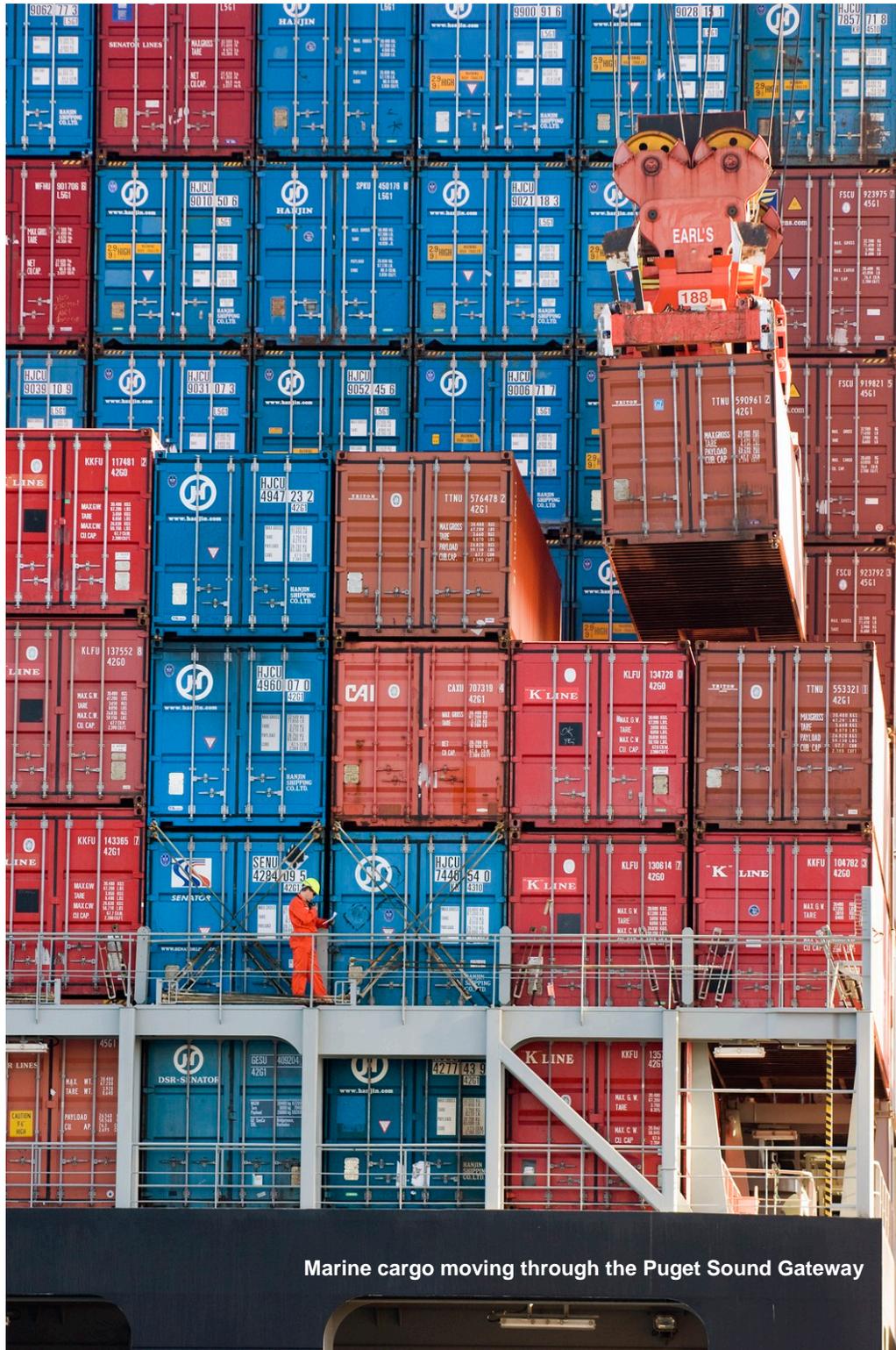




THE NORTHWEST
SEAPORT ALLIANCE

The Northwest Seaport Alliance 2016 Budget



Operating Budget and Capital Improvement Plan adopted:
October 27, 2015

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Cornelia Maersk at the North Harbor T-18 Facility

To: Managing Members

Date: October 27, 2015

Subject: The Northwest Seaport Alliance Operating Budget and Five-Year Capital Improvement Plan

Staff is pleased to present the inaugural 2016 Northwest Seaport Alliance (NWSA) Budget Addendum. This document informs citizens and other interested parties about the NWSA's overall goals and strategies, as well as the competitive environment in which we operate. It highlights our focus on strategic investments that will deliver competitive financial results, build for the future, and continue to create jobs and economic wealth for the Puget Sound region.

Competition among West Coast ports remains incredibly intense. Shipping lines and terminal operators are exploring ways in which to reduce costs, including introducing larger vessels, forming stronger alliances, and consolidating terminals to gain economies of scale. Increased competition from ports in Canada, Mexico and the East and Gulf Coasts are adding to the competitive pressures.

In response to these competitive challenges, the NWSA was formed to ensure that, together, the ports of Tacoma and Seattle maintain and grow the Puget Sound gateway. As the NWSA, we are focused on ensuring that our facilities are ready to handle the bigger ships migrating into the trans-Pacific trade, and that our terminals, road and rail infrastructure can move that cargo efficiently.

The NWSA recently identified our Strategic Business Planning Initiatives that:

- Improve licensed NWSA terminal and waterway assets to meet market demand
- Enhance NWSA, local and regional transportation infrastructure
- Improve the efficiency and cost competitiveness of the supply chain
- Advance the NWSA's market position in the international shipping industry
- Increase revenue through growth and diversification
- Advance environmental stewardship

While we expect the global economy to continue its slower-than-desired recovery, we are focused on the financial health of the NWSA and continue to focus on new business opportunities that will create jobs and economic wealth for the Puget Sound gateway.



John Wolfe
Chief Executive Officer

Budget Document Overview

The Budget Document consists of these major sections:

I. Overview: This section provides information about the NWSA's facilities and customers. It examines the economic context of the NWSA's operating environment, and it outlines the NWSA's organizational structure.

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

III. Business Outlook: This section describes the NWSA's overall goals and strategies. It includes assumptions, potential obstacles and trends that 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 NWSA's operating budget. This section includes the inaugural operating budget with revenue and expenses by line of business, and details of expected operating costs.

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

VI. Environmental Stewardship: This section provides a historical context for the environmental challenges facing the two ports and their surrounding communities.

I. The Northwest Seaport Alliance Overview

Marine Cargo Operating Partnership

The Northwest Seaport Alliance (NWSA) is the first of its kind in North America.

The ports of Seattle and Tacoma joined forces in August 2015 to unify management of marine cargo facilities and business to strengthen the Puget Sound gateway and attract more marine cargo and jobs for the region.

Located in the Pacific Northwest in Washington state, the NWSA offers short U.S.-to-Asia transit times, and the infrastructure necessary to quickly move cargo to the US Midwest.

International & Domestic Trade

The NWSA is the third-largest gateway for containerized cargo in North America, focused specifically on shipping between Asia and major distribution points in the Midwest, Ohio Valley and the East Coast.

The NWSA is also a major center for bulk, breakbulk, project/heavy-lift cargoes, automobiles and trucks. The NWSA's terminals are located near the second-largest concentration of distribution centers on the West Coast.

Top international trading partners include:

- China/Hong Kong
- Japan
- Republic of Korea
- Taiwan
- Vietnam
- Thailand
- Canada
- Malaysia
- Indonesia

The value of this two-way international trade totaled more than \$73 billion in 2014. Imports were \$55 billion and exports were \$18 billion of that total.

The Puget Sound is also a major gateway to Alaska. More than 80 percent of the total trade volume between Alaska and the lower 48 states moves through the Tacoma and Seattle harbors. Trade with Alaska was estimated at \$5.4 billion in 2015. If it were ranked with the NWSA's international trading partners, Alaska would be fourth. The NWSA also provide connections to Hawaii.

Port of Seattle & Port of Tacoma

The Port of Seattle was created September 5, 1911, in an effort by citizens to ensure public ownership of the Seattle harbor. The Port of Seattle was the first autonomous municipal corporation in the United States specifically tasked to develop harbor and port facilities to encourage commerce. The Port opened Fishermen's Terminal in 1912, its first warehouse in 1915 and began working on the creation of Harbor Island.

The Port of Tacoma was created on November 5th, 1918 by the citizens of Pierce County to create job opportunities through trade, as well as in the economic development of Pierce County and the state of Washington.

The Ports' geographic boundaries lie within Pierce and King counties. They are situated on Commencement and Elliott bays in Puget Sound. Because of this strategic location, they offer efficient connections to sea, rail, highway and air transportation networks.

The NWSA ranks among the world's top 45 container gateways with some of the industry's largest container shipping lines calling the Puget Sound. Twenty-two international and four domestic shipping lines make regular service calls to the NWSA. The alliance also handles breakbulk, bulk, and auto shipping lines.

Shipping lines have been attracted to the Pacific Northwest because of its proximity to markets for trade, an experienced labor force, natural deep water, available land for expansion, excellent on-dock rail facilities and inland rail service. Rail service is provided by the BNSF Railway and the Union Pacific

Railroad. Currently, approximately 50% to 60% of the NWSA import cargo moves out via rail. Excellent highway access is provided via Interstate 5 and Interstate 90.

Through July 2015, the two ports handled about \$42.4 billion of trade. Based on dollar volume, China (including Hong Kong) is the NWSA's largest trading partner. Other leading trading partners include Japan, South Korea, Taiwan and Alaska.

As the "Gateway to Alaska," the NWSA handles about \$5.4 billion of domestic trade to and from Alaska. Matson, Totem Ocean Trailer Express and Alaska Marine Lines are the shipping lines serving Alaska from the NWSA. Matson also provides service to Hawaii.

The NWSA is both a landlord and an operating organization. The NWSA's maritime marketing efforts focus on attracting cargo and additional shipping lines to its facilities. The NWSA also works with charter shippers and others to move their cargoes through both NWSA and customer-operated facilities in Puget Sound.

The NWSA is also a major auto import and processing center, handling vehicles for Kia, Mazda, and Mitsubishi.

Additionally, many of the two ports' efforts are focused on industrial development and real estate. They each work to attract major manufacturing and warehouse/distribution centers to King and Pierce counties.

Pierce & King Counties

King and Pierce counties are the first and second most populous metropolitan areas in the state of Washington. The two counties represent a combined population of 2,911,895 or 41% of the population of the state of Washington.

Located about halfway between the Oregon and Canadian borders, King and Pierce counties cover 3,916 square miles.

Ports Economic Impact

In October 2014, the ports of Tacoma and Seattle announced the results of a joint economic impact study of the two seaports. The ports serve as a major

economic engine for Pierce County, King County, and the state of Washington, creating thousands of family-wage jobs and serving as a catalyst for economic development.

According to the study, the two ports' marine cargo activities are related to 48,100 jobs in Washington state that contribute \$4.1 billion in total income and re-spending. The two ports' cargo-handling, construction and leasing activities generate more than \$379 million annually in local and state taxes in Washington.

NWSA Facilities and Services

The ports have licensed to the NWSA facilities related to maritime commerce, including facilities for containerized cargo, automobiles, logs, breakbulk cargo, heavy-lift cargo and project cargoes, as well as intermodal rail terminal operations.

The NWSA's four major waterways – two in Seattle and two in Tacoma – provide 33 ship berths on waterways that are about 51 feet deep. The NWSA facilities are located near I-5 and I-90, allowing access to the Puget Sound market and beyond.

BNSF Railway and the Union Pacific Railroad serve the NWSA's nine on-dock and near-dock intermodal rail yards. The NWSA's intermodal rail facilities help save shippers and shipping lines both time and money.

In Tacoma, Tacoma Rail, a division of Tacoma Public Utilities, provides switching and terminal rail service. Port arrival and departure tracks help ensure efficient and reliable access to the mainline railroads.

See Figures 1-1 and 1-2 for an overview of The Northwest Seaport Alliance facilities located in Seattle (North Harbor) and Tacoma (South Harbor), respectively.

NWSA Managing Members

The citizens of Pierce and King counties each elect a five-member Port Commission to govern the ports of Tacoma and Seattle. Each Commission seat is elected every four years, on a staggered basis. The NWSA is a Port Development Authority governed by the two ports as equal members, with each port

acting through its elected commissioners. Each Port Commission is a Managing Member of the NWSA.

The Managing Members are the final authority for approval of the NWSA's annual budget, long-term leases, policies, long-range development plans, and all construction projects and spending in amounts exceeding the authority of the Chief Executive Officer.

The Managing Members are the two port commissions. The current members of the commissions are:

Port of Tacoma

- Connie Bacon
- Don Johnson
- Dick Marzano
- Don Meyer
- Clare Petrich

Port of Seattle

- Tom Albro
- Stephanie Bowman
- Bill Bryant
- John Creighton
- Courtney Gregoire

NWSA Managing Members Meetings

Managing Member meetings are open to the public and are held at various locations in both King and Pierce counties.

For the location and agenda for upcoming Managing Member meeting, as well as minutes for previous Managing Member meetings, you can visit the website at www.nwseaportalliance.com.

The NWSA streams all Managing Member meetings live on the website and are archived for future viewing.

Citizens may contact the Managing Members by calling 800-657-9808. Correspondence may be mailed to:

The Northwest Seaport Alliance
P.O. Box 2985
Tacoma, WA 98401-2985

Organizational Structure

The NWSA's daily operations are led by the Chief Executive Officer and the Executive Team. See the Organizational Chart Figure I-3 on page I-7).

Executive Team

The Executive Team is comprised of the CEO, 10 chief officers, and executive administrative support. The Executive Team oversees all business activities and departments, and with the Managing Members, provides long-term strategic direction. The Executive Team ensures compliance with all regulations relevant to port activities, including public meetings and information, environmental protection, labor relations, procurement, security, financial management and other issues.

Commercial Group

The Commercial Group is comprised of two businesses and their related personnel, and the Commercial Strategies Team.

Container Business: International and domestic container cargo is a core business segment for the NWSA. Container business personnel are responsible for container and terminal business development and management, and customer service. They also play an important role coordinating efforts with customers on terminal facility and operational improvements to enhance overall efficiency at the NWSA's terminals.

As one of the northernmost gateways on the U.S. West Coast, the Pacific Northwest has long been the primary hub for waterborne trade with Alaska, as well as a major gateway for trans-Pacific trade.

The gateway's on-dock and near-dock intermodal rail yards, along with international and domestic rail services to the U.S. Midwest, are key assets and are an integral part of the container business. Rail personnel support the container business and are responsible for rail service delivery at the Intermodal Yards. Relationship management with Tacoma Rail, BNSF and Union Pacific (UP) and other rail stakeholders are key functions of the rail professionals.

Non-Container Business: Comprised of breakbulk (Roll On and Roll Off also known as RoRo), bulk and auto cargos, the non-container business makes a significant contribution to revenue and further diversifies the gateway's business portfolio. Non-container personnel are responsible for business development, management and customer service for breakbulk, bulk and auto business segments.

The NWSA offers competitive rates and full service to breakbulk customers. Aside from handling agricultural and mining equipment and other rolling stock, the NWSA's South Harbor is designated as a strategic military port for transport of military cargoes.

Auto customers include Kia, Mazda, and Mitsubishi. Auto Warehousing Company (AWC), a tenant, is the largest auto processor on the US West Coast.

Exports of logs, petroleum products and molasses add to the diversified cargo mix.

Commercial Strategies Team: This team is responsible for the sales and marketing activities and customer outreach to shippers, non-vessel operating common carriers and third-party logistics providers. It also supports the goals of the Commercial Group by providing strategic market research and business intelligence, cargo volume tracking and forecasting. The CS team also manages the regional and international business. The NWSA has trade and business development representation in Alaska, New Jersey, Japan, Hong Kong, China and Korea.

Operations Group

The Operations Group is responsible for the daily operations of NWSA facilities at both ports.

The Operations group provides coordination with vessel arrivals and departures, and with the associated stevedores. The Operations group orders and manages labor at the North Intermodal Yard and other locations in Tacoma, and is also responsible for customer service. The major focus of this department is to ensure the proper processing of all vessels and freight shipments moving through the Puget Sound gateway.

The Operations Department, in conjunction with Tacoma Rail, is responsible for rail service delivery at the South Harbor intermodal yards. This department

also operates the North Intermodal Yard, and is the only port on the U.S. West Coast with dedicated rail services personnel. Both harbors offer competitive rail service via BNSF Railway and the UP Railroad, and are a major gateway for handling discretionary cargo destined for the Midwest.

Support Services

Support services such as maintenance, security, facilities development and financial services are provided by service agreements between the alliance and the two ports. Costs for these services are charged by the ports to the alliance based on agreed upon methodologies including direct charge and allocation.

The Northwest Seaport Alliance governance

The NWSA is a separate governmental entity established as a Port Development Authority (PDA), similar to Public Development Authorities formed by cities and counties. The ports in 2015 successfully sought and received an amendment to Washington law RCW 53 that allows the Ports of Tacoma and Seattle to form a PDA for management of maritime activities.

The NWSA is governed by its two Managing Members. Each Managing Member will be represented by its Port Commission. Votes by the Managing Members require a simple majority from each commission.

Each port will remain a separate legal entity, independently governed by its own elected commissioners. Each port has granted to the PDA a license for the PDA's exclusive use, operation and management of certain facilities, including the collection of revenues. Ownership of the licensed facilities remains with the ports, not the PDA.

The ports remain responsible for their own debt and debt service; the PDA will not borrow funds.

The ports set up an initial 50/50 investment in the PDA; operating income and cash flow will flow back to the ports at least quarterly. The PDA will have its own annual operating budget and five-year capital investment plan.

The ports will contribute to capital construction subject to Managing Member approval; capital funding will not come from working capital.

Commitment to Fiscal Stewardship

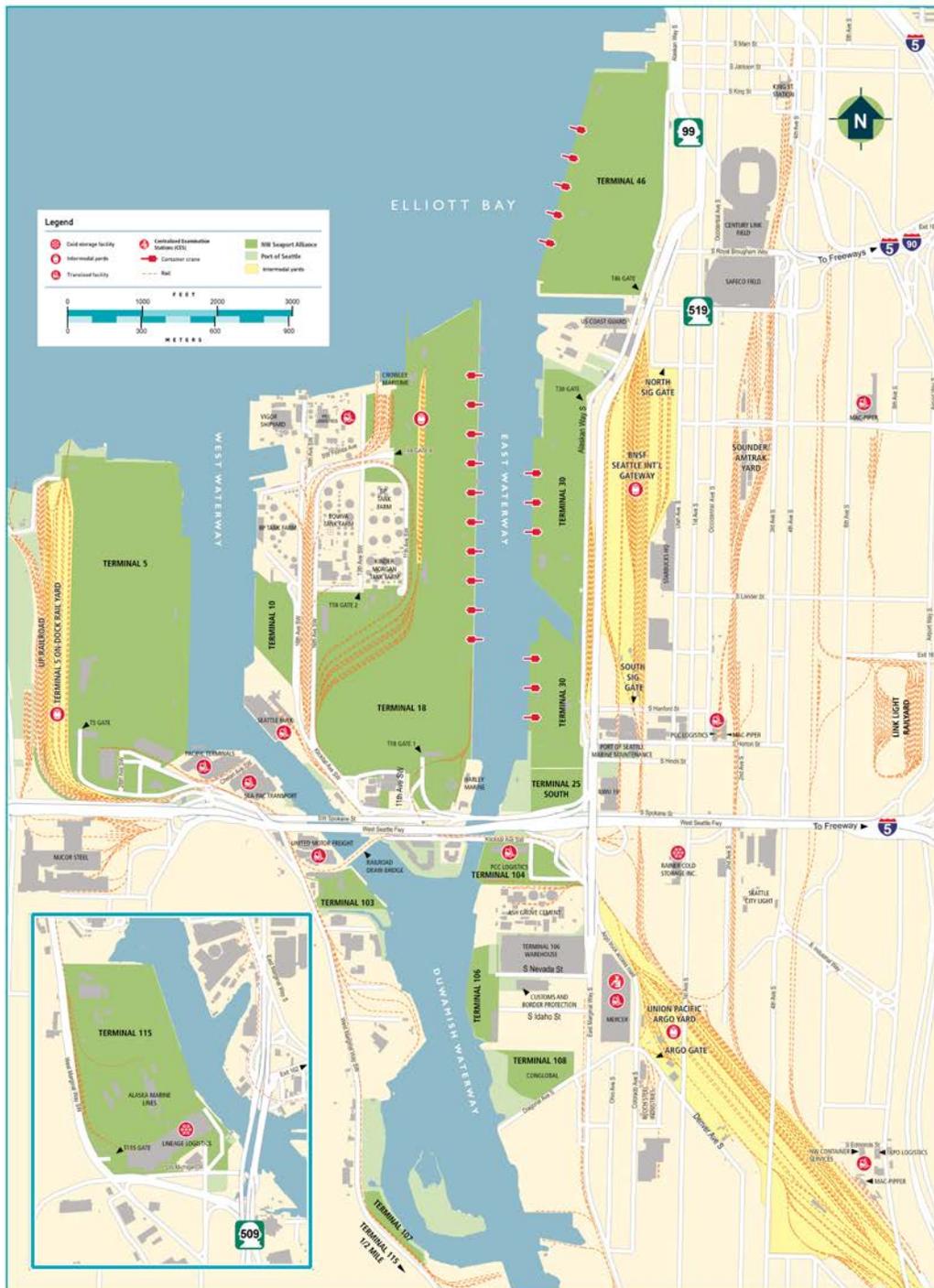
The NWSA is intended to support the credit profiles of both ports, and its financial framework will preserve both ports' commitment to financial strength and fiscal stewardship.

Both ports are strong financial partners, each with a solid track record of prudent financial management and strong financial results, including solid debt service coverage and ample liquidity balances.

The ports are committed to ensuring that existing bond pledges and covenants will not be negatively affected. Outstanding bonds will remain obligations of each individual port.

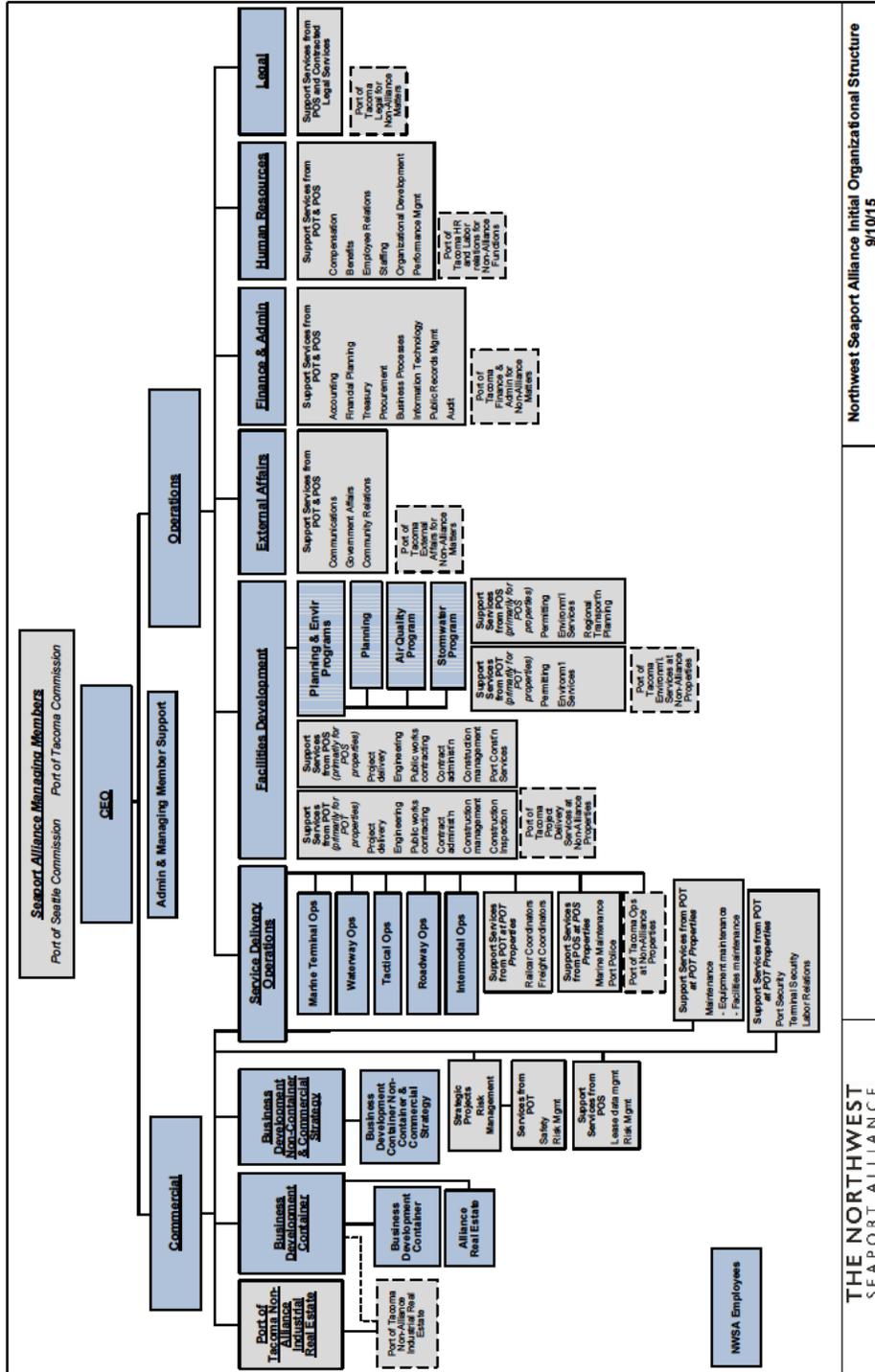
To maintain the rights of each Port's existing bondholders, the charter prohibits The NWSA from issuing debt.

Figure I-1....Northwest Seaport Alliance Facilities – North Harbor



North Harbor

Figure I-3....The Northwest Seaport Alliance Organizational Chart



Northwest Seaport Alliance Initial Organizational Structure
9/1/015

THE NORTHWEST SEAPORT ALLIANCE

II. 2016 The Northwest Seaport Alliance Budget Message

NWSA Goals

The NWSA has identified six commercial goals to maintain and grow the maritime business in the Puget Sound.

1. **Improve Licensed Alliance Terminal and Waterway Assets to Meet Market Demand**
 - a. Redevelop the General Central Peninsula (GCP) and Pier 4 to increase container throughput and respond to container industry changes
 - b. Modernization of T5 dock, berth and power infrastructure to meet future container industry demand, increase throughput, and position The Northwest Seaport Alliance gateway strategically
 - c. Complete Seattle Harbor Navigation Improvement project
 - d. Work with US Army Corps of Engineers (USACE) to begin a deepening project study for Tacoma waterways
 - e. Facilitate collaboration between terminal operators and ocean carriers for Alliance consolidation
2. **Enhance Alliance, Local and Regional Transportation Infrastructure**
 - a. Participate in partner agency planning efforts to ensure that the alliance's needs are considered and that plans support future business growth
 - b. In partnership with local, state and federal stakeholders, facilitate improvement projects to vital roadways that service alliance customers
 - c. Update the ports of Tacoma and Seattle's Land Use and Transportation Plans and work to maintain and improve freight mobility along the alliance's truck routes
 - d. Design and develop appropriate rail support infrastructure in coordination with Tacoma Rail and the Class 1 railroads
3. **Improve Efficiency and Cost Competitiveness of the Supply Chain**
 - a. Improve the efficiency, service level and cost competitiveness of the intermodal product through the PNW gateway
 - b. Establish an Operations Service Center (OSC) with the mission of providing 'best in class' service delivery and customer care to our customers and stakeholders
 - c. Establish an Executive Advisory Council (EAC) comprised of leaders in the shipping industry – EAC's mission will be to work collaboratively to ensure that the gateway is the easiest and most reliable for doing business
4. **Advance the Alliance's Market Position in the International Shipping Industry**
 - a. Develop marketing materials and outreach programs to advance NWSA competitive position and value proposition with key customer segments
 - b. Develop and implement a comprehensive business development strategy targeting international container carriers, BCOs, NVOs and other supply chain partners
5. **Increase Revenue Through Growth and Diversification**
 - a. Facilitate new project cargo, breakbulk, auto and bulk business opportunities
 - b. Develop and execute a comprehensive business strategy to support the Seaport Alliance's domestic container business
6. **Advance Environmental Stewardship**
 - a. Partner to find innovative solutions to our customers' environmental challenges
 - b. Continuously improve operational efficiency and emission reductions

Budget Environment

The NWSA operates principally in two industries: terminal services and property rentals. Terminal services involve marine-oriented services including dockage, cargo-handling, storage and related activities. Property rentals include facilities and land used for container terminals, industrial activities, and storage.

As described in further detail in Section III, the economic conditions caused by the fiscal crisis of late 2008 have had a significant impact on Asia-Pacific trade, resulting in reduced container cargo volume. The drop in volume, combined with increased competition from Canadian ports as well as ports located on the U.S. West, Gulf and East coasts, have resulted in reduced cargo through the Puget Sound gateway. Due to decreased demand for terminal space, competition among ports for container business has increased.

The ports of Seattle and Tacoma responded to these conditions by reducing costs and focusing on the needs of our current customers. NWSA staff are reviewing both harbor's physical assets to rationalize the facilities and reduce costs where possible.

Revenues

The NWSA has both fixed and variable revenue streams. The majority of NWSA's revenues come from fixed revenue streams. These revenues are primarily from leased properties. The leased properties are mainly container terminals, buildings, and industrial and commercial land. The NWSA's container terminal leases with shipping carriers can last 20 years or longer depending on carrier requirements. Building and land leases with more than one year remaining are considered fixed. Minimum crane hours and minimum intermodal lift requirements specified in certain terminal leases are considered fixed.

The balance of NWSA revenue comes from variable services provided to customers. These services include intermodal lifts for rail car loading above minimums and per unit charges for automobile unloading. Variable revenues also include equipment rental on an hourly basis for crane hours above minimums and straddle carriers used by terminal

leaseholders and month to month building or land leases.

2016 Budget

The NWSA has developed an overall operating budget with projected revenue of \$192.9 million. Operating income is budgeted to be \$103.6 million, resulting in operating margin of 53.7%. The NWSA net income and cash flow will be distributed evenly between the two home ports and included as revenue in their financial reports.

NWSA financial performance reflects the investments it is making to successfully complete our customer commitments while meeting the NWSA financial goals. The operating and capital budgets are based on the cargo forecast in Section III.

Capital Improvement Plan Highlights

NWSA projects for the next five years reflect a focus on industrial development and utilization of existing terminal capacity. With this focus the NWSA has reviewed potential assets for revenue generation to ensure that financial and economic growth goals are met.

Major 2016 – 2020 capital projects include the following:

North Harbor

- T-46 wharf redevelopment and paving;
- T-18 maintenance dredging; and
- Removal of obsolete cranes at several terminals.

South Harbor

- Purchase of two post-Panamax cranes for Husky terminal;
- Pile cap repair at Olympic container terminal;
- Straddle carrier purchase and;
- Redevelopment of APM terminal for future business opportunities.

Both Harbors

- Clean air and stormwater investments;
- Investments in numerous environmental remediation and mitigation projects.

The NWSA's 2016 capital budget of \$39.1 million represents the first year of the NWSA's 2016-2020 capital plan – a package totaling \$174.5 million in new

projects and investments. See Section V for additional details on the Capital Improvement Plan.

Financial Measures

Financial measures for the NWSA are being developed and have not been submitted to the Managing Members for approval. Expected measures include an indicator on return on assets as well as a cash flow measure. The NWSA measures will be created during our inaugural operating year and included in future budgets.

Legislative Impact

Transportation Funding

The NWSA 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 NWSA terminals.

The NWSA continues to encourage the federal government to make comparable investments in the nation's freight network. Since the ban on Congressional earmarks in 2010, few federal investment tools have been available to ports and other local government when it comes to freight infrastructure. The NWSA supports the adoption of a national freight strategy supported by dedicated multi-modal freight funds - both formula and competitive grants. Such a program could assist the NWSA in making strategic investments in mission-critical freight infrastructure, such as marine terminals, roads and rail.

North Harbor Navigation Improvement Project

The largest container vessels calling West Coast ports today have roughly twice the capacity of those that called just five years ago. In order to remain a competitive trade gateway, the NWSA must take steps to better accommodate these larger vessels. One such step is to study whether deepening is needed in specific areas adjacent to the NWSA's container terminals in the North Harbor. While channels are mostly -51 feet or deeper, some shallower spots present navigational and safety

challenges. The NWSA is partnering with the U.S. Army Corps of Engineers to study the feasibility of a potential deepening project. Should the feasibility study validate the need for deepening, a local financial match from the NWSA would be needed.

Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP) is an Asian-Pacific regional trade agreement currently being negotiated among the United States and 11 other partners: Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, Canada, Mexico and Japan. The Asia-Pacific region offers enormous economic opportunities for American businesses; the region comprises 40% of the global population, and the economies of these countries generated 55% of global GDP in 2011.

More directly, the Asia-Pacific region is the largest market in the world for U.S. exports and receives 72% of U.S. agricultural exports.

A successful TPP would open doors for increased economic engagement in Asia, a region that is already a destination for 69% of Washington goods exports and a significant portion of Washington state's services exports. In addition, many Washington retail, apparel and manufacturing companies leverage the Asia-Pacific region as a key part of their global supply chain.

The inclusion of Japan in the TPP is particularly important. The Northwest Seaport Alliance handles \$16.2 billion worth of trade with Japan, making it the NWSA's second-largest international trading partner. Japan is Washington state's top services export destination and second largest goods export destination; last year goods exports increased 39% to more than \$9 billion. The National Potato Council projects that exports of frozen potatoes could increase by \$140 million over the next five years if Japan alone eliminated potato tariffs, and the Northwest Horticultural Council estimates elimination of the 9% tariff on cherries would provide benefits of at least \$2 million over one year.

The successful completion and ratification of TPP offers the promise of additional cargo volumes and revenue to the NWSA.

Harbor Maintenance Tax

The HMT is assessed on ocean-going international imports that land at U.S. ports to pay for maintenance dredging of waterways through the HMT Trust Fund. It is not, however, assessed on importers who route cargo through non-US ports and afterwards move the cargo into U.S. markets by land. Moreover, the NWSA has received little, if any, benefit from the fund because its facilities are located on natural deep water harbors that do not require significant maintenance dredging. Since 1986 the ports of Seattle and Tacoma have sought reform of the HMT to provide a greater return to donor ports, such as the NWSA, and to ensure U.S. tax code does not disadvantage U.S. ports and maritime cargo.

The Water Resources Reform and Development Act (WRRDA) passed by Congress in 2014 included language that, for the first time in 30 years, partially reformed the federal Harbor Maintenance Tax to the betterment of Puget Sound ports. The bill allows a select group of donor ports to use HMT funds for berth maintenance and in-water environmental remediation should all the maintenance dredging needs be met in the state. The bill also authorizes up to \$50 million in HMT transfers - subject to appropriation - to donor ports and energy ports. This rebate can be used for customer rebates, berth maintenance and in-water environmental remediation. The NWSA is actively working to secure this appropriation.

Conclusion

The realities of the drastic changes in the global economy have led all ports to examine business and operational strategies.

The NWSA is increasingly focused on maximizing the use of existing facilities, working with existing customers to keep them competitive and successful, and continuing to make strategic infrastructure investments that help position the gateway for long-term growth. Through coordinated investments in maritime assets, The NWSA will help ensure growth in the cargo flow through the Puget Sound.

The NWSA is placing increased emphasis on the importance of developing and strengthening relationships with labor partners, industry stakeholders, customers, and local, state and tribal governments in a collaborative effort to achieve the future vision of the NWSA. This vision must include the road and rail infrastructure that ties the whole system together.

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

III Business Outlook

U.S. Economy

The U.S. economy contracted in the first quarter, although less than previously estimated, as it struggled with bad weather, a strong dollar, spending cuts in the energy sector and disruptions at West Coast ports. Growth, however, has since rebounded in the second quarter as the short-term strife from unusually heavy snowfalls and the West Coast labor contract issues have faded. Retailers reported strong sales in 2015, and employers have increased hiring. Housing is also strengthening and manufacturing activity is beginning to stabilize.

Real gross domestic product (GDP), defined as the value of the production of goods and services in the United States, expanded at a 3.9% annual pace in the third quarter of 2015 (according to the “advance” estimate released by the Bureau of Economic Analysis). In the first quarter, real GDP increased 0.6%. The second-quarter increase in real GDP mainly reflected an increase in consumer spending. Spending on both durable goods, notably motor vehicles and parts, and nondurable goods increased. Spending on services, mainly household services, also increased. Exports, state and local government spending, and residential fixed investment also contributed to the rise in real GDP. These contributions to the increase were partly offset by decreases in federal government spending, inventory investment, and business investment. In addition, imports (a subtraction in the calculation of GDP) increased.

The unemployment rate was at 5.1% in August, which is lower than 5.3% in July 2015. The labor market has been seen as a positive indicator over the past year or so, but it has slowed in recent months. While a significant improvement from the high of 10% in the depths of the recession (2009), according to U.S. Labor Department figures, job gains occurred in retail trade, health care, professional and technical services, and financial activities.

Following three straight months of gains, existing-home sales fell 4.8% in August. Despite the decline, sales have risen year-over-year for 11 consecutive

months and are 6.2 percent above a year ago. The housing market is gaining steam; home resales jumped to a near 8½ year high in July, and groundbreaking on new home building reaching its highest level since 2007. The recovery in this sector is being driven by more people returning to the workforce, and economists are expecting to post a stronger second half. Another contributing factor to the anticipated strength in the second half of the year, is the Federal Reserve’s decision to postpone any tightening of monetary policy. By delaying the interest rate increase, the housing sector will benefit. Nonetheless, supply is expected to remain on the tight side.

U.S. consumer confidence hit a seven-month high in August, suggesting underlying strength in the economy. The Conference Board reported its consumer index increased to 103.0 in September. A strong labor market, lower gasoline prices and an improving housing market are seen supporting consumer confidence. Retail sales bounced back in August, rising 0.2% month-over-month and 1.4% year-over-year. In August, the University of Michigan consumer-sentiment index jumped to 91.9 compared to 84.6 in the same period last year. The most recent data is pointing to a stronger consumer, and signs that the consumer is coming back after a lackluster first quarter of 2015.

Shipping Industry

The global container carrier industry remains challenging in 2015 and faces many of the same issues that have plagued the shipping industry over the last few years. Even with the global economy recovering from the financial crisis, the industry remains encumbered with debt after investing heavily in new, larger vessels during the boom years. Overcapacity, freight rates and the arrival of newer and bigger ships will continue to stretch the capabilities and profitability of ocean carriers and ports in the medium term. Traces of improvement are evident, but not significant, and the industry as a whole has yet to demonstrate the ability to sustain them.

Significant increases in fuel costs during the past decade drove global carriers into a race to build and operate the largest, most-fuel-efficient vessels in order to drive down slot costs. As a result, carriers have taken on huge debt to match the similarly sized price tags of these assets. The market has seen a significant influx of capacity as these mega vessels have come online, but demand has languished, making it difficult for carriers to sustain freight rates at a level to operate profitably. This imbalance between supply and demand will remain the driving force behind industry dynamics in 2015 and into the future.

The number of mega vessels (more than 13,300-TEU capacity) in service - which predominantly serve the major East-West trade lanes - is projected to double by the end of 2017. This segment of the global fleet will eventually account for more than 10% of global TEU capacity. Lagging demand has left few choices for carriers with growing fleets of large vessels: they simply have to work together. Carriers have generally preferred to consolidate operations through a growing number of alliances.

While carrier alliances and vessel sharing agreements are nothing new to the shipping industry, 2014 did see the first major realignment of the world's largest container carriers in many years. Alliances remain a trend in 2015.

Alliance Members

G6 – APL, Hapag-Lloyd, Hyundai Merchant Marine, Mitsui OSK Line, NYK Line, OOCL

CKYH-E – COSCO, “K” Line, Yang Ming Line, Hanjin Shipping Co., Evergreen Line

2M – Maersk Line, Mediterranean Shipping

Ocean 3 – China Shipping Container Line, CMA-CGM, United Arab Shipping Co.

Formation of these new alliances has concentrated capacity in fewer hands and allowed ocean carriers to exercise more control over available capacity on major trade lanes through coordinated changes to vessel sailings, schedules, and transit times, thereby influencing freight rates. Longer service strings with more port calls help carriers deploy excess capacity that would otherwise be running empty or delayed at great expense.

The new generation of ultra-large container ships (ULCS) is also having a ripple effect across the US port industry. As the mega-ships come into service in Asia-Europe, vessels they have replaced are slowly being redeployed, primarily to the trans-Pacific. These larger ships, with carrying capacity of between 10,000 and 14,000 TEUs, require deeper water, more berth space and additional cranes with a longer reach to work the length of the ship. The larger container volume on each ship also puts strain on landside infrastructure as terminals need more yard space for container loading and unloading, and additional backlands for container storage and operational support. Seaports across the US are engaged in major dredging and infrastructure improvement projects to accommodate the larger vessels, but port congestion could be an issue until infrastructure catches up.

The global container shipping industry will continue to face challenges financially, and there is no clear end in sight. The recent decline in fuel prices – while a welcome relief – is probably not going to relieve the industry's financial pain in the longer term. That said, many carriers are doing the right thing by shedding peripheral assets in favor of focusing on core container shipping operations. Successful carriers will likely match this focus on investment with an in-depth understanding of profitability at the trade, route, and customer levels.

Northwest Seaport Alliance Activity

Containers:

Some significant events occurred at the start of 2015 that impacted The Northwest Seaport Alliance (NWSA) volumes and are reflected in the early YTD numbers. Container volumes were down 9.3% YTD in February, largely due to port congestion issues experienced up and down the U.S. West Coast as contract negotiations between longshore labor and management took place. During this time, cargo normally destined for NWSA harbors was re-routed to other gateways. At the end of February a tentative agreement was reached, and volumes improved as the backlogs were cleared. The combination of vessels returning to normal service schedules, and manufacturer's efforts to clear excess inventory ultimately resulted in an overall 3% YTD increase in container volumes by March 2015. Volumes in the

following months were relatively stable, as less congestion and efficient cargo movement supported an overall improvement in international container volumes through the Puget Sound gateway. Through July 2015, the NWSA has handled nearly 2.1 million TEUs (20-foot equivalent units), a 4% increase year-to-date.

Container volumes as a whole are projected to grow by 3% in 2015, followed by 2.1% the following year. Growth in international container volumes is expected to continue through the second half of the year, supported by additional volume from the returning G6 services, and new volume from services that had formerly called at the Port of Portland. A 3.3% growth rate is forecast for 2016, predicated on slow but continued expansion of the U.S. economy and political and economic stability among the NWSA's major trading partners. Domestic container volume, which accounts for approximately 20% of total NWSA volume, is expected to decrease 1.8% for the year, due to elimination of Horizon Line's service to Hawaii following their sale to the Pasha Group. Domestic volumes projections are supported by the nominal economic growth forecasted for Hawaii (based on tourism) and economic conditions in the U.S. and Japan. Alaska volumes are also projected to be relatively flat through 2016, due to falling state revenues from low oil prices, a decrease in construction spending, and an anticipated U.S. Army reduction of workforce.

Breakbulk:

Breakbulk cargo is comprised of commodities that are either too large or unwieldy for containerized shipment. In the case of The Northwest Seaport Alliance, this consists largely of building materials, heavy machinery, boats, and agricultural and construction equipment. For 2015, breakbulk tonnage is estimated to reach approximately 249,047 metric tons. 2016 is forecasted to reach 256,102 metric tons, a 2.8% increase from the 2015. This growth is mainly being driven by an increasing amount of import cargo coming from Japan due to the weakening yen vs. a stronger dollar.

Autos:

Auto imports for 2015 are projected to increase by 5% from 2014 to 184,281 units. Much of the increase can be attributed to an improving job market, favorable financing terms for new car buyers, combined with lower fuel prices that have encouraged buyers to replace older automobiles they've held onto during the recession. Volumes for 2016 are projected to grow by 1% to 186,124 units, with no major changes anticipated for Kia, Mazda, Mitsubishi and Isuzu/Fuzo business.

Logs:

On the NWSA's bulk side of the business, log exports have continued to decline, and are expected to finish 2015 significantly below the prior year at just over 40 million board feet. The drop in volume is primarily a result of the slowing growth of the Chinese economy, and subsequent decrease in demand for logs to use in the manufacture of concrete forms for construction in China.

Volumes for 2016 are projected to decrease by 46.2%, to just over 21 million board feet. This is predicated on the assumption that China's annual economic growth will continue to slow over the next years, and that log exports will discontinue all together by mid-year.

Molasses & Petroleum):

Both molasses and petroleum volumes are projected to remain flat through 2015 and 2016.

Petroleum is forecasted at 800,000 metric tons per year, and molasses volumes are forecasted at 44,000 metric tons per year.

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

	Actual					Forecast				
	2012	2013	2014	2015 est.	2016	2017	2018	2019	2020	
THE NORTHWEST SEAPORT ALLIANCE CARGO ACTIVITY 5-YEAR FORECAST										
<u>Non-Container Forecast (Thousands of Metric Tons)</u>										
Breakbulk	304	250	253	249	256	259	264	269	274	
Autos	204	226	252	264	255	242	251	261	271	
Logs	342	389	277	232	128	0	0	0	0	
Petroleum	621	788	998	800	800	800	800	800	800	
Molasses	75	48	50	44	44	44	44	44	44	
Total Tonnage	1,546	1,701	1,830	1,589	1,483	1,345	1,359	1,374	1,389	
		10%	8%	-13%	-7%	-9%	1%	1%	1%	
<u>Container Forecast (Thousands of TEUs)</u>										
International	2,778	2,635	2,557	2,671	2,760	2,802	2,858	2,931	3,019	
Domestic	786	821	870	863	848	856	865	873	882	
Total TEUs	3,564	3,456	3,427	3,534	3,608	3,658	3,723	3,804	3,901	
		-3%	-1%	3%	2%	1%	2%	2%	3%	
<u>Intermodal Yard Lifts</u>										
Hyundai Intermodal Yard	91,185	158,100	157,223	141,474	145,718	147,904	150,862	154,633	159,272	
North Intermodal Yard	193,511	169,185	193,772	210,589	211,046	211,046	215,030	219,092	223,234	
South Intermodal Yard	82,249	83,787	94,231	94,607	98,814	103,222	107,828	112,641	117,671	
Pierce County Intermodal Yard	72,815	75,293	68,870	76,524	76,754	77,905	79,463	81,450	83,079	
Total Intermodal Lifts	439,760	486,365	514,096	523,194	532,332	540,077	563,183	567,816	583,256	
		11%	6%	2%	2%	1%	2%	3%	3%	
* Intermodal Lifts Reported for Port of Tacoma Only										
<u>Log Board Feet</u>										
	66,405,210	74,340,580	50,502,920	40,171,970	21,800,000	0	0	0	0	
		12%	-32%	-20%	-46%	-100%				
<u>Vehicle Units</u>										
	148,239	160,419	175,802	184,280	186,123	175,167	178,910	182,817	186,816	
		8%	10%	5%	1%	-6%	2%	2%	2%	

*2015 - 2020 Forecast: Q3 2015 = 9/18/2015 (Actuals through June 2015)

IV Operating Budget

Overview

The NWSA operating budget revenue is based on cargo volume forecasts (see Table III-1, page III-4), existing terminal and property leases and contractual and tariff-generated revenue. Operating budget expenses were projected based on historical information, as well as levels of expenditures required to support the increases in revenue.

From this information, NWSA staff prepared a realistic budget that supports both the strategic priorities and financial goals of the NWSA.

Departmental budgets estimate the expenses that will be generated in support of the NWSA and its businesses. Expenses fall into one of five categories: Administration, Operations, Security, Environmental or Maintenance. Administration expenses are incurred in the day-to-day management of the NWSA. Operations, and Maintenance expenses support the day-to-day management of business activities. Security support is provided by each home port. Environmental expenses are a subset of overall environmental spending, and include clean air and clean water activities, and close coordination with each home port on 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 NWSA expects to receive funds from other sources including, user fees, 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, and increased operating expenses and depreciation costs.

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 also may 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 NWSA is a joint venture that operates with the two ports as enterprise funds, allowing the NWSA and the ports 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 NWSA 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.

Budget Process

The NWSA 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 the NWSA's financial goals are still met if business conditions support the full budgeted spending.

The NWSA operates on a calendar year budget cycle that must integrate the budget schedule needs of both home ports. The operating budget and the capital budget are the NWSA's plan for meeting the current needs of its customers, and for implementation of the strategic goals.

The annual budget development begins in August and continues through November. The process begins with the development of strategic objectives and initiatives, which are reviewed by the Managing Members and the Chief Executive Officer. The Managing Members and Chief Executive Officer communicate any strategy changes or policy concerns and gather additional input.

Cargo forecasts, available at the beginning of September, are used to develop the variable portion of the operating budget. During a study session, the managing members are presented with a draft budget.

In November, a public hearing is held by each home port to allow for public comment, and to adopt the statutory budget and approve the property tax levy for the budget year. The NWSA's operating income is split evenly between the ports and is shown as revenue to the home ports. After the home port Commission approves and adopts its statutory budget, it is submitted, with the related home port resolutions, to the respective County Councils and Assessor Treasurer offices.

Major Assumptions

Major drivers of the 2016 operating budget are a result of economic and industry trends represented in the cargo forecast.

Revenue

- Existing leases continue per existing leases and contracts
- Cargo volumes drive equipment and intermodal revenue and expenses
- Auto and breakbulk imports continue to provide revenue diversity
- Tariff rates are projected to increase 2% to 2.5%
- Property lease rental rates will increase as specified in contracts

Direct Expenses

- The NWSA has direct headcount of 54 positions Salaries are expected to increase at 2.5% growth
- Major operating expenses include removal of obsolete cranes, berth maintenance dredging, and ongoing maintenance of terminal paving and fender systems

- Depreciation for licensed assets at the time of the formation of the NWSA will remain on the books of the home ports. Depreciation of any new investments that are jointly funded will be charged against the NWSA

Allocations and home port charges

Each home port is providing services to the alliance, and some NWSA personnel are providing services back to the home ports. These services are provided either by direct charge or by allocation.

A direct charge is where a cost can be directly attributed specifically with a particular project(s) and directly assigned with a high degree of accuracy. Examples of direct charge include engineers assigning time to a specific project, maintenance staff repairing a specific asset, and security charging time to a specific event such as an auto ship discharging cargo.

An allocation is an indirect cost for common services or services that are not directly attributed to a given project. For example support staff do not complete timecards so their time cannot be directly assigned to work. Examples of allocations include the finance team providing analysis work for an investment, Information technology services providing network connectivity and laptop equipment, and the executive team providing leadership and direction.

Table IV-4 shows the total approximate value of the allocation and home port charges and services provided to the different entities.

Estimating Revenues and Expenses

The NWSA 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 NWSA analyzes as many as 10 years of data to estimate a rate of growth

- **Business Operations:** Terminal 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 NWSA uses the five-year cargo forecast to project budgeted revenues

Financial Practices

The NWSA manages its operations to maximize its financial capacity - to maintain strong cash flow to provide the necessary cash to the home ports to provide adequate home port debt service coverage ratios.

Financial Tools

- **Cargo Forecasts:** The NWSA maintains a cargo estimate for each of the next five years. (See Table III-1, page III-4)
- **Five-Year Financial Forecast:** A portion of the operating budget is driven by volumes from the

cargo forecast while the majority of the revenue comes from 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 managing members, Chief Executive Officer and Executive Team review these semi-annually

- **Five-Year Capital Improvement 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
- **Home Port Plan of Finance:** The financial output of the NWSA will be shared evenly between the home ports and is an input into each home port's five-year plan that identifies each port's ability to fund their business objectives
- **Financial Analysis of Investments:** The NWSA reviews significant capital investments and their related assumptions prior to acceptance into the planned capital budget. Revenue-generating projects are expected to earn a return on investment that meets or exceeds the standards
- **Financial Reporting:** The NWSA creates a variety of reports available electronically or in hard copy

For additional information on accounting policies, see each home port's budget and annual financial reports.

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

(\$ Thousands)	2016 Budget
Operating Revenue	
Container	\$134,573
Non Container	47,731
Real Estate	10,492
Other	95
Total Revenue	192,891
Direct Expenses	
Container	20,413
Non Container	23,015
Real Estate	937
Other	17,520
Total Direct Expenses	61,885
Administrative Expenses	19,707
Security	4,410
Environmental	2,694
Total Operating Expenses before Depreciation	88,696
Depreciation	571
Total Operating Expense	89,267
Net Operating Revenue over Expenses (Income from Operations)	\$103,624
% Revenue	53.7%
Non Operating Revenue and Expense	(50)
Net Distributable Revenue (Net Income)	\$103,574

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

(\$ Thousands)	2016 Budget
Services Marine Terminals	\$118,772
Property Rental	46,086
Equipment Rentals	17,398
Other Revenue	9,713
Sale of Utilities	922
Operating Revenue	\$192,891
Allocations	\$24,396
Maintenance	16,191
Longshore Labor & Fringe	12,417
Direct Expenses	10,216
Port Salaries & Fringe	9,144
Outside Services	7,508
Utilities	3,844
Environmental	2,063
Other Expenses	1,200
Travel & Entertainment	837
Depreciation	571
Marketing & Global Outreach	508
Office Equipment & Supplies	206
Other Employee Exp	167
Total Operating Expense	\$89,267

Table IV-3....Statements of Revenues, Expenses and Changes in Net Position

	2016 Budget
<i>(\$ Thousands)</i>	
Operating Revenue	\$192,891
Total Operating Expenses including depreciation	89,267
Net Operating Revenue over Expenses (Income from Operations)	103,624
Non Operating Revenues (Expenses)	
Interest Income	500
Other non-operating expense, net	(50)
Total non-operating expenses , net	450
Net Distributable Revenue (Net Income)	104,074
Uses of Cash	
Distribution to Home Ports*	(104,195)
Capital Grant Contributions	-
Increase (decrease) in net assets	-\$121
Net Position	
Net Position beginning of year	\$51,000
Net Position end of year	\$50,879

* Per Charter Section 5.3 and Charter definition 1.1(p)

Table IV-4....Summary of Allocations and Direct Charges

	<u>\$ million</u>
NWSA to Port of Tacoma	1.5
NWSA to Port of Seattle	0.2
Port of Tacoma to NWSA	30.5
Port of Seattle to NWSA	10.3

v NWSA Capital Improvement Plan

Overview

The Northwest Seaport Alliance invests in projects to increase the capacity, extend the life or improve the safety or efficiency of alliance-managed property and equipment.

The five-year Capital Improvement Plan (CIP) identifies all projects planned or underway. The CIP provides a mechanism for tracking and managing project budgets and cash flows for five years into the future. Table V-1 shows planned spending on capitalized projects for the five-year time frame. Projects are associated with a program that fall under one of the businesses or under a category called "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 alliance Managing Members and must have the necessary permitting before proceeding.

To achieve its goals, the alliance continues to invest in revenue-generating capital projects that support its businesses. Although the home ports are responsible for the general infrastructure in each respective county, the alliance may also will invest in infrastructure projects that support the NWSA's maritime business, as well as increasing rail and road transit of cargo within boundaries between ports of Seattle and Tacoma. 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

The five-year capital budget focuses on the following strategic and maintenance projects:

Strategic investments:

- Design of major terminal improvements at T4 and T5 in preparation for redevelopment
- Rehabilitation of the T-46 dock
- Upgrade to T-46 utilities and electrical
- Purchase two Super Post Panamax container cranes for the general central peninsula
- Redevelop APM terminal for diverse business

Maintenance Investments

- Pier 7D pile cap repairs
- Purchase four replacement straddle carriers for the general central peninsula
- Maintenance and rehabilitation of Port assets

The alliance has a strong commitment to the protection and improvement of the environment. Examples of this commitment include the Clean Truck Program, the Northwest Ports Clean Air Strategy, and significant investment in stormwater improvements.

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

Table V-1....Planned Capitalized Project Spending

(\$ Millions)	2016	2017	2018	2019	2020
Planned Capital	27.0	43.8	17.8	21.7	7.4
Grand Total	\$27.0	\$43.8	\$17.8	\$21.7	\$7.4

Capital Improvement Plan Priorities

To efficiently allocate human and financial resources, the alliance uses a capital project prioritization methodology. For internal management, the alliance 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 included in the budget.
- **Estimate:** These are projects based on an identified business need or opportunity, but have not been fully developed in scope and cost.

Capital Improvement Plan Projects by Purpose

While the stage of the planning process determines the budgetary category of a particular project, project purpose determines the source of financing. The alliance 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 NWSA 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 and may offer additional revenue if replacements enhance the efficiencies of operations or offer additional capabilities or value. The ports have 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 NWSA intends to implement \$174.5 million worth of planned projects in the next five years, with \$39.1 million of that total earmarked for 2016. Non-operating and operating projects will be expensed as incurred and are included in the operating budget.

Table V-4 shows the five-year budget by Line of Business

Table V-5 shows the expected increase in depreciation and revenue from time when all of the projects are completed. The CIP is the total expected spending of 62 projects, 37 of which are capitalized and 25 expensed as incurred. The expensed projects are captured as expenses in the 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 alliance does not expect any significant increase in operating expenses associated with the additional capital projects.

Table V-2....Five-Year Planned Capital Improvement Plan by Purpose

(\$ Millions)

	2016	2017	2018	2019	2020	Totals
Infrastructure	\$6.7	\$5.6	\$4.8	\$4.8	\$4.7	\$26.5
Renewal	30.0	51.5	33.1	22.5	8.4	145.5
Revenue	2.5	0.0	0.0	0.0	0.0	2.5
Grand Total	\$39.1	\$57.1	\$37.9	\$27.3	\$13.0	\$174.5

Table V-3....Five-Year Planned Capital Improvement Plan by Accounting Treatment

(\$ Millions)

	2016	2017	2018	2019	2020	Totals
Capitalized	27.0	43.8	17.8	21.7	7.4	117.6
Operating Expense	12.2	13.3	20.1	5.6	5.6	56.9
Grand Total	\$39.1	\$57.1	\$37.9	\$27.3	\$13.0	\$174.5

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

(\$ Millions)

	2016	2017	2018	2019	2020	Total
Container Business	\$30.4	\$49.8	\$31.0	\$17.6	\$2.1	\$130.9
Non Container Business	1.7	0.3	0.7	3.4	4.7	10.8
Port-Wide Infrastructure	7.0	7.1	6.3	6.3	6.2	33
Grand Total	\$39.1	\$57.1	\$37.9	\$27.3	\$13.0	\$174.5

Table V-5....Net Income Impact of Capitalized Projects

(\$ Millions)

	2016	2017	2018	2019	2020	Total
Container Business	-\$0.5	-\$1.7	-\$3.7	-\$3.7	-\$4.9	-\$14.6
Non Container Business	0.0	-0.1	-0.1	-0.1	-0.1	-0.3
Real Estate	0.0	0.0	0.0	0.0	0.0	-0.1
Port-Wide Infrastructure	0.0	-0.5	-0.5	-0.5	-0.5	-2.0
Grand Total	-\$0.6	-\$2.3	-\$4.3	-\$4.3	-\$5.5	-\$17.0

Capital Budget Project Descriptions

The NWSA's five-year CIP has been categorized on a business basis, as shown in Figure V-1. The following section provides details of major planned improvements within each business and only includes major projects and equipment.

Container Terminals Business

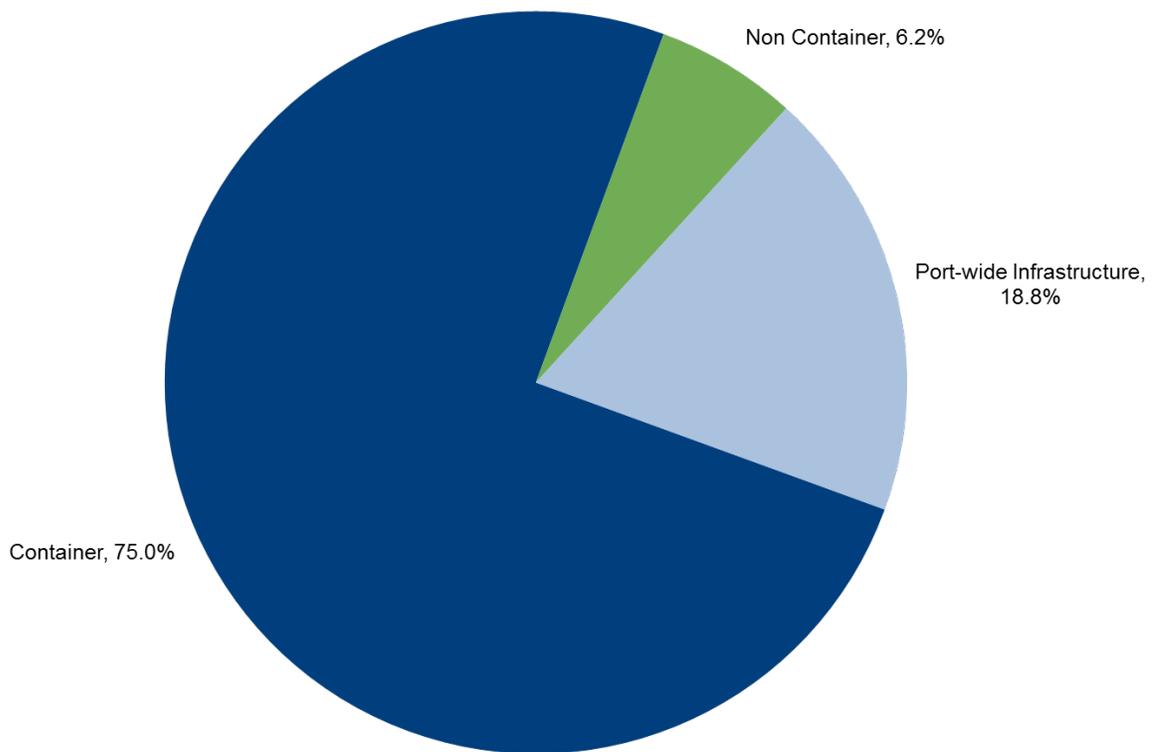
Planned capital expenditures for container terminals will total approximately \$130.9 million over the next five years. The CIP for this business will provide the

funds necessary for T46 dock rehabilitation, including design and construction; acquire container cranes and straddle carriers for the South Harbor's Central Peninsula, OCT pile caps repair; and paving repairs and fender replacements.

Non-Container Business

Approximately \$10.8 million will be spent on redevelopment facility for breakbulk business and environmental cap repairs.

Figure V-1...Five-Year Planned Capital Budget by Business



Port-Wide Infrastructure

This section includes capital expenditures that are not specific to a single business, and are in support of the

alliance's infrastructure or environmental improvements.

- Environmental Programs: These projects include reduction and monitoring of emissions, and

ongoing cleanup projects. This also includes the Clean Truck Program, which helps defer the cost of replacing older trucks with cleaner new trucks.

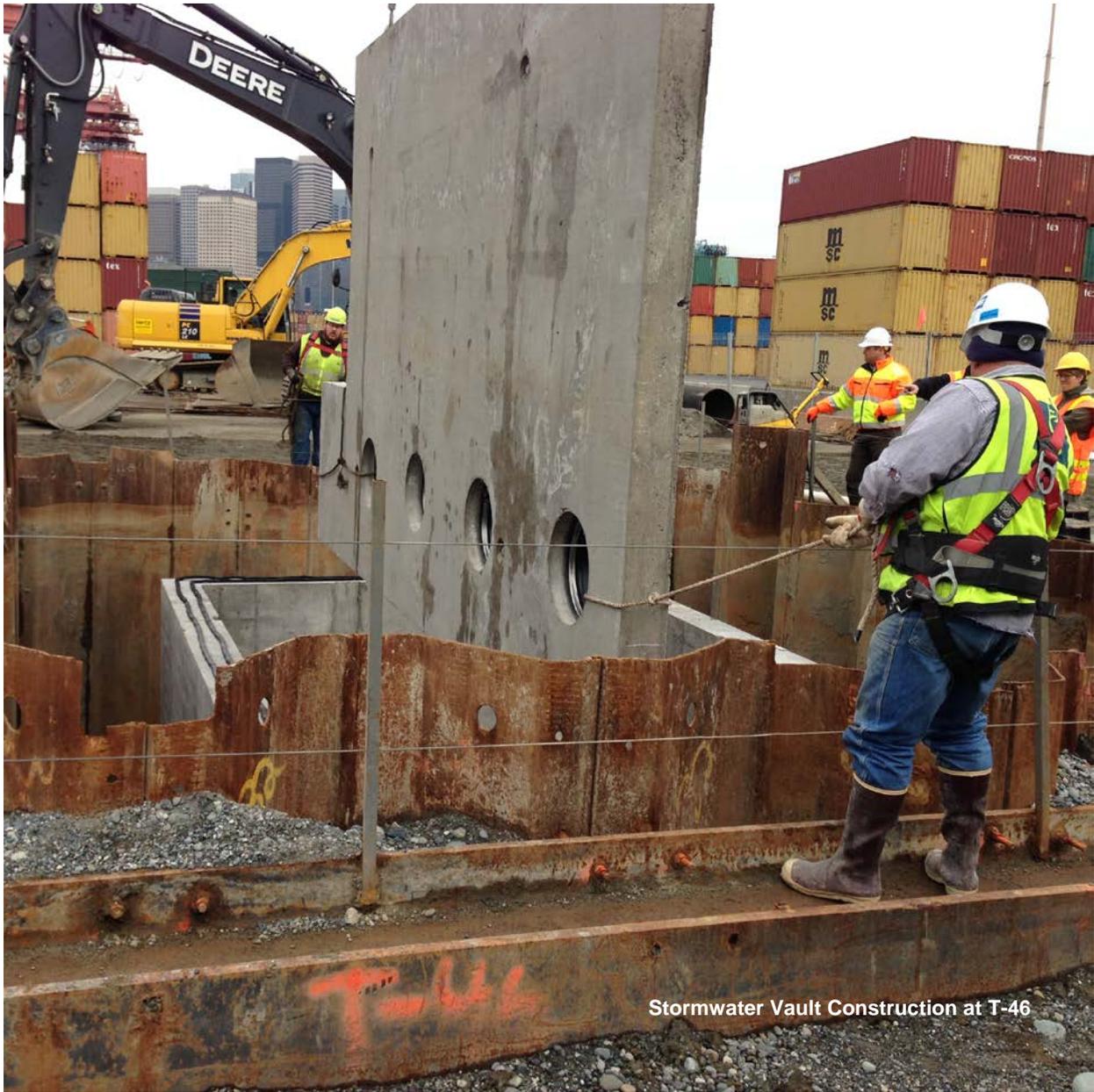
- Technology: The alliance is investing in an operations service center that will allow customers and cargo owners to track their cargo as it moves through the gateway.

Capital Improvement 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 alliance maintains sufficient cash reserves to meet the CIP requirements, as well as any unexpected capital requirements, without adversely affecting the ongoing operations of both ports.



Stormwater Vault Construction at T-46

VI Environmental Stewardship

Environmental stewardship is a high priority of the NWSA. In 2016, the NWSA plans to focus its environmental efforts, in addition to the two home ports of Seattle and Tacoma, on water and air quality, as the bulk of that work will reside on NWSA licensed properties.

Water Quality Program

Industrial Stormwater Management Program

The NWSA partnership provides the framework to create an industrial stormwater management program that will establish a collaborative working group consisting of customers, agencies and environmental organizations in both north and south harbors. The goal of the Stormwater Workgroup is to establish a forum to discuss emerging stormwater issues, common problems and solutions and provide stormwater compliance technical assistance to our customers. Staff will engage on an extensive stakeholder outreach program that will include customers, regulators and the neighboring communities.

The Stormwater Workgroup will be divided into sub-groups to provide site-specific assistance to tenants/customers so they can benefit from cost-effective stormwater pollution control approaches.

Research and Develop Cost-Effective Means to Manage Stormwater

The NWSA will continue previous work instituted by the separate ports. The NWSA will implement innovative cost-effective treatment methods in the field in an effort to focus in on stormwater Best Management Practices (BMPs). This includes conducting pilot studies of new and existing treatment infrastructure to develop demonstrated designs of cost-effective stormwater treatment devices that can be shared with tenants and customers.

Source Control

Controlling pollutants at or near the source is the most cost effective way of reducing impacted stormwater runoff, managing the risk of costly corrective actions for treatment, and reducing the cost of operations and maintenance of installed stormwater treatment systems.

North Harbor Focus

Most North Harbor tenants have installed or are installing stormwater treatment at their facilities. The challenge going forward will be to reduce the cost of operating and maintaining these systems and, if possible, prevent or eliminate the need for stormwater treatment in selected areas. The Stormwater Workgroup will focus on establishing relationships with tenants/customers and work with them to implement at-source and near-source BMPs with these goals in mind.

South Harbor Focus

Most South Harbor tenants have reached consistent attainment or are currently meeting benchmarks for water quality sampling under the Industrial Stormwater General Permit. The Stormwater Workgroup will continue to work with tenants/customers to implement at-source and near-source BMPs to ensure continued compliance, and to focus on tenants/customers that may face challenges to meet water quality criteria.

Infrastructure Assessment Program

The NWSA Infrastructure Assessment Program will facilitate the ongoing assessment of the stormwater system and the work needed to ensure its proper function. North Harbor will use Stormwater Utility funds from the home port to begin the assessment and, later, rehabilitation of the system.

Stormwater Development/Redevelopment

Coordination with home port MS4 programs will ensure site-specific stormwater requirements are met. This includes the design of appropriate treatment systems and/or system selection based on proposed land use and typical discharges associated with

site-specific activities. Projects include redevelopment of terminals in both harbors. The Port of Tacoma's Stormwater Management Guidance Manual provides specific guidance for development and redevelopment projects, which will accomplish the MS4 requirement for both harbors.

Projects

Multiple tenant assistance projects at both harbors will include installing downspout treatment boxes, infrastructure assessments to identify potential deficiencies, and source control site visits to assist tenants/customers that are permittees under the Industrial Stormwater General Permit.

North Harbor Projects

Redevelopment of Terminal 5 is underway. As part of those efforts the NWSA will focus on cost-effective stormwater treatment solutions as the facility is updated in partnership with a long-term customer. The focus for this project will be to set up both the NWSA and the new tenant for stormwater success.

South Harbor Projects

Stormwater treatment will be upgraded as required as part of the reconfiguration of Pier 4 to ensure the terminal has the stormwater infrastructure needed to continue to operate successfully. In the South Harbor a retrofit of an existing oil-water separator and a proprietary water quality vault into media filtration treatment at the EB-1 terminal will also occur.

Air Quality Program

Northwest Ports Clean Air Strategy

The Northwest Ports Clean Air Strategy (NWPCAS) was developed in 2007 and updated in 2013 as a collaborative effort among Port Metro Vancouver (Canada), the Port of Seattle, and the Port of Tacoma to reduce air emissions from shipping and port-related activities. The NWPCAS includes goals to reduce emissions of diesel particulate matter and greenhouse gases, and establishes performance targets for various maritime sectors.

In 2015, port staff began the task of scoping and consolidating cargo-related air quality programs that will now be managed by the NWSA. The 2016

NWSA Strategic Business Plan calls for implementing the NWPCAS and identifies specific measures to achieve that. NWSA staff will continue ongoing collaboration with NWPCAS partners to share information, conduct joint projects and publish annual progress reports to the community. Staff will also integrate port-specific fuel efficiency plans into an NWSA plan, and will assist terminals in updating their fuel efficiency plans. Lastly, the NWSA will seek opportunities to partner with customers and other stakeholders on grant-funded emission reduction projects and pilot studies.

Puget Sound Maritime Air Emissions Inventory

In 2005 and 2011, the partners in the Puget Sound Maritime Air Forum, consisting of the ports of Tacoma, Seattle, Anacortes, Everett and Olympia; along with Washington State Ferries, Puget Sound Clean Air Agency, Western States Petroleum Association, Pacific Merchant Shipping Association, and others, collaborated on the development of a Puget Sound Maritime Air Emissions Inventory. The 2005 inventory formed the basis of the Northwest Ports Clean Air Strategy. The 2011 future inventories are used to assess progress in meeting the NWPCAS goals and performance measures. The next inventory will be based on emissions in calendar year 2016. Project planning and contracting will take place in 2016, with data collection and reporting occurring in 2017. As the largest port authority in the Puget Sound Maritime Air Forum, the NWSA will manage the 2016 inventory.

Clean Truck Program

The ports of Seattle and Tacoma have had separate Clean Truck Programs since 2008, when the NWPCAS was adopted by the respective port Commissions. The NWPCAS includes a target for reducing air emissions from trucks serving marine terminals by the end of 2017.

Planning to align the two ports' initiatives into a unified NWSA Clean Truck Program began in 2015. In 2016, NWSA staff will align the programs with the goal of minimizing impacts on stakeholders, minimizing duplication, consolidating outreach and recordkeeping, and launching an NWSA truck scrapping/replacement project upon closeout of a similar Port of Seattle program.

The NWSA will provide matching funds for a drayage truck project in 2016-2017, to be managed by the Puget Sound Clean Air Agency and funded primarily by a U.S. Department of Transportation Congestion Mitigation and Air Quality grant. It will provide incentives for 115 trucks to be scrapped and replaced with cleaner models.

In 2015, the Port of Tacoma launched a pilot project under the U. S. Department of Transportation Freight Advanced Traveler Information Systems (FRATIS) program. Its purpose is to provide trucking stakeholders with real-time traffic information, which has the potential to shorten cargo pick-up and delivery queues. Work will be done in collaboration with the NWSA Operations Center and will support its key performance indicators related to truck turn times. Project activities occurring in 2016 will be managed by the NWSA.

Ocean-Going Vessel Recognition Program

The NWPCAS has several performance targets aimed at ocean-going vessels. These include: tracking vessel characteristics such as engine type, fuel type, use of emission control technologies, and use of shore power; and encouraging vessels to participate in certification programs that promote continuous improvement that exceeds regulatory requirements. To achieve these measures, the NWSA staff will evaluate options to develop a recognition program in 2016 for shipping companies. A program such as this may be patterned after the Port of Seattle Green Gateway Partner Award program and be designed in concert with the Port of Tacoma Summit Award.

Green Marine Membership

Green Marine is a maritime environmental organization that offers a certification program for the

North American marine industry. To receive certification, members benchmark their environmental performance each year and have bi-annual verification of results. The Port of Seattle has been a member of Green Marine since 2013 and the Port of Tacoma has also considered joining. Green Marine could help the NWSA develop performance targets for ocean-going vessel, harbor vessel and port administration elements of the NWPCAS. The 2016 Strategic Plan calls for a thorough evaluation of the Green Marine Ports sustainability certification.

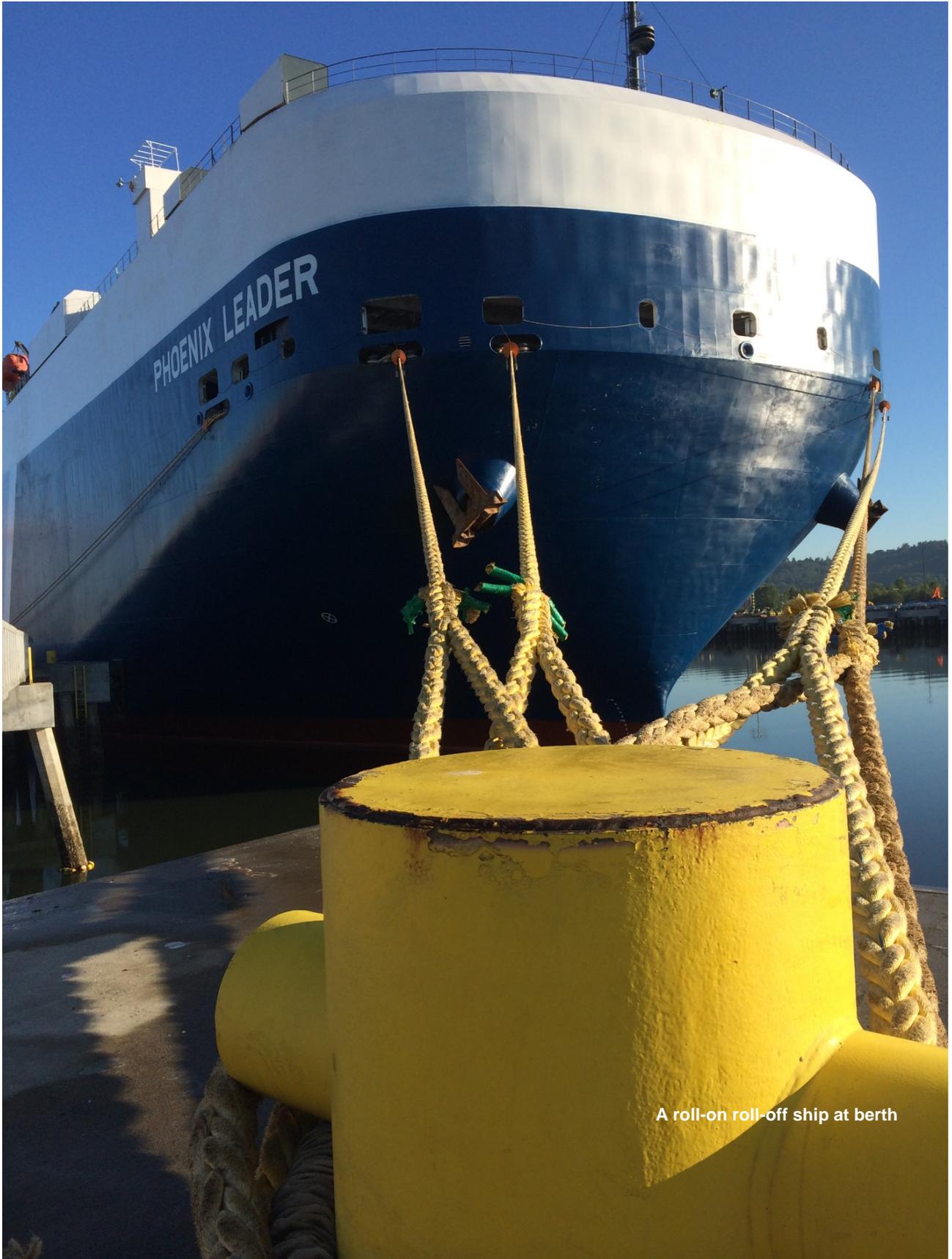
Ship to Shore Power Expansion

Both the ports of Tacoma and Seattle have provided shore power at some berths. The NWSA will continue to look for additional opportunities to leverage public and private funding for additional shore power installations, and ensure terminal designs include shore power capability. This is consistent with the NWSA Strategic Plan and Northwest Ports Clean Air Strategy to reduce particulate emissions.

Port of Tacoma Locomotive Repower Project

In January of 2014 the Port of Tacoma partnered with Tacoma Rail and received a \$600,000 grant from the U.S. Environmental Protection Agency to repower/replace a 1958-era switching locomotive that operates in the south harbor.

Total project costs are estimated at \$2,077,484 including the Port's in-kind contribution of \$30,000 and Tacoma Rail's grant match of \$1,475,535. The project is expected to be complete by early 2016.



A roll-on roll-off ship at berth

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