

# Port of Tacoma 2017 Budget



Mount Rainer viewed from the Tacoma Tideflats

Statutory Budget and Tax Levy adopted: November 15, 2016



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



In June 2016, Inbound Logistics magazine named the Port of Tacoma in its annual list of “green 75” supply chain partners. This is the seventh year in a row that the Port has been recognized for its environmental programs and commitment to sustainability.

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# Memo



**To:** Port of Tacoma Commission

**Date:** November 15, 2016

**Subject:** The Port of Tacoma's 2017 Budget

The Port of Tacoma staff is pleased to present the 2017 Budget Document. This document informs Pierce County citizens and other interested parties about the Port's overall goals and strategies as well as the competitive environment in which we operate. It highlights our focus on strategic investments that will deliver competitive financial results, build for the future, and continue to create jobs and economic wealth for Pierce County and the region.

Competition among the West Coast ports remains incredibly intense while the shipping industry suffers from significant losses due to overcapacity. In response, shipping lines and terminal operators are reducing costs, introducing larger vessels, forming new alliances, and consolidating terminals to gain economies of scale. Increased competition from ports in Canada, Mexico and the East and Gulf Coasts, are adding to the competitive pressures.

In response to these competitive challenges, the ports of Tacoma and Seattle formed The Northwest Seaport Alliance (NWSA) to work together to maintain and grow the Puget Sound gateway. The operating budget and Capital Improvement Plan details for the NWSA are included in a separate addendum to this Port of Tacoma Budget. The Port of Tacoma receives one half of the operating income of the Alliance, and is responsible for one-half of the cost of the investments for the assets in the Alliance. These numbers are further detailed in the NWSA budget document.

The Port of Tacoma is focused on ensuring that our facilities outside of the alliance continue to provide economic benefit to our citizens, and support the alliance. Additionally, the Port of Tacoma will continue to invest in the road and rail infrastructure surrounding the Tideflats to ensure that cargo moves efficiently.

Recent accomplishments include:

- We continue to support the permitting and planned construction of a Liquefied Natural Gas (LNG) plant on Port property that will provide fuel to TOTE ships. TOTE has invested in new and retrofitted LNG-fueled ships to reduce diesel emissions to comply with new clean air regulations.
- We completed a long term lease with Prologis to develop warehouse and distribution facilities on vacant land close to the Port with easy access to State Route 509 and Interstate 5.
- We lent our strong support for a new \$16 billion state transportation funding plan that includes the completion of State Route 167, a critical highway that provides the "last mile" to get agricultural and manufactured exports to the Port and nearby distribution centers. A total \$6.85 billion investment in road and rail improvements, both public and private, will help strengthen the Pacific Northwest gateway.
- And we continue to work with the state on funding to clean up additional legacy contamination for future development and business growth.

While we expect the global economy to continue its slower-than-desired recovery, we remain focused on the financial health of the Port of Tacoma and The Northwest Seaport Alliance and continue to focus on new business opportunities that will create jobs and economic wealth for Pierce County, the Puget Sound gateway, and Washington state.

A handwritten signature in blue ink, appearing to read 'John Wolfe'.

John Wolfe

# Budget Document Overview

The Budget Document consists of these major sections:

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

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

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

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

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

**VI. Tax Levy:** The tax levy section provides details on how the Port's tax levy is developed and how the tax levy is used by the Port. Additionally, this section provides historical tax information, and provides data

to compare the Port's tax levy to the levy assessed by other entities within Pierce County.

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

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

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

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

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

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

# I Port of Tacoma Overview

## Washington State Ports

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

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

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

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

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

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

## Port of Tacoma

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

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

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

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

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

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

Center, comprised of more than 100 acres of Port land developed in partnership with a private developer. The second site is the Port's Frederickson Industrial Area, which offers land for sale for industrial use.

### **Pierce County**

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

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

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

### **Port Facilities and Services**

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

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

In 1981, the Port pioneered on-dock intermodal rail when it opened the North Intermodal Yard, the first of its kind on the West Coast. This innovation helps the Port and its customers efficiently handle the more than 50% of international import containerized cargo that heads east via rail to markets such as Chicago and New York. Three highway interchanges link the Port and its main terminals to Interstate 5 (see Figure

I-1 on page I-6). See the NWSA addendum for more information on intermodal services.

### **Port of Tacoma Commission**

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

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

The Commission also appoints the Chief Executive Officer, who is responsible for hiring staff and managing the Port's daily operations. The Port Commissioners are:

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

### **Port Commission Meetings**

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

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

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

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

Citizens may contact the Port Commission by calling the Port of Tacoma's Executive Department at 253-383-9402; fax at 253-383-9440.

Correspondence may be mailed to:

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

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

### **Organizational Structure**

The Port of Tacoma's daily operations are led by the Chief Executive Officer and the Executive Team. See the Organizational Chart (Figure I-2 on page I-7). This team is the same team that leads the alliance, allowing for integrated management of the Port's assets. At the start of 2016, 26 Port of Tacoma positions transferred to the NWSA, while the remaining 202 positions remained with the Port of Tacoma. A master service level agreement between the Port of Tacoma and the NWSA allow employees to provide services to both organizations.

### **Executive Team**

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

Executive administrative support is responsible for scheduling and supporting Commission activities, including regular Commission meetings, study sessions and executive sessions.

### **Commercial Group**

Led by the Chief Commercial Officer, the Commercial Group is comprised of three businesses and their related personnel, and the Commercial Strategies Team.

**Container & Non-Container Businesses:** These two businesses are now managed by the alliance. Please see section I of the NWSA Addendum.

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

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

**Bulk Business:** The Port retains the grain terminal which has a long term lease. Additionally, the Port retains the East Blair 1 wharf for use as a bulk terminal. The Port is considering and pursuing other water-dependent bulk opportunities that may include the East Blair 1 wharf and the nearby former Arkema site.

### **Operations Group**

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

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

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

**Security Department:** The Port Security Department supports the sustainable, economic viability of the Port by consistently contributing to a safe and secure environment for all through professionalism, respect

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

The Port of Tacoma Security group also provides security at the APM Terminal.

### **Facilities Development Group**

Led by the Chief Facilities Development Officer, the Facilities Development Group is responsible for long term planning and development of port assets, and all Port related environmental issues. This group is comprised of the Planning, Engineering and Environmental departments.

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

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

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

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

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

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

### **Finance and Administration Group**

Led by the Chief Financial and Administrative Officer, the Finance and Administration Group is responsible for the administrative tasks that keep the Port functioning. This group includes the Finance and Accounting, Contracts, Purchasing, Business Processes, Public Records and Information Technology Departments. These functions stay with the Port of Tacoma, but will provide services to the NWSA through the service level agreements.

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

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

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

**Information Technology, Business Process and Public Records Department:** The Information Technology, Business Process and Public Records Departments works to champion and make possible the innovative application of technologies that enhance the overall performance of the Port. The department partners with Port businesses, functional departments and other Port stakeholders to improve

the flow and efficiency of the freight movement through application of technology.

### **Human Resources Department**

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

- Work-force development, which includes attracting, retaining and developing the right people;
- Setting compensation, administering benefits, organization-wide training, and managing employee relations; and
- Creating a constructive, diverse culture.

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

### **Public Affairs Group**

Led by the Public Affairs Director, the Public Affairs Group is responsible for communicating and managing relationships with other governmental bodies, the public, media and external stakeholders. Comprised of the Communications and Government Affairs departments, key functions of this team include governmental affairs, community relations and internal and external communications. This group will also provide services to the NWSA through the service level agreement.

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

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

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

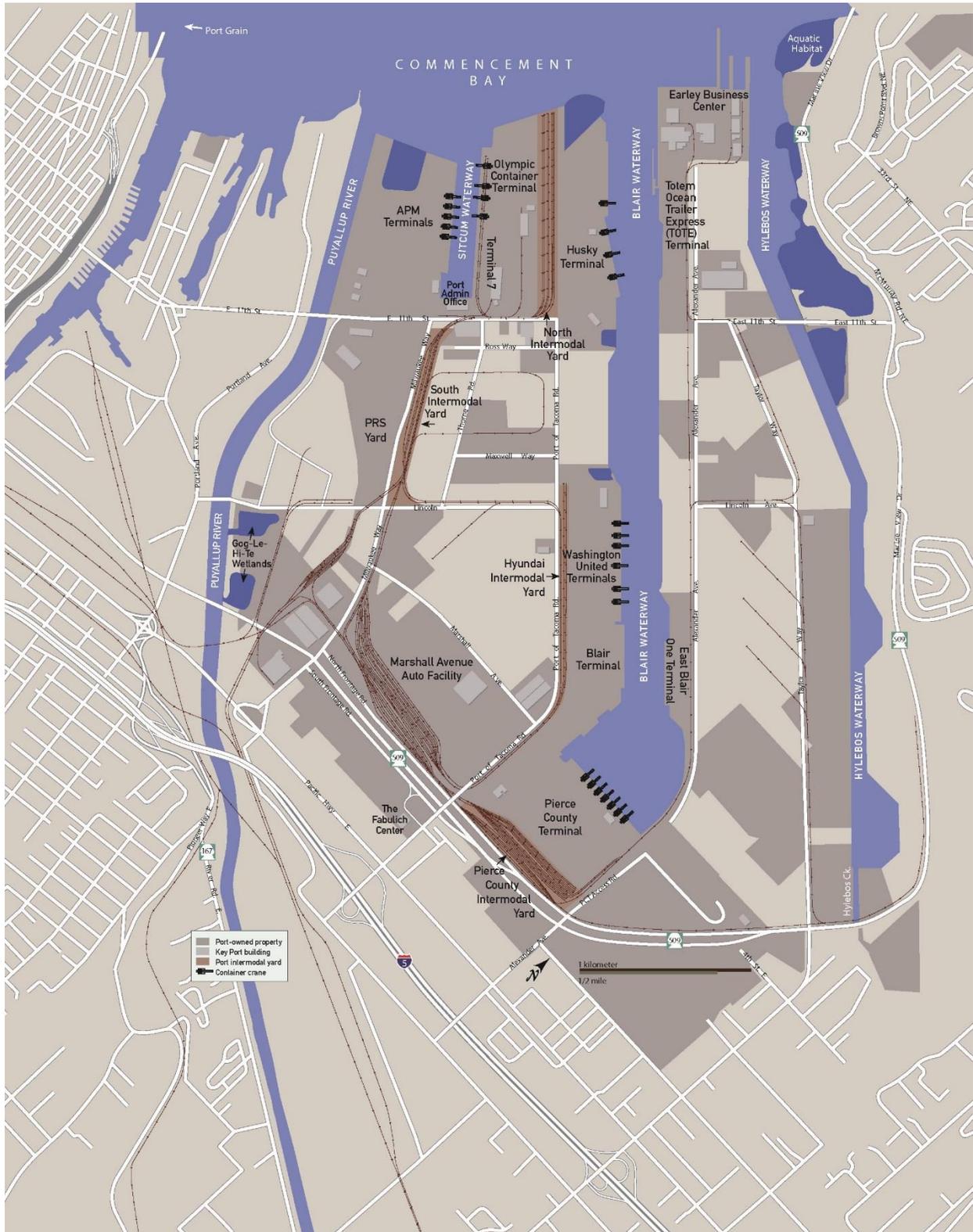
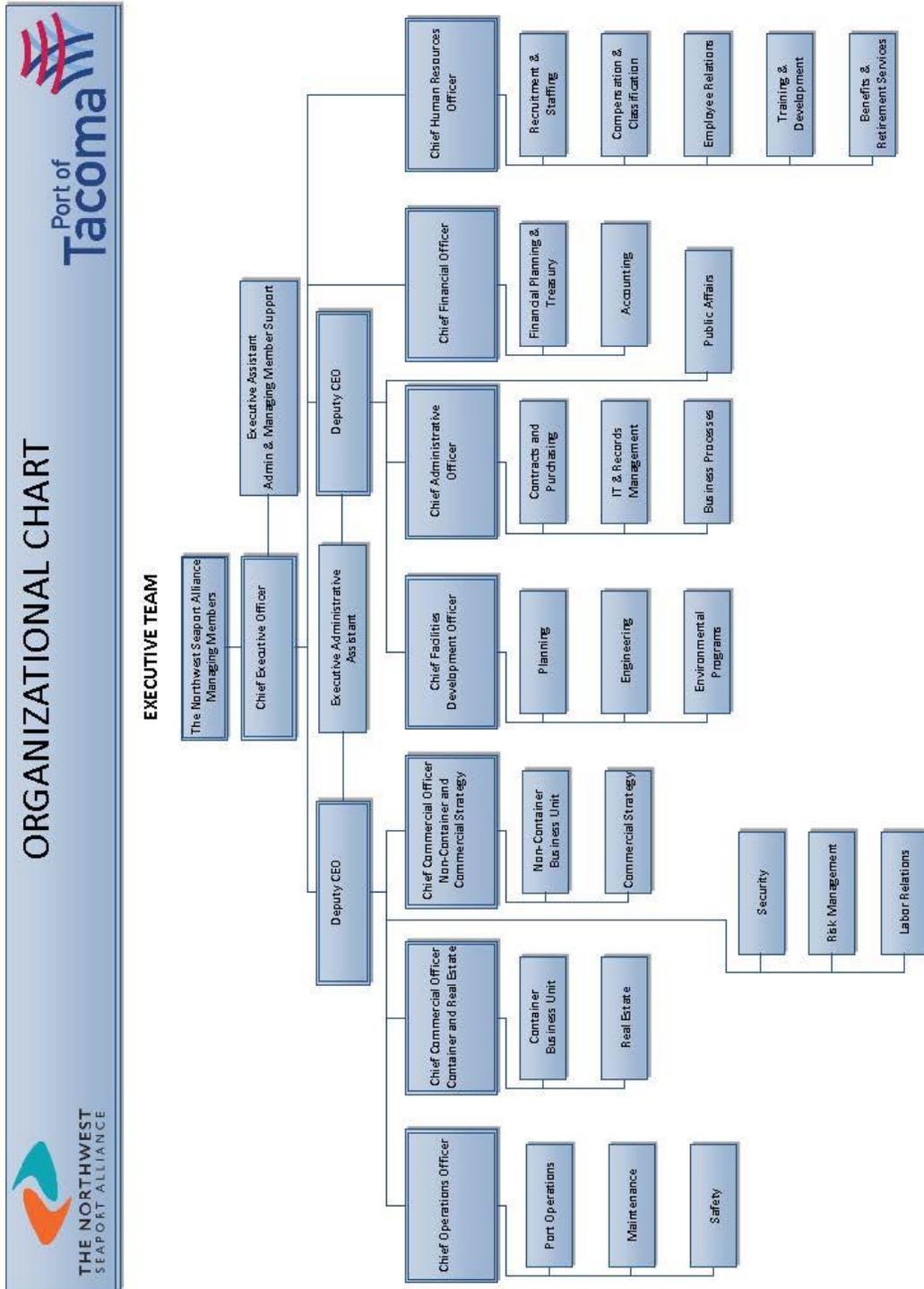


Figure I-2.....Port of Tacoma Organizational Chart





Port of Tacoma at Sunset

## II 2017 Budget Message

### Strategic Direction

In 2012, the Port developed a 10-year strategic plan that refocused the Port's mission, outlined six goals and identified 10 financial and operating targets. The planning process engaged Port staff, commissioners, customers, community members and key stakeholders, including labor partners. The strategic plan was designed to be aspirational, yet achievable, and to guide the Port's decision-making and investments for the next decade.

In conjunction with the strategic plan, the Port also revitalized its brand identity to better differentiate itself in today's highly competitive marketplace. The new mark visually expresses the Port's mission, brand promise and connections to customers and community members.

The creation of the Northwest Seaport Alliance (NWSA) will modify the Port's targets to encompass both the Port of Seattle and the Port of Tacoma's economic impact and environmental focus. The targets will change, but not the intent of the targets which is to improve economic prosperity, strengthen financial vitality, and continue our environmental stewardship of Puget Sound. The NWSA has issued commercial goals that are addressed in the addendum.

### Mission Statement

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

### Budget Environment

With the NWSA now managing the container terminal, intermodal, break bulk, and auto businesses, the Port now operates in two industries: bulk terminals and property rentals. Bulk terminals involve marine-oriented services including dockage, cargo-handling, storage and related activities for grain, gypsum and any future bulk products. Property rentals include

facilities and land used primarily for container terminals, industrial activities, and storage.

### Tribal Developments

The Puyallup Tribe of Indians and Port both own land on and near the Blair Waterway that holds tremendous terminal development potential. In April 2007, the Tribe announced an agreement with Stevedoring Services of America (SSA) Marine to lease 180 acres of Tribal land on and near the Blair Waterway. Building on prior cooperative economic development agreements, in April 2008, the Port, Puyallup Tribe, SSA and Marine View Ventures (the economic development arm of the Tribe) signed several agreements among the various parties that focus on coordination of marine terminal developments along the east side of the Blair Waterway. These included a land purchase and sale agreement, waterway widening agreement and an agreement for all to cooperate on infrastructure development, and to explore additional opportunities for cooperation. The agreements between the Port and the Tribe are still in the process of being implemented.

### Revenues and Expenses

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

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

### 2017 Budget

The Port of Tacoma has developed an overall operating budget with projected revenue of \$68.4 million. Operating income is budgeted to be \$20.4 million, resulting in operating margin of 29.8 percent. The Port's net income is projected to be \$13.4 million.

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

### **Capital Improvement Plan Highlights**

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

Major 2017 capital projects include the following:

- Land acquisitions to continue revenue growth
- Construction of the North lead rail track to improve intermodal efficiency
- Fast corridor road contributions of \$2 million
- Information technology upgrades

The Port's \$56.6 million 2017 capital budget represents the first year of the Port's 2017-2021 capital plan – a package totaling \$159 million in new projects and investments. See Section V for additional details on the Capital Improvement Plan.

### **Financial Issues and Measures**

To provide interest rate stability for planned major projects, in 2007 the Port entered into three forward starting payment agreements (aka SWAPS) starting in 2011 totaling \$230 million with third-party partners. Although the planned projects have not moved forward, the SWAPS are still in place and the Port was required to deliver variable rate bonds totaling \$80 million in 2011, \$130 million in 2012, and \$20 million in 2013 to match to the SWAPS. Alternatively, the Port could terminate the SWAPS at market value, which would cost the Port approximately \$98.5 million as of September 30<sup>th</sup>, 2016. The Port has sufficient variable rate debt outstanding to match these swaps as required by state law. An increase in overall interest rates would reduce the cost of terminating these SWAPS, and could result in the SWAPS providing value to the Port. The Port continues to monitor the SWAP valuations and will take the best

course of action to minimize the risk and cost to the Port. The Port intends to cancel the Morgan Stanley swap on December 1, 2016 at no cost to the Port.

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

### **Tax Levy**

In addition to the global economic climate, other business, political and civic developments can have an impact on the Port's daily operation and long-term goals. Assessed property values in Pierce County increased by approximately 9 percent in 2016, and new construction added approximately 2 percent in value. Property values have stabilized and new construction or improvement projects are expected to continue to improve in the future.

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

### **Legislative Impacts**

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

#### *Remedial Action Grant Funding*

The Port relies upon Remedial Action Grant (RAG) funding from the state's Local Toxics Control Account (LTCA) to help remediate contaminated properties it owns. LTCA is funded by a barrel tax on petroleum products and hazardous chemicals.

For the 2015-2017 biennium, the Legislature appropriated \$65 million in RAG funding, \$5.2 million of which would be targeted for Port of Tacoma projects.

The Department of Ecology, only a few months into the 2015 fiscal year however, froze RAG funding in the state. This was due to three reasons.

First, the Legislature used a cash management strategy, oversubscribing the RAG program on the assumption that grant recipients would not be able to seek reimbursement for all of the appropriated sums in the biennium. Reimbursement requests, however, came in much faster than anticipated.

Second, the price of oil has fallen dramatically, resulting in a significant drop in LTCA funding.

Third, the 2015-2017 biennium authorized the delay in funding clean ups should there be shortfalls in the various toxics cleanup accounts; it did not authorize cuts in any program funded by these accounts.

In 2016 the Port successfully persuaded the Legislature to find an alternative source of revenue to pay for the Arkema Mound remediation process, securing \$2.9 million. The remaining Port projects, however, were not funded.

While the Port will continue to lobby the state for RAG funding in the upcoming biennium, given these circumstances, the Port assumes no such funding will be received for budget planning purposes.

#### Transportation Funding

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

One project of note is the reconstruction of the Port of Tacoma Road/Interstate 5 Interchange - the main truck access to the Port of Tacoma. It truly is the "last mile" for products grown and manufactured in the Pacific Northwest for export overseas. It also serves as a critical choke point for truck movements between the Port and the warehouses and distribution centers in the Green River and Puyallup River valleys - the second-largest logistics center on the West Coast. The Port of Tacoma has agreed to provide \$1.5 million in assistance to the City of Fife who is managing this project.

#### **Port Security**

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

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

As a steward of public funds, the Port of Tacoma Security Department has been successful leveraging grant funding received from the Department of Homeland Security (DHS) through the Port Security Grant Program to enhance security infrastructure. In conjunction with Port of Seattle security, we will coordinate our efforts and resources to enhance the Port's Maritime Transportation Security Awareness. The Port of Tacoma will continue to leverage grant funding as needed to meet regulatory requirements of the Maritime Industry.

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

## **Conclusion**

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

At the Port of Tacoma, we remain focused on maximizing the use of our existing POT and NWSA facilities, working with existing customers to keep them competitive and successful, and continuing to make strategic infrastructure investments that help position the Puget Sound for long-term growth.

We also are placing increased emphasis on the importance of developing and strengthening

relationships with labor partners, industry stakeholders, customers, and local, state and tribal governments, as we work together to achieve the future vision of the NWSA and the Port. This vision must include the road and rail infrastructure that ties the whole system together.

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

## III Business Outlook

### U.S. Economy

Weak global demand and political tensions have contributed to slower than expected growth of the U.S. GDP through August. According to TTX, a rail car provider to Class 1 railroads, the U.S. is not heading into a recession, but the economy has weakened over the last three quarters. Still, unemployment is relatively low and the Consumer Confidence Index broke 100 in August, the highest reading of the past 11 months.

Real gross domestic product (GDP), defined as the value of the production of goods, increased at an annual rate of 1.1% in the second quarter of 2016. In the first quarter, real GDP increased 0.8%. US Department of Commerce Bureau of Economic Analysis (BEA) attributed the second-quarter increase in real GDP to consumer spending and exports, which have been positively impacted by the value of the dollar and weak demand in Asia and Europe. These gains were offset by declines in private inventory investment, residential fixed investments, state and local government spending, non-residential fixed investments, and an increase in imports.

The unemployment rate was at 4.9% in August 2016, unchanged from the previous month. The unemployment rate has been 5.0% or below since October 2015, a significant improvement from the high of 10 percent in the depths of the recession (2009). According to U.S. Department of Labor figures, job gains occurred in professional and business services, health care, and financial activities. Employment in mining continued to trend downward.

After four months of increases, existing-home sales fell 3.2% in July. Due to low inventories in many parts of the country, existing home sales decreased year-over-year for the first time since November 2015. The West region was the only exception, which experienced a 2.5% increase in home sales and a median price that was 6.4% above where it was a year ago. According to Lawrence Yun, National Association of Realtor's Chief economist, "Severely restrained inventory and the tightening grip it's putting on affordability is the primary culprit for the

considerable sales slump throughout much of the country last month." Realtors® are reporting diminished buyer traffic because of the scarce number of affordable homes on the market, and the lack of supply is stifling the efforts of many prospective buyers attempting to purchase while mortgage rates hover at historical lows."

The Conference Board reported its consumer confidence index at 101.1 in August, the first time at this level since September 2015, suggesting underlying strength in the economy. The latest survey indicated optimism in the current and future labor market as well as in current and future personal income. Strong job gains, underlying strength in the job market, and an increase in home prices - which boosts net worth - are supporting the consumer confidence reading. Retail sales also bounced back in August, rising 0.5% month-over-month. Conversely, the University of Michigan consumer-sentiment index in August was 89.8 compared to 91.9 at the same time last year.

### POT Activity

Grain volumes in 2016 are projected to increase from 2015 by 29%, to approximately 3.3 million metric tons. This increase in volume can be attributed to the expected crop. Volumes for 2017 are forecasted to be down.

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

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

	Actual					Forecast				
	2013	2014	2015	2016 est	2017	2018	2019	2020	2021	
<b>PORT OF TACOMA CARGO ACTIVITY 5-YEAR FORECAST</b>										
Non-Container Forecast (Thousands of Metric Tons)										
Bulk	2,490	3,930	2,556	3,302	2,777	2,777	2,777	2,777	2,777	
Grain	212	209	225	314	324	334	344	352	361	
Gypsum	2,702	4,139	2,781	3,616	3,101	3,111	3,121	3,129	3,138	
<b>Total Bulk Tonnage</b>		53%	-33%	30%	-14.2%	0.3%	0.3%	0.3%	0.3%	
Year over Year Change										

## IV Operating Budget

### Overview

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

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

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

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

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

### Nature of Business

Washington law authorizes ports to provide and charge rents, tariffs and other fees for docks, wharves and similar harbor facilities, including associated

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

### Balanced Budget

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

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

### Budget Process

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

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

The annual budget development begins in July and continues through November. The process begins with the development of strategic objectives and

initiatives for the Port and for the NWSA. These objectives are reviewed by the Commission and the Chief Executive Officer for the Port, and the Managing Members and CEO for the NWSA.

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

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

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

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

### Major Assumptions

Major drivers of the 2017 operating budget are a result of economic and industry trends represented in the cargo forecast.

### Revenue

- Fifty percent of the NWSA net income. Please see the NWSA addendum for additional information.
- Lease revenue for POT managed properties per contract.
- Property lease rental rates will increase as specified in contracts.

### Expense

- Budgeted salary and employee benefits at 3% growth.
- Headcount will increase from 202 to 214 due to increased maintenance staffing and staffing required to support the Port. The five Port of Tacoma Commissioners, and part time security officers are excluded from this number (see Appendix J).
- Increased outside services due to multiple one-time projects and ongoing asset management
- Increased maintenance expenses due to repairs of existing operating rail and real estate assets
- Depreciation will decrease \$1.8 million or approximately 5% as assets are retired and as new investments in container and non-container properties will be recorded on the NWSA balance sheet.
- 2017 environmental expenses will be higher than 2016 by \$0.6 million due to remediation expenses.
- Memberships in professional and trade organizations will decrease by \$25,095 (7%) to \$345,000 (see Appendix C) due to transfer of some memberships from the Port to the NWSA.

### Non-Operating Revenue and Expense

- Grant income of \$2.3 million.
- Interest income of \$2.6 million.
- Net revenue bond interest expense of \$18.8 million.
- Non-operating projects of \$3.8 million
- Tax Levy (see Section VI).

### Estimating Revenues and Expenses

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

- **Historical Data:** Future revenues are based on historical trends with the assumption that they will continue in the future. When using historical data as a means for projecting revenues, the Port analyzes as many as 10 years of data to estimate a rate of growth.

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

### Financial Practices

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

### Financial Tools

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

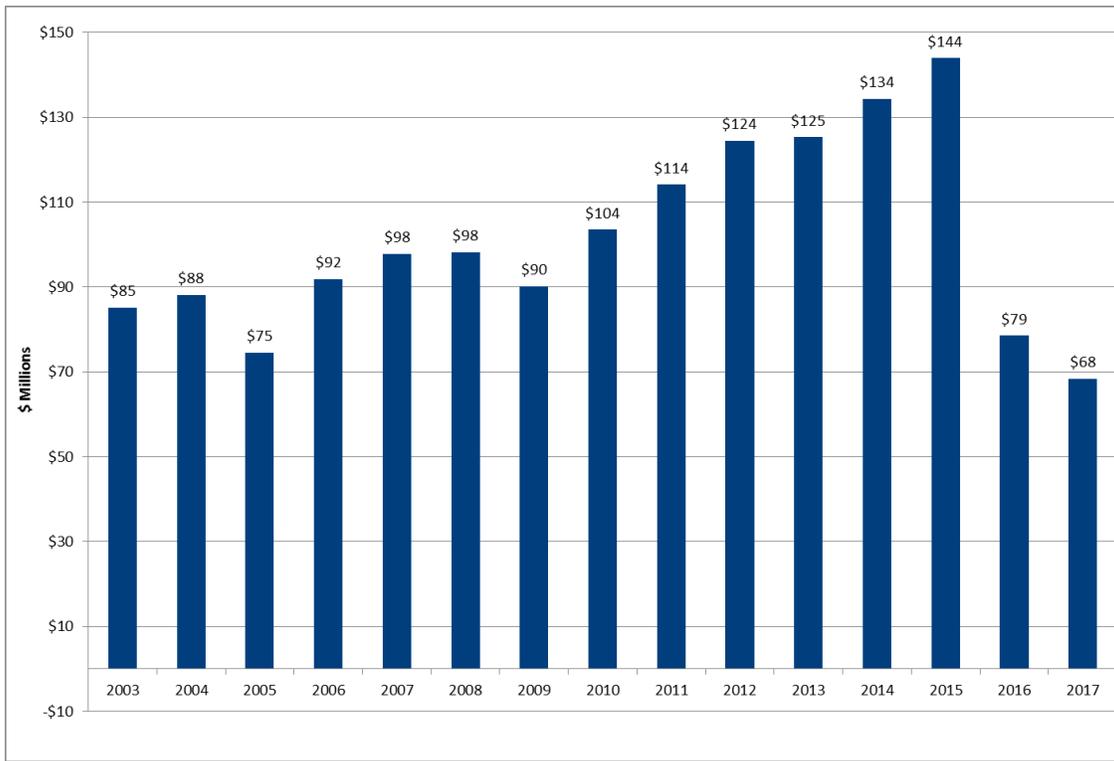
For additional information on accounting policies, see Section IX.

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

<b>Total Port of Tacoma</b> (\$ Thousands)	<b>2015</b> <b>Actual</b>	<b>2016</b> <b>Forecast</b>	<b>2017</b> <b>Budget</b>
Operating Revenue			
NWSA*		\$55,269	\$46,708
Container	\$104,712	2,486	2,456
Non Container	23,237	0	0
Real Estate	15,876	18,053	17,985
Bulk	0	2,722	1,221
Other	72	55	68
<b>Total Revenue</b>	<b>143,897</b>	<b>78,585</b>	<b>68,438</b>
Direct Expenses			
Container	31,986	2,829	2,985
Non Container	10,865	0	0
Real Estate	5,879	3,373	4,695
Bulk	183	271	27
Other	15	1,260	3,479
<b>Total Direct Expenses</b>	<b>48,927</b>	<b>7,733</b>	<b>11,187</b>
<b>Administrative Expenses</b>	<b>14,909</b>	<b>1,323</b>	<b>2,274</b>
<b>Security</b>	<b>3,870</b>	<b>326</b>	<b>343</b>
<b>Environmental</b>	<b>5,385</b>	<b>4,560</b>	<b>5,263</b>
<b>Total Operating Expenses before Depreciation</b>	<b>73,091</b>	<b>13,942</b>	<b>19,068</b>
<b>Depreciation</b>	<b>31,520</b>	<b>30,772</b>	<b>28,989</b>
<b>Total Operating Expense</b>	<b>104,611</b>	<b>44,713</b>	<b>48,058</b>
<b>Operating Income</b>	<b>\$39,285</b>	<b>\$33,872</b>	<b>\$20,380</b>
<b>% Revenue</b>	<b>27.3%</b>	<b>43.1%</b>	<b>29.8%</b>
Non Operating Revenue and Expense	(24,888)	(8,350)	(18,220)
<b>Income before Tax Levy and Expense</b>	<b>14,397</b>	<b>25,522</b>	<b>2,160</b>
Ad Valorem Tax Levy	14,198	14,953	16,612
GO Interest	8,759	7,324	5,408
<b>Net Tax Levy</b>	<b>5,439</b>	<b>7,628</b>	<b>11,203</b>
<b>Net Income</b>	<b>\$19,836</b>	<b>\$33,151</b>	<b>\$13,363</b>

\* Operating Income from the NWSA is treated as Revenue to the Port as required by Joint Venture Accounting

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



**Figure IV-2....Operating Expense by Year  
(Excluding depreciation)**

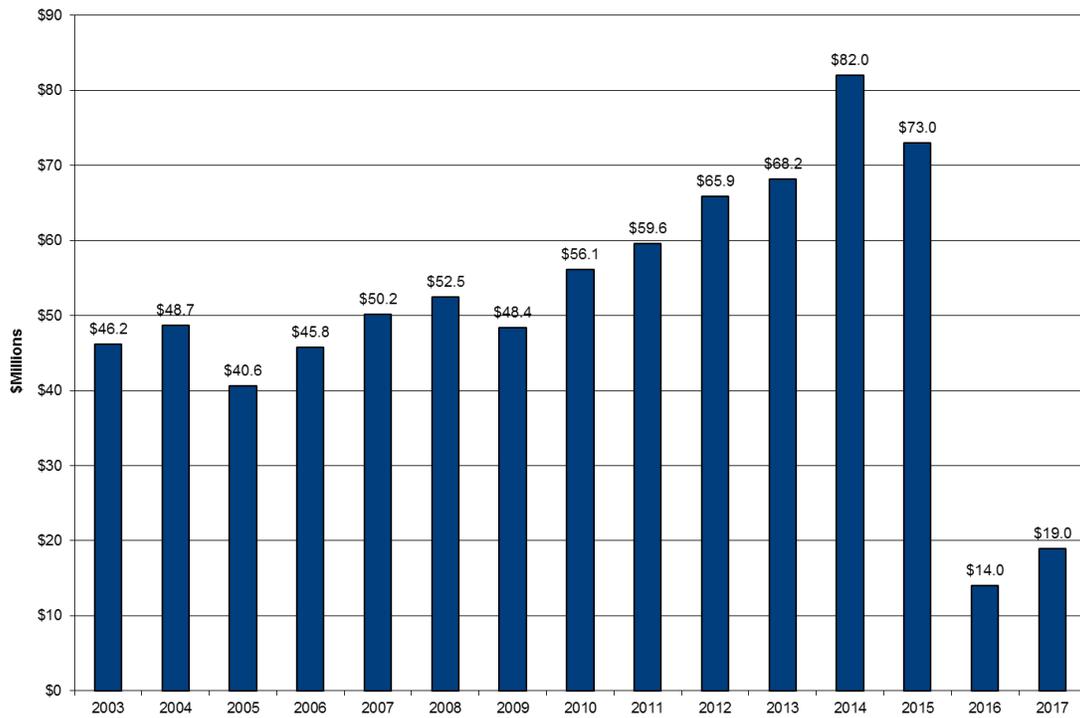


Table IV-2....Operating Revenue and Expense Detail

<b>Total Port of Tacoma</b> (\$ Thousands)	<b>2015</b> <b>Actual</b>	<b>2016</b> <b>Forecast</b>	<b>2017</b> <b>Budget</b>
NWSA		\$55,200	\$46,708
Services Marine Terminals	\$89,194	4,373	4,011
Property Rental	34,144	17,359	16,018
Equipment Rentals	17,373	0	0
Other Revenue*	1,962	1,257	1,291
Sale of Utilities	1,225	396	410
<b>Operating Revenue</b>	<b>\$143,897</b>	<b>\$78,585</b>	<b>\$68,438</b>
Port Salaries & Fringe	\$31,715	\$29,247	\$33,558
Depreciation	31,520	30,772	28,989
Maintenance	16,886	5,488	8,224
Longshore Labor & Fringe	12,167	0	0
Direct Expenses	11,236	1,557	1,615
Outside Services	6,532	4,838	7,403
Environmental	5,385	4,689	4,946
Utilities	3,847	1,584	1,612
Marketing & Global Outreach	934	675	919
Office Equipment & Supplies	709	432	566
Other Employee Exp	442	434	543
Travel & Entertainment	427	162	253
Allocations & Dept Closings	(17,190)	(35,165)	(40,569)
<b>Total Operating Expenses</b>	<b>\$104,611</b>	<b>\$44,713</b>	<b>\$48,058</b>

**Table IV-3....Non-Operating Revenue and Expense Detail**

(\$ Thousands)	2015 Actual	2016 Forecast	2017 Budget
Interest Income	2,293	2,236	2,613
Investment Gain Loss	72	2,042	0
Gain (Loss) Sale of Facilities	(5,846)	(235)	93
Sale of Scrap	4	2	-
Leasehold Tax Distrib	72	75	87
St. Forest Board Rcpt	10	32	28
Discounts Taken	12	7	6
Misc Non Op Inc	365	123	0
Grant income	1,321	7,945	2,318
<b>Non Operating Revenue</b>	<b>(\$1,697)</b>	<b>\$12,228</b>	<b>\$5,145</b>
Interest expense	3,567	5,927	10,134
Other Bond Fees	164	1,517	65
Letter of Credit Fee	2,282	2,059	1,851
Swap Interest Due	12,574	12,083	9,814
Swap Interest Received	(417)	(1,179)	(1,893)
Amort Def Debt Ser	448	621	343
Bond Issue Debt Serv	0	0	-
Bond Disc Debt Serv	11	7	0
Election Expense	629	0	750
Bond Premium Debt Serv	(321)	(1,110)	(1,263)
Bank Service Fee	30	27	27
Other Bank Charges	8	5	6
Misc Non Op Exp	4,813	795	3,786
Capitalized Interest	(597)	(176)	(254)
<b>Non Operating Expense</b>	<b>\$23,191</b>	<b>\$20,577</b>	<b>\$23,365</b>
<b>Non Operating Revenue and Expense</b>	<b>(\$24,887)</b>	<b>(\$8,349)</b>	<b>(\$18,220)</b>

**Table IV-4....Statements of Revenues, Expenses and Changes in Net Position**

Total Port	2015 Actual	2016 Forecast	2017 Budget	Change from Prior Year
<i>(\$ Thousands)</i>				
Operating Revenue	\$143,897	\$78,585	\$68,438	-12.9%
Total Operating Expenses	104,611	44,713	48,058	7.5%
<b>Operating Income</b>	<b>39,286</b>	<b>33,872</b>	<b>20,380</b>	<b>-39.8%</b>
Non Operating Revenues (Expenses)				
Ad valorem tax revenues	14,198	14,953	16,612	11.1%
Interest on general obligation bonds	(8,759)	(7,324)	(5,408)	-26.2%
<b>Net ad valorem tax revenues*</b>	<b>5,439</b>	<b>7,629</b>	<b>11,204</b>	<b>46.9%</b>
Interest Income	2,293	2,236	2,613	-11.0%
Net increase (decrease) in the fair value of investments	72	2,042	0	-100.0%
Interest Expense	(17,712)	(19,750)	(18,798)	-4.8%
Other non-operating expense, net	(10,861)	(823)	(4,354)	429.1%
<b>Total non-operating expenses , net</b>	<b>(20,769)</b>	<b>(8,666)</b>	<b>(9,335)</b>	<b>7.7%</b>
<b>Increase (decrease)in net assets before capital contributions</b>	<b>18,517</b>	<b>25,206</b>	<b>11,045</b>	<b>-56.2%</b>
Capital Grant Contributions	1,321	7,955	2,318	-70.9%
<b>Increase (decrease) in net assets</b>	<b>19,838</b>	<b>33,161</b>	<b>13,363</b>	<b>-59.7%</b>
<b>Net Position</b>				
Net Position beginning of year	\$483,368	\$503,206	\$536,368	6.6%
Net Position end of year	\$503,206	\$536,368	\$549,731	2.5%

\* Does not include GO bond principal payments amounts. See Tax Levy section for details

### Definition of Net Position (Equity)

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

The Port of Tacoma expects its net position to increase in 2017 by \$13.4 million from the estimated 2016 results.

# V Capital Improvement Plan

## Overview

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

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

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

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

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

## Summary of Major Projects

With the Port's strategic plan completed, the five-year capital budget focuses on road and waterway infrastructure improvements, enhanced security and environmental projects highlighted in the plan. By the close of 2016, the Port will have completed or neared completion of the following capital projects:

- T4 wharf demolition and environmental remediation
- Contribution to design of the reconstruction of Port of Tacoma Road
- Parcel 14 grading & site stabilization design
- Upper Clear Creek habitat design and construction
- Several warehouse demolitions
- Maintenance and rehabilitation of Port assets including several roof replacements

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

- Rail infrastructure improvements working with Tacoma Rail, including development of north lead tracks to the Hylebos peninsula
- Widening of the Blair Waterway
- Maintenance and rehabilitation of Port assets
- Arkema manufacturing area investigation
- Environmental cleanups for land stewardship

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

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

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

**Table V-1....Historical and Planned Capital Budget Spending**

(\$ Millions)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Historical Capital	24.5	32.3	43.5	35.1						
Planned Capital					35.9	44.4	18.2	9.6	6.7	32.3
<b>Grand Total</b>	<b>\$24.5</b>	<b>\$32.3</b>	<b>\$43.5</b>	<b>\$35.1</b>	<b>\$35.9</b>	<b>\$44.4</b>	<b>\$18.2</b>	<b>\$9.6</b>	<b>\$6.7</b>	<b>\$32.3</b>

### Capital Improvement Plan Priorities

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

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

### Capital Improvement Plan Projects by Purpose

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

- **Revenue-Generating:** Projects developed for a specific customer that will result in a new revenue stream. The Port has designated Port-generated operating cash and revenue bonds to fund most of these projects.
- **Revenue Renewal:** Projects developed to renovate or replace obsolete or aging revenue-producing assets. These projects serve to extend existing revenue streams and may offer additional revenue if replacements enhance the efficiencies of operations or offer additional capabilities or value. The Port has designated Port-generated operating cash or revenue bonds to fund most of these projects and also may use capital leasing through equipment suppliers or financial institutions.
- **Infrastructure:** Projects developed to enhance infrastructure, support multiple or future

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

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

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

Table V-3 shows that the Port intends to implement \$159 million worth of planned projects in the next five years, with \$56.6 million of that total earmarked for 2017. Non-operating and operating projects will be expensed as incurred and are included in the operating budget.

Table V-4 shows the five-year budget by Line of Business. The investments assigned to container line of businesses are for the infrastructure that the Port of Tacoma is responsible for in supporting the NWSA.

Table V-5 shows the expected increase in depreciation and revenue from time when all of the projects are completed. The CIP is the total expected spending of 169 projects, 80 of which are capitalized and 89 expensed as incurred. The expensed projects are captured as expenses in the budget and five-year Plan of Finance as incurred. The costs of the capitalized projects are captured as depreciation expense over the estimated life of the projects which may extend beyond five years. The Port does not expect any significant increase in operating expenses associated with the additional capital projects.

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

(\$ Millions)

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Totals</b>
Infrastructure	\$23.0	\$22.5	\$16.4	\$11.8	\$7.9	\$81.6
Renewal	10.3	3.5	3.3	3.3	0.3	20.7
Revenue	23.3	3.7	0.5	0.4	28.8	56.7
<b>Grand Total</b>	<b>\$56.6</b>	<b>\$29.7</b>	<b>\$20.2</b>	<b>\$15.5</b>	<b>\$37.0</b>	<b>\$159.0</b>

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

(\$ Millions)

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Totals</b>
Capitalized	\$44.4	\$18.2	\$9.6	\$6.7	\$32.3	\$111.2
Operating Expense	8.4	9.0	7.8	6.1	1.8	33.1
Non-Operating Expense	3.8	2.5	2.8	2.7	2.9	14.7
<b>Grand Total</b>	<b>\$56.6</b>	<b>\$29.7</b>	<b>\$20.2</b>	<b>\$15.5</b>	<b>\$37.0</b>	<b>\$159.0</b>

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

(\$ Millions)

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
Rail Infrastructure	\$14.7	\$3.0	\$3.0	\$3.0	\$0.0	\$23.7
Real Estate	24.0	15.1	5.8	0.3	0.7	45.9
Port-Wide Infrastructure	17.9	11.6	11.4	12.2	36.3	89.4
<b>Grand Total</b>	<b>\$56.6</b>	<b>\$29.7</b>	<b>\$20.2</b>	<b>\$15.5</b>	<b>\$37.0</b>	<b>\$159.0</b>

**Table V-5....Net Income Impact of Capital Investments**

(\$ Millions)

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
Rail Infrastructure	-\$0.3	-\$1.0	-\$1.2	-\$1.2	-\$1.2	-\$4.9
Real Estate	-0.4	-0.5	-0.8	-0.8	-0.8	-3.2
Port-Wide Infrastructure	-0.4	-0.9	-1.5	-1.5	-1.6	-5.9
<b>Grand Total</b>	<b>-\$1.1</b>	<b>-\$2.4</b>	<b>-\$3.4</b>	<b>-\$3.5</b>	<b>-\$3.6</b>	<b>-\$14.0</b>

## Capital Budget Project Descriptions

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

### Rail Infrastructure

Planned capital expenditures for container terminals will total approximately \$23.7 million over the next five years. The CIP for this business will provide the funds necessary for rail infrastructure improvements in the Tideflats.

- Rail improvements: Design and construct of north lead tracks to the Hylebos peninsula
- Maintenance: Funding for replacement of maintenance equipment to support rail operations

### Industrial & Commercial Real Estate

The Port will invest \$45.9 million in real estate improvements include \$8 million of land acquisition. The CIP also include for several site investigations and remediation as well as storm water improvements.

### Port-Wide Infrastructure

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

- Waterway improvements: Widening of the waterway across from the Washington United Terminal
- Environmental Projects: Major environmental remediation at Early Business Center and Arkema area as well as major habitat improvements at Lower Wapato Creek.
- Environmental Programs: These projects include reduction and monitoring of emissions, and ongoing clean-up projects
- Technology: The Port will update and implement technology improvements to increase efficiency and productivity
- Road: Port's contributions for the SR 516 grade separation (FAST), the Puyallup River bridge and Taylor Way heavy haul corridor

### Capital Improvement Plan Revisions

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

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

# VI Tax Levy

## Tax At a Glance

- The levy increases by \$1,646,125 from \$15,013,389 to \$16,659,514 due to increases in property values and first time taxes on new construction and improvements.
- Target millage rate of \$0.18365 per \$1,000 assessed value, the same as the Port's targeted millage rate for the last seven years.
- Tax levy for a \$300,000 assessed value home for 2017 will be \$55.08 – the same as 2016.
- The total levy will be used for the following:

Interest payments	\$6,597,566
Principal payments & bond retirement	5,252,000
<u>Governmental Projects</u>	<u>4,809,948</u>
Total	\$16,659,514

## Tax Levy Sources

The Pierce County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. The County levies taxes annually

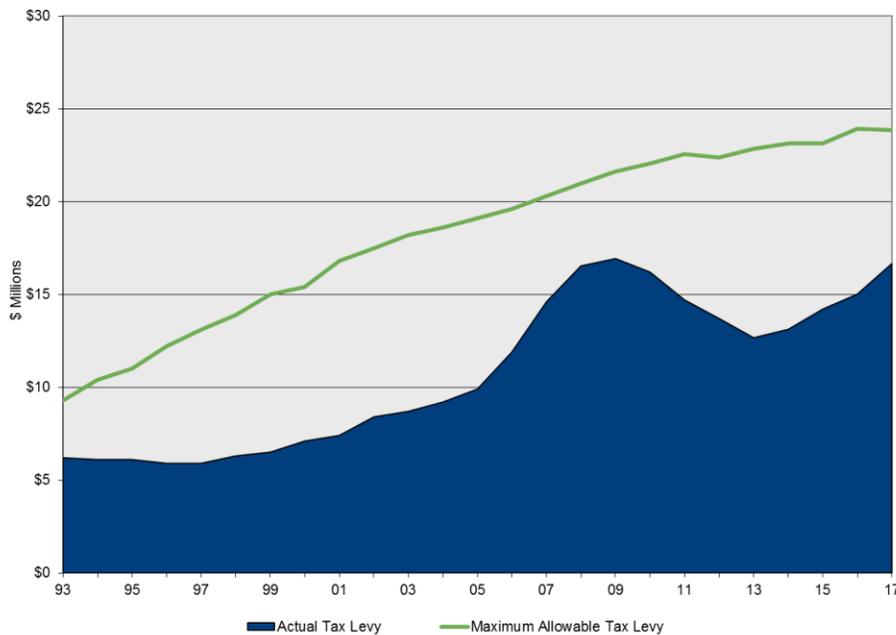
(January 1) on property value listed as of the prior May 31. To determine valuation, the County revalues property every six years. The value of the property placed on the assessment rolls for property tax purposes may not always be the true and fair market value. (RCW 84.04.020 and RCW 84.04.030)

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

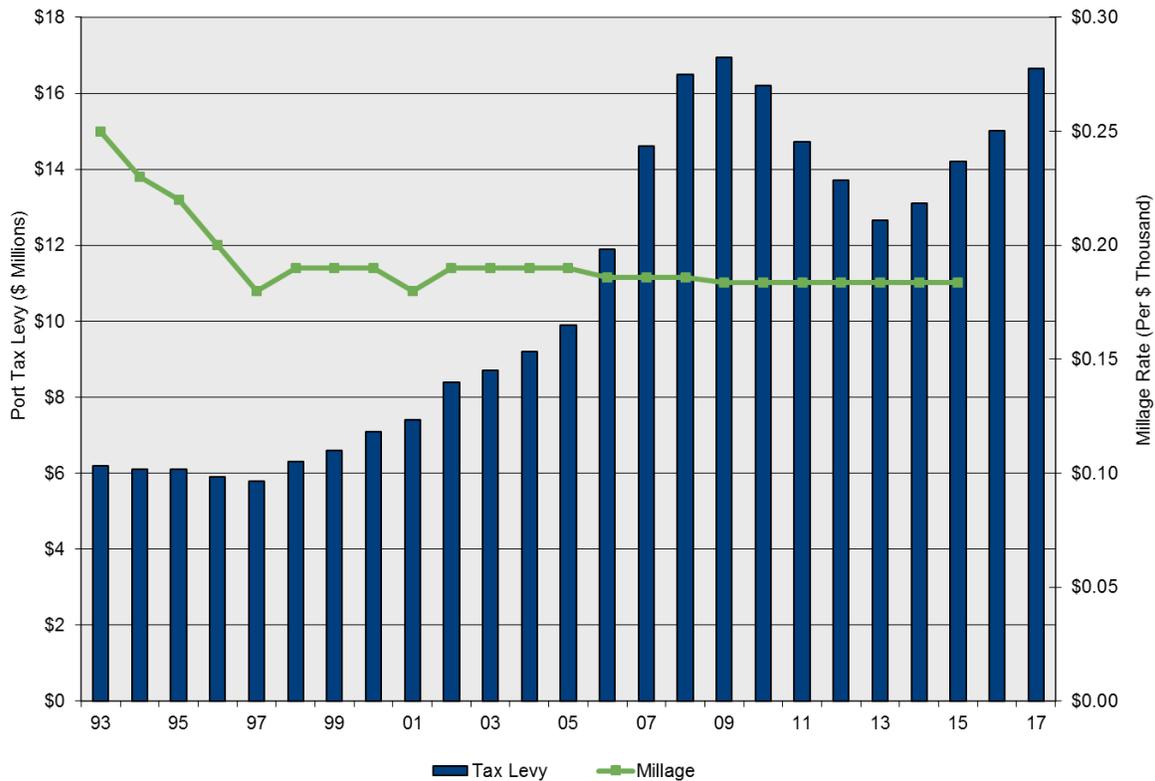
The Port of Tacoma's highest lawful regular levy amount since 1985 is \$24,392,636 well above the proposed levy of \$16,659,514.

- Figure VI-1 shows the maximum allowed levy versus the actual Port levy from 1990 to the proposed 2017 levy.

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



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



- From 2002 to 2008 the Port has held the target millage rate at or below \$0.1859 per \$1,000 of assessed value. The Port reduced the targeted millage rate in 2009 to \$0.18365 per \$1,000 as shown above in Figure VI-2;
- In 1988, the state changed the law so that a port could have a levy at less than the maximum while still preserving the ability to tax up to the maximum in the future (“banking levy capacity”), if the need is justified;
- This law allows a port to tax at a lower level in the years when it doesn’t require the maximum levy, but return to the maximum level in years of need. In an effort to minimize reliance on the levy, the Port has taxed less than the maximum, reducing the taxpayers’ burden by approximately \$187 million over the last 25 years.

**Initiative 747**

Washington voters approved Initiative 747 on November 6, 2001, amending RCW 84.55.005 and

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

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

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

**Special Tax Levies**

Special levies that voters approve are not subject to the above limitations. The Port can levy property taxes for dredging, canal construction, leveling or

filling upon approval of the majority of voters within the Port District. This levy is not to exceed \$0.45 per \$1,000 of assessed value of taxable property within the Port District.

**IDD Tax Levies**

The Port also may levy property taxes for Industrial Development Districts (IDDs) - under a comprehensive scheme of harbor improvements - for up to 12 years, not to exceed \$0.45 per \$1,000 of assessed value of taxable property within the Port District. If a port district intends to levy this tax for one or more years after the first six years, the Port must publish notice of intent to impose such a levy, and if signatures of at least 8 percent of the voters protest the levy, the County must conduct a special election with majority approval required.

**Tax Levy Uses**

The Port uses the tax levy to pay for debt service, capital improvements and governmental projects. Although the Port strives to maintain its levy rate at a level significantly below its legal limit, this does not preclude the Port from levying taxes at a higher rate in future years. Over the next five years, the Port plans to spend \$28 million on governmental projects as shown in Table VI-1.

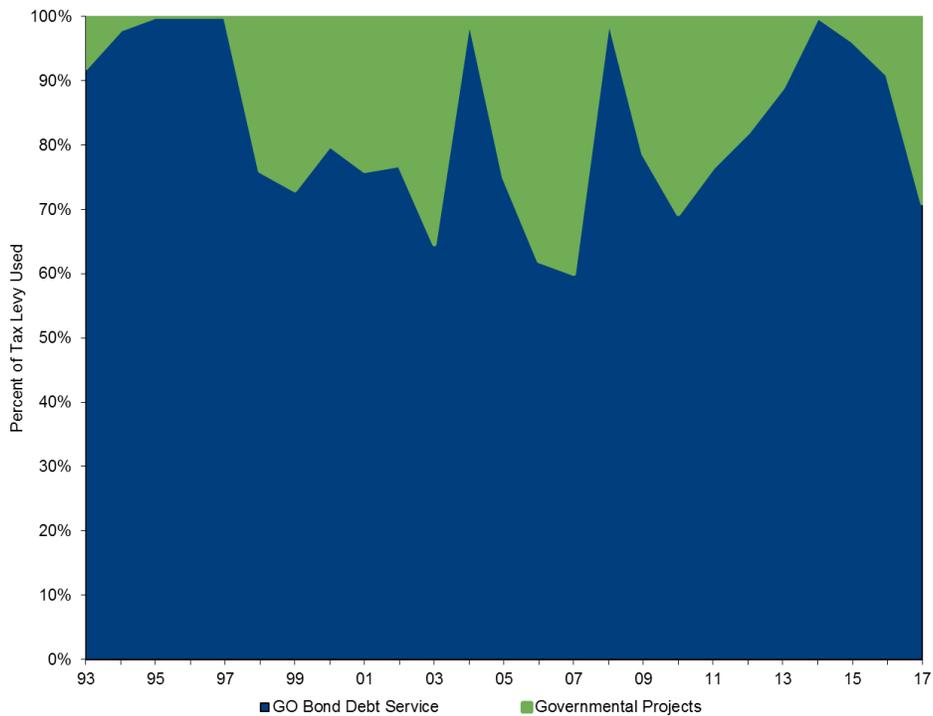
The Port will use the regular levy for the current year's debt service on G.O. bonds (principal and interest) of \$11,849,566. The history of its usage is shown in Figure VI-3. The Port does not use the tax levy for operating expenses.

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

(\$ Millions)

<u>Initiatives</u>	<u>2017-2021</u>
Land	\$12.8
Environmental	6.7
Road Contributions	3.7
<b>Total</b>	<b>\$23.3</b>

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



**Taxpayer Effect**

Figure VI-4 shows the effect of the change in millage over the last 25 years on a \$300,000 assessed value home. In 1993, a homeowner paid more than \$75.81 compared to the proposed tax for 2017 estimated at less than \$55.08.

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

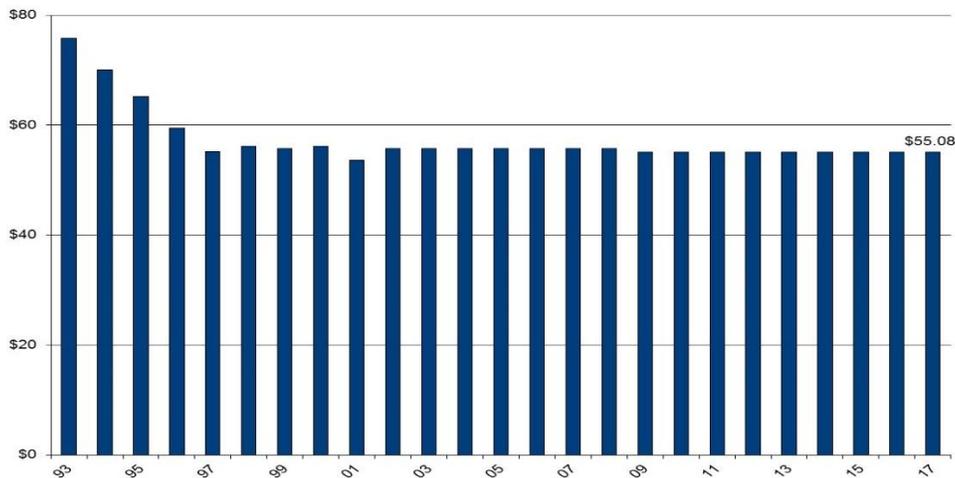


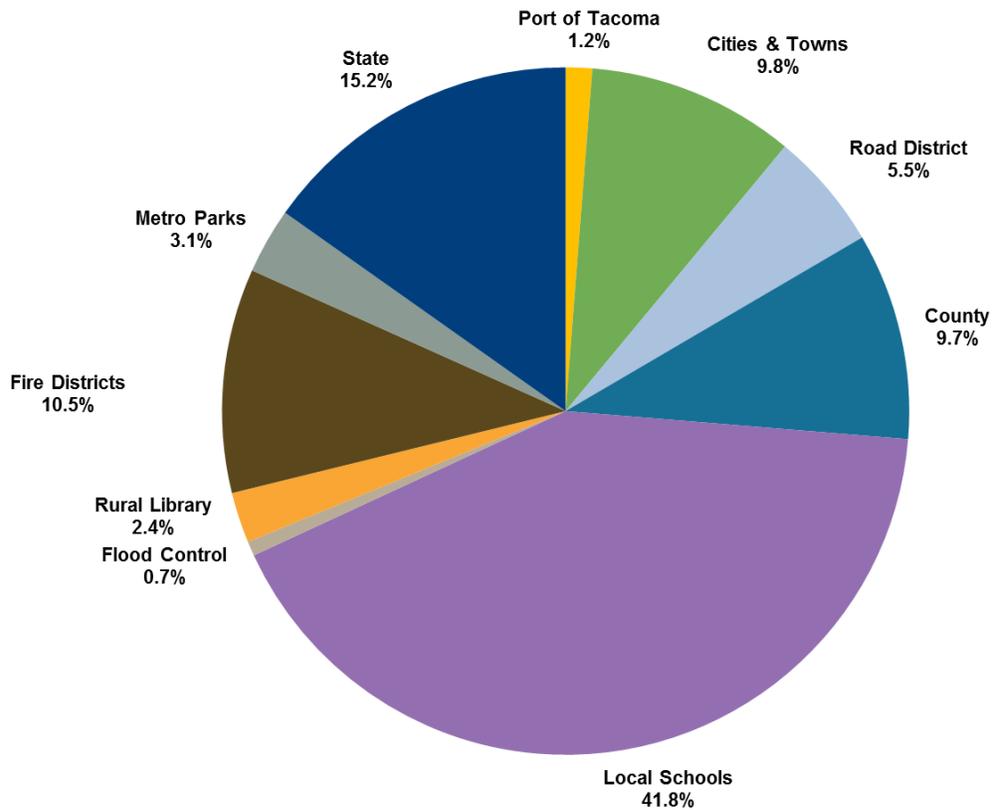
Table VI-2 illustrates the assessed valuation and millage rate from 1989 to 2017. The assessed value has increased from \$24.5 billion in 1993 to \$90.7

billion in 2017, while millage (the rate paid per \$1,000 assessed value) has dropped from \$0.2527 in 1993 to the proposed rate in 2017 of \$0.18365.

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

Year	Assessed Valuation	Millage Rate	Levy	G. O. Bond Debt Service	Balance Cap Improvement	Levy on \$300,000 Home
1993	\$ 24,493,558,730	\$ 0.2527	\$ 6,189,522	\$ 5,701,918	\$ 487,604	\$ 75.81
1994	26,139,029,809	0.2333	6,098,236	6,007,297	90,939	69.99
1995	28,112,803,032	0.2173	6,108,912	6,691,826	-	65.19
1996	29,758,323,316	0.1984	5,904,052	7,045,365	-	59.52
1997	31,696,028,551	0.1842	5,838,408	6,689,255	-	55.26
1998	33,743,693,542	0.1873	6,320,194	4,761,656	1,558,538	56.19
1999	35,243,497,408	0.1859	6,551,766	4,752,256	1,799,510	55.77
2000	37,932,381,976	0.1873	7,104,735	5,608,926	1,495,809	56.19
2001	41,464,254,654	0.1788	7,413,808	5,620,424	1,793,384	53.64
2002	45,019,204,999	0.1859	8,369,070	5,599,749	2,769,321	55.77
2003	46,544,212,196	0.1859	8,652,569	5,591,681	3,060,888	55.77
2004	49,480,808,069	0.1859	9,198,482	9,337,003	-	55.77
2005	53,305,805,336	0.1859	9,909,549	7,416,278	2,493,271	55.77
2006	63,896,092,639	0.1859	11,878,284	7,414,948	4,463,336	55.77
2007	78,663,974,236	0.1859	14,623,633	8,814,166	5,809,467	55.77
2008	88,954,056,815	0.1859	16,536,559	16,536,559	-	55.77
2009	92,203,419,317	0.1836	16,933,218	11,092,164	5,841,054	55.08
2010	88,620,295,184	0.1836	16,275,174	11,278,176	4,996,998	55.08
2011	80,212,403,519	0.1836	14,731,007	11,280,976	3,450,031	55.08
2012	74,702,110,479	0.1836	13,719,043	11,274,976	2,444,067	55.08
2013	68,966,999,872	0.1836	12,665,791	11,280,226	1,385,565	55.08
2014	71,417,153,388	0.1836	13,115,760	13,115,760	-	55.08
2015	77,353,617,531	0.1836	14,205,992	13,669,076	536,916	55.08
2016	81,750,009,927	0.1836	15,013,389	13,665,814	1,347,575	55.08
2017	\$ 90,713,390,689	\$ 0.1836	\$ 16,659,514	\$ 11,849,566	\$ 4,809,948	\$ 55.08

**Figure VI-5....2016 Tax Levies by Taxing District**



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

**Certified Assessed Value Subject To Regular Levy**

\$90,713,390,689

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

\$0.13063	Per \$1,000 Assessed Value for G.O. Bond debt payment	\$11,849,566
\$0.05302	Per \$1,000 Assessed Value Available for Governmental Projects & Additional Debt Retirement	\$4,809,948
<hr/>		
\$0.18365	Per \$1,000 Assessed Valuation	\$16,659,514

**Tax Levy Detail**

*Details of the 2017 tax levy are provided on the following pages in Figure VI-6 and Figure VI-7.*

Figure VI-6.....2016 Preliminary Pierce County Assessed Values for 2017 Tax Levy



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

September 9, 2016

OFFICIAL NOTIFICATION TO: **PORT OF TACOMA**

RE: 2016 PRELIMINARY ASSESSED VALUES

**FOR REGULAR LEVY**

Total Taxable Regular Value	90,713,390,689
Highest lawful regular levy amount since 1985	23,864,664.19
<b>Last year's actual levy amount</b>	<b>15,013,389.00</b>
Additional revenue from current year's NC&I	260,379.95
Additional revenue from annexations (RCW 84.55)	0
Additional revenue from administrative refunds (RCW 84.69)	40,161.20
<i>No additional revenue from administrative refunds will be allowed if you are limited by your statutory rate limit.</i>	
Additional revenue from increase in state-assessed property	0.00

**FOR EXCESS LEVY**

Taxable Value	88,585,840,477
Timber Assessed Value	n/a
Total Taxable Excess Value	88,585,840,477

2016 New Construction and Improvement Value 1,425,230,283

*If you need assistance or have any questions regarding this information, please contact Kim Fleshman  
 253.798.7114 [kfleshm@co.pierce.wa.us](mailto:kfleshm@co.pierce.wa.us).*

Figure VI-7....Preliminary Tax Levy Limit: 2016 for 2017



**Pierce County**

**Mike Lonergan, Assessor-Treasurer**

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

TAX LEVY LIMIT 2016 FOR 2017	PORT OF TACOMA > 10,000
<b>REGULAR TAX LEVY LIMIT:</b>	<b>2015</b>
A. <u>Highest regular tax which could have been lawfully levied beginning with the 1985 levy</u> (refund levy not included) times limit factor (as defined in RCW 84.55.005).	23,864,664.19 1.00953 24,092,094.44
B. Current year's assessed value of new construction, improvements and wind turbines in original districts before annexation occurred times last year's levy rate (if an error occurred or an error correction was made in the previous year, use the rate that would have been levied had no error occurred).	1,425,230,283 0.182693251593 260,379.95
C. Current year's state assessed property value in original district if annexed less last year's state assessed property value. The remainder to be multiplied by last year's regular levy rate (or the rate that should have been levied).	1,345,769,863 1,345,769,863 0.00 0.182693251593 0.00
D. <b>REGULAR PROPERTY TAX LIMIT (A + B + C)</b>	<b>24,352,474.39</b>
<b>ADDITIONAL LEVY LIMIT DUE TO ANNEXATIONS:</b>	
E. To find rate to be used in F, take the levy limit as shown in Line D above and divide it by the current assessed value of the district, excluding the annexed area.	24,352,474.39 90,713,390,689 0.268455122330
F. Annexed area's current assessed value including new construction and improvements times rate found in E above.	0.00 0.268455122330 0.00
G. <b>NEW LEVY LIMIT FOR ANNEXATION (D + F)</b>	<b>24,352,474.39</b>
<b>LEVY FOR REFUNDS:</b>	
H. RCW 84.55.070 provides that the levy limit will not apply to the levy for taxes refunded or to be refunded pursuant to Chapters 84.68 or 84.69 RCW. (D or G + refund if any)	24,352,474.39 40,161.20 24,392,635.59
I. <b>TOTAL ALLOWABLE LEVY AS CONTROLLED BY THE LEVY LIMIT (D,G,or H)</b>	<b>24,392,635.59</b>
J. Amount of levy under statutory rate limitation.	90,713,390,689 0.450000000000 40,821,025.81
K. <b>LESSER OF I OR J</b>	<b>24,392,635.59</b>

2017 Preliminary -Max. highest lawful

## VII Plan of Finance

### Sources of Port Capital Funding

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

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

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

While actual revenue growth will depend on world and domestic economic developments as well as timely implementation of planned capital budget projects, the Port's blend of revenue sources including the

NWSA and long-term leases makes future revenue streams reasonably predictable. See Table VII-1 for historical and projected port operating revenue.

The Port projects that annual tax levy receipts will grow from \$16.7 million in 2017 to \$17.9 million in 2021. These projections assume no valuation increases from 2018 and 2019, and modest growth in values in 2020 and 2021 of 1% each year. The millage rate is expected to remain constant at \$0.18365 per thousand dollars of valuation.

The tax levy model assumes a 1.37% increase in valuations due to property improvements or new construction in each year.

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

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

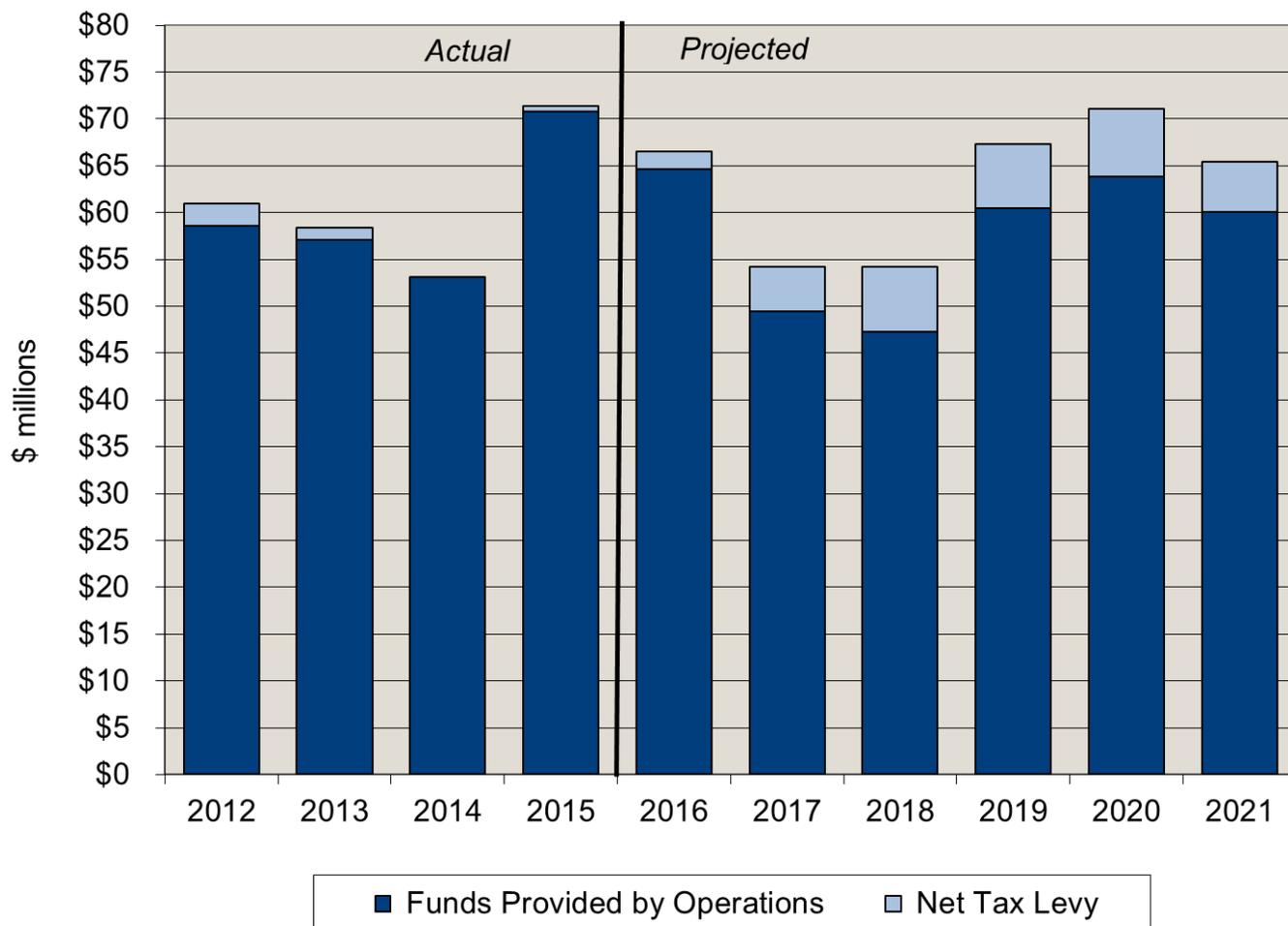
The 2017-2021 Plan of Finance assumes that the forecasted revenue from the NWSA will be as shown in the NWSA addendum. The NWSA revenue is combined with the forecast for Port managed properties to create the combined income forecast. Additionally, the capital spending included in the Plan of Finance represents the combination of 50 percent of the NWSA CIP along with all of the POT planned capital project spending.

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

(\$ Millions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Operating Revenues</b>	\$124.4	\$125.3	\$134.3	\$143.9	\$78.6	\$68.4	\$67.3	\$77.7	\$76.9	\$73.5

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



**Summary of Debt Guidelines**

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

Using only long-term, fixed-rate debt makes the Port's debt portfolio subject to interest rate risk. When interest rates change, the value of a particular debt position also changes. This is true on both sides of

the debt equation, whether the Port is the lender, as in its investment portfolio, or the borrower, as in its debt portfolio.

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

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

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

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

### Limits on Debt

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

State statute sets General Obligation (G.O.) bond limits; non-voted G.O. bonds are limited to one quarter of 1% of the assessed value of the Port

District; and voted G.O. bonds are limited to three quarters of 1% of the assessed value within the Port District.

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

### Credit Ratings

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

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

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

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

### Lien Structure & Debt Service Coverage

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

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

secured by subordinate liens on operating revenues are payable from operating revenues only after all other revenue bonds are paid;

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

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

### **Asset-Liability Management**

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

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

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

The objective of Asset-Liability Management is to reduce risk and create predictability in the Port's cash

position, which facilitates budgeting and capital planning.

### **Quantifying Risk**

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

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

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

### **Financing Strategy**

The Capital Funding Plan is a fusion of the five-year Cash Flow Forecast and the five-year capital budget. It allows the Port to estimate and plan for the amount and types of debt. This POF estimates that the net annual operating cash flow will increase from approximately \$49.4 million to \$60.2 million during the five-year period. The Port may use this income directly for capital investment or for the payment of debt service on money borrowed to pay for capital improvements.

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

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

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

(\$ Thousands)

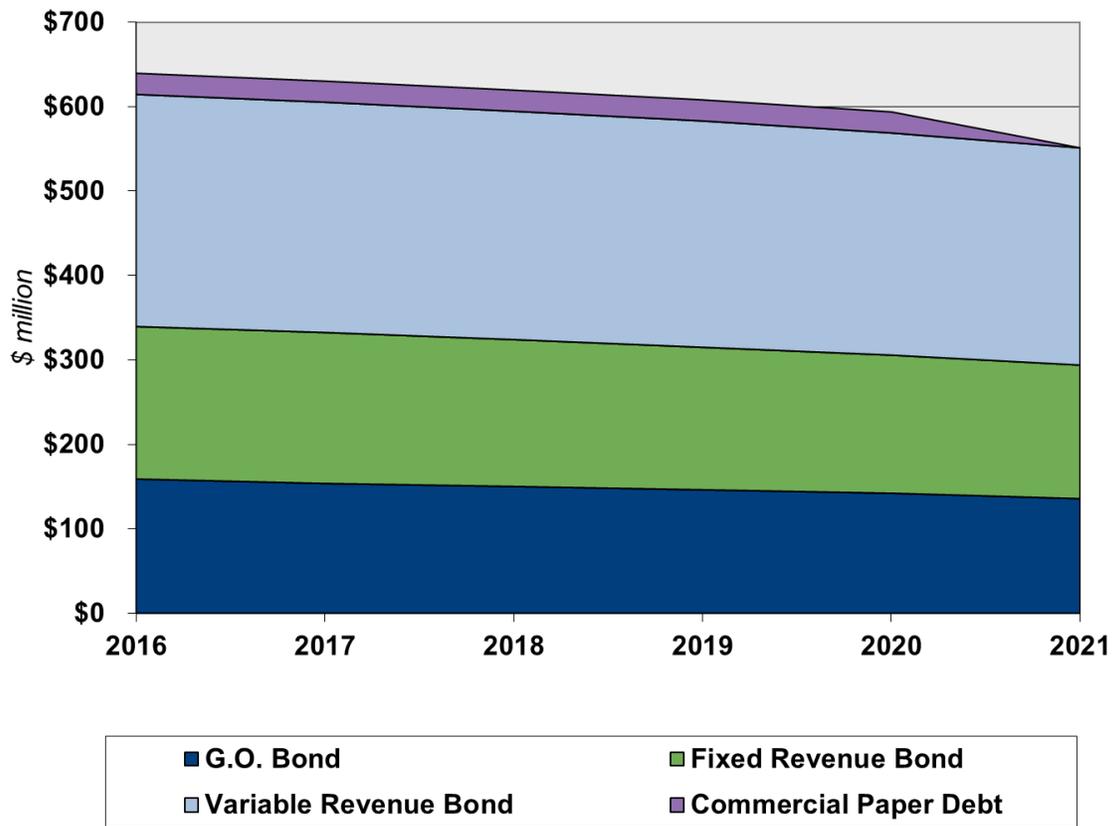
	2017	2018	2019	2020	2021
<b>Beginning Cash &amp; Investments</b>	\$228,942	\$171,808	\$145,758	\$160,151	\$184,588
<b>Projected Sources of Funds</b>					
<b>Revenues</b>	\$68,438	\$67,350	\$77,743	\$76,922	\$73,522
Expenses	(19,068)	(20,035)	(17,207)	(13,109)	(13,377)
<b>Funds Provided by Operations</b>	49,370	47,315	60,536	63,813	60,145
Interest Income	2,613	2,697	3,893	4,343	5,038
Other, Net	1,144	(2,017)	(3,345)	(2,700)	(3,621)
Ad valorem tax revenue (net)	16,612	16,840	17,072	17,480	17,898
<b>Projected Sources of Funds</b>	\$69,739	\$64,835	\$78,156	\$82,936	\$79,460
<b>Projected Uses of Funds</b>					
Investment in Northwest Seaport Alliance	43,916	34,488	15,535	11,800	3,450
Debt Payments (Principal and Interest) - GO Bonds	11,832	9,897	10,236	10,237	12,552
Debt Payments (Principal and Interest) - Revenue Bonds	26,572	27,942	27,972	29,291	29,899
Debt Payments (Principal and Interest) - General Fund	0	0	0	0	0
Debt Payments (Principal and Interest) - Commercial Paper	188	313	438	438	438
Additional Retirement of G.O. Bonds	0	0	0	0	0
Additional Retirement of Revenue Bonds	0	0	0	0	0
Additional Retirement of Commercial Paper	0	0	0	0	25,000
Capital Spending - Planned Projects	44,365	18,246	9,582	6,733	32,328
<b>Projected Uses of Funds</b>	\$126,873	\$90,886	\$63,763	\$58,499	\$103,667
<b>Projected Borrowing</b>					
Commercial Paper Borrowing	0	0	0	0	0
Variable Rate Long Term Revenue Bonds	0	0	0	0	0
Fixed Rate Long Term Revenue Bonds	0	0	0	0	0
Fixed Rate Long Term G.O. Bonds	0	0	0	0	0
<b>Total Borrowing</b>	\$0	\$0	\$0	\$0	\$0
<b>Projected Ending Cash &amp; Investments</b>					
	\$171,808	\$145,758	\$160,151	\$184,588	\$160,381
Sr. Lien Rev. Bond Debt Service Coverage	5.97	4.72	6.02	6.42	6.04
Fully Diluted Revenue Bond Debt Service	2.17	2.14	2.72	2.77	2.55

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

(in thousands)

<b>Debt Outstanding at year end</b>	2016	2017	2018	2019	2020	2021
Un-voted G.O. Bond, Fixed Rate	\$158,966	\$153,714	\$150,203	\$146,221	\$142,165	\$135,712
Senior Revenue Bond, Fixed Rate	180,640	178,820	173,868	168,778	163,549	158,180
New Senior Revenue Bond, Fixed Rate	0	0	0	0	0	0
Existing Subordinate Rev Bond, Fixed Rate	0	0	0	0	0	0
New Subordinate Rev Bond, Fixed Rate	0	0	0	0	0	0
Subordinate Rev Bond, Variable Rate	274,815	272,640	270,370	267,995	263,020	257,200
Commercial Paper, Variable Rate	25,000	25,000	25,000	25,000	25,000	0
<b>Total Debt Outstanding</b>	\$639,421	\$630,174	\$619,441	\$607,994	\$593,734	\$551,092
Unhedged Variable Revenue Bond & Unhedged Variable CP % of Total Debt Outstanding	0%	9%	10%	11%	11%	8%

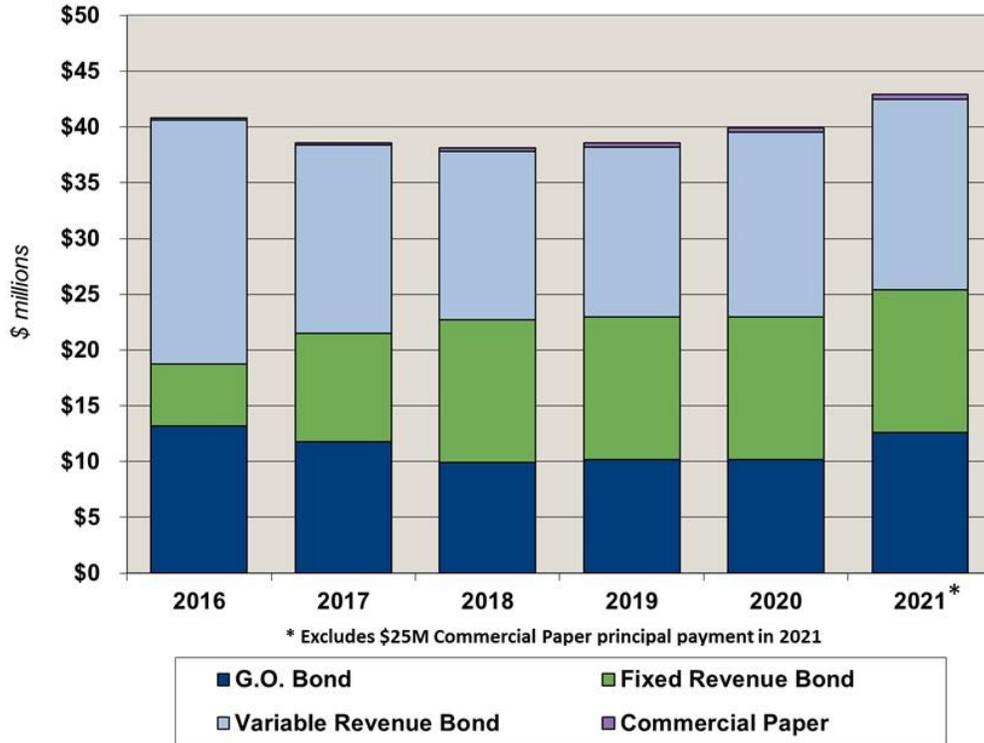
Figure VII-2....Projected Debt Outstanding at Year End



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

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

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



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

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

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

(In Thousands)	2017	2018	2019	2020	2021	5-Year Change
Unvoted G.O. Bond Capacity	\$73,069	\$79,692	\$86,828	\$96,444	\$108,590	
Revenue Bond Capacity	\$14,857	\$31,585	\$135,115	\$164,813	\$137,219	
Less: TECP Program Debt Outstanding	(\$25,000)	(\$25,000)	(\$25,000)	(\$25,000)	\$0	
<b>Total Non-voted Debt Capacity</b> <i>(Capacity cannot be less than zero)</i>	<b>\$62,926</b>	<b>\$86,277</b>	<b>\$196,943</b>	<b>\$236,257</b>	<b>\$245,809</b>	<b>\$182,883</b>
Remaining G.O. Bond Capacity - <u>Voted</u>	\$453,567	\$459,790	\$466,098	\$477,218	\$488,603	
<b>Total Voted Debt Capacity</b>	<b>\$516,493</b>	<b>\$546,067</b>	<b>\$663,041</b>	<b>\$713,475</b>	<b>\$734,412</b>	<b>\$217,919</b>

### Financing Process

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

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

## External Financing

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

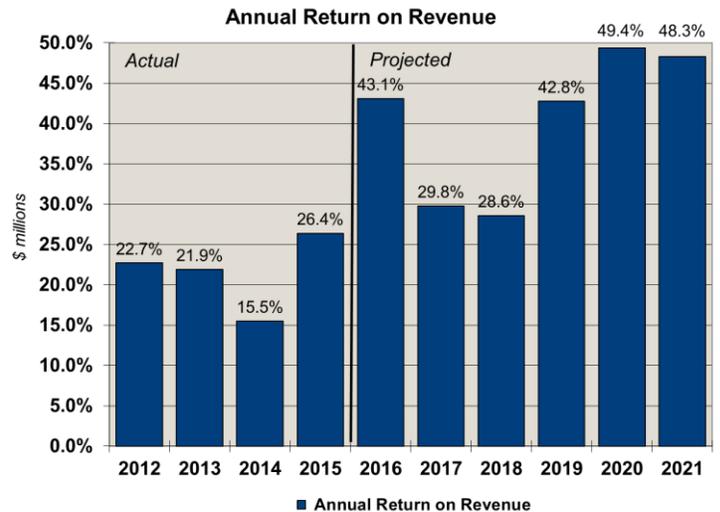
five years. External financing may vary depending upon the timing of customer needs.

## Financial Performance Measures

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

Measured as a percentage, Return on Revenue is defined as operating income divided by total operating revenues. Operating income is the excess of revenues over operating expenses (operations, maintenance, administration, environmental, and depreciation). The Port’s 2021 target rate is 28.5 percent.

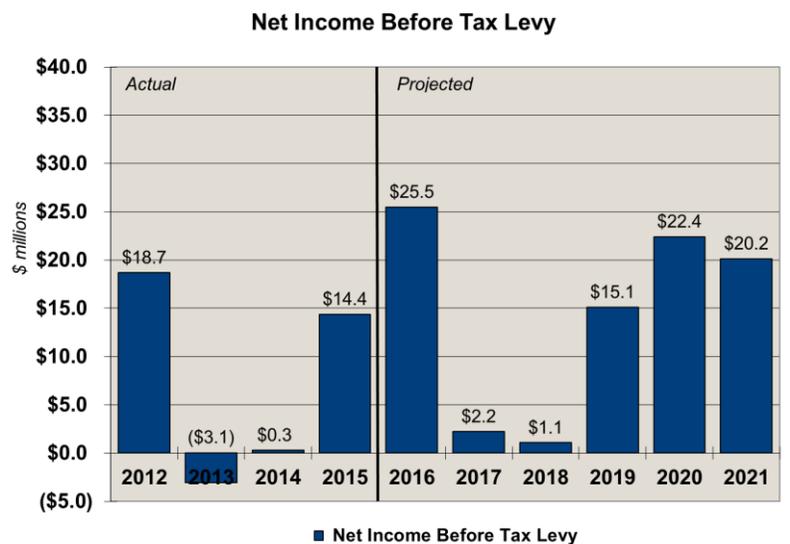
- Understanding Data:** Operating income measures management’s ability to maintain profitability. It also indicates profit generated by operation and administration of normal ongoing Port business activity. Profits enable the Port to reinvest in new capital projects.



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

NIBTL is operating income plus or minus non-operating revenues and expenses (excludes the tax levy and general obligation bond interest expense). The Port’s 2021 Target is \$24.2 million.

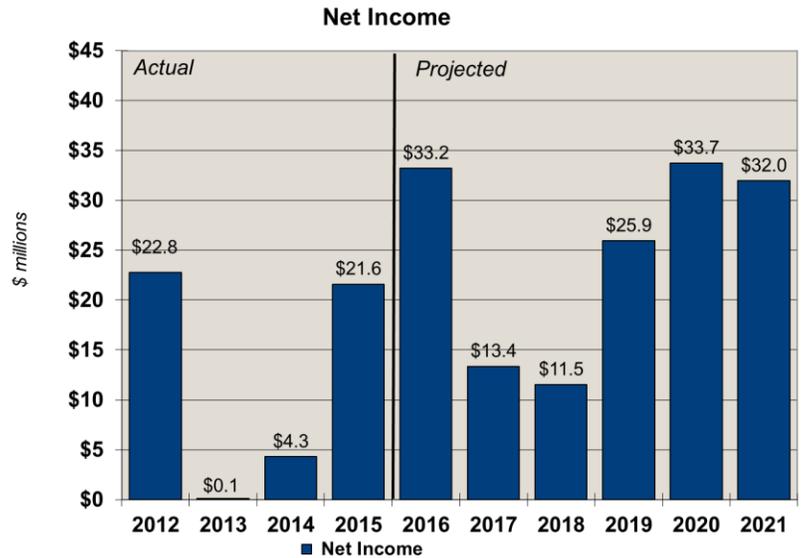
- Understanding Data:** NIBTL is a measure of the Port’s ability to generate revenue sufficient to pay for all operating and net non-operating expenses, leaving the residual tax levy (levy amount in excess of annual debt service) to pay for infrastructure and environmental projects. In years where NIBTL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



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

Net Income is total operating revenue less total operating expense, plus non-operating revenue & expenses plus net Ad Valorem tax revenue, plus capital contributions. The Port's 2021 target is \$31.7 million.

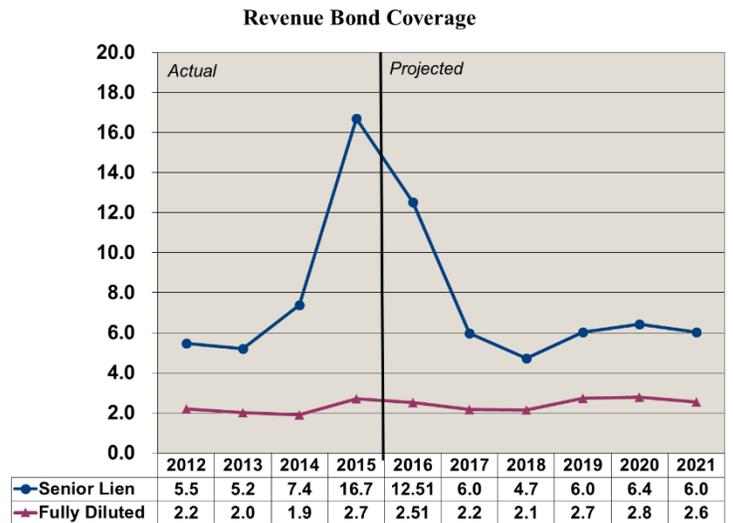
- *Understanding Data:* Net Income measures the ability of the Port to pay for its operations.



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

Debt service is the revenue bond principal and interest due each year. Debt Service Coverage is the number of times that revenue bond debt service could be paid with net revenues available for debt service. Net revenues available for debt service are gross operating revenues less operating, maintenance, administration, and overhead expenses (excluding depreciation). Port bond covenants require coverage of 1.35 times revenue bond debt service for senior debt and, 1.0 times for subordinate revenue debt. The Port's 2021 target is 2.0 times for the fully diluted debt service coverage ratio.

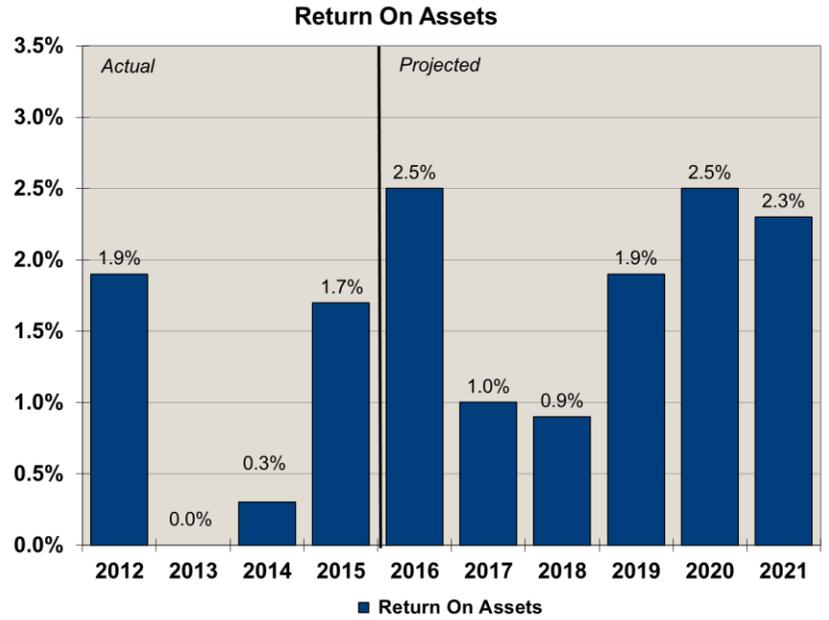
- *Understanding Data:* This goal measures the ability to repay debt. The higher the ratio, the less the risk, which may result in a lower interest rate when the bonds are issued. The Port's goal is to meet or exceed a fully diluted revenue debt coverage ratio of 2.0 times.



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

To calculate ROA, divide net income by total assets. The higher the number the better. The Port's 2021 target rate is 2.3 percent.

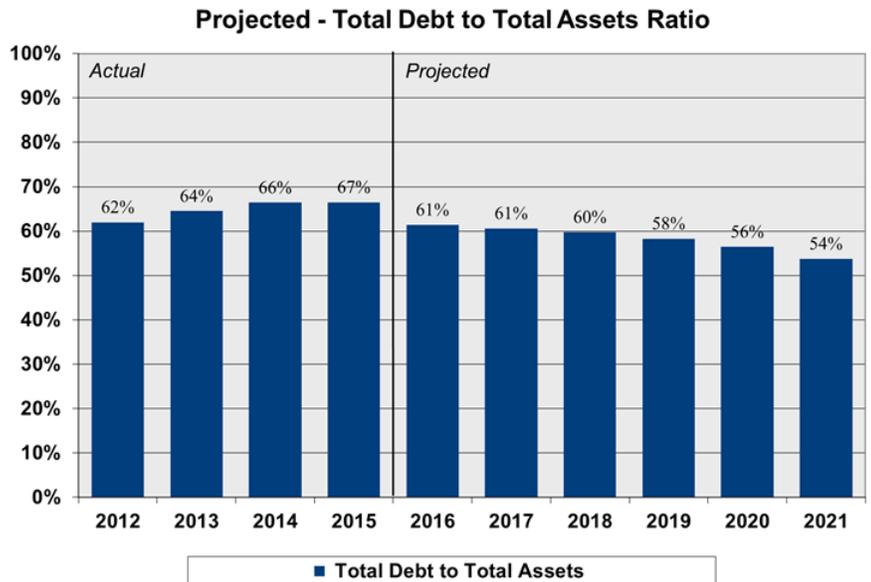
- *Understanding Data:* Return on assets measures how much the Port earns on each dollar it has invested into its assets. This measures the productivity of the Port's assets.



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

To calculate Debt to Asset Ratio, divide debt by total assets. The lower the number the less assets funded by debt. The Port's 2021 target is 46.5 percent.

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



## VIII Environmental Stewardship

The Port is committed to developing and conducting business in a responsible manner that is environmentally, economically and socially sustainable. The Port’s environmental programs are integrated within all aspects of the organization, including business development, facility construction, real estate transactions, terminal operations, maintenance, customer service and external outreach. Advancing environmental stewardship has become a key part of the Port’s development and redevelopment activities, as well as the ongoing operations of the Port and its customers.

The Port has a rich history of sustainable practices, even before the term came into common use. It has combined redevelopment plans with habitat development and Superfund site cleanup, creating a competitive advantage for Tacoma business by providing Port access for larger vessels and by increasing container storage space in the Port areas – creating jobs while protecting air and water quality and cleaning up the environment. Over the past 30 years, the Port of Tacoma has remediated more than 450 acres of waterway sediments within the Blair, Sitcum and Hylebos waterways and cleaned up over 500 acres of upland property, returning the land to productive maritime-related use. The Port has created approximately 152 acres of high-quality intertidal and wetland habitat including associated buffers as habitat mitigation for the Port’s development impacts. This includes the recently constructed 40 acres of prime salmon habitat on Clear Creek in unincorporated Pierce County. The Port has preserved another 70 acres of high value open space, much of which provides a buffer between Port-related industrial activities and neighboring non-industrial uses. The Port has invested over \$210 million cleaning up Commencement Bay and providing high functioning habitat sites. The Port’s environmental objectives for the coming years are closely aligned with the Port’s plan for advancement of environmental stewardship, by identifying and addressing the following environmental issues:

- Implement cleanup actions on priority contaminated properties to support Environmental Stewardship and the Port’s business opportunities

- Implement a long-term habitat mitigation plan
- Identify and develop maritime industrial stormwater treatment best practices
- Develop a maritime Environmental Stewardship Sustainability Program
- Continue to implement the Northwest Ports Clean Air Strategy
- Transition to the new generation of cost effective, low carbon or renewable energy systems

### Cleanup Actions

The Port’s goal is to cleanup 200 acres in 10 years by 2022. By the end of 2016 the Port will have completed 195 of the 200 acres goal. In 2016 remedial actions were completed at two properties. In addition, the Port has entered into two post-closure care agreements with Ecology to ensure the performance of recently implemented remedies.

Summary of 2016 Remedial Actions	
Pier 4	Associated with redeveloping Pier 4, under an EPA emergency action, 50,000 cubic yards of contaminated sediment were removed for upland disposal. Active dredging was completed in January 2016. The EPA provided notice of completion of work in September 2016.
Progress Rail	Working in conjunction with our Tenant, petroleum impacted soil was excavated and disposed at an offsite landfill. Subsequent groundwater monitoring indicated complete contaminant source removal. Ecology issued a No-Further-Action determination in September 2016.
Arkema Mound	Following redevelopment, a post interim action Remedial Investigation Report was approved by Ecology completing the final remedial action. The Port and Ecology have entered into an Agreed Order specifying post-closure care requirements.
Kaiser	The Port will enter into a consent decree with Ecology that finalizes the completed soil removal remedial action and specifies post-closure care requirements under MTCA.

Also in 2016 the Port is working toward characterizing and remedy selection at 11 properties, and conducting long-term monitoring at nine properties where legacy containment remedies were implemented.

In 2017 the Port anticipates remedial investigation/feasibility studies will be completed at

four Port properties, and remedial actions are planned at three properties. The Port will continue its long-term monitoring obligations under historical containment remedies.

### **Habitat Mitigation**

The Port of Tacoma has created approximately 125 acres of habitat and associated buffers over the past 30 years to mitigate for habitat lost to terminal and other business development. This includes approximately 68 acres of intertidal habitat that is ideal for salmon. These mudflats and shallow sub-tidal areas provide a substrate for the marine invertebrates that juvenile salmon consume, and afford a safe place for young salmon to hide from larger predators. Additionally, the Port created approximately 57 acres of riverine and associated riparian habitat that is home to a diverse array of native plants, more than 100 types of birds, and a variety of mammals, fish, reptiles and amphibians. During high tide, juvenile Pink, Chum, Coho and Chinook salmon find food and shelter among marsh vegetation. At low tide, areas of exposed mudflats teem with tiny critters, supplying a food source for visiting shorebirds, ducks and fish, including juvenile salmon. Additionally, the Port has purchased and preserved another approximately 70 acres of mature forested hill side along Marine View Drive to both protect the natural areas and buffer adjacent residents from industrial activities.

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

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

**Upper Clear Creek:** The Upper Clear Creek Mitigation Site began construction in 2014 and was substantially complete in August of 2016. This 40-acre site located in unincorporated Pierce County provides mitigation for wetland impacts due to required snail eradication efforts as well as mitigation banking for future Port expansion projects. The Port is evaluating options for site expansion.

**Lower Wapato Creek:** This project is uniquely located within the City of Tacoma, adjacent to the City of Fife and next to a neighborhood containing several Puyallup Tribe members. Working closely with our external partners, this site would meander a currently channelized Wapato creek, provide as much as 20 acres of inter-tidal, marsh and forested wetland habitat to be included in the Port's proposed mitigation bank.

**Saltchuk:** The Port continues to plan for the Saltchuk Aquatic Habitat site. The Port has chosen to scale back the project to focus on the approximately 12 acres intertidal zone and shoreline areas. Improvements could include adding large rock mixed with large woody pieces along the site's waterside edge, and filling behind those rocks and wood to cover wood waste and create more intertidal and salt marsh area. Further, the upland shoreline area could be heavily planted to protect the slope and improve the buffer between Marine View Drive and the bay. This site may also be included in the Port's proposed mitigation bank and could be used to mitigate for impacts associated with marine development. Alternatively, the site could be built as concurrent mitigation should timing not work out with the mitigation bank process.

**Mitigation Banking:** In 2014 the Port started the process of establishing the first umbrella (meaning multi-site) mitigation bank in the state of Washington. Credit from mitigation projects built in advance of need will be credited in the bank for use on future Port expansion. The Port estimates that the bank will likely be in place in early 2017 and the first available credits will arrive from the Upper Clear Creek mitigation project.

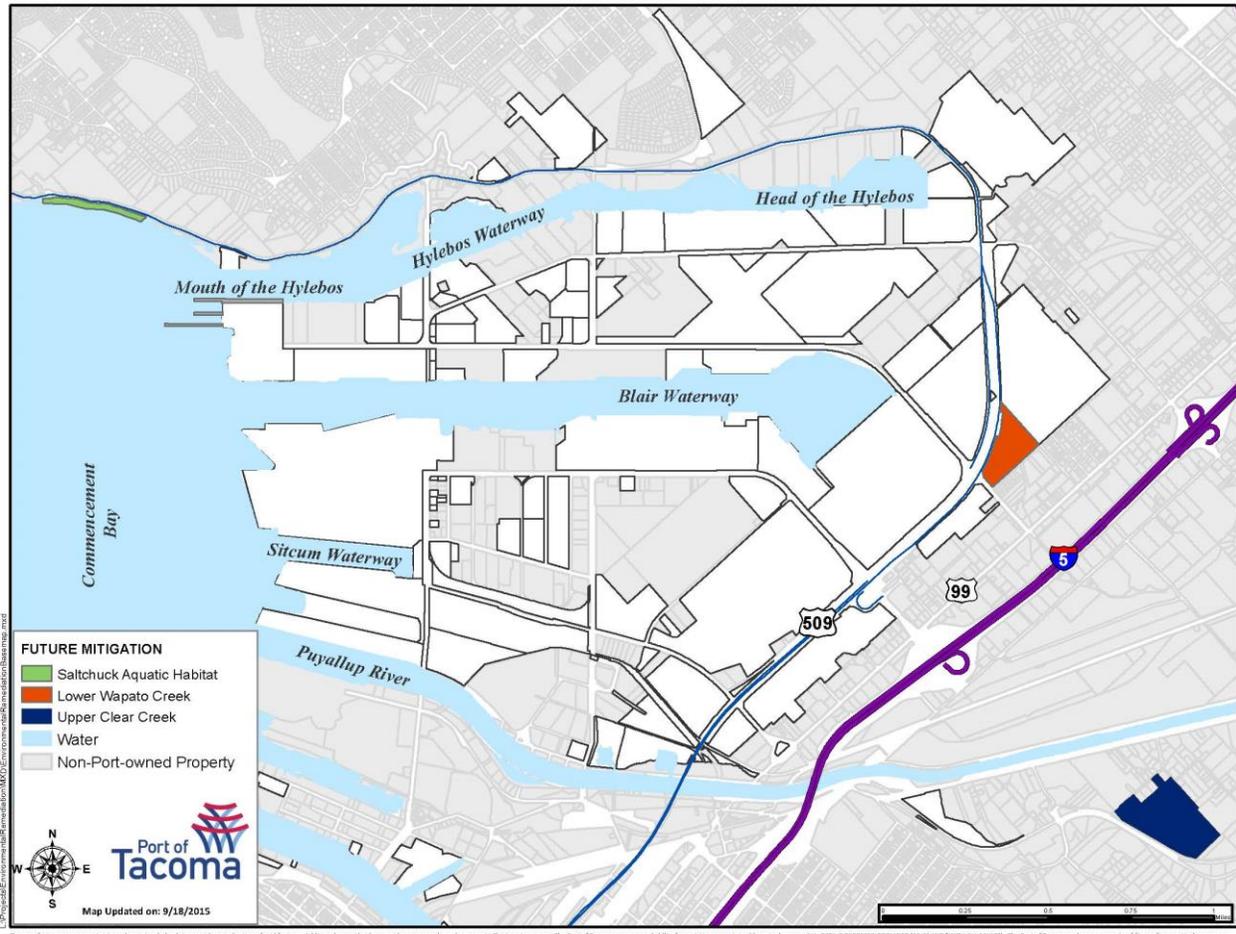


Figure VIII-1....Future Mitigation Opportunities

**Partner to Find Innovative Solutions to Our Customers' Environmental Challenges**

- Identify and develop maritime stormwater best management practices
- Develop a maritime industrial-focused Environmental Stewardship Sustainability Program

**MS4 Stormwater Best Management Practices**

The Port of Tacoma's Municipal Separate Storm Sewer System (MS4) focuses on best management practices supporting our customers in meeting their environmental obligations through research, technical support and training.

The Port of Tacoma has updated its Stormwater Management Manual to provide guidance to current and future tenants and customers with facilities at the Port, licensed NWSA properties, and non-Port facilities. The goal is to ensure facilities are in compliance with the Port of Tacoma's municipal stormwater (MS4) permit. The goal is also to provide technical assistance and recommend best management practices selection guidance and tools.

In 2016, the Port completed development of an Electronic Inspection Program. This program will provide Port Maintenance and Environmental staff technological tools to complete operations and maintenance inspections of all Port-owned stormwater infrastructure without the use of paper inspection forms. The program also provides automatic notifications when inspections are completed, sends email to appropriate staff to

schedule necessary corrective actions, and has the ability to generate multiple types of reports to include in the Municipal Stormwater Permit Annual Report. The Electronic Inspection Program will save valuable time and create efficiencies throughout the stormwater management program. This program will be field tested in 2016 and launch full time in early 2017.

The Electronic Inspection Program will also be used for the required Industrial Stormwater General Permit monthly inspections, however, the Industrial Stormwater Management program will be discussed in the NWSA section of this budget narrative.

### **Focus on Mapping and Infrastructure Assessments in 2017**

The major focus in 2016 was to assess stormwater infrastructure and open conveyance to determine condition; line cleaning to eliminate pollutants from historical sources; and to integrate GIS inventory, field verification and asset inventory programs. In 2017 with the new Electronic Inspection System functional and the GIS mapping complete, the NWSA is in a great position to offer focused help to our customers with stormwater compliance.

### **New Maintenance Standards Requirements in 2017**

The Port's MS4 permit will require all properties owned by the Port to implement maintenance standards for specific devices. This will require all non-NWSA licensed properties to have updated Stormwater Pollution Prevention Plans that describe maintenance standard implementation for treatment and flow control devices, and how the facility will adhere to a schedule in the event the maintenance standards are not met. Port staff will assist customers in implementing new standards, and coordinate with Maintenance staff on vacant properties.

### **Maritime Environmental Stewardship Sustainability Program**

Corporate Social Responsibility (CSR) program was launched in 2012, and in March 2016 a CSR portfolio of goals and objectives was established. The environmental portion of the Port's CSR effort included sustainable practices associated with

design, construction, operation and remediation actions. The intent of these efforts was to significantly reduce resource consumption and environmental impacts.

Key measures and goals were established by the CSR team in 2015 for sustainability awareness and greenhouse gas emissions. In 2015 a survey was conducted on sustainable practices to provide a baseline for awareness. In 2016 a follow-up survey will be completed to track improved staff knowledge and behavior. Greenhouse gas emissions accounting for Port owned and operated equipment will continue through 2017.

In 2016-2017, the CSR Environmental Stewardship goals and objectives for the Port of Tacoma will be reviewed and updated to reflect organizational and business changes resulting from the formation of the Northwest Seaport Alliance.

The Port of Tacoma's Sustainability Workgroup (Green Team) was established in 2015 with staff representing Environmental, Engineering, Finance, IT, Maintenance and Real Estate to assist the CSR program with sustainability practices. The Green Team's 2016 activity included a review of current recycling practices with City of Tacoma Staff, a Port Staff sustainability awareness campaign, an employee recycle and reuse fair, a review of transportation needs and resources considering the newly formed Northwest Seaport Alliance, a green materials purchasing review, and a review of the CSR sustainability survey. As a result of the survey review, the Green Team developed goals and objectives that will help guide their activities through 2017. The teams 2016-2017 goals and objectives will support sustainability awareness, commuter trip reduction, fleet vehicle electrification, and sustainable maintenance and construction practices.

### **Port of Tacoma Endowed Chair**

In December 2004, the Port of Tacoma invested \$1 million to establish an endowed research chair at the University of Washington Tacoma. The Port of Tacoma Endowed Chair leads research on environmental science initiatives critical to urban waterfront communities. Research areas are expected to include bioremediation, aquaculture and invasive species control.

### **Commencement Bay Maritime Fest**

At Tacoma's annual Commencement Bay Maritime Fest, the Port provides free boat tours of the Port. Visitors tour the Sitcum and Blair waterways, and are able to see cargo ships and terminal equipment from a unique vantage point - the water. The festival is a project of the Youth Marine Foundation, a local non-profit sponsoring the Puget Sound chapter of Sea Scouts, which offers educational marine programs to Washington's teen youth and the public.

### **Continuously Improve Operational Efficiency and Emission Reductions**

Continue to implement the Northwest Ports Clean Air Strategy.

### **Northwest Ports Clean Air Strategy**

The Northwest Ports Clean Air Strategy (NWPCAS) was developed in 2007 and updated in 2013 as a collaboration between Port Metro Vancouver, the Port

of Seattle, and the Port of Tacoma in an effort to reduce air emissions from maritime and port-related activities.

In 2015, port staff began the task of scoping and consolidating cargo-related air quality programs that will fall under the NWSA. NWPCAS overarching port emission reduction goals for particulate matter and greenhouse gases are integrated into long-term emission reduction targets set in the 2016 NWSA Strategic Business Plan. This includes the Clean Truck Program, the Puget Sound Maritime Air Emissions Inventory, Ship to Shore Power Expansion and Cargo-Handling Equipment Upgrades.

### **Energy Conservation**

The Port continues to participate in Tacoma Power's EverGreen Options, which supports the development of new wind generation projects in Washington and Oregon. Combined with hydropower, 100% of Port-purchased electricity is renewable.

Demolition of the old wharf at Terminal 4 in preparation for the new wharf



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

### **Reporting Entity**

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

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

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

### **Nature of Business**

The Enterprise Fund is used to account for the general operations of the Port as more fully described below.

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

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

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

The financial statements of the Port have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units, and the Port is accounted for as a proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port has chosen to follow accounting standards applicable to private sector entities when those standards do not conflict with applicable GASB standards. The Port is accounted for on a flow of economic resources measurement focus.

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

The Port uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

### **Use of Estimates**

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

### **Significant Risks and Uncertainties**

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

conditions, collective bargaining disputes, federal, state and local government regulations, and changes in law.

### **Cash**

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

### **Trade Accounts Receivable**

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

### **Investments**

Investments, unrestricted and restricted, are stated at fair value, based on quoted market prices, plus accrued interest. The Port also has investments in the State Local Government Investment Pool (LGIP). The LGIP is similar to a money market fund recognized by the Securities and Exchange Commission. The LGIP invests in U.S. Agency Securities, Repurchase Agreements, U.S. Treasury Securities, Interest Bearing Bank Deposits, and Certificates of Deposits. The investments are limited to high-quality obligations with limited maximum and average maturities. These investments are valued at amortized cost. Interest income on investments is recognized in non-operating revenues as earned. Changes in the fair value of investments are recognized on the statements of revenues, expenses and changes in net position. The Port's general policy is to not hold more than 20% of its holdings in any one investment.

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

Restricted investments - bond reserves are set aside as restricted assets, for bond reserves and unspent bond proceeds, if any, and are not available for current expenses when constraints placed on their

use are legally enforceable due to: 1) externally imposed requirements by creditors; 2) laws or regulations of other governments; and 3) constitutional provisions or enabling legislation.

### **Capital Assets and Depreciation**

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

The Port's policy is to capitalize all asset additions greater than \$10,000 and with an estimated life of more than three years. Depreciation is computed on the straight-line method. Amortization expense on assets acquired under capital lease obligations is included with depreciation expense. The following lives are used:

- Buildings and improvements: 20-75 years
- Machinery and equipment: 5-20 years

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

### **Capitalized Interest**

The Port follows the policy of capitalizing interest as a component of the cost of capital assets constructed for projects greater than \$300,000 that are not funded by grant revenues. Interest incurred on funds used during construction, less interest earned on related interest-bearing investments is capitalized as part of the cost of construction. This process is intended to remove the cost of financing construction activity from the statements of revenues, expenses and changes in net position and to treat such cost in the same manner as construction labor and material costs by taking the monthly average of construction in progress balance times the average interest rate of the outstanding long-term borrowing.

### **Net Position**

Net position consists of net investment in capital assets, restricted and unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the

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

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

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

### **Retentions Payable**

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

### **Federal and State Grants**

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

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

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

### **Forward-Starting Payment Agreements**

The Port accounts for derivative instruments, including certain derivative instruments embedded in

other contracts (collectively referred to as derivatives) on the statements of net position at fair value.

### **Refunds of Debt**

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

### **Employee Benefits**

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

The Port also provides post-employment health care benefits for retired employees through a fully funded trust. This post-employment defined benefit plan provides medical coverage to eligible retired employees ages 60 to 69.

The Port also participates in the Washington Department of Retirement Systems (the Plan), under cost-sharing multiple-employer defined benefit public employee retirement plans. This plan covers substantially all of the Port's full-time and qualifying part-time employees. The Port's contribution rates are determined by the Plan each year and are based on covered payroll of the qualifying participants.

### **Environmental Remediation Costs**

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

(a) one of the following specific obligating events is met and (b) the amount can be reasonably estimated. Obligating events include: imminent endangerment to the public; permit violation; Port named as party responsible for sharing costs; Port named in a lawsuit to compel participation in pollution remediation; or commenced or legally obligated to commence

pollution remediation. Potential cost recoveries such as insurance proceeds, if any, are evaluated separately from the Port's pollution remediation obligation. Costs incurred for pollution remediation obligations are typically recorded as non-operating environmental expenses unless the expenditures relate to the Port's principal ongoing operations, in which case they are recorded as operating expenses. Costs incurred for pollution remediation obligations can be capitalized if they meet specific criteria. Capitalization criteria include: preparation of property in anticipation of a sale; preparation of property for use if the property was acquired with known or suspected pollution that was expected to be remediated; performance of pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment; or acquisition of property, plant and equipment that have a future alternative use not associated with pollution remediation efforts.

### **Operating and Non-Operating Revenues and Expenses**

Terminal services and property rental revenues are charges for use of the Port's facilities and are reported as operating revenue. Ad valorem tax levy revenues and other revenues generated from non-operating sources are classified as non-operating.

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

### **Joint Venture Structure and Accounting**

The NWSA will follow joint venture accounting. Joint ventures are legal entities that result from a contractual arrangement operated or governed by two or more participants as a specific activity subject to joint control. Joint control means no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The homeports will provide initial investments for working capital and for capital construction to the joint venture (NWSA) which the homeports will report as investments in joint venture on the statement of net position. The NWSA will distribute operating results to

the homeports based on their equity interest in the NWSA. The distribution of NWSA's operating results to the homeports will be reported as a single amount as operating revenue (if net income) or operating expense (if net loss) on the statement of changes in net position.

# X Debt Guidelines

## Section I. Introduction

### Purpose and Overview

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

## Section II. Legal Governing Principles

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

### Governing Law

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

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

### Permitted Debt by Type

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

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

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

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

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

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

**Other Debt Instruments** — The state authorizes the Port of Tacoma to enter into financing leases, conditional sales contracts and other debt instruments, under RCW chapters 53.08 53.36 and 53.40, subject to the approval of the Commission. Under authority that the Port Commission delegates to the Chief Executive Officer, he or she may enter certain financing leases, provided that the dollar amount of the lease is not in excess of \$75,000.

## Purpose for Borrowing

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

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

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

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

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

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

## Limitations on Debt Issuance

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

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

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

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

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

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

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

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

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

## **Roles and Responsibilities**

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

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

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

The Chief Financial Officer shall:

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

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

- Maintain a current database detailing all outstanding debt.

### **Ethical Standards Governing Conduct**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Structural Elements

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

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

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

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

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

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

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

## Section V. Communication Guidelines

### Rating Agencies

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

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

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

## Section VI. Compliance Guidelines

### Arbitrage Liability Management

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

### Continuing Disclosure

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

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

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

### **Purpose**

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

### **Authority**

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

### **Overview**

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

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

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

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

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

### **Swap Management**

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

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

### **Legality/Approval**

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

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

### **Form of Swap Agreements**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Reporting Requirements**

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

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

**Section VIII. Variable Rate Debt Guidelines**

**Overview**

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

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

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

### **Purpose**

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Monitoring and Reporting**

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

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

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

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

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

## **Section IX. Other Guidelines**

### **Refunding Savings Thresholds**

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

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

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

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

### **Evaluating Capital Improvement Plan Spending**

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

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

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

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

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

### **Debt Database Management**

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

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

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

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

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

## Appendix A Bond Indebtedness and Debt Service Requirements

Projected as of 12/31/16

Debt Instrument	Due Date	---- 2017 Debt Service Payments ----			Outstanding 12/31/2017*
		Principal	Interest	Total	
<b>General Obligation Bonds:</b>					
2008A G.O. Bonds	06/01/17		\$66,375		
	12/01/17	\$2,655,000	\$66,375	\$2,787,750	\$0
2008B G.O. Bonds	06/01/17		\$485,278		
	12/01/17	\$540,000	\$485,278	\$1,510,556	\$19,720,000
2016 G.O. Bonds	06/01/17		\$238,055		
	12/01/17	\$447,000	\$238,055	\$923,109	\$25,344,000
2016A G.O. Bonds	06/01/17		\$2,509,075		
	12/01/17	\$1,610,000	\$2,509,075	\$6,628,150	\$108,650,000
<b>TOTAL G.O. BONDS</b>		<b>\$5,252,000</b>	<b>\$6,597,566</b>	<b>\$11,849,566</b>	<b>\$153,714,000</b>
<b>Revenue Bonds:</b>					
2008 Subordinate Refunding*	06/01/17				
	12/01/17	\$2,855,000	\$495,091	\$3,350,091	\$66,250,000
2008B Subordinate Revenue*	06/01/17				
	12/01/17	\$0	\$915,000	\$915,000	\$122,000,000
2014A Senior Refunding	06/01/17		\$106,566		
	12/01/17	\$0	\$106,566	\$213,132	\$8,525,276
2014B Senior Refunding	06/01/17		\$408,319		
	12/01/17	\$1,250,000	\$408,319	\$2,066,638	\$30,775,000
2014A Subordinate Refunding*	06/01/17				
	12/01/17	\$2,175,000	\$647,878	\$2,822,878	\$84,390,000
2016A Senior Refunding	06/01/17		\$871,925		
	12/01/17	\$0	\$871,925	\$1,743,850	\$36,535,000
2016B Senior Revenue and Refunding	06/01/17		\$2,559,531		
	12/01/17	\$570,000	\$2,559,531	\$5,689,063	\$102,985,000
Net Swap Interest			\$7,920,393	\$7,920,393	
Direct Purchase/LOC Fees			\$1,850,569	\$1,850,569	
<b>TOTAL REVENUE BONDS</b>		<b>\$6,850,000</b>	<b>\$19,721,613</b>	<b>\$26,571,613</b>	<b>\$451,460,276</b>
Commercial Paper		\$0	\$187,500	\$187,500	\$25,000,000
<b>TOTAL ALL EXISTING BONDS**</b>		<b>\$12,102,000</b>	<b>\$26,506,678</b>	<b>\$38,608,678</b>	<b>\$630,174,276</b>

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

## Appendix B Port of Tacoma Statutory Budget

### Introduction

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

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

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

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

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

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

## Port of Tacoma Statutory Budget

<i>(\$ Thousands)</i>	<u>2017</u>
<b>Beginning Cash &amp; Investments</b>	\$228,942
<b><u>Projected Sources of Funds</u></b>	
<b>Revenues</b>	68,438.0
Expenses	(18,510.0)
Memberships	(391)
Promotional hosting POT	(57)
Promotional hosting NWSA (POT share)	(111)
<b>Funds Provided by Operations</b>	<u>\$49,370</u>
Interest Income	2,613
Other, Net	1,144
Ad valorem tax revenue (net)	16,612
<b>Projected Sources of Funds</b>	<u>\$69,739</u>
<b><u>Projected Uses of Funds</u></b>	
Investment in Northwest Seaport Alliance	43,916
Debt Payments (Principal and Interest) - GO Bonds	11,832
Debt Payments (Principal and Interest) - Revenue Bonds	26,572
Debt Payments (Principal and Interest) - General Fund	-
Debt Payments (Principal and Interest) - Commercial Paper	188
Additional Retirement of G.O. Bonds	-
Additional Retirement of Revenue Bonds	-
Capital Spending - Planned Projects	44,365
<b>Projected Uses of Funds</b>	<u>\$126,873</u>
<b><u>Projected Borrowing</u></b>	
Commercial Paper Borrowing	0
<b>Total Borrowing</b>	<u>\$0</u>
<b>Projected Ending Cash &amp; Investments</b>	<u>\$171,808</u>

# Appendix C Port Memberships

## Overview

The Port pays for a variety of memberships on behalf of the Port and/or individual Port staff. The Port believes this investment in partnership organizations plays a key role in advancing the Port's business objectives and ensures Port staff is knowledgeable and productive.

## Port Authority Organizations

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

## Economic Development Organizations

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

## Regional Organizations

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

## Industry Associations and Professional Organizations

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

## Trade Promotion Organizations

These memberships give the marketing and sales staff important contacts and current industry trade

information that enhances the Port's overall marketing efforts.

## Community Service Groups

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

## Budgeted annual Port Memberships & Personnel Memberships (estimated)

Organization	Annual Dues
WA Public Port Association	\$210,000
Puget Sound Regional Council	44,000
Tacoma/Pierce County Chamber	25,000
Executive Council for a Greater Tacoma	14,000
All Other Memberships	51,845
<b>Total Port Memberships</b>	<b>\$344,845</b>

## Summary

Four Port memberships represent more than 85% of the membership budget for 2017. These memberships assist the Port with policy and economic development initiatives.

## Washington Public Ports Association

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

## Puget Sound Regional Council

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

**Tacoma – Pierce County Chamber of Commerce**

The Chamber enables individuals and businesses to make a difference in their community by having its membership focused and involved in top civic, business, and social priorities. The Chamber strengthens and nurtures the ties between

businesses and communities as they are dependent on each other for success.

**Executive Council for a Greater Tacoma**

The Council promotes civic engagement, private and public sector partnerships, cultural and educational advancements, and economic urban development.

# Appendix D Budget Calendar

Task	Start	Duration	Current Year					Budget Year						
			July	August	September	October	November	December	January	February	March	April	May	June
<b>NWSA Budget</b>	July	18 Weeks	[Yellow Bar]											
Goals, Priorities, Key Projects & assumptions	July	4 Weeks	[Yellow Bar]											
Capital Budget	August	7 Weeks		[Yellow Bar]										
Staffing Plan	August	7 Weeks		[Yellow Bar]										
Department Budgets	September	3 Weeks			[Yellow Bar]									
Revenue and Expense Budgets	September	3 Weeks			[Yellow Bar]									
Public Presentations	October	3 Weeks				[Yellow Bar]								
<b>Port of Tacoma Budget</b>	July	23 Weeks	[Yellow Bar]											
Goals, Priorities, Key Projects & assumptions	July	4 Weeks	[Yellow Bar]											
Capital Budget	August	7 Weeks		[Yellow Bar]										
Staffing Plan	August	7 Weeks		[Yellow Bar]										
Department Budgets	September	3 Weeks			[Yellow Bar]									
Tax Levy	September	12 weeks			[Yellow Bar]									
Revenue and Expense Budgets	September	3 Weeks			[Yellow Bar]									
Combine with NWSA	September	6 Weeks			[Yellow Bar]									
Public Presentations	November	3 Weeks					[Yellow Bar]							
Submit Final Budget and Tax Levy to County		Dec 01												
<b>Port of Tacoma Midyear Update</b>													[Yellow Bar]	
Program Budget	May	3 Weeks											[Yellow Bar]	
Revenue and Expenses	May	2 Weeks											[Yellow Bar]	
Public Presentation	Jun	Jun 30											[Yellow Bar]	

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

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

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

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

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

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

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

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

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

## Appendix E Glossary of Terms

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

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

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

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

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

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

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

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

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

**Breakbulk Cargo** – Non-containerized general cargo stored in boxes, bales, pallets or other units to be loaded onto or discharged from ships or other forms

of transportation. Examples include iron, steel, machinery, linerboard and wood pulp.

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

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

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

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

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

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

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

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

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

**Container** – A steel box used to transport cargo by ship, rail, truck or barge. Common dimensions are 20’ x 8’ x 8’ (called a TEU or twenty-foot equivalent

unit) or 40' x 8' x 8'. called an FEU. Variations are collapsible containers, tank containers (for liquids) and "rag tops" (open-topped containers covered by a tarpaulin for cargo that sticks above the top of a closed box). In the container industry, containers are called boxes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Foreign Trade Zone (FTZ)** – Known in some countries as a free zone, a foreign trade zone (FTZ) is a site within the United States (in or near a U.S. Customs port of entry) where foreign and domestic goods are held until they are ready to be released into international commerce. If the final product is

imported into the United States, duties and taxes are not due until the goods are released into the U.S. market. Merchandise may enter a FTZ without a formal Customs entry or the payment of Customs duties or government excise taxes. In the zone, goods may be stored, tested, sampled, repackaged, cleaned or relabeled, combined with other products, repaired or assembled.

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

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

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

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

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

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

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

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

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

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

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

cranes, floating cranes and lift trucks also may be adapted for such heavy lifts.

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

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

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

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

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

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

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

**Landlord Port** – At a landlord port, the port authority builds the wharves, which it then rents or leases to a terminal operator (usually a stevedoring company). The operator invests in cargo-handling equipment (forklifts, cranes, etc.), hires longshore laborers to operate such lift machinery and negotiates contracts with ocean carriers (steamship services) to handle the unloading and loading of ship cargoes. (See also – operating port.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**RCW** – Revised Code of Washington.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Vessel** – A ship or large boat.

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

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

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

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

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

## Appendix F Acronyms and Abbreviations

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

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

## Appendix G Assumptions for the 2017 - 2021 Cash Flow Forecast

### **Budget Year**

Cash & investments at beginning of the budget year	\$228,942,000
Minimum cash & investments	\$54,718,000
Gross tax levy	\$16,659,514

### **Revenue Assumptions:**

Container TEUs average growth percentage	1.9%
Intermodal lifts average growth percentage	2.2%
Breakbulk tonnage average growth percentage	1.8%
Autos average growth percentage	0.3%
Average annual revenue escalation rate	-1.3%
Interest income investment rate	0.33% - 3.35%
Average tax levy growth rate	3.6%

### **Expense Assumptions:**

Average annual inflation used for expenses	2.0%
Average annual Port labor Increase	3.0%
Borrowing rate for new fixed rate G.O. bond debt	2.61% - 4.65%
Borrowing rate for new fixed rate revenue bond debt	3.01% - 5.05%
Borrowing rate for new variable rate revenue bond debt	0.75% - 1.85%
Term of new bond debt	30
Borrowing rate for Commercial Paper	0.75% - 1.75%

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

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

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

<b><u>Minimum Port of Tacoma Cash &amp; Investments</u></b>	<b><u>for 2017 (\$ Millions)</u></b>
Port cash and investments to cover 6 months operating expenses	\$9.5
Prorated revenue bond payments	2.2
Prorated G.O. bond payments	1.0
Revenue bond reserves	46.9
Industrial insurance reserve	0.3
Self insurance reserve	1.5
Minimum Port of Tacoma cash & investment balance	<u>\$61.4</u>

## Appendix I Demographic and Economic Information

The Port operates within Pierce County. The City of Tacoma, the county seat of and largest city within the County, is located in the west-central part of Washington State near the southern tip of Puget Sound. It is the third largest-city in the state with a 2016 population of 206,100. The City is located 32 miles south of Seattle and 28 miles northeast of Olympia, the state capital.

### Population: Pierce County and City of Tacoma

Year	Tacoma	Pierce County
<b>2016</b>	<b>206,100</b>	<b>844,490</b>
2015	202,300	830,120
2014	200,900	821,300
2013	200,400	814,500
2012	199,600	808,200
2011	198,900	802,150
2010	204,200	814,600
2009	203,400	813,600
2008	202,700	805,400
2007	201,700	790,500

Source: Washington State Office of Financial Management; U.S. Census for 2010 figure, Estimate for 2016

### Pierce County and Washington State Median Household Income

Year	Pierce County	Washington State
<b>2015 (1)</b>	<b>\$61,485</b>	<b>\$62,108</b>
2014 (2)	\$59,998	\$60,153
2013	\$57,840	\$57,554
2012	\$56,629	\$56,444
2011	\$56,114	\$55,500
2010	\$55,531	\$54,888
2009	\$55,941	\$55,479
2008	\$56,740	\$56,995
2007	\$55,531	\$55,771
2006	\$57,905	\$56,808

Source: Washington State Office of Financial Management

(1) Projected

(2) Preliminary Estimate

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

Year	Pierce County	City of Tacoma
<b>2015</b>	<b>\$13,846,294</b>	<b>\$4,641,369</b>
2014	\$12,697,318	\$4,317,891
2013	\$12,089,378	\$4,280,299
2012	\$10,983,336	\$4,046,579
2011	\$10,428,906	\$3,826,546
2010	\$10,547,024	\$3,849,213
2009	\$10,397,773	\$3,815,491
2008	\$11,711,653	\$4,288,739
2007	\$12,535,646	\$4,665,527
2006	\$12,068,284	\$4,536,401

Source: Washington State Department of Revenue, Research Division

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

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

	2016 (1)	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Resident Civilian</b>										
<b>Labor Force</b>										
Employment	379,793	371,654	356,190	351,230	351,120	347,080	350,530	356,040	370,620	365,510
Unemployment	26,994	24,643	27,969	32,242	34,350	37,580	39,800	38,050	22,820	18,340
<b>Total</b>	<b>406,787</b>	<b>396,297</b>	<b>384,159</b>	<b>377,590</b>	<b>385,480</b>	<b>386,660</b>	<b>390,330</b>	<b>394,090</b>	<b>393,440</b>	<b>383,850</b>
Percent of Labor Force										
Unemployed	6.6%	6.2%	7.3%	8.4%	8.9%	9.8%	10.2%	9.7%	5.8%	4.8%
<b>Nonagricultural Wage and Salary Workers</b>										
Natural Resources and										
Mining	300	300	300	300	300	300	300	300	400	500
Construction	22,200	20,200	19,600	15,500	16,800	16,300	17,200	19,000	23,500	25,400
Manufacturing	17,500	17,100	17,700	17,200	16,700	16,400	16,300	16,900	19,800	20,400
<b>Total Goods Producing</b>	<b>40,000</b>	<b>37,600</b>	<b>37,600</b>	<b>33,000</b>	<b>33,800</b>	<b>33,000</b>	<b>33,800</b>	<b>36,200</b>	<b>43,700</b>	<b>46,300</b>
Transportation, warehousing and utilities										
	14,100	13,800	13,100	13,300	11,100	10,900	10,900	11,000	11,400	11,600
Wholesale trade										
	13,000	13,000	12,000	12,100	11,200	11,100	11,200	10,700	11,400	11,400
Retail trade										
	37,700	36,200	33,600	33,500	31,800	31,700	31,200	31,200	32,900	33,400
<b>Total Trade, Transportation, &amp; Utilities</b>	<b>64,800</b>	<b>63,000</b>	<b>58,700</b>	<b>58,900</b>	<b>55,100</b>	<b>54,300</b>	<b>53,000</b>	<b>53,100</b>	<b>55,600</b>	<b>56,400</b>
Information										
	2,800	2,900	3,000	2,900	2,700	2,800	3,000	3,100	3,700	3,700
Financial Activities										
	14,400	13,600	14,300	13,600	11,500	11,200	11,200	12,300	13,200	13,700
Professional and Business Services										
	28,900	29,600	25,200	23,400	23,900	23,900	23,500	23,900	24,900	25,500
Educational and Health Services										
	52,500	51,500	51,700	51,900	44,200	43,800	43,600	23,200	41,600	40,500
Leisure and Hospitality										
	30,200	31,500	29,600	27,000	26,200	25,500	25,300	26,200	27,800	27,400
Other Services										
	14,200	13,900	13,400	13,100	13,000	12,900	12,600	12,700	13,000	12,700
<b>Total Government</b>	<b>55,500</b>	<b>57,500</b>	<b>57,500</b>	<b>55,400</b>	<b>57,000</b>	<b>57,800</b>	<b>58,400</b>	<b>57,800</b>	<b>56,900</b>	<b>54,900</b>
<b>Total Nonagricultural Wage and Salary Workers</b>	<b>303,300</b>	<b>301,100</b>	<b>291,000</b>	<b>279,200</b>	<b>267,400</b>	<b>265,200</b>	<b>264,300</b>	<b>268,500</b>	<b>280,500</b>	<b>280,900</b>

(1) Preliminary August 2016

Source: Washington State Employment Security Department

Columns may not add due to rounding

## Appendix J Full-Time Personnel Schedule

As of 11/4/2016	2016 POT Budget	2016 POT Actual	2017 POT Budget	2016 NWSA Budget	2016 NWSA Actual	2017 NWSA Budget
Executive	0	0		11	11	13
Human Resources	3	3	4			
External Affairs	7	6	9			
Finance and Administration	46	45	52			
Commercial Business	5	5	6	24	22	27
Operations	113	113	126	10	8	10
Facilities Development	28	24	24	8	8	9
<b>Total</b>	<b>202</b>	<b>196</b>	<b>221</b>	<b>53</b>	<b>49</b>	<b>59</b>

*Notes:*

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

### Average Compensation

The average wages for all Port Full Time Equivalent (FTE) employees is approximately \$89,000.

### Changes in Full Time Personnel

Human Resources: backfill Recruiter position

External Affairs: backfill communications specialist and add additional support

Finance and Administration: Additional Information Technology and Contract Management positions for projects, additional finance support.

Commercial Business: Additional Real Estate and Marketing positions.

Operations: Additional maintenance personnel due mainly to increase in equipment.

Facilities Development: Additional environmental staffing.

# **PORT OF TACOMA**

## ***Administrative Offices***

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Tacoma, WA 98421

### ***Mailing Address***

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

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