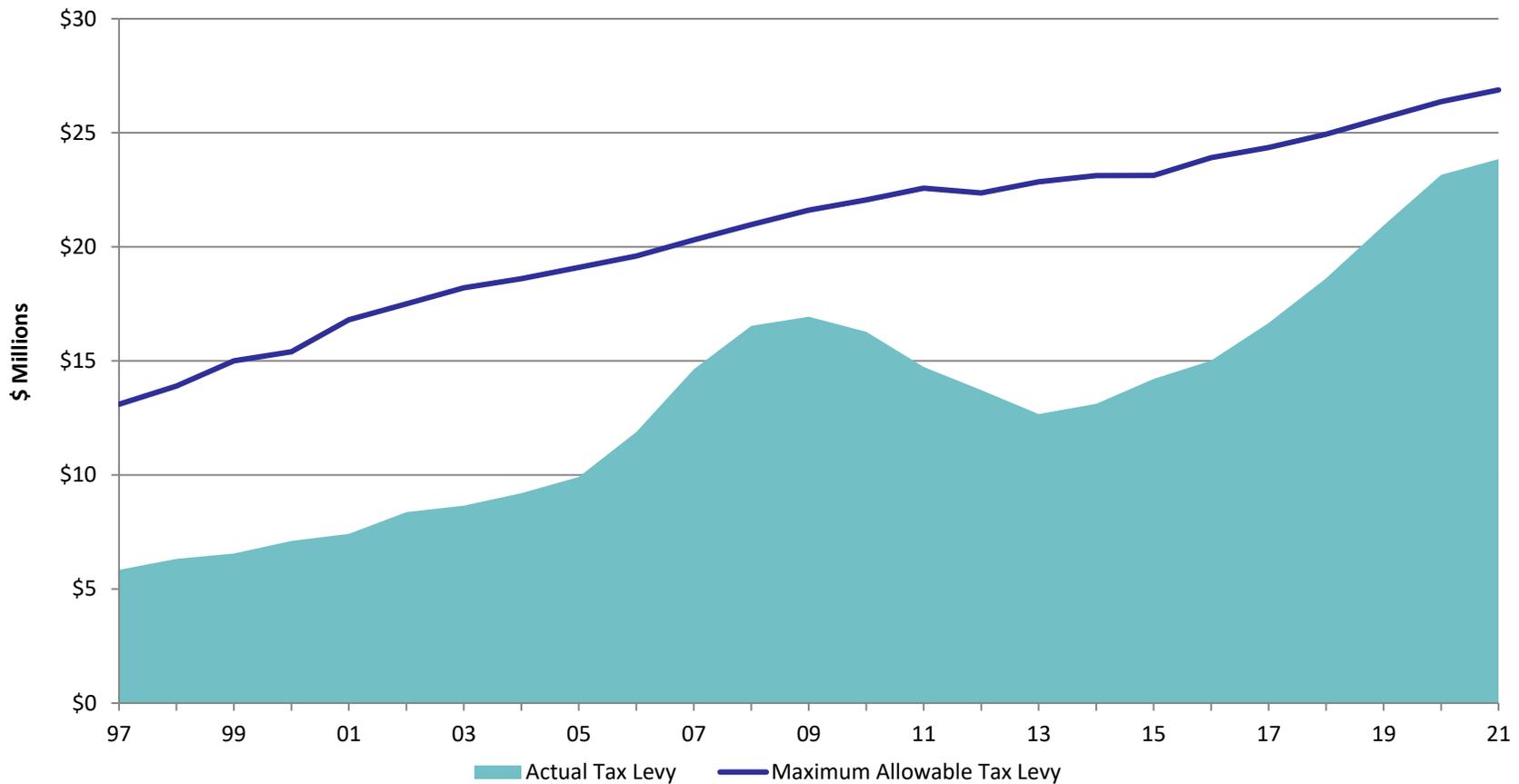


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## 2021 Recommendation

- Budget \$23.8 Million for 2021
  - Covers 100% of GO bond interest payment (\$5.8M)
  - Covers 100% of GO Bond principal payment (\$6.6M)
  - \$11.5M for Governmental projects
    - \$38.4M of Governmental projects remain funded by operations
  - Reduced millage rate from \$0.18365 per thousand dollars of valuation to \$0.17302 per thousand
    - 5.8% decrease in millage rate

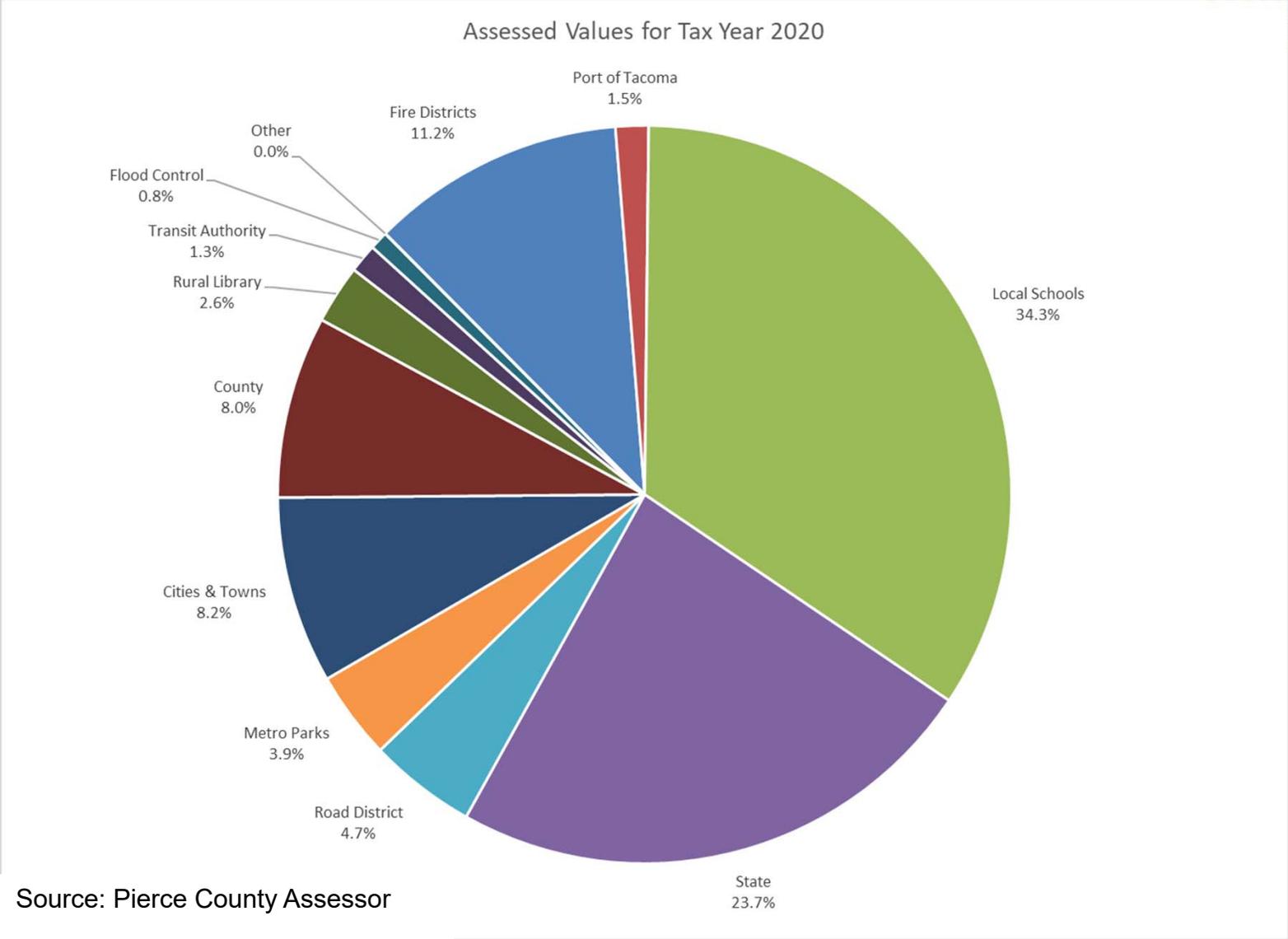
# Tax Levy History



\* 2021 Preliminary assess valuations as of September 2020

\*\* Based on 2021 preliminary valuations and targeted millage rate

# 2021 Tax Levies by Taxing District



Source: Pierce County Assessor

# 2021 Operational Budget

# 2021 Key Assumptions

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- Revenues are based on NWSA, POT real estate and other POT businesses.
  - Split NWSA Distributable Income (Net Income) 50/50
  - Real Estate and Bulk based on existing leases and cargo forecast
  - Intermodal revenue based on industrial rail traffic

# BARS POT Net Income



(\$ millions)	2019 Actual	2020 Budget	2020 Forecast	2021 Budget
<b>Operating Revenues</b>				
NWSA	\$48.0	\$41.9	\$35.7	\$41.9
Container	3.1	3.2	3.2	3.6
Non Container	3.5	2.6	1.0	2.5
Real Estate	20.7	12.3	14.0	15.5
Other	0.0	0.0	0.0	0.0
<b>Total Operating Revenues</b>	<b>75.4</b>	<b>60.1</b>	<b>54.0</b>	<b>63.5</b>
<i>Revenue before GASB 87</i>	<i>\$75.4</i>	<i>\$68.9</i>	<i>\$62.1</i>	<i>\$71.6</i>
<b>Total Direct Expenses</b>	8.4	11.5	10.2	11.0
<b>Administration</b>	4.1	5.3	3.7	6.4
<b>Security</b>	0.3	0.4	0.4	1.6
<b>Environmental</b>	2.3	4.6	3.1	3.4
<b>Total Op. Expense before Depr.</b>	15.1	21.7	17.4	22.3
<b>Depreciation</b>	26.9	26.9	26.4	25.6
<b>Total Operating Expense</b>	<b>42.0</b>	<b>48.7</b>	<b>43.8</b>	<b>47.9</b>
<b>Operating Income</b>	<b>\$33.4</b>	<b>\$11.4</b>	<b>\$10.1</b>	<b>\$15.6</b>
<i>Return on Revenue</i>	<i>44.3%</i>	<i>19.0%</i>	<i>18.8%</i>	<i>24.5%</i>
Non Operating Income (Expense)	(9.9)	(8.6)	(3.2)	(14.6)
<b>Income before Tax Levy &amp; Expense</b>	<b>23.5</b>	<b>2.8</b>	<b>7.0</b>	<b>1.0</b>
<b>Ad Valorem Tax Levy</b>	20.9	23.1	23.1	23.8
GO Interest	(4.8)	(4.7)	(4.7)	(4.5)
<b>Net Tax Levy</b>	<b>\$16.1</b>	<b>\$18.4</b>	<b>\$18.4</b>	<b>\$19.3</b>
<b>Net Income Before Special Item</b>	<b>\$39.6</b>	<b>\$21.3</b>	<b>\$25.4</b>	<b>\$20.3</b>
Special Item	(22.0)			0.0
<b>Net Income</b>	<b>\$17.7</b>	<b>\$21.3</b>	<b>\$25.4</b>	<b>\$20.3</b>

# 2020 Forecast vs 2021 Budget Revenue Line Item Comparison



	2019 Actual	2020 Budget	2020 Forecast	2021 Budget
Property Rental	21.0	11.1	12.9	14.4
Sale of Utilities	0.6	0.7	0.7	0.6
Services Marine Terminals	3.9	4.6	2.8	4.6
Other Revenue	49.8	43.8	37.5	43.8
<b>Operating Revenue</b>	<b>75.4</b>	<b>60.1</b>	<b>54.0</b>	<b>63.5</b>

May not foot due to rounding

- Excluding GASB 87, Real Estate revenue increasing \$1.5M due to increase at NW Building, \$1.3M
- Marine terminal services increasing due to East Blair auto terminal, \$1.5M
- Other Revenue increasing due to higher Distributable Income from NWSA

# POT Staffing History



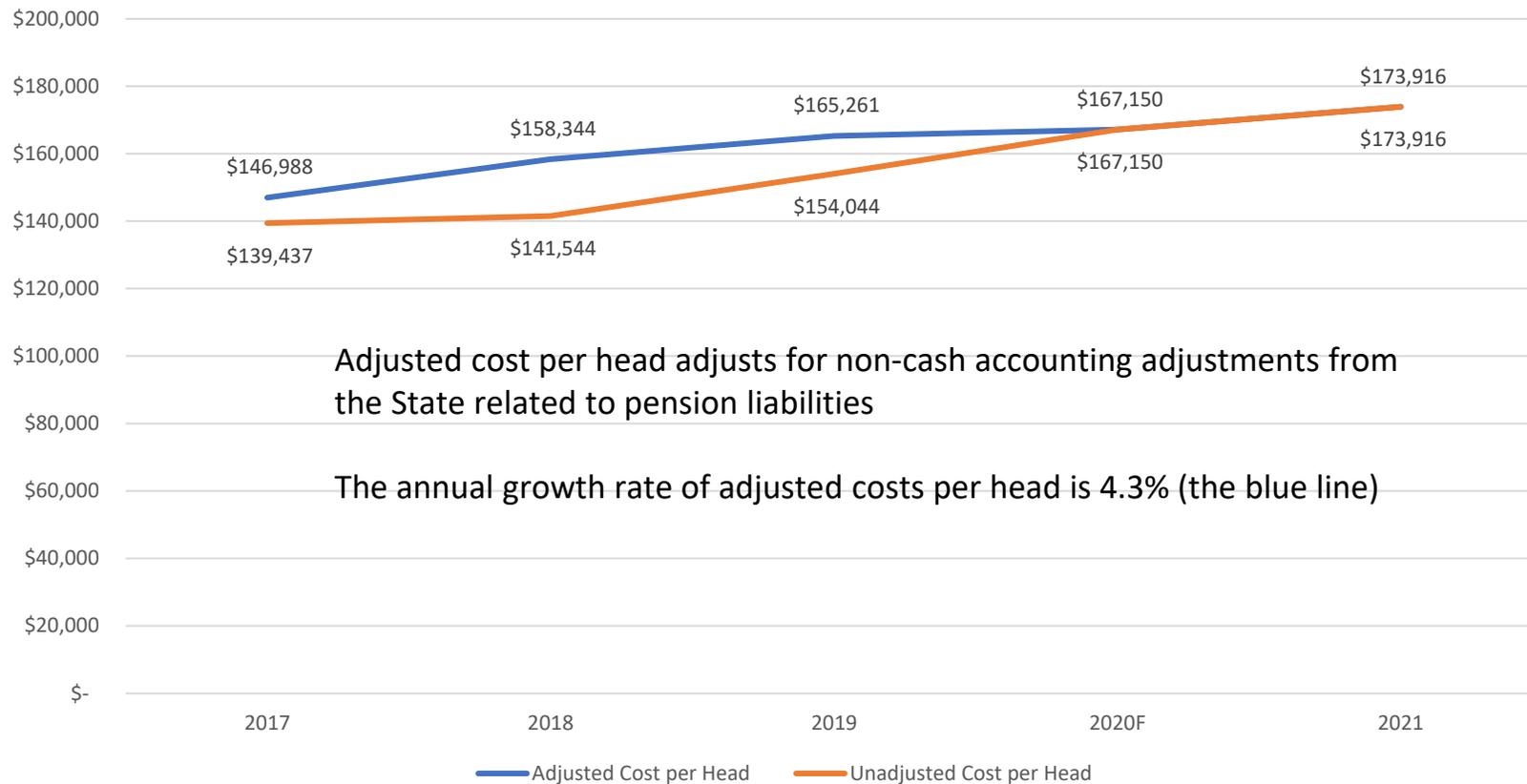
Company	Department	2017	2018	2019	2020	2021
(10) Port of Tacoma	(08) Real Estate	6	6	6	6	6
(10) Port of Tacoma	(16) Customer Service	9	9	9	9	9
(10) Port of Tacoma	(18) Strategic Projects , Risk & Safety	2	2	2	1	0
(10) Port of Tacoma	(40) Security	19	20	18	19	20
(10) Port of Tacoma	(42) APMT Security	12	12	12	10	10
(10) Port of Tacoma	(48) Environmental Admin	10	10	10	9	8
(10) Port of Tacoma	(50) Engineering	14	18	15	16	13
(10) Port of Tacoma	(54) Equip Maintenance	48	49	48	50	47
(10) Port of Tacoma	(58) Fac Maintainance	38	37	41	36	36
(10) Port of Tacoma	(62) Executive	0	1	1	1	4
(10) Port of Tacoma	(70) Information Technology	21	23	23	23	22
(10) Port of Tacoma	(72) Finance	20	20	20	20	19
(10) Port of Tacoma	(74) Contracts	9	9	9	9	9
(10) Port of Tacoma	(76) Human Resources	4	4	4	3	4
(10) Port of Tacoma	(86) Government Affairs	4	4	3	3	3
(10) Port of Tacoma	(88) Communications	5	5	5	6	6
		221	229	226	221	216

We budget a 4% vacancy rate of Salaried employees (4 positions)

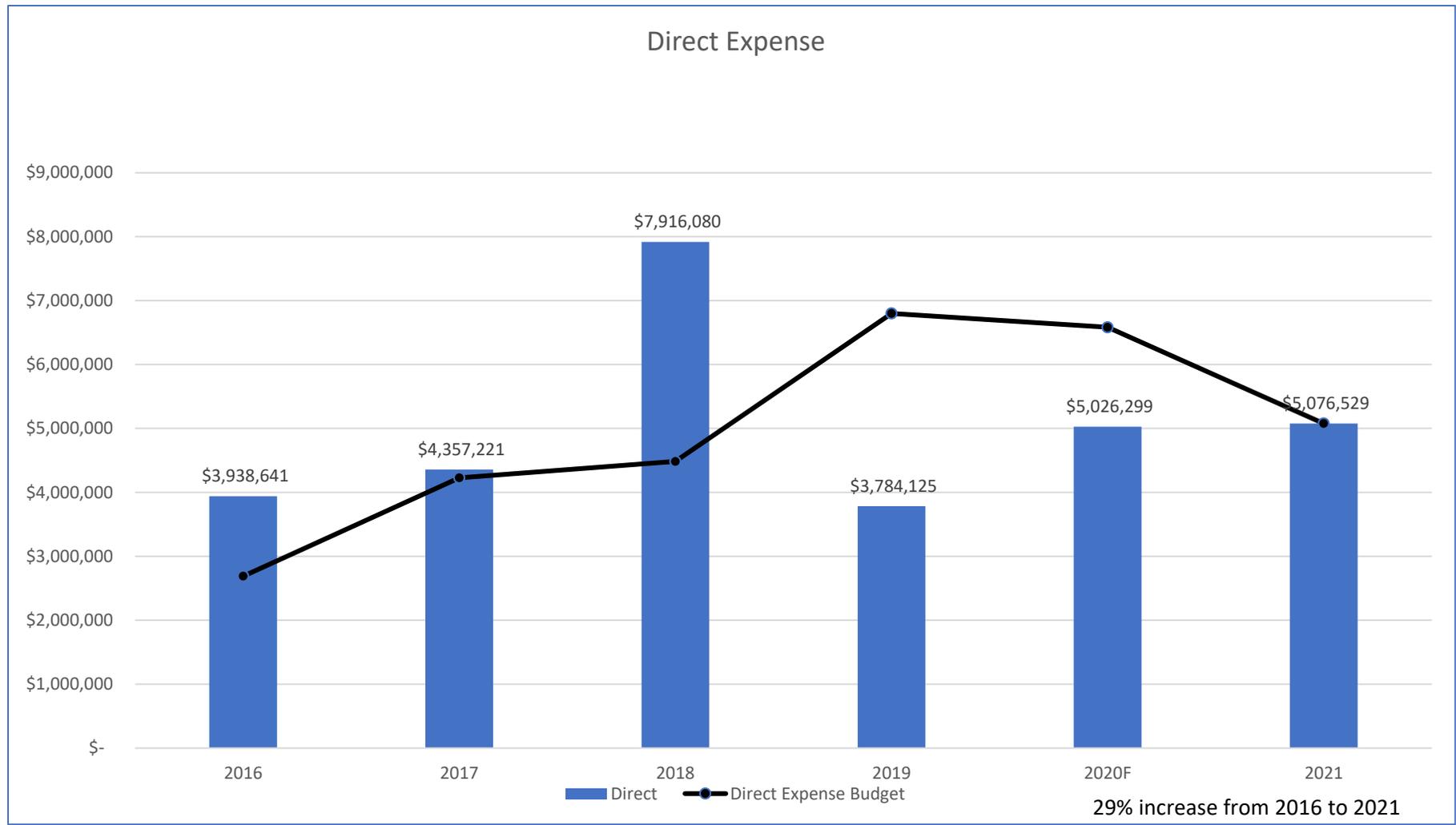
# POT Staffing Cost



Total Compensation Cost Per POT FTE



# 6 Year History: Direct Expense



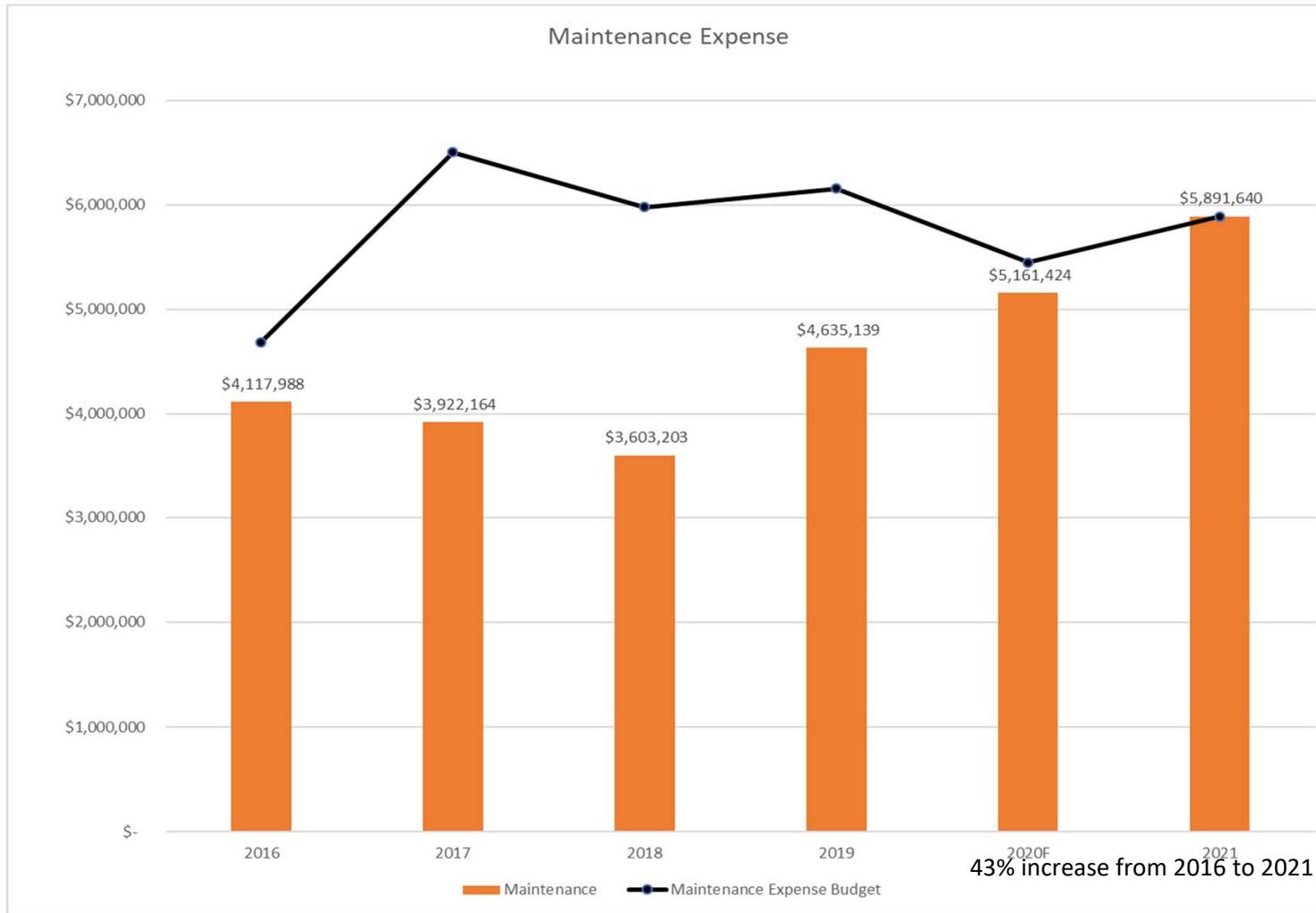
# Direct Expense



	2019	2020	2021	2020 vs 2021	% Change
BARS Operations Total	3,784,125	5,026,299	5,076,529	50,230	1.00%

- 2020 Forecast vs 2021 Budget
  - Increase in TSO security expense \$267K- **to be updated**
  - Increase in allocations, \$255K
    - POT Real Estate allocating less to NWSA, \$126K increase
    - CBP, \$57K (new for 2021) from NWSA
    - Commercial increase from NWSA \$41K
  - Increase in stormwater expense \$136K
  - Decrease in gain/loss on disposal, \$856K
- 2019 Actuals vs 2021 Budget
  - Gain/Loss on Disposal, \$387K
  - Increase in TSO Security, \$348K
  - Increase in allocations, \$330K
  - Pension Liability Adjustment, \$151K

# 6 Year History: Maintenance



# Maintenance Expense

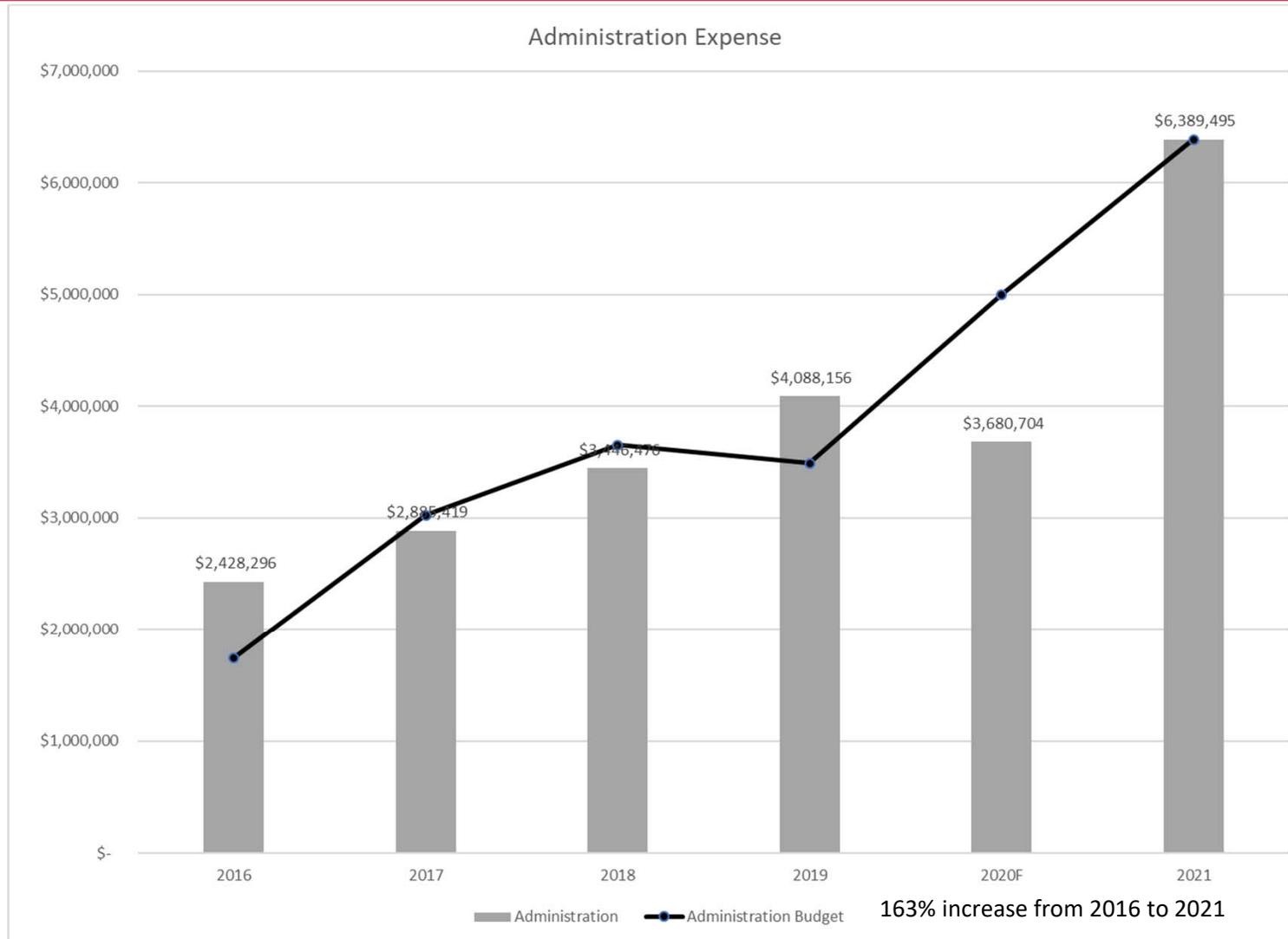


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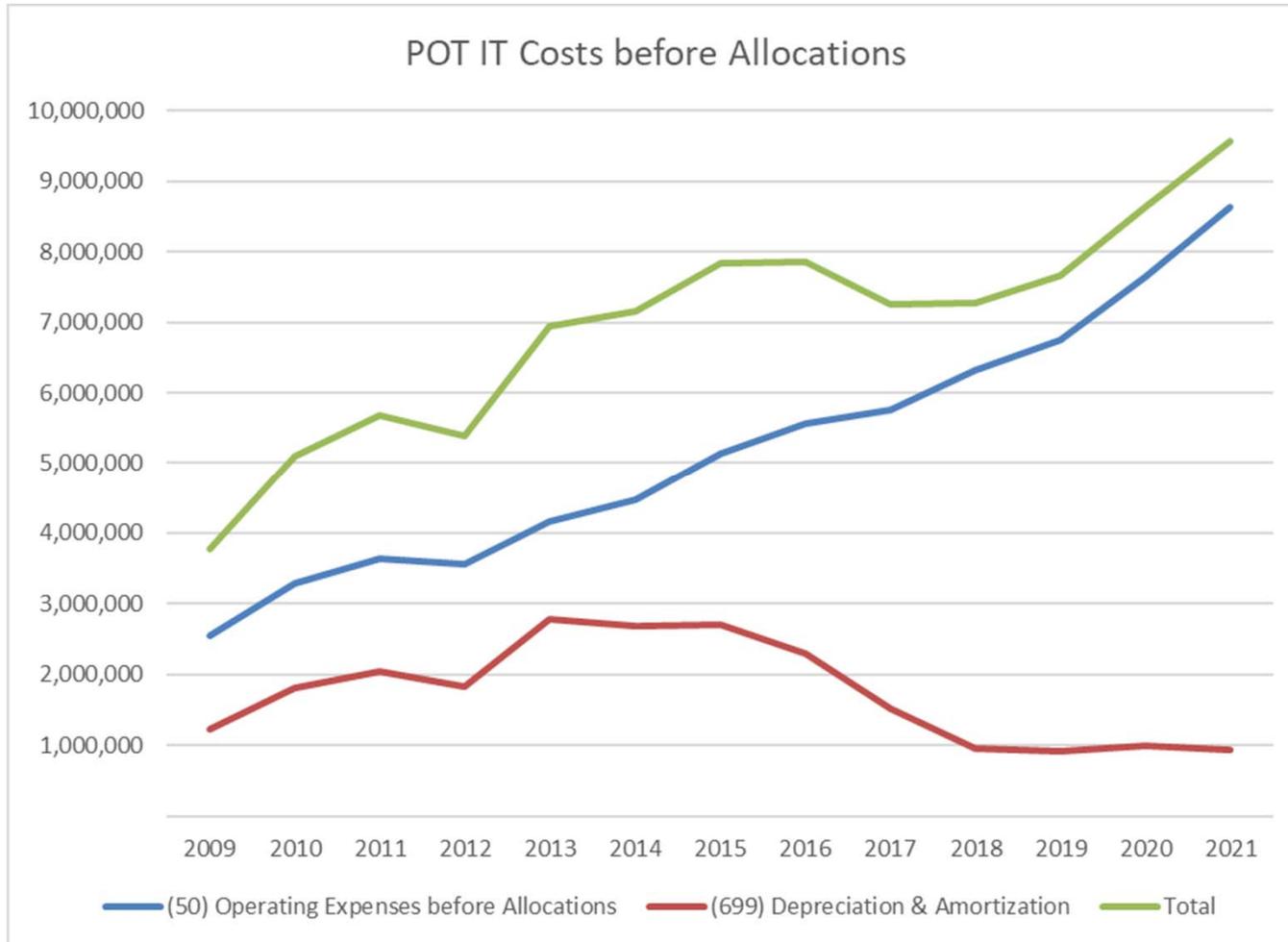
	2019	2020	2021	2020 vs 2021	% Change
BARS Maintenance Total	4,635,139	5,161,424	5,891,640	730,216	14.15%

- 2020 Forecast vs 2021 Budget
  - Pier 86 Bank Stabilization in 2021, \$728K
- 2019 Actuals vs 2021 Budget: Increases in 2021
  - POT Unanticipated Expense \$1M
  - Admin Building Shoreline Repairs \$127K
  - Encampment cleanup, \$50K

# 6 Year History: Administration



# POT IT Costs Before Allocation



# Administration



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	2019	2020	2021	2020 vs 2021	% Change
Administration Total	4,088,156	3,680,704	6,389,495	2,708,791	73.59%

- 2020 Forecast vs 2021 Budget
  - IT allocation reduction to the NWSA, \$1.0M
  - Communications allocation reduction to the NWSA, \$409K
  - Gov't Affairs allocation reduction to the NWSA, \$269K
  - POT Consulting, \$581K
    - Tideflats plan, \$200K
    - Strategic Plan, \$200K
  - IT Temps to support projects \$558K

# Administration

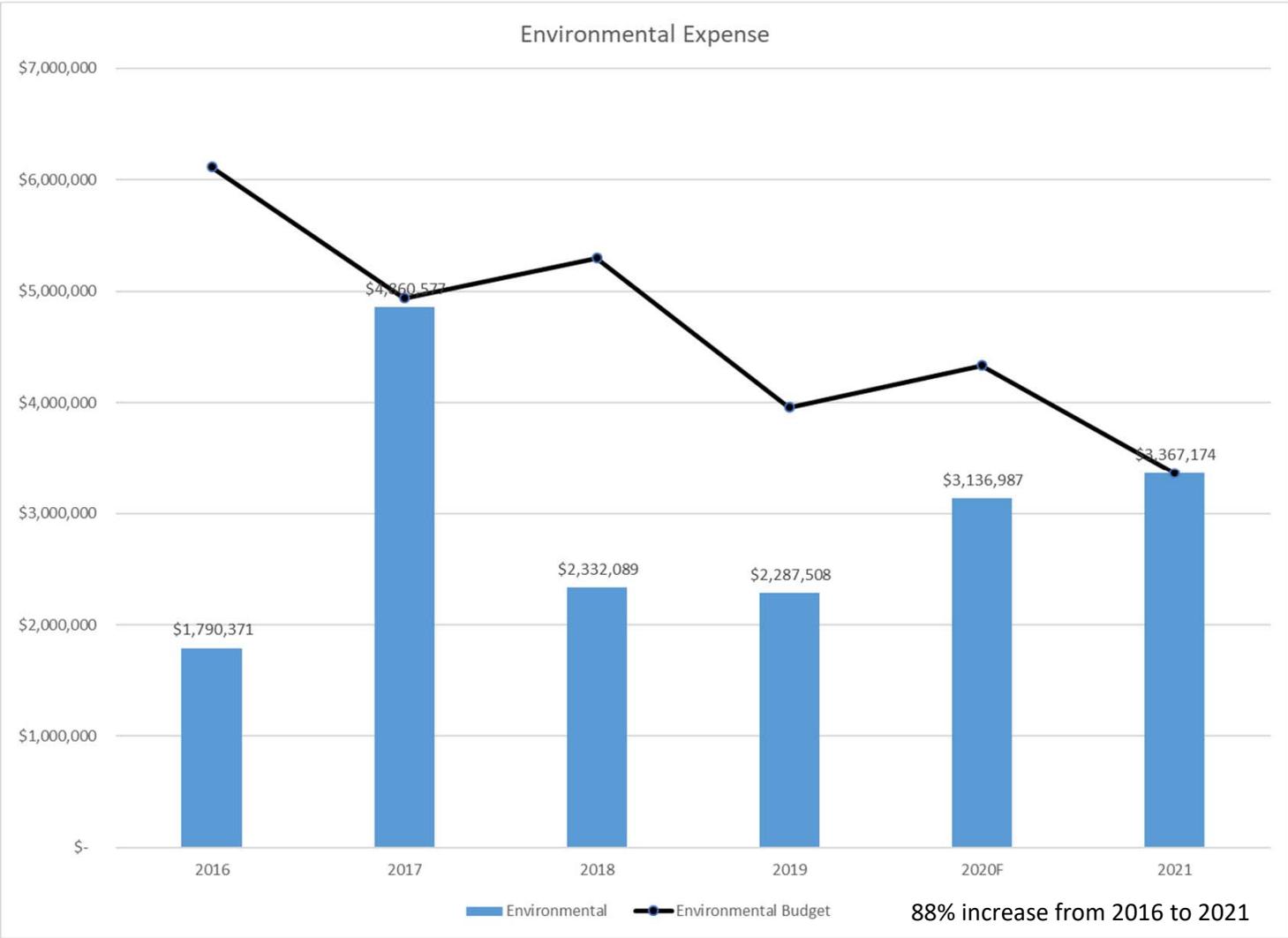


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	2019	2020	2021	2020 vs 2021	% Change
Administration Total	4,088,156	3,680,704	6,389,495	2,708,791	73.59%

- 2019 Actuals vs 2021 Budget (\$2,301,339)
  - IT allocation reduction to the NWSA, \$1.3M
  - Communications allocations reduction to the NWSA, \$595K
  - Gov't Affairs allocation reduction to the NWSA, \$490K

# 6 Year History: Environmental



# Environmental

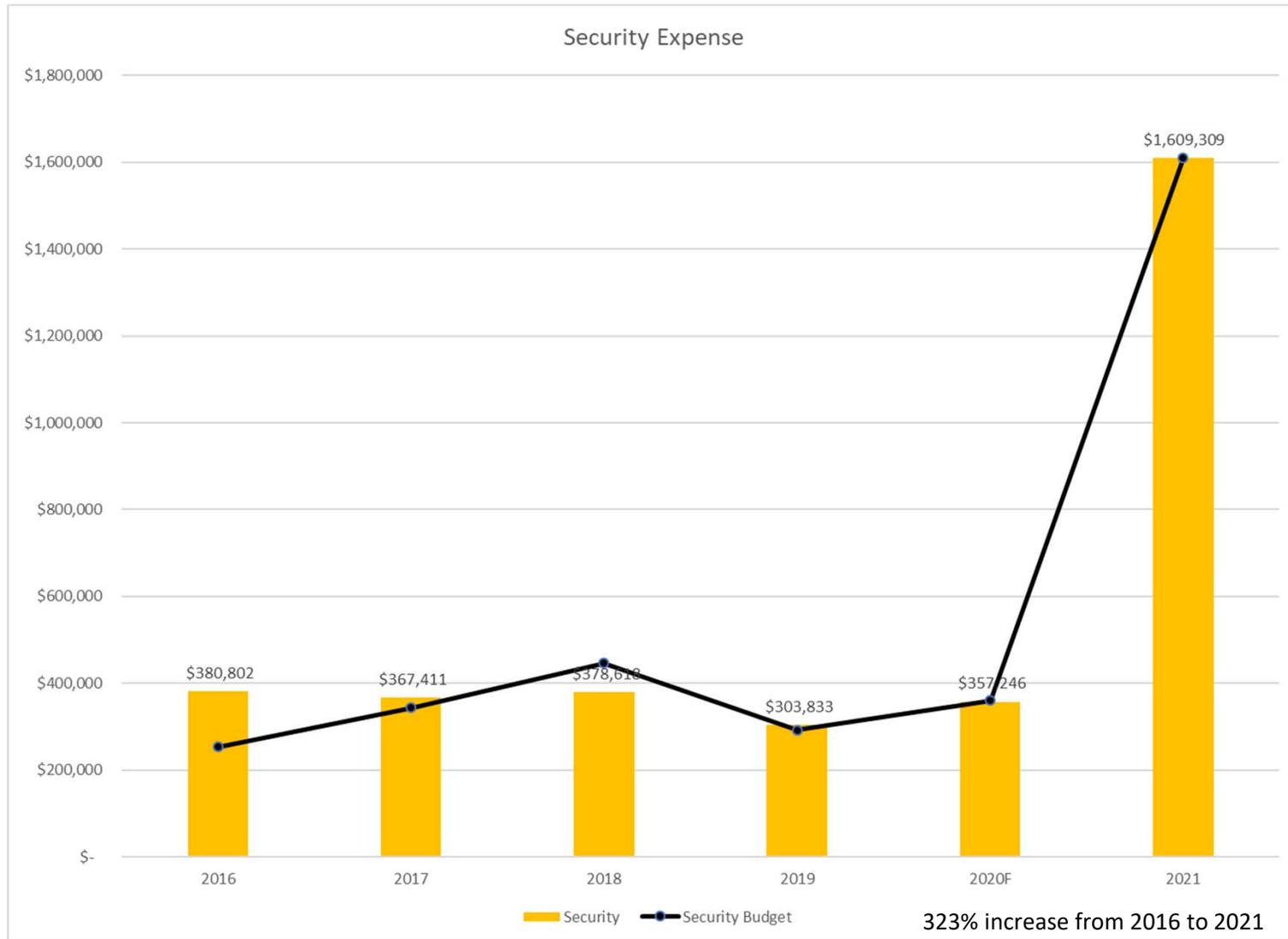


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	2019	2020	2021	2020 vs 2021	% Change
Total BARS Environmental	2,287,509	3,136,987	3,367,174	230,187	7.34%

- 2020 Forecast vs 2021 Budget
  - Portac Remediation – Phase 1 Stormwater Repair, \$290K
  - Programmatic Maintenance Permitting, \$200K
- 2019 Actuals vs 2021 Budget
  - Bldg 600 Vapor Mitigation, \$453K
  - Portac Remediation – Phase 1 Stormwater Repair, \$290K
  - Programmatic Maintenance Permitting, \$200K
  - Portac Environmental Cap Repair, \$100K

# 6 Year History: Security



# Security



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	2019	2020	2021	2020 vs 2021	% Change
BARS Security Total	303,832	357,246	1,609,309	1,252,063	350.48%

- 2020 Forecast and 2019 Actual vs 2021 Budget
  - Reduced allocation percentage to the NWSA from 85% to 56%, \$1.16M

# 2020 vs 2021 Expense Comparison Salaries & Benefits



	2019	2020 Budget	2020 Forecast	2021 Budget	Var from Forecast	% Var	Var from Prior Budget	%Var
Salary Wages	8,455,402	9,287,885	8,522,650	9,175,100	652,450	7%	(112,786)	-1%
Hourly Wages	13,355,017	13,663,650	13,814,579	14,648,343	833,764	6%	984,694	7%
OT Wages	1,922,658	1,696,040	1,309,593	1,519,500	209,907	14%	(176,540)	-10%
<b>Total Wages</b>	<b>23,733,078</b>	<b>24,647,575</b>	<b>23,646,822</b>	<b>25,342,943</b>	<b>1,696,121</b>	<b>7%</b>	<b>695,368</b>	<b>3%</b>
F.I.C.A.	1,790,033	1,806,241	1,816,519	1,911,274	94,755	5%	105,033	6%
S.U.I.	97,244	59,461	94,020	143,887	49,866	35%	84,426	142%
Medical Benefits	5,875,547	6,128,303	5,912,885	6,190,210	277,325	4%	61,907	1%
Employee Pension	2,879,984	2,824,229	2,893,503	2,763,117	(130,386)	-5%	(61,112)	-2%
Other Benefits	(1,342,334)	1,131,770	815,907	1,088,704	272,797	25%	(43,066)	-4%
<b>Total Benefits</b>	<b>9,300,474</b>	<b>11,950,004</b>	<b>11,532,835</b>	<b>12,097,192</b>	<b>564,357</b>	<b>5%</b>	<b>147,188</b>	<b>1%</b>
<i>Benefits % of Total</i>	<i>39.2%</i>	<i>48.5%</i>	<i>48.8%</i>	<i>47.7%</i>				
<b>Port Salaries &amp; Benefits</b>	<b>33,033,551</b>	<b>36,597,580</b>	<b>35,179,657</b>	<b>37,440,135</b>	<b>2,260,478</b>	<b>6%</b>	<b>842,556</b>	<b>2%</b>

May not foot due to rounding

- **\$194,374 for annual pay increases for salaried employees starting April.**
- **\$22,868 for annual recognition paid to salaried employees in April.**
- **\$22,868 for marketplace adjustment for salaried employees during the year.**
- **Hourly employees will receive a 3.25% raise in April per contract.**
- **Average Salary of \$107,612.**

# Non Operating

(\$ millions)



<i>\$ millions</i>	2020	2020	2021	Chg from	Chg from
	Budget	Forecast	Budget	CY Budget	CY Frcast
Lease Interest Income	\$8.8	\$8.1	\$8.1	(\$0.7)	(\$0.0)
Interest Income	\$4.1	\$3.4	\$3.1	(\$1.1)	(\$0.4)
Premium Discount	(\$0.8)	(\$0.8)	(\$0.8)	\$0.0	\$0.1
Investment Gain Loss	0.0	2.0	0.0	0.0	(2.0)
Capital Grant Income	0.7	0.8	0.5	(0.2)	(0.2)
Non-Capital Grant Income	0.1	1.0	0.2	0.1	(0.8)
Other Non Operating Income	(1.2)	1.3	(3.2)	(2.0)	(4.6)
<b>Non Operating Revenue</b>	<b>11.7</b>	<b>15.8</b>	<b>7.9</b>	<b>(3.8)</b>	<b>(7.9)</b>
Revenue Bond Interest Expense	17.8	17.8	16.5	1.3	1.3
Election Expense	0.0	0.0	0.9	(0.9)	(0.9)
Other Non Operating Expense	2.5	1.2	5.0	(2.5)	(3.8)
<b>Non Operating Expense</b>	<b>20.3</b>	<b>19.0</b>	<b>22.5</b>	<b>(2.2)</b>	<b>(3.5)</b>
<b>Non Operating Revenues (Expense)</b>	<b>(\$8.6)</b>	<b>(\$3.2)</b>	<b>(\$14.6)</b>	<b>(\$6.0)</b>	<b>(\$11.4)</b>
<b>Non Operating Revenue and Expenses</b>	<b>(\$8.6)</b>	<b>(\$3.2)</b>	<b>(\$14.6)</b>		

May not foot due to rounding

# 2021 Memberships over \$10k



Memberships	2020 Budget	2021 budget	Comments
Washington Public Ports Association	\$215,000	\$215,000	
Puget Sound Regional Council	51,000	50,700	
Tacoma Pierce County Chamber	25,000	24,740	
All other membership under \$10,000	30,206	29,942	52 memberships
<b>Total Contracts</b>	<b>\$321,260</b>	<b>\$320,382</b>	

- Other Port memberships all less than \$10,000 per year.
- Membership costs subject to small variations based on fees tied to 2020 actual results

# 2021 Major Community Contracts



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<b>Contract</b>	<b>2020 Contract</b>	<b>2021 Contract</b>
<b>World Trade Center</b>	\$122,500	\$122,900
<b>Economic Development Board</b>	120,000	120,000
<b>Total Contracts</b>	<b>\$242,500</b>	<b>\$242,900</b>

# Promotional Hosting



RCW 53.36.120 & 130 requires that Port expenditures for Industrial Development, Trade Promotion, and Promotional hosting be specific budgeted items

Promotional hosting is “Furnishing customary meals, refreshments, lodging, transportation or any combination of those items in connection with: Business meetings, social gatherings, and ceremonies honoring persons or events relating to the authorized business promotion activities of the port”

# Promotional Hosting



Organization	2019	2020	2021
POT Promotional Hosting	\$26,372	\$9,037	\$20,017
50% of NWSA Promotional Hosting	66,308	10,583	112,447
<b>Total Promotional Hosting</b>	<b>\$92,680</b>	<b>\$19,620</b>	<b>\$132,464</b>

Statutory limit is \$183,750 based on \$63.5M in revenue

# **2021 -2025 Plan of Finance**

# 2021 Statutory Cash Budget



<i>(\$ Million)</i>	<u>2021</u>
<b>Beginning Cash &amp; Investments</b>	\$166.4
 <b><u>Projected Sources of Funds</u></b>	
Revenues	63.5
Expenses	(21.9)
Memberships	(0.3)
Promotional hosting POT	(0.0)
Promotional hosting NWSA (POT share)	(0.1)
<b>Funds Provided by Operations</b>	<u>41.2</u>
 Interest Income	 10.4
NWSA Depreciation cash	10.0
Other, Net	(5.2)
Other Contributions	5.5
Ad valorem tax revenue (net)	23.8
<b>Projected Sources of Funds</b>	<u>85.7</u>
 <b><u>Projected Uses of Funds</u></b>	
Investment in Northwest Seaport Alliance	54.8
Debt Payments (Principal and Interest) - GO Bonds	12.4
Debt Payments (Principal and Interest) - Revenue Bonds	27.5
Debt Payments (Principal and Interest) - Commercial Paper	-
Capital Spending - Planned Projects	47.8
<b>Projected Uses of Funds</b>	<u>142.4</u>
 <b><u>Projected Borrowing</u></b>	
Commercial Paper Borrowing	0.0
<b>Total Borrowing</b>	<u>0.0</u>
 <b>Projected Ending Cash &amp; Investments</b>	 <u><u>\$109.6</u></u>

# 2021-2025

## Plan of Finance Assumptions

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### Revenues

- Includes POT portion of NWSA net income
- Based on business forecast & existing leases

### Expenses

- Mild inflation 2.5%
- Real Estate and operating expenses, mainly fixed costs

### Non-Operating

- Revenue and GO Bond interest expense
- Investment income
- Road and bridge contributions
- Demolition of buildings and asset disposal
- Election expenses (odd numbered years)

### NWSA Membership Affirmation

- Includes impact of Port of Seattle capital contribution of \$5.5M for revaluation based on T5 value in original NWSA capitalization

# 2021-2025

## Plan of Finance Assumptions

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### Capital projects spending \$298.9 million

- Includes POT portion of NWSA CIP
  - NWSA Capitalized projects of \$164.1 million (50% of NWSA capitalized projects totaling \$328.2 million)
- Includes POT specific Capitalized projects of 117.7 million + SR 167 contribution of \$17M (expense recognized in 2019)

### Debt Management

- All eligible bonds have been refunded that can economically be refunded
- Normally scheduled GO and Revenue Bond debt payments
- No additional borrowing is required
  - Port comes within about \$13 million of its minimum cash requirement in 2022

# 2019-2025 Budget Forecast - Plan of Finance



<i>\$ millions</i>	2019 Actual	2020 Forecast	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget
Port Revenue	\$27.4	\$18.3	\$18.3	\$21.6	\$23.6	\$25.2	\$26.3	\$27.1
Joint Venture Revenue	48.0	35.7	35.7	41.9	42.2	43.2	46.0	44.5
<b>Operating Revenue</b>	<b>75.4</b>	<b>54.0</b>	<b>54.0</b>	<b>63.5</b>	<b>65.8</b>	<b>68.4</b>	<b>72.3</b>	<b>71.6</b>
<b>Total Operating Expenses</b>	<b>42.0</b>	<b>43.8</b>	<b>43.8</b>	<b>47.9</b>	<b>50.1</b>	<b>50.8</b>	<b>47.1</b>	<b>39.7</b>
<b>Operating Income</b>	<b>33.4</b>	<b>10.1</b>	<b>10.1</b>	<b>15.6</b>	<b>15.7</b>	<b>17.6</b>	<b>25.2</b>	<b>31.9</b>
<i>Return on Revenue</i>	<i>44.3%</i>	<i>18.8%</i>	<i>18.8%</i>	<i>24.5%</i>	<i>23.8%</i>	<i>25.7%</i>	<i>34.8%</i>	<i>44.6%</i>
<b>Non Operating Income (Expense)</b>	<b>(9.9)</b>	<b>(3.2)</b>	<b>(3.2)</b>	<b>(14.6)</b>	<b>(7.5)</b>	<b>(8.7)</b>	<b>(6.9)</b>	<b>(4.6)</b>
<b>Income Before Tax Levy &amp; Expenses</b>	<b>23.5</b>	<b>7.0</b>	<b>7.0</b>	<b>1.0</b>	<b>8.2</b>	<b>8.9</b>	<b>18.2</b>	<b>27.3</b>
Ad Valorem Tax Levy	20.9	23.1	23.1	23.8	24.5	25.3	26.0	26.8
GO Interest	(4.8)	(4.7)	(4.7)	(4.5)	(4.3)	(4.1)	(3.9)	(3.6)
<b>Net Income Before Special Item</b>	<b>\$39.6</b>	<b>\$25.4</b>	<b>\$25.4</b>	<b>\$20.3</b>	<b>\$28.4</b>	<b>\$30.1</b>	<b>\$40.4</b>	<b>\$50.5</b>
Special Item	(22.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>\$17.7</b>	<b>\$25.4</b>	<b>\$25.4</b>	<b>\$20.3</b>	<b>\$28.4</b>	<b>\$30.1</b>	<b>\$40.4</b>	<b>\$50.5</b>
Debt Service Coverage Ratio	2.5	2.1	2.0	2.4	2.2	2.3	2.6	2.8
Return on Assets	1.3%	1.9%	1.5%	1.5%	2.1%	2.2%	2.9%	3.5%

Cash position on following slides

# 2019-2025 Budget Forecast - Cash Flow



(\$ Million)	2021	2022	2023	2024	2025
<b>Beginning Cash &amp; Investments</b>	\$166.4	\$109.6	\$88.3	\$99.9	\$130.8
<b><u>Projected Sources of Funds</u></b>					
<b>Revenues</b>	63.5	65.8	68.4	72.3	71.6
Expenses	(22.3)	(25.0)	(27.4)	(25.9)	(22.8)
<b>Funds Provided by Operations</b>	41.2	40.8	41.0	46.4	48.8
Interest Income	10.4	8.8	9.3	9.6	10.7
NWSA Depreciation Cash Add back	10.0	11.6	11.9	14.9	15.7
Other, Net	(5.2)	(0.3)	(2.3)	(1.3)	(1.5)
Other Contributions	5.5	0.0	0.0	0.0	0.0
Ad valorem tax revenue (net)	23.8	24.5	25.3	26.0	26.8
<b>Projected Sources of Funds</b>	85.7	85.5	85.1	95.5	100.4
<b><u>Projected Uses of Funds</u></b>					
Investment in Northwest Seaport Alliance	54.8	45.7	15.3	11.8	36.5
Debt Payments (Principal and Interest) - GO Bonds	12.4	12.4	12.4	12.4	12.4
Debt Payments (Principal and Interest) - Revenue Bonds	27.5	29.4	29.5	29.4	29.3
Debt Payments (Principal and Interest) - Commercial Paper	0.0	0.0	0.0	0.0	0.0
Capital Spending - Planned Projects	47.8	19.3	16.4	11.2	40.1
<b>Projected Uses of Funds</b>	142.4	106.8	73.5	64.6	118.3
<b><u>Projected Borrowing</u></b>					
<b>Total Borrowing</b>	0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b><u>Projected Ending Cash &amp; Investments</u></b>					
<b>Projected Ending Cash &amp; Investments</b>	\$109.6	\$88.3	\$99.9	\$130.8	\$113.0
Minimum Cash	\$73.5	\$75.0	\$76.2	\$75.5	\$73.9

# 2021 Minimum Cash Calculation



Does not include \$25.5 million in working capital contribution to the NWSA

<u>Minimum Port of Tacoma Cash &amp; Investments</u>	<u>(\$ Millions)</u>
Port cash and investments to cover 6 months operating expenses	\$11.2
Prorated revenue bond payments	2.3
Prorated G.O. bond payments	1.0
Revenue bond reserves	57.6
Industrial insurance reserve	0.4
Self insurance reserve	1.0
Minimum Port of Tacoma cash & investment balance	<u><u>\$73.5</u></u>

# Debt: Outstanding & Projected Principal



*(\$ millions)*

	<b>Balance 12/31/2020</b>	<b>2021 Issues</b>	<b>2021 Repayments</b>	<b>Balance 12/31/2021</b>
G.O. Bonds	\$142.1		(\$6.6)	\$135.6
Senior Revenue Bonds	193.6		(5.6)	188.0
Subordinate Revenue Bonds	219.4		(3.2)	216.2
Commercial Paper	0.0			0.0
<b>Total</b>	<b>\$555.2</b>	<b>\$0.0</b>	<b>(\$15.4)</b>	<b>\$539.8</b>

Under \$600 Million in debt

# Debt: Required Borrowing

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None

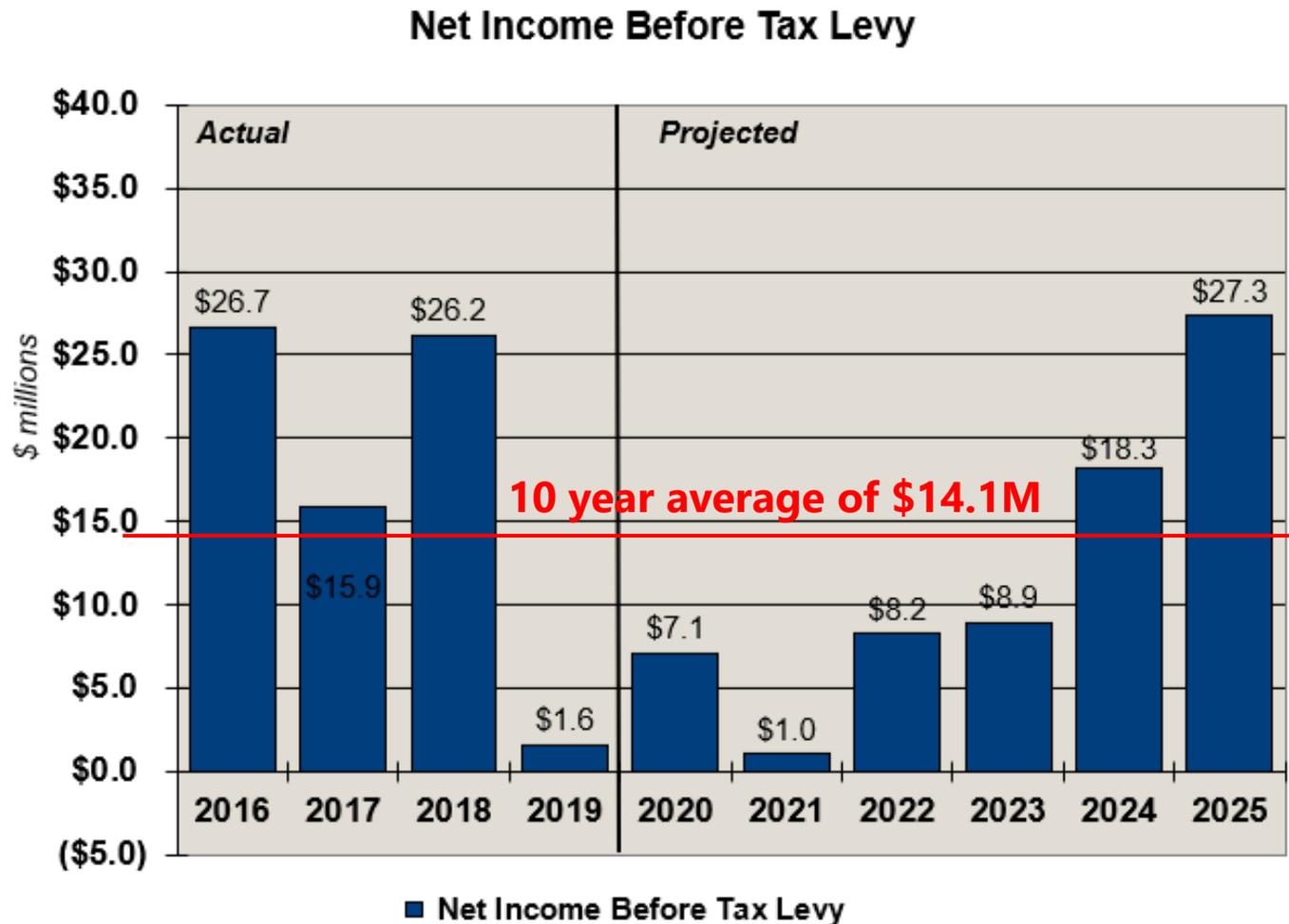
# Financial Measure: Net Income



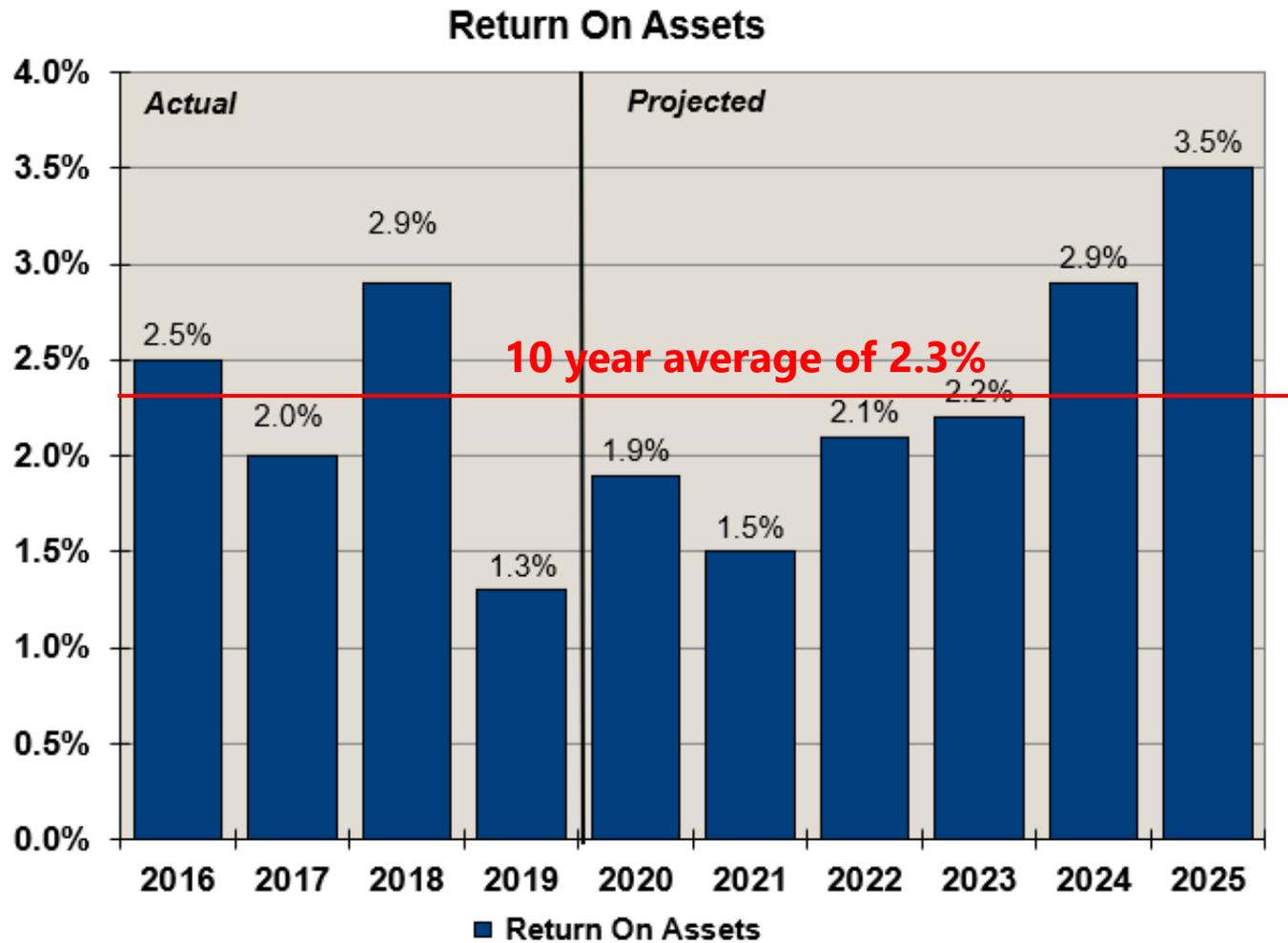
Net Income



# Financial Measure: Net Income before Tax levy



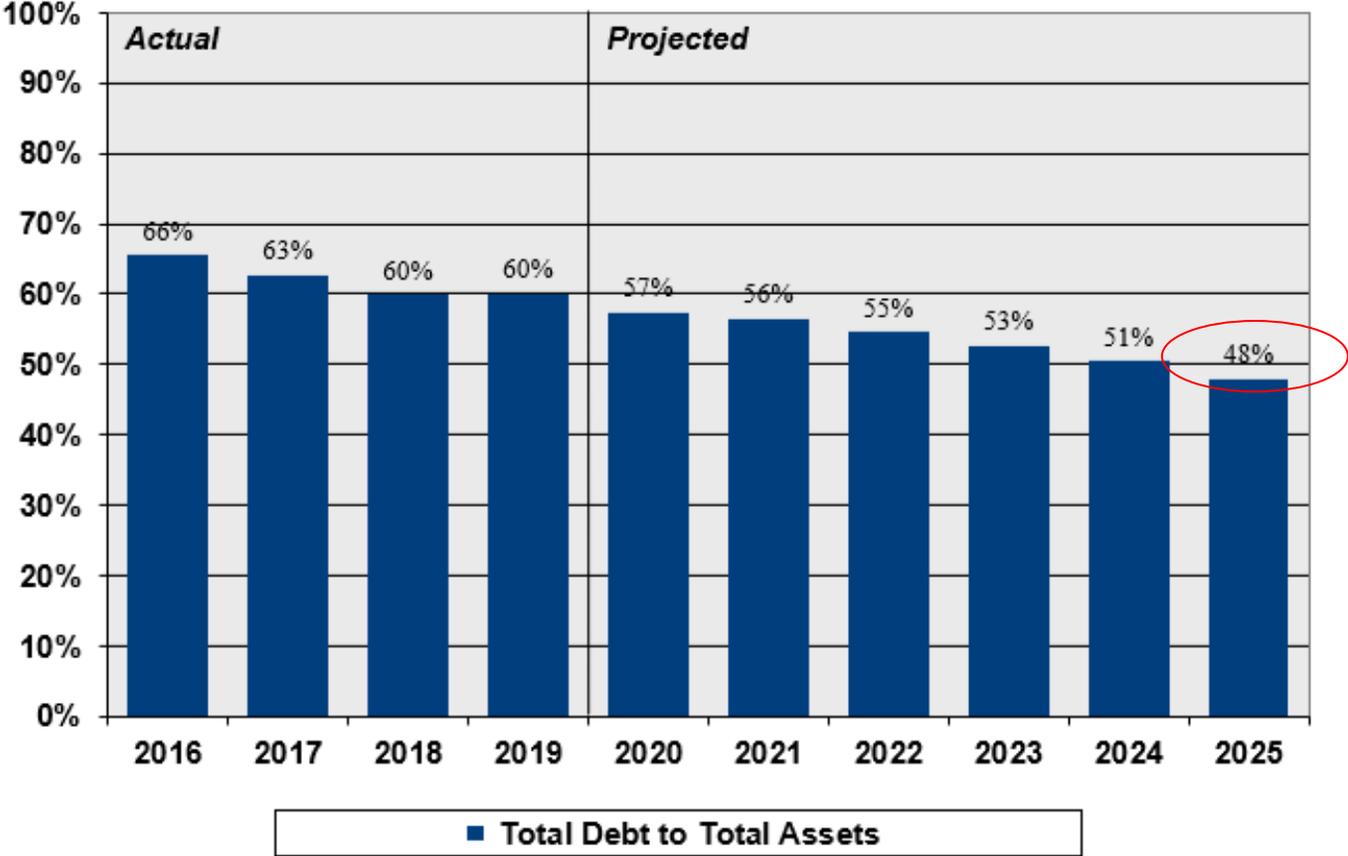
# Financial Measure: Return on Assets



# Financial Measure: Debt to Asset Ratio



Projected - Total Debt to Total Assets Ratio



# 2020 Key Messages



- 
- Strong operating income at \$10.1M and operating margin of 18.8%
  - Net income of \$25.4M

# 2021 Key Messages



- 
- Net income of \$20.3 million
  - Proposed tax millage rate lower than prior year
  - Capital investments include land purchases, mitigation sight development, and harbor dredging
  - Debt service above commission policy of 2x