Overview briefing of NWSA North Harbor Commercial Strategy

Presenters: Kurt Beckett, Don Esterbrook, Tong Zhu, Anne Porter
Briefing Requested

This is a public overview briefing and discussion of the:

- NWSA North Harbor Commercial Strategy,
- Marine Terminal Lease Authorizations and
- Terminal 5 Modernization Program Authorization.

Authorizations and commitments in this briefing reflect the intent of all parties therein.

All authorizations are pending parties’ final review and approval.
Overview briefing has 5 main components:

I.) NWSA Marine Cargo Economic Impact Report

II.) NWSA Strategic Business Plan – Purpose and Benefits

III.) North Harbor Strategy Commercial Arrangement

IV.) T-5 Modernization Program

V.) Authorizations to Execute the Commercial Arrangement
Motion of the NWSA Managing Members authorizing the Chief Executive Officer to:

- prepare the new North Harbor International Container Lease,

- complete Terminal 5 Modernization Project Bid documents and

- prepare for submission of a term lease agreement and a construction request at a 2019 first quarter meeting for Managing Member authorization
Briefing: Marine Cargo Economic Impact Analysis

Presenter: Nick Demerice
Title: Director, Public Affairs
Economic Impact - Scope of Study

- Direct – impacts derived from the specific activity.
- Indirect - economic impacts including additional jobs, income and business output supported through upstream business-to-business transactions.
- Induced - household consumption expenditures.
Economic Impact – Output and Wages

• The Northwest Seaport Alliance (NWSA) represents one of the largest marine cargo gateways in the U.S. In 2017, more than 3.7 million twenty-foot equivalent units (TEUs) carrying 26.1 million metric tons of containerized cargo were handled at The Northwest Seaport Alliance across facilities at the Ports of Seattle and Tacoma.

• The majority of this cargo was international, though 700,000 TEUs were shipped to and from Alaska, Hawaii and other domestic locations.

<table>
<thead>
<tr>
<th></th>
<th>Direct</th>
<th>Indirect</th>
<th>Induced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Containerized Cargo</td>
<td>$4,537.6</td>
<td>$2,267.7</td>
<td>$2,917.3</td>
<td>$9,722.6</td>
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<tr>
<td>Automobiles</td>
<td>$308.8</td>
<td>$136.8</td>
<td>$197.8</td>
<td>$643.4</td>
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<tr>
<td>Breakbulk, Logs and Other Cargo</td>
<td>$1,012.2</td>
<td>$452.0</td>
<td>$555.1</td>
<td>$2,019.4</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$5,858.7</strong></td>
<td><strong>$2,856.6</strong></td>
<td><strong>$3,670.2</strong></td>
<td><strong>$12,385.4</strong></td>
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</tbody>
</table>


<table>
<thead>
<tr>
<th></th>
<th>Direct</th>
<th>Indirect</th>
<th>Induced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Containerized Cargo</td>
<td>$1,502.5</td>
<td>$703.1</td>
<td>$988.6</td>
<td>$3,194.1</td>
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<tr>
<td>Automobiles</td>
<td>$108.4</td>
<td>$41.2</td>
<td>$67.0</td>
<td>$216.6</td>
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<td>Breakbulk, Logs and Other Cargo</td>
<td>$291.9</td>
<td>$127.8</td>
<td>$188.1</td>
<td>$607.8</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$1,902.7</strong></td>
<td><strong>$872.1</strong></td>
<td><strong>$1,243.7</strong></td>
<td><strong>$4,018.5</strong></td>
</tr>
</tbody>
</table>

_Exhibit 22. Total Labor Income Impacts by Segment, Mils 2017$, 2017_

The Northwest Seaport Alliance cargo handling activities in 2017 had a total economic impact to the state economy of 58,400 jobs (Exhibit 20); this equates to a jobs multiplier, measured as total jobs to direct jobs, of 2.9.

**Exhibit 20. Total Jobs Impacts by Segment, 2017**

<table>
<thead>
<tr>
<th></th>
<th>Direct</th>
<th>Indirect</th>
<th>Induced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Containerized Cargo</td>
<td>14,900</td>
<td>11,900</td>
<td>18,700</td>
<td>45,500</td>
</tr>
<tr>
<td>Automobiles</td>
<td>1,300</td>
<td>700</td>
<td>1,300</td>
<td>3,300</td>
</tr>
<tr>
<td>Breakbulk, Logs and Other Cargo</td>
<td>3,900</td>
<td>2,100</td>
<td>3,600</td>
<td>9,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20,100</strong></td>
<td><strong>14,700</strong></td>
<td><strong>23,600</strong></td>
<td><strong>58,400</strong></td>
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</tbody>
</table>

Economic Impact – State Tax Generation

- All this economic activity has significant impact on statewide tax generation.


<table>
<thead>
<tr>
<th>Segment of Activity</th>
<th>Direct</th>
<th>Secondary</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Containerized Cargo</td>
<td>$25.1</td>
<td>$81.7</td>
<td>$106.8</td>
</tr>
<tr>
<td>Automobiles</td>
<td>$2.7</td>
<td>$5.3</td>
<td>$8.0</td>
</tr>
<tr>
<td>Breakbulk, Logs and Other Cargo</td>
<td>$5.5</td>
<td>$15.6</td>
<td>$21.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$33.3</strong></td>
<td><strong>$102.6</strong></td>
<td><strong>$135.9</strong></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Source</th>
<th>Direct</th>
<th>Secondary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>B&amp;O</td>
<td>$12.5</td>
<td>$26.8</td>
<td>$39.3</td>
</tr>
<tr>
<td>Sales &amp; Use Taxes</td>
<td>$17.6</td>
<td>$66.3</td>
<td>$83.9</td>
</tr>
<tr>
<td>Other</td>
<td>$3.2</td>
<td>$9.4</td>
<td>$12.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$33.3</strong></td>
<td><strong>$102.6</strong></td>
<td><strong>$135.9</strong></td>
</tr>
</tbody>
</table>

Economic Impact - Other Industries

- The marine cargo activities of the NWSA have an impact comparable with other major Washington industry clusters.

### Exhibit 23. Comparison of Total Economic Impacts between The NWSA and Other Industries and Industry Clusters in Washington State, Various Years

<table>
<thead>
<tr>
<th></th>
<th>Aerospace</th>
<th>Agriculture &amp; Food Processing</th>
<th>Maritime Sector</th>
<th>NWSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Study Year</td>
<td>2015</td>
<td>2013</td>
<td>2015</td>
<td>2017</td>
</tr>
<tr>
<td>Total Jobs</td>
<td>252,800</td>
<td>220,600</td>
<td>191,100</td>
<td>58,400</td>
</tr>
<tr>
<td>Direct Jobs</td>
<td>93,800</td>
<td>128,900</td>
<td>69,500</td>
<td>20,100</td>
</tr>
<tr>
<td>Direct Business Output (mils $)</td>
<td>$68,641</td>
<td>$19,488</td>
<td>$17,142</td>
<td>$5,858</td>
</tr>
<tr>
<td>Jobs per Direct Job</td>
<td>2.70</td>
<td>1.71</td>
<td>2.75</td>
<td>2.91</td>
</tr>
<tr>
<td>Jobs/$Mil Final Demand</td>
<td>3.68</td>
<td>11.32</td>
<td>11.15</td>
<td>9.97</td>
</tr>
</tbody>
</table>

### Exhibit 24. Comparison of Direct and Total State Fiscal Impacts between The NWSA and Other Industries and Industry Clusters in Washington State, Various Years (mils 2017$)

<table>
<thead>
<tr>
<th></th>
<th>Study Year</th>
<th>Direct</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
<td>2015</td>
<td>$30.4</td>
<td>$352.2</td>
</tr>
<tr>
<td>Agriculture &amp; Food Processing</td>
<td>2013</td>
<td>$86.4</td>
<td>$342.1</td>
</tr>
<tr>
<td>Maritime Sector</td>
<td>2015</td>
<td>$115.7</td>
<td>$361.0</td>
</tr>
<tr>
<td>NWSA</td>
<td>2017</td>
<td>$33.3</td>
<td>$135.9</td>
</tr>
</tbody>
</table>
PNW GATEWAY CRITICAL SUCCESS FACTORS

- Increased terminal utilization
- Productivity enhancements
- Rail competitiveness
- Infrastructure investment
- Regulatory climate
GATEWAY OPTIMIZATION
Achieve 70% Utilization | Strategic Terminals | Double Volume

CURRENT
• ≈ 43% Utilization
• 3.4m TEU (3m Int’l)

VISION 2025
• 70% Utilization
• 6m TEU (5m Int’l)

IMMEDIATE
GCP
Berth 4 Construction
TERMINAL 5
Design, Permit & Market

NEAR TERM
GCP
Phased Buildout
TERMINAL 5
Phased Buildout

DEVELOPMENT STRATEGY
Optimize existing facilities ≈ 230-280 acres for diversified portfolio

Incremental jobs related to container growth = 14,600
CUSTOMER FOCUSED SOLUTIONS
The Seaport Alliance will deliver the best value to customers, community and stakeholders

Internal Drivers

Service Delivery
Team approach to deliver operational excellence

Facilities for the Future
Deliver flexible facilities plan and infrastructure for big ships & mega-alliances

External Outcomes

Customer Satisfaction
Ease of doing business
Reliability
Operational Efficiency
Cost of doing Business

Return to Community & Stakeholders
Job Creation
Cargo Growth
Financial Sustainability
Outlook for the Drivers and Rules of Global Trade
Fabulich Center, Tacoma
September 4, 2018

Dr. Walter Kemmsies
Chief Economist, PAGI Group, JLL
(Port, Airport & Global Infrastructure)
The global middle class is a significant opportunity for NWSA

World population and OECD global middle class projections

For US GDP growth to be sustained above 3% it will be necessary to sell into this market

US exports are the focus of the current national economic policy
NWSA international container volume forecasts

Base case assumes US GDP growth to slow from 3% in 2018 to 2% in 2023-2025 and NWSA benefits from congestion at competing West Coast ports.

Downside case assumes some loss of volumes with China in 2018 and a larger permanent loss as of 2019, offset by growth with other North and South Asia trade lanes.

Upside case assumes that trade renegotiations are successfully concluded by early 2019 with China imports resuming their previous levels and growth and additional export growth to China.

Additional “outside the gates” investment could substantially boost NWSA volume growth. This is not included in the trend forecasts shown here.
• **Strategic implications**

• *Export cargo growth – focus on NWSA’s strengths*

• *Infrastructure investment – identify and invest in infrastructure needed to support both imports and exports*

• *Supply chain enhancements – support and stimulate investment in infrastructure outside NWSA’s port-owned property*
Strategic Initiatives – Investing in Key Infrastructure
T-5 & General Central Peninsula (GCP)
Authorizations to Execute the Commercial Arrangement

1) Terminal 5 Long-term Lease Authorization
2) Terminal 5 SSAT-Matson Lease Authorization
3) Terminal 46 TTI Lease Termination Authorization
4) Terminal 18 SSA Lease Amendment
5) Terminal 5 Modernization Project Construction Authorization
6) One-time Membership Interest Affirmation Authorization

*Today’s briefing precedes the February 26, 2019 NWSA Managing Member Public Meeting where commissioners intend to act upon these authorizations.
Key Commercial and Operational Objectives for North Harbor Strategy

• Realign container cargoes while keeping terminal operations fluid throughout the harbors

• Develop strategic terminals in both harbors to support future vessel needs and long-term volume growth

• Retain and grow marine cargo

• Retain and grow maritime, manufacturing & export jobs

Note: All authorizations are pending parties’ final review & approval
Key Elements of Draft Term Sheet
MATSON HAWAII BUSINESS AT T5

1. Parties intend for Matson Hawaii business to move from T30 to T5
   - Lessee: SSA Terminals (SSAT)
   - Premises: 60 acres
   - Basic Rent: $3 million plus leasehold tax (LET) for 21 months
   - Term: April 1, 2019 - December 31, 2020
Key Elements of Draft Term Sheet
T5 PHASE 1

2. Parties intend to enter into a long-term lease at T5

- Lessee: SSAT and other participants
- Premises: 65 acres
- Basic Rent: $150k/acre/year plus leasehold tax (LET) beginning January 1, 2021 or on completion of T5 Phase I
- Term: April 1, 2019 - 32 years, with two five-year extension options at mutual agreement
Key Elements of Draft Term Sheet

T18 Amendment

3. Parties intend to amend T18 lease
   • Lessee: SSAT
   • Term:
     • Waive the Intermodal Yard (IY) fee retroactive January 1, 2019 through the remaining term of the lease
     • Terminate the Most Favored Nation (MFN) clause
Key Elements of Draft Term Sheet
Termination of TTI Lease at T46

4. Parties intend T46 for other cargo & maritime use
   - Cargo realignment at T18, tentative mid-year 2019 to support T5 redevelopment
   - Early termination of current Total Terminals International, LLC (TTI) lease
   - NWSA non-containerized cargo (project/breakbulk)
   - Container support yard for international containers
   - Accommodate tenant relocation from T5 (Foss)
   - Port of Seattle investigating additional cruise berth/facility
Key Cash Flow Assumptions

- Total program cost for T5 is $340M
- Lessee pays $150k/acre/year beginning January 1, 2021
Projected Cash Flow

Thirty Two Year North Harbor Cash Flow

Payback in 2037

Cash Flow in $ Million

- Incremental Cash flow compared to not building T5
- Construction cost of T5 & Crane removal
Potential Public Action Items on February 26, 2019

- SSAT Matson T5 lease
- SSAT JV T5 lease
- T18 lease amendment
- Termination of TTI lease
- Terminal 5 Modernization Program authorization, including major construction project authorization