



THE NORTHWEST
SEAPORT ALLIANCE

The Northwest Seaport Alliance 2022 Budget



Operating Budget and Capital Investment Plan adopted:
November 8, 2021



In June 2021, Inbound Logistics magazine named The Northwest Seaport Alliance in its annual list of “Green 75” supply chain partners. This is the fourth consecutive year that the NWSA has been recognized for its environmental programs and commitment to sustainability.



In August 2021, Logistics Management Magazine awarded The Northwest Seaport Alliance with a 2021 Quest for Quality award in the West Coast Port category. This is the fifth consecutive year that the NWSA has earned this award. The NWSA ranked second highest among U.S. West Coast ports in the magazine’s annual readership survey of transportation providers. Ports were evaluated on ease of doing business, value, ocean carrier network, intermodal network, and operations. The NWSA was one of only four West Coast ports to earn the honor this year.



In June, 2021 the Northwest Ports Clean Air Strategy was named as Runner-Up in the International Association of Ports and Harbors’ (IAPH) World Ports Sustainability Program Awards in the Climate and Energy category. The IAPH established the World Ports Sustainability Program in 2018. Guided by the 17 United Nations Sustainable Development Goals, it aims to unite sustainability efforts of ports worldwide, encouraging international cooperation between all partners involved in the maritime supply chain.



The Northwest Seaport Alliance joined Green Marine in 2016 and has maintained its continued improvement every year since joining. Green Marine is a voluntary marine industry initiative with the goal of achieving levels of environmental performance that exceed regulatory requirements in areas such as air emissions, greenhouse gases, cargo waste management, community impacts (noise, dust, odors and light), water and land pollution prevention and environmental leadership. There are currently more than 100 ship owners, port authorities, terminals, and shipyards from coast to coast, in Canada and the United States, participating in the program.

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To: Managing Members

Date: November 8, 2021

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

Staff is pleased to present the 2022 Northwest Seaport Alliance (NWSA) Budget. This document informs interested parties about the NWSA's overall goals and strategies, as well as the business environment in which we operate. It highlights our focus on strategic investments that will deliver competitive financial results, build infrastructure for future growth in an environmentally sustainable manner, and continue to create jobs and economic wealth for the Puget Sound region.

What a difference a year makes. After the pandemic-related decline in business activity in 2020, 2021 was a year of significant business growth with increased consumer demand that has created congestion across the maritime supply chain. Shipping alliances, terminal operators, rail and trucking partners, and ILWU labor are working to process cargo as fast as possible to keep store shelves stocked and businesses running smoothly across Washington and the inland markets our gateway serves. The NWSA has helped create off-dock yards to reduce congestion and is working with cargo owners, truckers, and labor to eliminate the backlog of cargo.

Additionally, the NWSA has made and continues to make critical investments to service large ships and increase our gateway capacity. We completed construction of a new wharf and the purchase of eight new cranes at Husky Terminal in the Tacoma Harbor in 2019 and will open the first phase of the redevelopment of Terminal 5 in Seattle in January 2022. These two significant investments alone total over 500 million dollars and provide the NWSA with additional terminals in both harbors capable of handling the largest vessels in the transpacific trade. The additional off-dock yards along with the opening of Phase 1 of Terminal 5 will help ease the congestion in our gateway.

The NWSA creates significant economic activity and family wage jobs in the Puget Sound region and across the state. We provide manufacturers and agricultural producers throughout the nation valuable access to foreign markets. NWSA and our customers' business activities generate more than 58,400 direct and indirect jobs and \$12.4 billion of business output based on the most recent study released in 2019 for 2017 data. The NWSA is also an environmental leader in reducing cargo-related air emissions and stormwater pollution.

The current NWSA's Strategic Business Plan includes:

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

The challenges of 2020 and 2021 have positioned our gateway for significant opportunities to grow our market share and increase jobs in the region this upcoming year. The NWSA will continue to invest in the facilities and infrastructure necessary to keep our position as a leading North American port. Our team is focused on promoting responsible financial and environmental stewardship, fostering operational excellence through the gateway, and increasing business activities and job growth across the region.

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 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 operating budget with revenue and expenses by line of business, and details of expected operating costs. This section also provides a five-year financial forecast for the alliance.

V. Five-Year Capital Investment 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 and Planning: This section provides a historical context for the environmental challenges facing the two ports and their surrounding communities. This section also discusses the role of the NWSA Planning and Logistics department and its work to integrate all aspects of the alliance.

I The Northwest Seaport Alliance Overview

Marine Cargo Operating Partnership

The Northwest Seaport Alliance (NWSA) was formed when 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 to the region.

NWSA Strengths and Advantages

Located in the Pacific Northwest in Washington state, the NWSA offers short transit times between the US and Asia, and the terminal and landside infrastructure necessary to quickly move cargo to the U.S. Midwest. NWSA strengths and advantages include:

- One gateway, two harbors and multiple terminal facilities offering more choices for shippers using the gateway.
- Naturally deep water and marine terminals with big-ship handling capabilities.
- Vessel service from the three international container shipping alliances and all major international container carriers. In all, sixteen international and four domestic container carriers make regular port calls at NWSA facilities.
- Dual service from the two West Coast transcontinental railroads (UP, BNSF) with competitive transit times to Chicago and major Midwest markets.
- Excellent on-dock rail facilities and inland rail service
- Located near the second largest concentration of warehousing on the US West Coast.
- Over 100 transload warehouses supplying logistics services to shippers using the gateway, many rail served.

International & Domestic Trade

The NWSA ranks among the world's top 60 container gateways and is the fourth-largest gateway for containerized cargo in the United States. Retention and growth of cargo volumes shipped between Asia and major distribution points in the Pacific Northwest, Midwest, Ohio Valley, and

the East Coast is a primary focus for the alliance. The NWSA also has a very active trade with Alaska and Hawaii.

The NWSA is a major center for bulk, breakbulk, and project/heavy-cargoes. The NWSA is the Northwest home port for processing Kia, Mazda, and Mitsubishi automobiles and trucks while The Port of Tacoma has a separate facility that processes Nissan and Volvo vehicles.

The value of NWSA's two-way international trade totaled more than \$65.7 billion in 2020. Imports were \$51.0 billion and exports were \$14.7 billion. Through July 2021, the two ports handled roughly \$43.9 billion of trade. Based on dollar volume, China (including Hong Kong) is the NWSA's largest trading partner. Other major international trading partners include:

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

Seattle-Tacoma is recognized as "The "Gateway to Alaska"; with more than 80 percent of trade between Alaska and the lower 48 states handled at the two harbors. In 2020, nearly 2.7 million metric tons of domestic cargo were shipped between Alaskan ports and NWSA terminals. Matson, TOTE Maritime Alaska, Northland, and Alaska Marine Lines are the primary shipping lines plying the Alaska trade. Trade with Alaska is estimated at \$5.4 billion, making it NWSA's fourth largest trading partner based on value of trade. The NWSA also provides connections to Hawaii with service from Matson and Aloha Marine Lines.

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 1914, its first

warehouse in 1915 and began working on the creation of Harbor Island.

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

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

King and Pierce 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 approximately 3.1 million 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 2019, the ports of Tacoma and Seattle announced the results of a joint economic impact study for the NWSA and 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, in 2017 the two ports' marine cargo activities are related to 58,400 jobs in Washington state that contribute \$12.4 billion in total business output. Cargo-handling and leasing activities generated more than \$136 million 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 for cargo destined for Midwest locations.

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

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.

Many of the two home 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.

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

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. In 2015, the ports 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 the two ports as equal members, with each port acting through its elected commissioners. Each Port Commission is a Managing Member of the NWSA, with each Managing Member being represented by its Port Commission. Votes by the Managing Members require a simple majority from each commission.

Each port remains 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 is reported, and cash is distributed back to the ports on a monthly basis. The PDA has its own annual operating budget and five- year capital investment plan.

The ports contribute to capital construction subject to Managing Members approval; capital funding does not come from working capital generated by the NWSA.

NWSA Managing Members

The Managing Members are the commissions for each of the two ports. 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 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 members of the commissions at the time of this publication are:

Port of Seattle

- Stephanie Bowman
- Ryan Calkins
- Sam Cho
- Fred Felleman
- Peter Steinbrueck

Port of Tacoma

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

NWSA Managing Members Meetings

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

Pierce counties and online.

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 NWSA Executive Team. See the Organizational Chart (Figure I-3 on page I-8).

Executive Team

The Executive Team is comprised of the following positions:

- Chief Executive Officer (CEO)
- Deputy CEO
- General Counsel
- Chief Commercial and Strategy Officer
- Chief Financial Officer
- Chief Operations Officer
- Director of Engineering
- Director of Environmental Programs
- Senior Manager for Government Affairs
- Senior Manager for Communications

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 NWSA and port activities, including public meetings and information, environmental protection, labor relations, procurement, security, financial management and other issues. The Chief Operations Officer, Director of Engineering and Director of Environmental Programs provide day to day

management of some port staff working on both Port and NWSA related items.

Commercial Group

Led by the Chief Commercial and Strategy Officer, the Commercial Group is comprised of the Business Development team, the Marketing & Business Services Team, and the Real Estate team.

Business Development: International and domestic container, breakbulk, and bulk cargo are core business segments for the NWSA. The Business Development team is responsible for cargo and terminal business development and management, and customer service for these cargos. The Business Development team plays an important role coordinating efforts with the entire supply chain, including customers, terminal facilities, rail roads, and trucking companies. This team pursues and implements 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 NWSA business. Relationship management with Tacoma Rail, BNSF and Union Pacific (UP) and other rail stakeholders are key functions of this team.

While a significant portion of the Business Development team is focused on the container and associated intermodal business, the NWSA has a robust non-container business. Comprised of breakbulk (Roll On and Roll Off also known as RoRo), bulk and auto cargoes, these non-container businesses make a significant contribution to revenue and further diversify the gateway's business portfolio. Additionally, the NWSA's Tacoma Harbor is designated as a strategic military port for transport of military cargoes.

Auto customers of the NWSA include Kia, Mazda, and Mitsubishi. These imports are processed on property leased by Auto Warehousing Company (AWC), the largest auto processor on the U.S. West Coast. The Port of Tacoma has a separate auto facility with its tenant, Wallenius Wilhelmsen which processes Nissan and Volvo imports.

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

The NWSA offers competitive rates and full service to all customers. To help facilitate and grow business, the NWSA has trade and business development representation in Alaska, New Jersey, Hong Kong, China, Vietnam, and Korea.

Marketing and Business Services Team: This team supports the Business Development team and is responsible for research, data analysis, advertising and marketing activities. This team also manages and administers the NWSA tariff. It also supports the goals of the Commercial Group by providing strategic market research and business intelligence, cargo volume tracking and forecasting.

Real Estate Team: Non-terminal industrial and commercial properties and facilities in the Seattle and Tacoma harbor are included in the assets assigned to the NWSA. These properties are a significant source of revenue for the NWSA. 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, tenants offer a broad range of services for the NWSA's international and domestic customers including warehousing and distribution, manufacturing and marine services.

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 Tacoma Harbor intermodal yards. This department also operates the North Intermodal Yard (NIM). The NIM 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, government affairs, communications, engineering, environmental programs, planning and financial services are provided by NWSA staff and / or 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 purchased services.

Commitment to Fiscal Stewardship

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

Both ports have 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.

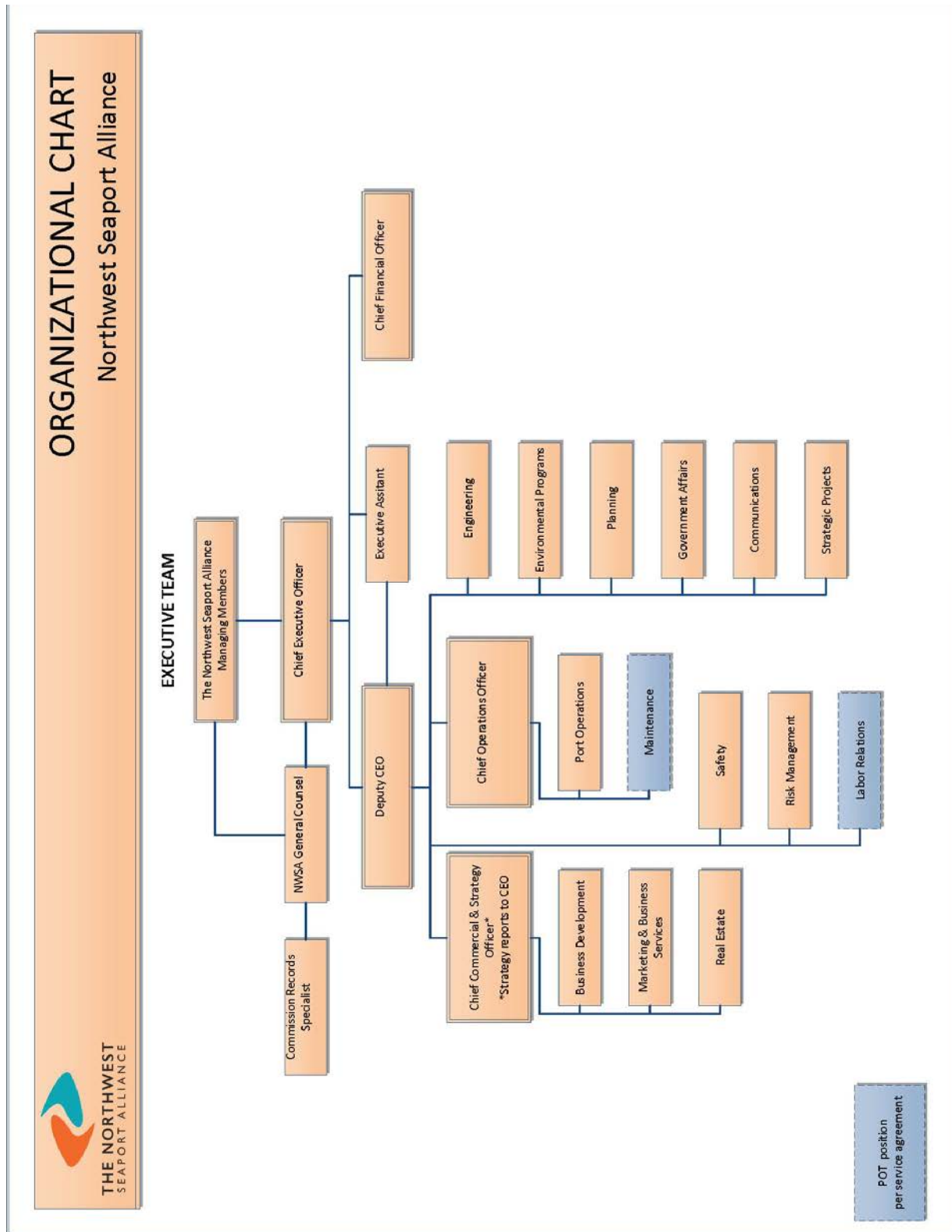
The Northwest Seaport Alliance Budget 2022



Figure I-2.... Northwest Seaport Alliance Facilities – Tacoma Harbor



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



II Budget Message

NWSA Goals

The NWSA has identified seven strategic initiatives to maintain and grow the maritime business in the Puget Sound. The seven high level strategic initiatives, and supporting priorities are listed below. Please see Appendix E for the detailed metrics and measures:

1. **Business Development and Commercial Initiatives**

- a. Complete modernization of T5 dock, berth and power infrastructure in the Seattle Harbor to meet future container industry demand, increase throughput, and position The Northwest Seaport Alliance gateway strategically
- b. Maximize gateway cargo potential and diversification and enhance supply chain networks
- c. Complete redevelopment of Husky Terminal and Pier 4 in the Tacoma Harbor to increase container throughput and respond to container industry changes

2. **Gateway Operations**

- a. Enhance cargo and transportation (waterway, roadway and rail) visibility within the gateway to drive improved service delivery
- b. Enhance and improve service delivery key performance indicators (KPIs) with a move toward real-time reporting and analytics
- c. Support Port-area infrastructure investments that support the efficient flow of cargo to and from NWSA facilities
- d. Design and develop appropriate rail support infrastructure in coordination with Tacoma Rail and the Class 1 railroads

3. **Financial Performance**

- a. Effectively Manage Operating Activities to Deliver Expected Financial Results

4. **Environmental Stewardship**

- a. Effectively Manage and monitor the clean truck and clean air strategies and pursue improvements that support the green gateway strategy
- b. Continued focus on water quality at NWSA and tenant run facilities
- c. Develop and implement a green gateway communications strategy

5. **Government Affairs**

- a. Continue to pursue Harbor maintenance tax reform
- b. Support establishment of a Federal West Coast port competitiveness strategy

6. **Planning and Logistics**

- a. Continue engagement in regional transportation and land use planning
- b. Complete a facilities infrastructure plan
- c. Leverage grant opportunities to fund strategic cargo facilities and infrastructure
- d. Support harbor deepening and maintenance dredging in both harbors

7. **Organizational Performance**

- a. Engage and participate in Diversity, Equity and Inclusion (DEI) training
- b. Continue development and implementation of applications that enhance the business and provide a competitive advantage

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, increased competition from Canadian ports as well as ports located on the U.S. West, Gulf and East coasts, have resulted in reduced cargo market share for the Puget Sound gateway. The expansion of the Panama Canal has made the all-water route to the Gulf and East coasts more attractive for cargo owners. While the recent demand for cargo has resulted in high utilization of our terminals, NWSA staff continue to work on future projects to regain and grow our market share.

Revenues

The NWSA has both fixed and variable revenue streams. The majority of NWSA's revenue comes from fixed revenue streams, 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 and breakbulk cargo. 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.

GASB 87: The NWSA has adopted the new accounting standard for leases known as GASB 87 for 2021 for audited financial reporting. GASB 87 will move a significant amount of revenue from Lease income in Operating Revenue to Lease Interest Income which is included in non- operating revenue.

For clarity and to avoid confusion, the impact of GASB 87 will not be incorporated into this budget document.

2022 Budget

The NWSA has developed an overall operating budget with projected revenue of \$206.8 million. Operating income is budgeted to be \$84.4 million, resulting in an operating margin of 40.8 percent. The NWSA net distributable revenue of \$98.9 million, which includes grant and interest. Distributable Cash of \$122.1 million will be distributed evenly between the two home ports. Each port's portion of net income will be 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 Investment Plan Highlights

NWSA projects for the next five years reflect a focus on strategic container terminal development in both harbors. With this focus the NWSA has reviewed potential assets for revenue generation to ensure that financial and economic growth goals are met.

Major 2022 – 2026 capital projects include the following:

Seattle Harbor

- Terminal 5 wharf redevelopment, including a rail quiet zone and electrical upgrades in the City of Seattle's substation
- Terminal 18 dock rehabilitation and shore power installment
- Terminal 46 NW bulkhead replacement

Tacoma Harbor

- Husky berth dredge and install shore power
- Tacoma terminal expansion
- WUT berth dredging
- PCT reefer expansion and fender replacement
- Ongoing maintenance of facilities

Both Harbors

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

The NWSA's 2022 Capital Investment Plan of \$131.6 million represents the first year of the NWSA's 2022-2026 CIP – a package totaling \$626.3 million in new projects and investments. See Section V for additional details on the Capital Investment Plan.

Financial Measures

Financial measures for the NWSA have been developed to monitor financial performance. The two measures are (1) Net Distributable Cash and (2) Return on Revenue (operating income divided by revenue). These measures help ensure that the NWSA is providing the necessary financial performance required by each home port.

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 made a significant commitment to infrastructure in 2015, 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.

In 2015 Congress passed the FAST Act, a surface transportation authorization bill that established a new freight funding program. In its Fiscal Year 2019 spending bill, Congress appropriated \$292 million for the new Port Infrastructure Development Program (PIDP), a port-dedicated infrastructure funding program. Prior to these bills, few federal investment tools have been available to ports and other local government when it comes to freight infrastructure.

The FAST Act programs and the PIDP will assist the NWSA in making strategic investments in mission-critical freight infrastructure, such as marine terminals, roads and rail. In 2020 the NWSA received our first award under the PIDP, a \$10.7 million grant for the final phase of the T5 modernization program.

More opportunity is on the horizon: Congress is now negotiating the Infrastructure Investment and Jobs Act and reconciliation legislation currently being referred to as the Build Back Better Act that would drive billions of additional dollars into the PIDP and FAST Act freight infrastructure programs, as well as other programs that support NWSA mission areas.

Shorepower Infrastructure Funding

Both the ports of Tacoma and Seattle have provided shorepower at some berths. The NWSA continues to pursue additional opportunities to leverage public and private funding for additional shorepower installations, and ensure terminal designs include shorepower capability. Some of these opportunities include Diesel Emission Reduction Act (DERA), State and Federal Volkswagen Settlement (VW) funding, TransAlta Centralia Coal Transition Grant funds, along with other emerging sources of state funding, and potential federal infrastructure and Build Back Better legislation.

As part of this effort the NWSA has developed a plan for shore power installations throughout the gateway. The NWSA was awarded a \$4.3 million Clean Energy Fund grant from the state to support shore power installation at T-5 as part of the redevelopment project. This funding was directed to the NWSA through a state budget proviso in the 2019 legislative session. The NWSA has also accepted a DERA grant from the EPA that would contribute \$1 million to the installation for shore power at Husky Terminal, with design underway and construction planned for 2022. The NWSA also received \$1 million from the TransAlta Transition grant funds, and \$1.1 million in state Volkswagen settlement funds to support the Husky shorepower project. This would allow vessels at this Tacoma Harbor berth to shut their engines off and plug into the local electrical grid for their energy needs.

The NWSA has also accepted a \$2 million grant from the state, through the federal VW Settlement, to support design and construction of a shore power system at T-18. These funds will allow staff to progress the design, along with design of other needed capital improvements, enabling the NWSA to apply for grants from the large federal programs, such as RAISE and PIDP.

The expansion of shore power capabilities is consistent with the NWSA Strategic Plan and Northwest Ports Clean Air Strategy to reduce particulate emissions and greenhouse gases.

Navigation Improvement Projects

The largest container vessels calling West Coast ports today have over two times the capacity of those that called just five years ago. To remain a competitive trade gateway, the NWSA is taking steps to upgrade our infrastructure to handle these ships. One such step involves the deepening of the navigation channels that

serve its facilities. In 2018, the U.S. Army Corps of Engineers completed a Chief's Report recommending deepening in specific areas adjacent to the NWSA's container terminals in the Seattle Harbor. Congress subsequently authorized the project in the 2018 Water Resources Development Act, and design funds were approved in the Corps' FY20 Work Plan. While channels are mostly -51 feet or deeper, some shallower spots present navigational and safety challenges. The recommendation is to deepen the east and west waterway in the Seattle Harbor to -57 feet MLLW.

This will allow the NWSA to handle fully laden ships larger than 18,000 TEUs. Deepening channels to this depth will require a local financial match of federal dollars, which could come from several sources, including the potential for a contribution from the NWSA.

Additionally, the NWSA in 2018 signed a feasibility cost-sharing agreement with the Corps to initiate a feasibility study of navigation improvements to the Blair Waterway at the Port of Tacoma. The study was scheduled to be completed in August 2021, but it now is delayed because the National Marine Fisheries Service (NMFS) has not completed the required environmental consultation. Additional work to resolve the delays at NMFS will take place over the next several months, and it is our goal to see a completed Chief's Report (comparable to the one referenced above in Seattle) in time for design and construction to be authorized by Congress in 2022. The alliance has contributed approximately \$1.8 million over the course of the three-year study, amounting to half of the study's costs.

Harbor Maintenance Tax (HMT)

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.

Our ports achieved a major milestone in our decades-long effort in December 2020 when Congress passed comprehensive HMT reform legislation as part of the Water Resources Reform and Development Act (WRDA) of 2020. The bill sets aside 8% of annual HMT collections for donor ports like Seattle and Tacoma. If implemented as drafted, the NWSA estimates that between them the two home ports of Seattle and Tacoma will receive approximately \$30 million annually for our infrastructure projects beginning in federal fiscal year 2023.

In 2021 the Port of Seattle received \$2.782 million and the Port of Tacoma received 2.744 million from the federal government through the existing WRDA Section 2106 HMT donor port program. These funds will be used by the NWSA to fund eligible infrastructure projects to enhance the competitiveness of our cargo operations

Conclusion

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

The NWSA is focused on maximizing the use of existing facilities, working with existing customers to keep them competitive and successful, and making strategic infrastructure investments such as the construction of world class terminals in both harbors that position the gateway for long-term growth. Through coordinated investments in maritime assets, the NWSA will help ensure the growth in the flow of cargo throughout the Puget Sound.

The NWSA is placing increased emphasis on the importance of developing and strengthening relationships with labor partners, industry stakeholders, customers, local, state and tribal governments and near-port communities to collaboratively achieve its future vision. This vision includes the road and rail infrastructure that ties the whole supply chain 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

Real gross domestic product (GDP), defined as the value of the production of goods, increased 6.6 percent in the second quarter of 2021 and 6.3 percent in the first quarter of 2021. The Department of Commerce Bureau of Economic Analysis (BEA) said, "The increase in second quarter GDP reflected the continued economic recovery, reopening of establishments, and continued government response related to the COVID-19 pandemic. In the second quarter, government assistance payments in the form of loans to businesses and grants to state and local governments increased, while social benefits to households, such as the direct economic impact payments, declined."

The U.S. economy is performing strongly. Growth is supported by consumption, business spending, and employment. The re-opening due to vaccinations and consumer demand growth are causing supply congestion and increased prices. Partial second-quarter results show that consumers are spending money on services now. People are returning to public places, traveling, and returning to a more normal lifestyle such as attending sport events. Spending on services has not yet come with a large decline in spending on goods. While consumers still have disposable income, and consumption should continue to grow, TTX expects some durable goods categories like furniture, appliances, and sporting goods to see weaker growth.

The "I" word is in play. Strong consumer demand and supply-chain congestion and shortages have increased prices. While inflation is a sign that the economy is growing, it resulted in a 5.3% growth in the Consumer Price Index in June. Some of the increase is due to comparison against last year. A major part is because the reopening of the economy caused shortages. From new cars, airfares, hotels, car rentals, gas, etc., prices have increased. The Fed expect the bottlenecks to ease by the end of the year and demand will moderate in early 2022. However, inflation is likely to stay higher than pre-pandemic levels for some time.

The U.S. unemployment rate was at 5.2 percent in August 2021 with 235,000 jobs added for the month. Most job gains occurred in professional and business services, transportation and warehousing,

private education, manufacturing, and other service

The National Association of Realtors states pending home sales declined 1.8% in July 2021, month over month. According to Lawrence Yun, NAR's chief economist, "The market may be starting to cool slightly, but now there is not enough supply to match the demand from would-be buyers. Homes listed for sale are still garnering great interest, but the multiple, frenzied offers -sometimes double-digit bids on one property -have dissipated in most regions."

The Conference Board reported August Consumer Confidence Index at 113.8, down from 125.1 in July. According to the Conference Board's Senior Director of Economic Indicators Lynn Franco, "Concerns about the Delta variant—and, to a lesser degree, rising gas and food prices—resulted in a less favorable view of current economic conditions and short-term growth prospects. Spending intentions for homes, autos, and major appliances all cooled somewhat; however, the percentage of consumers intending to take a vacation in the next six months continued to climb. While the resurgence of COVID-19 and inflation concerns have dampened confidence, it is too soon to conclude this decline will result in consumers significantly curtailing their spending in the months ahead."

Shipping Industry

The global COVID-19 pandemic continues to impact economies around the world as variants like Delta, Lambda, and Mu emerge. Labor shortages, strong consumer demand, and a series of events—inclement weather, to the blockage of the Suez Canal and other terminal delays—have led to unprecedented global port congestion. Around the world, vessels are at anchor waiting to berth. Even though container volumes are comparable to 2019 levels, the constant disruptions have caused supply chains to melt down. Vessel utilization is extremely high, and carriers are deploying every vessel at their disposal – owned or chartered. Carriers are also introducing new services to "secondary" ports to offload more volume. Some Beneficial Cargo Owners (BCOs) have even resorted to chartering their own vessels to secure space for their cargo. With container rates at an all-time high, carriers are

returning containers back to Asia empty to maximize profits. This has negatively impacted U.S. exporters. Terminals and factories in China and Vietnam have experienced closures due to an increase in new COVID-19 cases. Stateside labor has also been impacted.

Inventories are continually being replenished in response to strong consumer demand and e-commerce. Shippers continue to face tight capacity and record slot costs for, despite the introduction of ships and ad-hoc services to handle volumes. Carrier financials are extremely healthy.

Shipping lines, non-operating owners, lessors, and investment banks have ordered over 300 new container vessels in the first half of this year. The new vessels have a 2.88 million TEU combined capacity, 11.75% of the current container fleet capacity of 24.47 million TEUs. These vessels are expected to begin service sometime in early 2023.

The U.S.-China trade war and the pandemic, caused importers to accelerate efforts to shift sourcing and production to countries in SE Asia or use a "China + X" strategy to diversify the risk associated with being solely reliant on China. There has been a corresponding increase in manufactured imports from Vietnam and other SE Asian economies. In many cases, origin and transshipment ports in SE Asia are geographically closer (and transits shorter) to the US East Coast, which may cause a partial shift of Asia import volume away from west coast ports. With that said, it will take some time before these countries can meet the infrastructure and skilled labor China offers.

In 2021, the composition of carriers that make up the various shipping alliances remains the same.

- 2M+Z – Maersk, MSC, ZIM
- Ocean Alliance – CMA CGM, COSCO Shipping, Evergreen, OOCL
- THE Alliance – Hapag Lloyd, Yang Ming, Ocean Network Express (ONE), HMM

Major Independent Carriers – Hamburg Sud, and SM Line.

Alliances have concentrated capacity in fewer hands allowing ocean carriers to exercise greater control over capacity on major trade lanes through coordinated changes to vessel sailings, schedules, and transit times.

Northwest Seaport Alliance Activity

Containers:

Through September 2021, the NWSA has handled nearly 2.5 million TEUs (twenty-foot equivalent units), a 17.1 percent increase year-to-date. Year-over-year volume has been strong as consumer spending continues to deplete inventories. Ocean carriers have added five new services into the gateway in 2021 to handle growing demand. Alaska volumes were muted by an abbreviated cruise season due to COVID.

Container volume is projected to increase next year with additional volume from new services introduced this year and the opening of Terminal 5 in quarter 1 of 2022. However, another surge of COVID-19 would have negative impacts. Factors that could also impact NWSA international volumes include competition from ports in British Columbia, Canada, and other North American gateways or a possible decline in global trade and adverse impacts to the global economy resulting from U.S. and international tariffs and trade policy.

Breakbulk:

Breakbulk cargo is comprised of commodities that are either too large or heavy 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 2021, total breakbulk tonnage (both harbors) is estimated to reach approximately 337K metric tons. Volume is forecasted to be 370K metric tons in 2022.

Autos:

NWSA/POT auto units for 2021 are forecasted to be 189K units, up from the previous year. 2022 volumes are expected to show strong growth of over 9% to 206k units.

Logs:

The Log business was suspended due to the tariffs and has not been included in the 2021 through 2026 forecast or budget.

Molasses & Petroleum:

Petroleum volumes are forecasted to be 603K metric tons in 2021 and essentially flat thereafter. Molasses volumes are forecasted to be 30K metric tons in 2021 and 36K thereafter.

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

THE NORTHWEST SEAPORT ALLIANCE CARGO ACTIVITY 5-YEAR FORECAST												
	Actual	Forecast										
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Non-Container Forecast (Thousands of Metric Tons)												
Breakbulk	181	211	249	246	292	337	370	376	384	394	404	
Autos	246	225	228	306	245	292	450	464	478	492	507	
Logs	177	278	117	76	0	0	0	0	0	0	0	
Petroleum	612	716	666	636	677	603	603	603	603	603	603	
Molasses	44	36	46	47	42	30	36	36	36	36	36	
Container Forecast (Thousands of TEUs)												
International	2,859	2,995	3,111	3,058	2,636	3,065	3,340	3,449	3,562	3,679	3,800	
Domestic	757	707	686	717	685	736	740	751	762	773	785	
Total TEUs	3,616	3,702	3,798	3,775	3,320	3,801	4,079	4,200	4,324	4,452	4,585	
Year over Year change	2%	2%	3%	-0.6%	-12.1%	14.5%	7.3%	3.0%	3.0%	3.0%	3.0%	
Intermodal Yard Lifts*												
Hyundai Intermodal Yard	172,901	115,858	112,731	124,778	85,401	128,899	133,088	137,480	142,017	146,704	151,545	
North Intermodal Yard	226,329	194,502	177,380	178,205	147,269	158,126	118,383	122,290	126,325	130,494	134,800	
South Intermodal Yard	84,068	87,659	99,954	86,271	89,529	102,482	134,406	137,094	139,836	142,632	145,485	
Pierce County Intermodal Yard	92,270	75,581	62,959	71,310	45,684	33,572	35,639	36,815	38,030	39,285	40,582	
Total Intermodal Lifts	575,568	473,600	453,024	460,564	367,883	423,079	421,516	433,679	446,208	459,115	472,412	
Year over Year change	8%	-18%	-4%	2%	-20%	15%	0%	3%	3%	3%	3%	
Log Board Feet												
	24,921,280	52,706,190	23,161,000	15,192,000	0	0	0	0	0	0	0	
Year over Year change	-40%	111%	-56%	-34%	-100%	0%	0%	0%	0%	0%	0%	
Vehicle Units (NWSA+POT)												
	165,687	146,885	146,147	191,822	156,205	188,871	206,264	215,469	225,412	236,183	247,887	
Year over Year change	-10%	-11%	-1%	31%	-19%	21%	9%	4%	5%	5%	5%	
Intermodal Lifts Reported for South Harbor only												

* Intermodal Lifts Reported for South Harbor only



Rail Cargo of all types on the Tacoma tideflats

IV Operating Budget

Overview

The NWSA operating budget revenue is based on cargo volume forecasts (see Table III-1), 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 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.

The NWSA uses the full-accrual basis for budgeting, consistent with the basis for accounting. This method recognized the financial effect of events that impact the Port during the accounting period, regardless of whether cash was received or spent.

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 June 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 the budget

process, 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 home ports. 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 2022 operating budget are a result of economic and industry trends represented in the cargo forecast.

Revenue

- Existing leases continue per existing lease terms and contracts
- Cargo volumes drive equipment and intermodal revenues and expenses
- Auto and breakbulk imports continue to provide revenue diversity
- Tariff rates are projected to increase between 2.5% and 3.0%
- Property lease rental rates will increase as specified in contracts

Direct Expenses

- The NWSA has direct headcount of 56 positions. Salaries are expected to increase by 3%
- Major operating expenses include construction of non-NWSA owned infrastructure needed for the development of Terminal 5, and ongoing maintenance of terminal paving, bulkheads 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

Home port services provided

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 purchased services through Inter-local Agreements.

Table IV-4 shows the approximate value of Operating, Maintenance, Environmental, Security and Administrative services purchased by the NWSA from each of the home ports and the services purchased by the Port of Tacoma from the NWSA. This table does not include the value of services provided for capitalized and expensed projects.

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 volume related revenues

Financial Practices

The NWSA manages its operations to maximize its financial capacity - to provide the necessary 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)
- **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 forecast. 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 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
- **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 Distributable Income by Business*

Company: The Northwest Seaport Alliance

(\$ millions)

	2020 Actual	2021 Budget	2021 Forecast	2022 Budget
Operating Revenues				
NWSA				
Container	152.5	161.6	167.9	172.1
Non Container	20.1	18.3	19.8	20.8
Real Estate	11.7	12.1	12.8	13.9
Other	0.0	0.0	0.0	0.0
Total Operating Revenues	184.3	192.0	200.4	206.8
Direct and Maintenance Expenses				
Container	42.4	38.8	38.4	40.9
Non Container	9.7	10.4	11.3	12.4
Real Estate	0.4	0.8	0.6	0.8
Other	16.5	17.3	15.1	17.7
Total Direct Expenses	69.0	67.2	65.4	71.8
Administration	18.2	21.3	19.5	20.0
Security	5.1	4.0	3.9	4.3
Environmental	1.4	2.1	2.3	3.1
Total Operating Expense before Depreciation	93.8	94.7	91.2	99.2
<i>Operating Income before depreciation</i>	<i>90.5</i>	<i>97.4</i>	<i>109.2</i>	<i>107.6</i>
Depreciation & Amortization	13.8	19.1	15.1	23.2
Total Operating Expense	107.6	113.7	106.3	122.4
Income from Operations	\$76.7	\$78.3	\$94.1	\$84.4
<i>Return on Revenue</i>	<i>41.6%</i>	<i>40.8%</i>	<i>46.9%</i>	<i>40.8%</i>
Non Operating Income (Expense)	0.8	6.2	2.7	14.4
Distributable Income before Special Item	77.6	84.5	96.8	98.9
Special Item				
Distributable Income	\$77.6	\$84.5	\$96.8	\$98.9
Distributable Cash + Lease Interest Cash	\$91.4	\$103.6	\$111.9	\$122.1
Bond Income	\$93.4	\$98.9	\$114.3	\$108.3

* Amounts may not foot due to rounding.

Table IV-2 Operating Revenue and Expense Detail*
Company: The Northwest Seaport Alliance

(\$ millions)	2020	2021	2021	2022
	Actual	Budget	Forecast	Budget
Property Rental	\$45.4	\$47.1	\$48.8	\$55.1
Sale of Utilities	1.2	1.2	1.2	1.4
Services Marine Terminals	113.4	120.3	120.6	139.0
Equipment Rentals	13.6	14.4	14.3	11.2
Other Revenue	10.7	9.1	15.4	0.1
Operating Revenue	184.3	192.0	200.4	206.8
Home Port Services Provided	21.6	21.5	19.8	20.6
Port Salaries & Benefits	9.0	10.2	9.7	10.6
Outside Services	11.7	6.2	4.7	3.1
Longshore Labor & Fringe	10.1	9.4	10.1	9.4
Direct Expenses	11.3	10.8	12.5	14.6
Marketing & Global Outreach	0.5	0.7	0.6	0.7
Travel & Hosting	0.1	0.5	0.2	0.7
Maintenance	15.7	26.5	24.6	30.5
Office Equipment & Supplies	0.2	0.2	0.2	0.2
Utilities	5.6	5.5	5.5	5.3
Other Employee Exp	0.0	0.1	0.1	0.1
Other Expenses	6.6	1.1	1.1	0.6
Environmental	1.5	1.9	2.2	2.8
Total Operating Expenses before Dep.	93.8	94.7	91.2	99.2
<i>Operating Income before Depr.</i>	<i>90.5</i>	<i>97.4</i>	<i>109.2</i>	<i>107.6</i>
Depreciation & Amortization	13.8	19.1	15.1	23.2
Total Operating Expenses	\$107.6	\$113.7	\$106.3	\$122.4
Operating Income	\$76.7	\$78.3	\$94.1	\$84.4
<i>Return on Revenue</i>	<i>41.6%</i>	<i>40.8%</i>	<i>46.9%</i>	<i>40.8%</i>
Non Operating Revenue and Expenses	0.8	6.2	2.7	14.4
Net Assets Before Special Items	77.6	84.5	96.8	98.9
Increase in Net Assets	\$77.6	\$84.5	\$96.8	\$98.9
Distributable Cash (calculated)	\$91.4	\$103.6	\$111.9	\$122.1
Bond Income	\$93.4	\$98.9	\$114.3	\$108.3

* Amounts may not foot due to rounding.

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

	2020 Actual	2021 Forecast	2022 Budget	Change from Prior Year Forecast
(\$ Millions)				
Operating Revenue	\$184.3	\$200.4	\$206.8	3.2%
Total Operating Expenses before Dep.	(93.8)	(91.2)	(99.2)	8.8%
Depreciation & Amortization	(13.8)	(15.1)	(23.2)	53.4%
Operating Income	76.7	94.1	84.4	-10.2%
Non Operating Revenues (Expenses)				
Lease Interest Income	0.0	48.7	47.1	-3.4%
Interest Income	1.6	0.9	0.4	-59.8%
Premium Discount	(0.2)	(0.0)	(0.1)	547.5%
Market Value Adjustments	0.2	(0.1)	0.0	-100.0%
Non-Capital Grant Income	1.1	0.1	0.4	424.7%
Capital Grant Contributions	1.1	2.3	16.7	613.6%
Other Non Operating Revenue (Expense)	(2.9)	(0.5)	(2.9)	464.5%
Total Non Operating Income (Expense)	0.8	2.7	14.4	434.6%
Net Distributable Revenue (Net Income)	77.6	96.8	98.9	2.2%
Distributable Cash + Lease Interest Cash				
Net Distributable Revenue (Net Income)	77.6	96.8	98.9	2.2%
Add Depreciation and Amortization	13.8	15.1	23.2	53.4%
Distributable Cash* + Lease Interest Cash	91.4	111.9	122.1	9.1%
Net Position				
Net Position beginning of year	353.4	449.4	542.0	20.6%
Add Contributions and Expected Capital Construction	140.6	107.7	112.7	4.6%
Add Net Distributable Revenue (Net Income)	77.6	96.8	98.9	2.2%
Less Cash Distributions	(122.2)	(111.9)	(122.1)	9.1%
Net Position end of year	\$449.4	\$542.0	\$631.5	16.5%

* Per charter section 5.3 and charter definition 1.1 (p)

* Amounts may not foot due to rounding.

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

(\$ Millions)	2020 Actual	2021 Budget	2021 Forecast	2022 Budget
Port of Tacoma to NWSA	\$29.2	\$31.6	\$29.2	\$31.1
Port of Seattle to NWSA	\$9.4	\$9.3	\$9.3	\$9.9
NWSA to Port of Tacoma	\$1.0	\$1.0	\$0.8	\$0.9

*Table IV-5.... Six-year Statement of Revenue, Expenses and Change in Assets**

(\$ millions)	2021	2022	2023	2024	2025	2026
Operating Revenue	\$200.4	\$206.8	\$217.0	\$230.9	\$238.2	\$248.7
Total Operating Expenses before Dep.	(91.2)	(99.2)	(114.7)	(94.5)	(95.7)	(98.5)
Depreciation & Amortization	(15.1)	(23.2)	(27.3)	(31.5)	(35.5)	(37.1)
Operating Income	94.1	84.4	75.1	104.9	107.0	113.2
Grant Income	2.4	17.1	25.6	9.0	4.5	0.0
Other Non Operating Income	0.3	(2.7)	(4.9)	0.2	0.2	0.2
Net Distributable Revenue	96.8	98.9	95.8	114.1	111.7	113.4
Distributable Cash (calculated)	\$111.9	\$122.1	\$123.1	\$145.6	\$147.2	\$150.5
Bond Income	\$114.3	\$108.3	\$103.1	\$136.6	\$142.7	\$150.5

*Table IV-6.... Six-year Bond Income**

(\$ Millions)	2021	2022	2023	2024	2025	2026
Operating Revenue	200.4	206.8	217.0	230.9	238.2	248.7
Add Non Operating Revenue	7.4	17.3	25.9	9.2	4.8	0.3
Less Capital Grants	(2.3)	(16.7)	(25.2)	(9.0)	(4.5)	0.0
Less Operating Expenses before Depreciation	(91.2)	(99.2)	(114.7)	(94.5)	(95.7)	(98.5)
Bond Income	\$114.3	\$108.3	\$103.1	\$136.6	\$142.7	\$150.5

* Amounts may not foot due to rounding.



**Heavy equipment offloading at EB1
Breakbulk Terminal**

V Capital Investment 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.

New projects on the Capital Investment Plan that are \$100,000 or greater have been vetted through the Investment Decision and Development Process (IDDP). The IDDP is a two-stage planning development.

- Stage 1 (Opportunity Assessment) is to document new investment opportunities, identify any conflicts and receive input from all potentially affected departments/teams. The leadership management makes decision to pursue the opportunity to next stage.
- Stage 2 (Alternatives Analysis) is to assess the initial viability of a project, consider and evaluate alternatives, conduct a project screening, and consider long-range capital planning.

The five-year Capital Investment 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. The alliance Managing Members review and approve each project individually. Projects 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 invest in infrastructure projects that support the NWSA's maritime business, as well as increasing rail and road transit of cargo within boundaries between the 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

By the close of 2021, the NWSA will have completed or neared completion of the following capital projects:

- Upgraded stormwater system at Terminal 18
- Replaced fender system at WUT terminal
- Completed phase one berth modernization construction at Terminal 5
- Funded tenant improvement at Husky terminal

The 2022 - 2026 Capital Investment Plan focuses on the following strategic and maintenance projects:

Strategic investments:

- Completion of berth modernization at Seattle Terminal 5 and associated infrastructure requirements
- Tacoma Terminal Expansion program
- Construction of the Terminal 5 stormwater treatment system
- Install shore power at Husky terminal in Tacoma

Maintenance investments:

- Replace fender system at WUT and PCT terminals
- Rehabilitation of Terminal 18 and Terminal 46-south wharfs
- Rehabilitation of the Terminal 46 bulkhead
- Maintenance berth dredging at Husky and WUT terminals
- Maintenance and rehabilitation of assigned 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 storm-water 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)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Historical Capital	66.7	77.8	93.4	134.4						
Planned Capital					107.6	112.7	100.3	85.5	51.4	201.5
Grand Total	\$ 66.7	\$ 77.8	\$ 93.4	\$ 134.4	\$ 107.6	\$ 112.7	\$ 100.3	\$ 85.5	\$ 51.4	\$ 201.5

Capital Investment 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 Investment Plan Projects by Purpose

The alliance classifies CIP projects into three types, (as shown below in Table V-2):

- **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 ports have designated port-generated operating cash or revenue bonds to fund most of these projects and 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.

- **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.

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.

The alliance'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. The economic lives of capitalized assets range from three years to 20 years for machinery and equipment while economic lives of buildings and improvements range from 10 years to 75 years.

Table V-3 shows that the NWSA intends to implement \$626.3 million worth of planned projects (capitalized and expensed) in the next five years, with \$131.6 million of that total earmarked for 2022.

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.

Table V-5 shows the expected increase in depreciation when planned projects are completed. The CIP is the total expected spending of 112 projects, 55 of which are capitalized and 57 expensed as incurred.

The expensed projects are captured as expenses in the current year budget and four-year operating forecast as incurred. The costs of the capitalized projects are captured as depreciation expense over the estimated life of the projects that may extend beyond three years. The alliance expects depreciation expense will increase when the redevelopment of Terminal 5 is complete.

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

(\$ Millions)

	2022	2023	2024	2025	2026	Total
Infrastructure	\$6.2	\$7.2	\$5.4	\$5.1	\$5.7	\$29.5
Renewal	38.8	68.7	79.0	52.6	202.8	441.9
Revenue	86.6	59.7	8.7	0.0	0.0	154.9
Grand Total	\$131.6	\$135.5	\$93.0	\$57.7	\$208.4	\$626.3

Amounts may not foot due to rounding

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

(\$ Millions)

	2022	2023	2024	2025	2026	Total
Capitalized	\$112.7	\$100.3	\$85.5	\$51.4	\$201.5	\$551.3
Operating Expense	16.0	30.1	7.6	6.3	6.9	66.9
Non-Operating Expense	2.9	5.1	0.0	0.0	0.0	8.0
Grand Total	\$131.6	\$135.5	\$93.0	\$57.7	\$208.4	\$626.3

Amounts may not foot due to rounding

Table V-4....Five-Year Planned Projects by Line of Business

(\$ Millions)

	2022	2023	2024	2025	2026	Total
Container Business	\$115.4	\$112.7	\$66.9	\$34.3	\$199.7	\$529.0
Non Container Business	3.0	3.0	0.3	0.1	0.1	6.4
Real Estate	0.4	0.1	0.0	0.0	0.0	0.5
Infrastructure	12.7	19.8	25.8	23.4	8.7	90.4
Grand Total	\$131.6	\$135.5	\$93.0	\$57.7	\$208.4	\$626.3

Amounts may not foot due to rounding

Table V-5....Depreciation Impact Due To Capitalized Projects

(\$ Millions)

	2022	2023	2024	2025	2026	Total
Container Business	\$ (9.5)	\$ (12.7)	\$ (16.3)	\$ (20.4)	\$ (21.7)	\$ (80.6)
Non Container Business	(0.1)	(0.2)	(0.4)	(0.4)	(0.4)	\$ (1.4)
Real Estate	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	\$ (0.1)
Infrastructure	(9.9)	(13.5)	(17.8)	(21.9)	(23.6)	\$ (86.7)
Grand Total	\$ (19.5)	\$ (26.5)	\$ (34.4)	\$ (42.7)	\$ (45.7)	\$ (168.7)

Amounts may not foot due to rounding

Capital Investment Plan 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

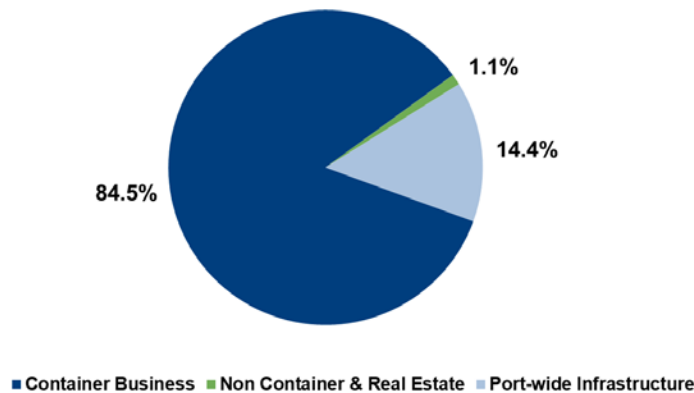
Planned capital expenditures for container terminals will total approximately \$529 million over the next five years. The CIP for this business will provide the

funds necessary for phase 2 construction of major terminal improvements at the North Harbor Terminal 5; dock rehabilitation and shore power construction at Terminal 18; replace bulkhead at Terminal 46; various terminal expansion at the South Harbor; berth dredging and install shore power at Husky terminal; berth dredging at WUT and replace fender at PCT and WUT.

Non-Container Business & Real Estate

Approximately \$7 million will be spent on facility improvement for terminal operations, auto and real estate businesses.

Figure V-1....Five-Year Capital Investment Plan by Line of Business



Alliance 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 provides matching funds and incentives to help cover the cost of replacing older trucks with cleaner new trucks.
- **Technology:** The alliance continues to invest in an operations service center that will allow customers and cargo owners to track their cargo as it moves through the gateway.

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

VI Environmental Stewardship and Planning

Environmental stewardship is a high priority for the NWSA. The NWSA Environmental Stewardship Framework has been put into action. Specifically, working with our stakeholders, the NWSA developed a Best-In-Class approach built on a foundation of the following:

- Environmental, economic and financial business decision planning/making are fully integrated;
- Responsive to market and community; and,
- Drives innovative, cost-effective and sustainable solutions.

Program areas of emphasis include:

- Water Quality
- Air Quality and Sustainable Practices
- Remediation
- Habitat Restoration
- Planning and Logistics
 - Transportation
 - Land Use
 - Facilities

In 2022, the NWSA plans to focus its environmental efforts on water and air quality and greenhouse gas reductions, with the bulk of that work on NWSA licensed properties. The NWSA plans to develop additional sustainability strategies to help shape future leasing strategies.

In addition, the NWSA has partnered with the Ports of Seattle and Tacoma along with other key industry, environmental, state and federal stakeholders to develop a large commercial vessel Quiet Sound program. This program will be managed by Maritime Blue and will study and promote ways to reduce noise impacts to Orca and other marine mammals in Washington State Waters. The Ports of Seattle, Tacoma and the NWSA have committed a total of \$100,000 in 2021 towards this effort to expedite the program's implementation.

Water Quality Program

NWSA's Water Quality (WQ) team is comprised of professionals with experience in site inspection, monitoring, project development and delivery, and policy analysis. The goal of this program is to work with internal and external stakeholders to design highly effective, low cost treatment and compliance solutions that meet or exceed Washington State's high water quality standards.

Industrial Stormwater Management Program

The NWSA partnership is the framework for an industrial stormwater management program that is a collaborative effort engaging customers, agencies and environmental organizations in both the Seattle and Tacoma harbors. The goal of the program is to discuss emerging stormwater issues, common problems and solutions and provide stormwater technical assistance to our customers at their request. Staff engage in extensive stakeholder outreach that includes customers, regulators, and environmental organizations.

Research and Develop Cost-Effective Means to Manage Stormwater

The NWSA continues previous work initiated separately by the two ports. The NWSA implements innovative cost-effective treatment methods in the field in an effort to focus in on practical, effective stormwater Best Management Practices (BMPs). This includes conducting pilot studies of new and existing treatment infrastructure results of which are shared with tenants and stakeholders.

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. NWSA WQ staff work with customers (as requested) to identify pollutants close to the source and eliminate the source where possible. Using a stepped approach like this, the WQ

team assists customers with effective, cost-effective solutions.

Seattle Harbor Focus

Most Seattle Harbor tenants have installed stormwater treatment at their facilities. The challenge going forward is 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 Water Quality team continues to focus on maintaining relationships with tenants/ customers and working with them to implement at- source and near-source BMPs with these goals in mind. In 2021, WQ staff will spend time with tenants walking their site operations and comparing that to their Storm Water Pollution Prevention Plan's (SWPPP) to help the tenant understand the importance of consistency between operations and plans.

Tacoma Harbor Focus

Many Tacoma Harbor tenants are coming out of consistent attainment with benchmarks for water quality parameters under the Industrial Stormwater General Permit. The Water Quality team continues to work with tenants/customers to implement at-source and near-source BMPs to facilitate cost-effective and successful solutions, and to focus on tenants/ customers that may face site challenges to meet water quality criteria or regulatory policy issues. In 2021, WQ staff will spend time with tenants walking their site operations and comparing that to their SWPPPs to help the tenant understand the importance of consistency between operations and plans.

Stormwater Development/Redevelopment

Coordination with each home ports' stormwater permit programs ensures 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. Both home ports have developed Stormwater Management Guidance Manuals which give specific guidance for development and redevelopment projects to ensure compliance with MS4 requirements.

Projects

Tenant assistance projects in both harbors include installing downspout treatment boxes, infrastructure assessments to identify potential deficiencies, and source control site visits to assist tenants/customers.

Seattle Harbor Projects

Design for the redevelopment of Terminal 5 is 90% complete. As part of those efforts the NWSA focused on cost-effective stormwater treatment solutions as the facility is updated in partnership with its customer, SSA Marine. The project goal is an effective treatment system that protects the water quality of the west waterway. The project received a \$5M grant from the Department of Ecology's Water Quality program for the phase 1 installation of treatment on 137 acres of the terminal. This is the first grant given to a port and a facility subject to the ISGP. This is the largest grant Ecology has given to support a stormwater facility project.

Terminal 18 is installing its last treatment system. SSA Marine chose a system based on what worked best on the terminal by looking at previously installed projects in four other drainage basins. SSA Marine installed modular wetlands, open media filtration systems and active chemical treatment, Chitosan Enhanced Sand Filtration. The active chemical treatment system was selected for the last drainage basin due to its predictable results in meeting permit benchmarks and O&M costs

Tacoma Harbor Projects

The NWSA has successfully completed the treatment installation at the West Sitcum Terminal and turned over the operating permit to the customer in January 2020. Additionally, the NWSA installed a membrane filtration device and pipe that treats water from the NIM and Maintenance areas and completely bypasses Husky Terminal. This project will allow Husky to install a lower flow and cost treatment system for their terminal operations.

2022 Goals

In 2021 the NWSA water quality team will assist SSA in completing the construction of the Phase 1 stormwater treatment system at Terminal 5 for 137 acres.

The team continues to assist other tenants as

requested. In 2022 the NWSA WQ team will continue to work with tenants SWPPP updates, pilot additional media blends at the Port of Tacoma Maintenance yard and in the downspout treatment boxes at the Terminal 5 transit shed, and work on the EB1 facility to improve system performance. Additionally, the WQ team will engage with national groups and agencies to advocate for national permit standards for Port Facilities.

Air Quality & Sustainable Practices Program

The Air Quality & Sustainable Practices Program jointly serves the Port of Tacoma and The Northwest Seaport Alliance 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 NWSA works to continuously improve the environmental sustainability of its services and operations. In 2020, the team focused the majority of their efforts on updating the NWPCAS, including significant community engagement, stakeholder input and project planning.

Key 2022 goals for the Air Quality & Sustainable Practices Program include the following:

- Finalize, adopt, and begin execution on both the Northwest Ports Clean Air Strategy (NWPCAS) and a customized implementation plan for the NWSA;
- Continue to manage the Clean Truck Program, including the domestic truck scrapping program, outreach and assistance to truckers and terminal operators, and truck data management;
- In collaboration with the Port of Tacoma, Tacoma Public Utilities, and others, launch the Tacoma Harbor Electrification Roadmap (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 Yard to replace six diesel-powered yard tractors with zero-emission, all-electric tractors.
- Support shore power design and installation at Husky Terminal and pursue additional funding for shore power design and installation at Terminal 18;
- Continue to identify, pursue; and secure other grants and other external financial and technical assistance to help advance the NWSA's clean air, climate, and sustainability goals. Continue to partner with the Commercial and Operations teams to highlight and leverage our efforts to position the NWSA as a relatively low-carbon corridor for cargo traveling between the US and Asia;
- Finalize WSU air emissions impact study and integrate findings into NWPCAS implementation; and
- Facilitate the newly formed joint Port of Tacoma/NWSA Clean Air & Climate Action Team (C-CAT), a cross-departmental team to guide implementation of the NWPCAS and the NWSA's associated implementation plan.

Planning & Logistics

Planning and Logistics provides a range of services from strategic to site planning. Some primary services include planning for marine terminals and supporting infrastructure, advocating for multi-modal freight related transportation systems, facilitating port visioning, . Planning also coordinates baseline studies to facilitate decision making about investments and operations.

Planning Overview:

- **Facility Planning:** Services include facility design, facility resilience assessment and planning, assessment of infrastructure needs for operational efficiency, and documentation of current and planned facilities.
- **Transportation Planning and Advocacy:** Support for the Operations Department optimizing gates and terminals, analyzing traffic flow and circulation, and evaluating new communications and data collection

technologies.

- **Project Feasibility Development:** Support Environmental and Engineering Departments by maintaining a general understanding of all focus areas within the group, especially the environmental specialties. With this overall perspective, to the team assists with opportunity assessment reviews and strategic port planning.
- **Strategic Planning and Visioning:** Services include developing land use plans and supporting the development of strategic and business plans. Review and provide 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:** Coordinate grant application efforts to ensure a unified and proactive approach. Grants are sought to help offset the cost of infrastructure, facility, technology, and planning whenever feasible. Coordination efforts encompass tracking priority projects and grant programs. The team also provides staff support to the Grant Steering Committee and communicating with staff involved in grant writing as well as providing commission updates.

2022 Planning Goals

The major goals for 2021 include, leading a vulnerability assessment study and advancing related policies, coordination of Seattle Master Use Permit (MUP) operational condition requirements for Terminal 5, coordination and technical support for Sound Transit on ST3 link extensions north and south and Sounder expansion, technical support for the West Seattle Bridge closure, advocacy at Puget Sound Regional Council, Commercial support for new business opportunities, and continued coordination with the NWSA Government Relations, Operations, and Commercial teams, and coordination of grant opportunities. Planning will also lead the homeport of Tacoma's work on the Tideflats Subarea Plan.

Appendix A Bond Income Calculation

The Northwest Seaport Alliance Charter requires the establishment of a Bond Income Calculation. Section 4.2 (b) states:

Bond Income Calculation. Managing Members shall establish and maintain a requirement for the PDA to calculate and establish a minimum level of net income available to pay revenue bond debt service for each Managing Member from the PDA equal to the amount currently required for the Homeports to meet their current bond rate covenants for bond issues outstanding at the time of the formation of the PDA. ("Bond Income Calculation"). In the case of the Port of Seattle, the Bond Income Calculations excludes bonds issued to fund Airport Facilities. The Managing Members shall require the Bond Income Calculation to be reviewed annually as part of the PDA budget process and the Managing Members may adjust the Bond Income Calculation so long as it does not cause any Managing Member to fail to comply with its rate covenant. The PDA may not take any action that reasonably would reduce PDA income below the minimum level established by the Bond Income Calculation unless each Homeport separately votes to approve that action. Such a vote by each Homeport must occur even if the action is within the CEO's authority under the Delegation of Authority Master Policy.

The Northwest Seaport Alliance Charter also specifies required actions associated with each homeports bond rate coverage management. Section 4.2 (c) states:

If net income before depreciation of the PDA is not sufficient for either Homeport to be in compliance with a rate covenant (as currently described in each Homeport's Master Bond Resolutions in effect as of the Effective Date), then:

- (i) Upon that Homeport's request, the PDA shall hire an independent third-party consultant to perform analysis and make recommendations for actions needed to achieve bond covenant compliance.
- (ii) If the consultant recommends an action that the PDA is unwilling, unable or refuses to undertake, either Managing Member can require dissolution of the PDA following the dispute resolution process even if within the Initial Period.
- (iii) The PDA shall have at least four months to respond, act and or dissolve following its receipt of the consultant's recommended action, unless a shorter time is required by the applicable bond covenants.

The Managing Members established the Bond Income Calculation as \$90 million based on the then currently outstanding debt of each Port, the applicable rate covenants and certain other net revenues available for debt service, as appropriate. Due to refunding of bonds outstanding at the time of the formation of the NWSA, the Managing Members approved a reduction of Bond Income to \$21.86 million effective January 1, 2022.

Appendix B Capital Construction

The Northwest Seaport Alliance Charter requires the funding of Capital Construction. Section 3.12 states:

Separate from Working Capital, the PDA shall provide for the funding of capital expenditures ("Capital Construction") to be funded by a pro rata initial contribution from each Managing Member based on their respective Membership Interests. Managing Members may approve by vote contributions to Capital Construction in amounts other than based on each Managing Members' pro rata respective Membership Interests on a project-specific basis. Requests for funding Capital Construction shall be based either on the CEO's periodic projection of PDA capital project cash flow needs or based on project authorizations to the CEO in accordance with the Managing Member's Delegation of Authority Master Policy Resolution. Managing Members may consider requests for additional contributions to the PDA, the affirmative approval of which will require a vote by each Managing Member. Capital Construction shall be funded by each Managing Member separately and not from Working Capital except to provide short term liquidity per Section 3.7. Distributions of Capital Construction funds will be made expressly subject to either (1) Managing Member approval of capital projects or (2) CEO approval of capital expenditure, where such expenditure is within the levels set in the Delegation of Authority Master Policy.

The Managing Members established the initial Capital Construction as \$27 million based on the proposed 2016 NWSA Capital Improvement Plan. Additions to NWSA Capital Construction have been made as necessary to fund Managing Member approved projects.

Appendix C NWSA Full Time Personnel

	NWSA			
	2020 Actual	2021 Budget	2021 Actual	2022 Budget
<i>As of September 27th, 2021</i>				
Executive	10	11	11	10
Human Resources	-	-		
External Affairs (Public Affairs & Communications)	-	2	2	4
Finance And Administration	-	-		
Commercial Business	19	21	17	21
Operations	11	10	10	10
Facilities Development	9	10	9	11
Total	49	54	49	56

Northwest Seaport Alliance Average Compensation (excluding CEO)

The 2022 staffing budget of \$10,618,867 includes the following:

- \$7,196,831 for salaried employees and \$96,070 for hourly employees which includes;
 - \$147,915 for annual pay increases for salaried employees starting April.
 - \$17,402 for annual recognition program paid to salaried employees in April.
 - \$17,402 for marketplace adjustment for salaried employees during the year.
 - Hourly employees will receive a 3.5% raise in April per contract.
 - Average salary of \$126,091.
- Total benefits of \$3,325,966

Changes in NWSA Full Time Personnel from prior budget

- Executive: 1 eliminated
- External Affairs: 2 new positions
- Facilities Development: 1 new position

Appendix D NWSA Memberships

Overview

The NWSA and alliance staff are members of several organizations. The NWSA believes that participating in these partnership organizations plays a key role in advancing the NWSA's business objectives and ensures NWSA staff is knowledgeable and productive. These memberships are in addition to, or supplement the home port memberships.

Port Authority Organizations

These memberships assist the NWSA's lobbying efforts on both the state and national levels and keep staff informed about major issues and developments that affect NWSA operations. Membership with the Washington State Public Ports Association remains with the home ports.

Economic Development Organizations

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

Regional Organizations

Memberships in regional organizations demonstrate the NWSA'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 NWSA's overall marketing efforts.

Community Service Groups

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

Annual NWSA Memberships & Personnel Memberships (estimated)

Organization	Annual Dues
American Association of Port Authorities	\$78,000
Pacific Northwest Waterways Association	31,670
Washington Council on International Trade	20,000
International Association of Ports and Harbors	14,000
Green Marine	11,000
All Other Memberships	56,155
Total NWSA Memberships	\$210,825

American Association of Port Authorities

AAPA is an alliance of leading ports in the Western Hemisphere that protects and advances the common interests of its diverse members through advocacy, professional development, relationship-building, and public awareness.

Pacific Northwest Waterways Association

The Association advocates for funding for navigation projects around the region, including those on the Columbia Snake River System, in the Puget Sound and along the Oregon and Washington coasts.

Washington Council on International Trade

The Council is dedicated to advocating for public policies that increase Washington State's international competitiveness.

International Association of Ports and Harbors

A global trade association for seaports worldwide. It is headquartered in Tokyo, Japan.

Green Marine

Green Marine is an environmental certification program for the North American marine industry.

Appendix E NWSA Key Strategic Initiative Metrics and Measures

I. BUSINESS DEVELOPMENT / COMMERCIAL INITIATIVES (COMMERCIAL)	
1. Terminal 5 Modernization	PERFORMANCE MEASURE
1. Re-engineer and modernize the North Harbor container terminal footprint to meet future container industry requirements	Obtain substantial completion for Phase I improvements of Terminal 5 lease requirements by December 31, 2021, within the authorization
2. Increase throughput and terminal utilization supported by a commercial deal that if financially viable to support capital investment	Secure additional commitment for Terminal 5/early commitment for Phase II term lease and complete commercial negotiations relative to Terminal 5 intermodal yard and other open leasehold issues
3. Secure state capital budget funding for Terminal 5 reefer plug infrastructure	The Legislature's work on the capital budget has not in full swing yet, but government affairs staff have identified project sponsors in both the House and Senate and had positive conversations with the chairs and ranking members of the budget committees. Alliance staff are coordinating with committee staff to identify an appropriate account from which to seek the appropriation.
4. Terminal Permit Condition Compliance Monitoring	Operationalize City of Seattle Master Use Permit conditions (transportation and environmental) to support new facility operations Q1/2 2021
2. Maximize Gateway Cargo Potential and Diversification, and Enhance Supply Chain Networks	PERFORMANCE MEASURE
1. Leverage partnership opportunities to retain, attract and grow cargo (container/non-container) & increase cargo diversification by expanding breakbulk, auto, and industrial maritime activity	Retain market share of 7.2% and increase container throughput targeting 1-2% YOY growth
	Retain and grow the auto business
	Increase NWSA market awareness and brand recognition in key emerging SE Asian markets – Vietnam, Indonesia and Thailand
	Recruit 2 new transload businesses to the gateway. We are targeting BCO's

	Ongoing engagement with Target Prospect Accounts to establish transload operations in the PNW.
	Secure 2 service agreements with top importers and form 1 strategic partnership with supply chain stakeholders to drive cargo through NWSA
	Explore offshore wind cargo, assembly and production opportunities for our gateway. Develop a commercial opportunity assessment by Q4 of 2021
	<p>Further enhance NWSA Rail Strategy with a focus on:</p> <ul style="list-style-type: none"> • Establish short haul rail service to/from Eastern WA & Idaho • Expand our rail incentive program in coordination with the Tier 1 Railroads, targeting 20K incremental rail lifts that are currently moving through Canadian gateways <p>Secure lease agreement to expand the domestic rail business</p>
	Secure long-term leases for T-10, West Hylebos Terminal (WHT), & T-46 that promote maritime activities and supports cargo growth and supply chain networks.
	Use NWSA review of USCG Needs Assessment Report to begin negotiations
	Increase breakbulk business volume (tonnage) by +5% in 2021 to include all sectors (AG, Mining, Construction and Lo-Lo); Secure a long-term lease with the Military at East Sitcum Terminal Adm building
3. General Central Peninsula (GCP) Modernization	PERFORMANCE MEASURE
	Secure CBP's approval to relocate Husky's existing Radiation Portal Monitors (RPMs) so that Husky can reconfigure its terminal exit gates for enhanced intra-terminal traffic circulation
	Develop a roadmap for future, phased developments to build upon prior improvements and maximize the GCP's potential.

II. GATEWAY OPERATIONS (OPERATIONS)	
Enhance Gateway Productivity, Efficiency & Operational Performance	PERFORMANCE MEASURE
<p>1. Enhance cargo and transportation network efficiencies by developing close working relationships with local, state, and federal agencies. From these relationships develop new process, procedures, and ITS tools to co-manage the shared transportation infrastructure more effectively.</p> <p>They key outcomes for all stakeholders being:</p> <ol style="list-style-type: none"> 1) Identifying chokepoints. 2) Effectively mitigate impacts in real time. 3) Create shared processes, procedures, and tools around active network management. Utilizing TSMO strategies. 4) 4. Through data and analytics develop a shared roadmap and narrative to compete for transportation funding more effectively. 	<p>Continue to participate in the Seattle Area Congestion Management Joint Operations Working Group (SAJOG) and facilitate the creation of the Tacoma Area Joint Operations Group (TAJOG). Through these groups, enhance electronic monitoring of infrastructure and transportation systems outside of the Port complex by expanding real-time drayage and traffic monitoring in and around the Port complex.</p> <p>GOALS</p> <ul style="list-style-type: none"> • SAJOG to complete the plan for deployment of expanded electronic monitoring system. Called the virtual command center or VCC. Initially this system will be focused on incident command response. Future efforts will incorporate additional operational inputs to include RFID, Bluetooth, and cameras. This is an ongoing project. • Finalize and launch the Tacoma Area Joint Operations Group (TAJOG). • Complete a response plan with SDOT and WASDOT to mitigate impacts to surface street fluidity during times of increased truck traffic.
<p>2. Work with third party vendors and key stakeholders to develop a roadmap to enhanced visibility in a sustainable and fiscally responsible manner.</p>	<p>Our Port Community System (PCS), comprised of the NWSA website and Advent's eModal platform, will continue to be expanded and enhanced based on the needs from the supply chain and new technology developments.</p> <p>GOALS</p> <p>NWSA Website Enhancements: Additional Dashboards within the operations page to highlight terminal health. To include tools being developed by Advent.</p> <ul style="list-style-type: none"> • Full Turn times are first focus for 2022. • Take vision document from Advent and turn into a business case presentation aimed at key stakeholders. Targeting Q2. • Clean up currently displayed historical metrics. Q2 <p>Make connections with other third-party vendors as part of a greater supply chain connection effort. Q4</p>

<p>3. Enhance and improve service delivery key performance indicators (KPIs) with a move toward real-time reporting and analytics</p>	<p>Facilitate service delivery improvement initiatives with Marine Terminal Operators, Labor and Railroads. Hold regular labor/NWSA/terminal operator meetings discuss how to improve the performance of the gateway.</p> <p><u>GOALS</u></p> <p>Work closely with T5 team to ensure all preoccupancy congestion mitigation requirements are in place and effective.</p> <p>Q2. With T18 staff, identify processes and infrastructure improvements that will mitigate potential truck congestion due to additional cargo increases. First phase document</p> <p>Q1. Roadmap to implementation</p> <p>Q2. With PCT staff work to streamline Reefer processing.</p> <p>Q1. Explore options for additional reefer plugs.</p> <p>Q2. With WUT staff working on yard efficiencies as cargo volume grows and utilization increases.</p> <p>Q2. With Husky staff streamlining rail handoff data. Ongoing effort.</p>
<p>4. Enhance and improve service delivery key performance indicators (KPIs) with a move toward real-time reporting and analytics</p>	<p>In partnership with the Washington Trucking Association (WTA), facilitate gate service improvements by conducting regular meetings with the drayage community and the Marine Terminal Operators. With information gathered develop an internal roadmap to connect initiatives with reasonable funding sources.</p> <p><u>GOALS</u></p> <ul style="list-style-type: none"> • With WTA develop new strategies to engage terminal operators on service delivery metrics. Q2 • Create a menu of options that could be employed to reduced congestion increase efficiencies. Initial document Q2. • Develop a roadmap with commercial to tie efficiency improvements to incentive initiatives. Q4. <p>Reduce full gate turn times at/below 90-min avg</p>

5. Support Port-area infrastructure investments that support the efficient flow of cargo to and from NWSA facilities	<ul style="list-style-type: none"> • Support the on-time implementation of the Puget Sound Gateway (SR167/509) • Support the City of Fife as it seeks additional funding to complete the second phase of the Interstate 5/Port of Tacoma Road interchange • Secure rapid decision on West Seattle Bridge repair/replace and maximize rapid execution of the solution. Support the City of Seattle with regional/state/national role of this transportation corridor as it seeks local, state and federal funding. Support increased funding and program flexibility for Port facilities and off-terminal support-infrastructure, through MARAD Port Infrastructure Development Grant Program, INFRA and freight formula funding
6. Customs and Border Protection Office Facility in Seattle	<p>Develop facility to address Customs and Border Protection (CBP)'s request for an upgrade</p> <ul style="list-style-type: none"> • Reach Agreement with an ILA and/or cost share agreement with Port of Seattle for CBP facility which is not a NWSA licensed property • Negotiate and execute a new space use (lease) with CBP subject to resolution of the above (This could become a POS or an NWSA responsibility) • Complete 100% design on reconfigured and consolidated CBP facility at Terminal 106 (Currently CBP occupies 2 Port of Seattle properties at T-106 and T-104)
III. FINANCIAL PERFORMANCE (FINANCE)	
Effectively Manage 2021 Operating Activities to Deliver Expected Financial Results	PERFORMANCE MEASURE
	Meet or exceed the budgeted 2021 Distributable Cash. Continuously monitor financial performance and make changes to improve Distributable Cash via cost reduction or revenue growth. Continue to monitor value of service agreements and propose modifications as necessary to improve the NWSA cost structure
	Return on Revenue (ROR) defined as Operating Income after Depreciation divided by Revenue (as adjusted for the accounting GASB87) exceeds 35% on a four quarter (4 quarter) moving average basis.
	Continue increased public briefing sessions regarding financial performance and forecasted results

IV. ENVIRONMENTAL STEWARDSHIP (ENVIRONMENTAL)

1. Manage Clean Truck Program	PERFORMANCE MEASURE
	Manage the existing Clean Truck Program including RFID technology, Trucker database, sticker program and trucker/terminal operator assistance
	Continue domestic truck scrapping, targeting domestic trucks unable to access previous programs, using remaining City of Seattle grant from the Clean Truck Fund and other grant funds as available. Provide Quarterly Domestic Truck Data to Managing Members. If compliance drops below 75%, return to Managing Members with revised recommendation
	With broad external stakeholder support, adopt an updated NWPCAS with the goal of reducing DPM and GHG emissions to zero by 2050; including a NWSA implementation plan that includes a Clean Truck Program, Cargo Handling Equipment Program, Shorepower Program and other sectors
	Pursue grant opportunities to further Cargo Handling Equipment (CHE), Shorepower and fleet modernization initiatives; internal goal of 50% grant match funding on future projects
	Complete strategic energy planning effort in the South Harbor (matching effort in the North Harbor) to support GHG Resolution and NWPCAS
	T-18 shorepower – initiate design in 2021 and seek grant funding to support design and construction
	Complete T-3/T-4 shore power design and commence project construction (subject to Commission authorization) by Q422
	Support Pacific Rail Services initiative to replace 6 diesel yard trucks with all electric trucks and manage required infrastructure installation and DERA grant and TPU incentives
	Present WSU Air Emissions Dispersion Modeling data on NWSA related air emission impacts to community stakeholders and MMs; based on data and stakeholder input, target NWSA priorities
	Strengthen engagement efforts/partnerships with neighboring communities in both harbors to advance the NWPCAS and Implementation strategy

2. Northwest Ports Clean Air Strategy	<p>Develop and advocate for international, federal and state engagement strategies to foster a more even playing field across ports on climate and clean air actions.</p> <ul style="list-style-type: none"> • Participate on International Association of Ports and Harbors (IAPH) steering committees • Advocate at the International Marine Organization (IMO) as appropriate
3. Water Quality	<p>Assist the tenant with the completion of the T-18 and Husky stormwater treatment system construction. Assist the tenant with the design of a cost-effective stormwater treatment system at T-5; complete phase 1 construction in the north 137-acre area.</p>
	<p>Resolve current ISGP appeal with the Washington State Dept. of Ecology and utilize outcome of ISGP appeal to inform and address options for: 1) resolution of current litigation at W. Sitcum Terminal; and 2) ways to reduce tenant stormwater compliance costs while supporting high water quality standards (such as pilot treatment projects, evaluating grants, state and federal policy)</p>
	<p>Assist tenants with stormwater pollution prevention plan (SWPPP) development and ensure all plans are on file and inspect as needed</p>
	<p>Develop and advocate for international, federal and state engagement strategies to foster a more even playing field across ports on water quality actions. Participate on Green Marine technical committee to evaluate and enhance spill response/water quality metrics to better reflect NWSA stewardship efforts.</p>
4. Green Gateway Initiatives	<p>Work alongside the Commercial and Operations Depts and our customers to highlight and leverage our Green Gateway/low carbon corridor initiatives. Develop marketing/industry stakeholder plan with NWSA Commercial to share with BCO's, vessel and community partners</p>
V. GOVERNMENT AFFAIRS	
Effectively Manage 2021 Operating Activities to Deliver Expected Financial Results (cont.)	PERFORMANCE MEASURE
1. Harbor Maintenance Tax Reform Secure implementation of the HMT reform provisions in the Water Resources Development Act of 2020	<p>Ensure implementation of HMT legislation is consistent with NWSA expectation. Support development of internal processes for the use of the new HMT funds and programs</p>

<p>2. Federal West Coast port competitiveness strategy Establish a formal federal strategy for goods movement and freight that addresses cargo diversion to Canada, including through US national investment and other policies</p>	<p>Seek initiation of a federal study that compares US and Canadian freight infrastructure investment and policy and that recommends actions that should be taken to improve West Coast port competitiveness</p>
	<p>Secure participation of other ports and other supply chain partners in this initiative</p>
VI. PLANNING AND LOGISTICS	
1. Transportation Planning	PERFORMANCE MEASURE
	<p>Provide technical support for plans and communications designed to protect and improve ingress and egress at:</p> <ul style="list-style-type: none"> -Terminal 5 and Terminal 18, including engagement in the West Seattle Bridge and Sound Transit working groups. -Interstate 5, SR 167, and Puyallup Avenue connections to the Tideflats.
	<p>Provide technical support in development of the Tacoma Area Joint Operations Group (TAJOG) and continued technical support as needed with the Seattle Area Joint Operations Group (SAJOG).</p>
2. Land Use Planning	<p>Provide technical support on the Tideflats Subarea Plan (TSAP) which will continue through 2023 and the completion of the 2021-2026 Port of Tacoma Strategic Plan in support alliance operations and potential growth.</p>
	<p>Provide technical support and coordinate with Port of Seattle staff to advocate for protection of industrial lands in the Duwamish MIC in support alliance operations and potential growth.</p>
3. Facility Planning	<p>Complete the NWSA Vulnerability Assessment and Response Framework considering potential hazards and best available sea level rise projections, to inform future policy and investment. In 2022 commission will direct project prioritization and potential policies.</p>
	<p>Work with geographic information staff (GIS) to fine tune NWSA facility mapping, data to unify format of the NWSA Properties Book and future project development.</p>

	Develop a container terminal berth maintenance and dredging program to ensure timely permitting and design
4. Grant Coordination	Coordinate between the various organizational grant programs to maximize 2021 grant opportunities for supporting infrastructure development, operational efficiencies and environmental enhancements. Support management of previously successful grant applications and provide staff support to the Grant Steering Committee. Show year end grant funding results
5. Seattle Harbor Deepening Project	Negotiate and sign design agreement with USACE for the West Waterway portion of the Seattle deepening project; partner with USACE during preconstruction engineering and design to ensure project success. Process is on hold while USACE and NOAA determine their response to the potential litigation that would affect project.
6. Tacoma Harbor Waterway Deepening Project	Support Corps issuance of Final Feasibility Study. Ensure Corps has support of WPPA NMFS liaison to complete environmental documentation. Negotiate cost share agreement with Corps for Pre-construction Design and Engineering. Develop phased investment plan for channel and berth deepening.
7. South Harbor Waterway Maintenance	Obtain all required entitlements to execute maintenance dredge work and restore minimum - 51' MLLW in WUT and Husky berthing areas Q321.
VII. ORGANIZATIONAL PERFORMANCE (HR / IT)	
1. Staffing	PERFORMANCE MEASURE
Diversity, Equity & Inclusion (DEI)	Engage and Participate in the DEI programs as led by Home Ports, ensure that DEI training postponed from 2020 (due to COVID) is completed

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