



Q4 2017 Financial Results

As of December 31, 2017

Unaudited

February 22, 2018



**THE NORTHWEST
SEAPORT ALLIANCE**

Executive Summary

2017 Operating revenue was \$195.0 million and operating expense was \$85.9 million, resulting in operating income of \$109.1 million, which was \$16.5 million and 18% above budget. Net Income of \$109.9 million was \$16.4 million above budget and \$13.3 million less than the prior year.

The net income of \$109.9 million will be split 50/50 and each homeport recorded income from the NWSA Joint Venture of \$54.9 million (rounded).

Note: Net income does not include depreciation on licensed assets. See comment at the end of this narrative for further explanation.

2017 OPERATING RESULTS

(Dollars in Thousands)	CURRENT YEAR TO DATE				PRIOR YEAR		
	BUDGET	ACTUAL	VARIANCE FAV/(UNFAV)	%	ACTUAL	VARIANCE FAV/(UNFAV)	%
Revenue	\$ 189,371	\$ 194,985	\$ 5,614	3%	\$ 195,170	\$ (185)	0%
Operating Expense	96,818	85,899	10,919	11%	80,264	(5,635)	-7%
Operating Income	92,553	109,086	16,533	18%	114,906	(5,820)	-5%
Interest Income (Expense)							
Interest Income	528	777	249	47%	755	22	3%
Market Value Adjustment	-	(43)	(43)	0%	(328)	285	-87%
Net Interest Income	528	734	206	39%	427	307	72%
Non-Operating Income/(Expense)	(5)	(297)	(292)	-5840%	7,835	(8,132)	104%
Grant Income	340	324	(16)	-5%	-	324	0%
Net Income	\$ 93,416	\$ 109,847	\$ 16,431	18%	\$ 123,168	\$ (13,321)	-11%

Revenue by Line of Business

YTD 12/31/2017

(Dollars in Thousands)

	YEAR TO DATE				PRIOR YEAR		
	BUDGET	ACTUAL	FAV/ (UNFAV)	%	ACTUAL	FAV/ (UNFAV)	%
Container	\$ 159,986	\$ 162,695	\$ 2,709	2%	\$ 163,711	\$ (1,035)	-1%
Non-Container	17,876	20,750	2,873	16%	20,013	736	0%
Real Estate	11,510	11,541	32	0%	11,446	95	1%
TOTAL	\$ 189,371	\$ 194,985	\$ 5,614	3%	\$ 195,170	\$ (203)	0%

2017 Actuals vs Budget

Operating revenue of \$195.0 million was \$5.6 million and 3% above budget.

- Container revenue (Container Terminals and Intermodal) of \$162.7 million was \$2.7 million above budget primarily due to APM's early termination of \$5.7 million, offset by intermodal revenues down \$2.9 million as volumes were down 13%.
- Non-Container revenue of \$20.8 million was \$2.9 million above budget as Breakbulk revenues were up \$3.3 million, primarily due to unbudgeted military shipments, offset by Auto line of business revenues below budget \$0.4 million as volumes were below budget by 14%.
- Real Estate revenue of \$11.5 million was consistent with budget as there was no significant unplanned leasing activity.

Operating Expense of \$85.9 million was \$10.9 million and 11% below budget.

- Operations expense was below budget \$5.0 million, including \$4.9 million for timing of crane removal and the USACE East Waterway dredging study in the North Harbor that was deferred, wages and benefits costs down \$1.5 million for vacant positions and lower medical benefits, and several smaller variances in multiple areas totaling \$0.4 million. These positive variances are offset by volume-related operating expenses up \$1.8 million (this amount includes the extended gate program costs of \$1.6 million).
- Maintenance costs were below plan \$0.1 million as positive variances of \$0.5 million on outsourced maintenance and \$0.6 million in other facility and equipment maintenance were offset by crane and straddler maintenance costs above budget by \$0.7 million.
- Administration costs were below budget \$3.8 million as service agreement charges from homeports were below plan primarily due to lower consulting costs in Planning and lower data services in IT.
- Environmental expense was below budget \$1.4 million for air quality projects that were moved to 2018.

This resulted in **operating income** of \$109.1 million compared to budgeted operating income of \$92.6 million, an increase of \$16.5 million, or 18%.

Non-Operating Expense was \$0.3 million above budget due to damage claims and prior year expenses.

Grant Income of \$0.3 million was on budget.

Net income of \$109.9 million was \$16.4 million and 18% over budget as a result of the items explained above. The homeports recorded income from joint venture of \$54.9 million (rounded), which was \$8.2 million and 18% over budget.

2017 vs 2016 Operating Results

Operating Revenue of \$195.0 million was down slightly compared with 2016 revenue of \$195.2 million.

- Container revenue was down \$1.0 million versus the prior year as revenue was up \$5.7 million at APM for an early lease termination, crane and strad revenues were up \$2.9 million at Husky (hours up 38% and 14%, respectively) and revenue sharing down \$1.6 million; offset by T5 revenues were down \$5.3 million due to Foss lease termination in February, intermodal revenues down \$3.8 million (volumes down 18%) and crane and strad revenues were down \$2.1 million at East Sitcum (hours down 29% and 24% respectively).
- Non-Container revenue was up \$0.7 million compared to the prior year due as increases of \$1.4 million of breakbulk revenues due to military moves were offset by Auto business revenues down \$0.4 million as volumes decreased by 11%.
- Real Estate/Bulk revenue of \$11.5 million were up \$0.1 million for annual rent escalations.

Operating Expense was up \$5.9 million compared and 7% to the prior year.

- Maintenance costs up were \$2.6 million over the prior year primarily for paving of \$0.9 and roof repairs of \$0.6 at PCT, increased crane and strad repairs of \$0.8 million and paving in various locations.
- Depreciation expense was up \$1.6 million over the prior year for assets placed into service in 2016/2017.
- Administrative expenses were up \$1.2 million as legal and consulting costs were up \$0.9 million and wages and benefits were up \$0.2 million and software maintenance was up \$0.1 million.
- Operations expenses were up \$0.4 million primarily due to revenue related operating expenses up \$0.7 million, consulting services up \$0.5 million and wages and benefits up \$0.3 million and legal expense up \$0.1, offset by contracted services in the North Harbor down \$0.5 million at T18 (maintenance dredging in prior year) and \$0.3 at T46 for costs related to surplus crane removal.
- Environmental expense was down \$0.4 million versus the prior year due to environmental expense related to dredging of \$0.9 million in the North Harbor in 2016, offset by environmental project spending up \$0.5 million compared with the prior year.

This resulted in **operating income** of \$109.1 million compared to prior year operating income of \$114.9 million, a decrease of \$5.8 million.

Interest Income of \$0.7 million was up \$0.2 million versus 2016 due to lower reductions in the value of the NWSA's investment portfolio (non-cash).

Grant Income was up \$0.3 million in 2017 for the TIGER grant.

Non-Operating Income(Expense) was an expense of \$0.3 million in 2017 compared with income of \$7.8 million in the prior year, a difference of \$8.1 million, primarily due to the contributed North Harbor stormwater asset of \$7.8 million in 2016.

Net income of \$109.9 million was \$13.3 million less than the prior year as a result of the items explained above. The homeports recorded income from joint venture of \$54.9 million, which was \$6.7 million less than the prior year.

Balance Sheet and Cashflow- Cashflow from operations of \$102.5 million was \$14.5 million less than the prior year due to offsetting timing variances on cash receipts from customers, reimbursements to homeports, and payments to suppliers.

Cash used for NWSA capital expenditures for the year was \$75.7 million, most of which funded the Pier 4 redevelopment project. In total, the homeports have funded \$125.3 million of NWSA capital improvements since inception.

The ending cash and investment balance for 2017 was \$79.9 million, compared to \$90.8 million in 2017. The decrease in cash of \$10.9 million is primarily due to timing of cash distributions to the homeports. In January 2017, \$20.9 million was disbursed to the homeports for the December 2016 earning and offsets the operating cashflows earned in 2017 that will be disbursed in 2018 of \$10.1 million, for a net decrease in cash of \$10.8 million.

Changes in Net Position (Managing Member Equity) In 2017, the NWSA net position increased by \$76.3 million as it received contributions of \$69.1 million from the homeports to fund capital construction, earned \$109.9 million of net income from operations, and distributed \$102.6 million back to the managing members. The table below summarizes the activity in net position for 2017: (dollars in thousands)

Description	Beginning Balance 12/31/2016	2017 Changes	Ending Balance 12/31/2017
Working capital	\$ 51,000	\$ -	\$ 51,000
Capital construction	56,141	69,121	125,262
Non-cash CWIP	16,792	-	16,792
Total Contributions	\$ 123,933	\$ 69,121	\$ 193,054
Net income from JV	\$ 123,168	\$ 109,851	\$ 233,018
Cash distributions	(115,964)	(102,580)	(218,544)
End Balance	\$ 131,137	\$ 76,391	\$ 207,528

NOTE: An objective of operating statements would be to associate and reflect periodic depreciation expense with the related revenue generation, when calculating the Net Income earned by the NWSA (and subsequently distributed to the homeports). In accordance with the NWSA Charter, capital assets of the homeports existing at the start of the Alliance remain with the homeports. Thus, the depreciation expense for these capital assets, now licensed to the NWSA and relevant toward generating NWSA revenues, is not reflected in the NWSA Statement of Revenue and Expenses. Rather, the depreciation expense is recorded in the respective homeports' financial statements. Capital assets completed by the NWSA since the start of the Alliance and the related depreciation expense, however, are reflected in the NWSA operating statements.

NW Seaport Alliance Scorecard

December 31, 2017



CARGO VOLUME

	2017 YTD Actuals	2017 Target
Containers (TEUs)		
International	3.0 M	2.8 M
Domestic	0.7 M	0.8 M
Break Bulk (Metric Tons)	211 K	183 K
Autos (Units)	147 K	171 K



JOB CREATION

	2017 YTD Actuals	2017 Target
ILWU Hours	4.4 M	4.5 M



FINANCIAL RETURNS

<i>\$ in millions</i>	2017 YTD Actuals	2017 YTD Budget	2017 Target
Operating Income <i>(Before Depreciation)</i>	\$109.1	\$92.6	\$93.4
Return on assets	8.4%	7.1%	7.1%



ENVIRONMENTAL STEWARDSHIP

	2017 Actuals	2017 Target
Water Quality <i>(Improve Source Control)</i>	227 Acres (135 Acres West Sitcum, 86 Acres T-46, 6 Acres Other South Harbor)	53 Acres
Air Quality <i>(Reduce Diesel Particulate Emissions)</i>	53% Trucks 2007 Engines or Newer	100% Trucks 2007 Engines or Newer by 2018
<i>(Reduce Greenhouse Gas Emissions)</i>	15% Terminals Executed Fuel Efficiency Plans	36% Container Terminals Executed Fuel Efficiency Plans

Unaudited



NORTHWEST SEAPORT ALLIANCE
Statement of Revenue and Expense
Year to Date Budget vs Actual
North & South Harbor
December 31, 2017
(Dollars in Thousands)

	Current Year To Date				Prior Year To Date	
	BUDGET	ACTUAL	VARIANCE	VAR %	ACTUAL	VARIANCE
Revenue	\$189,371	\$194,985	\$5,614	3%	\$195,170	(\$185)
Operating Expenses	96,818	85,899	10,919	11%	80,264	(5,635)
Operating Income	92,553	109,086	16,533	18%	114,906	(5,820)
Interest Income (Expense)						
Interest Income	528	777	249	47%	755	22
Market Value Adjustment	0	(43)	(43)	0%	(328)	285
Net Interest Income	528	734	206	39%	427	307
Non-Operating Inc/(Exp)	(5)	(297)	(292)	-5840%	7,835	(8,132)
Grant income	340	324	(16)	-5%	0	324
Net Income	\$93,416	\$109,847	\$16,431	18%	\$123,168	(\$13,321)

NORTHWEST SEAPORT ALLIANCE
Statement of Net Position
December 31, 2017
(Dollars in Thousands)

	Current Year	12/31/2016
ASSETS		
Cash	\$7,134	\$21,818
Investments	72,760	68,985
Total Cash & Investments	79,894	90,803
Net Trade A/R	21,555	11,108
Related Party Receivables - JV	9,028	15,585
Other Receivables	2,862	2,244
Total Current Assets	113,339	119,740
Capital Assets	25,376	20,343
Construction in Progress	129,564	60,722
Less Accumulated Depreciation	2,712	532
Capital Assets, Net	152,228	80,533
Other Deferred Assets	3,024	3,447
Total Other Long-term Assets	3,024	3,447
Total Assets	\$268,591	\$203,720
Deferred Outflows of Resources		
Pension Deferred Outflow	481	0
Total Assets and Deferred Outflows	\$269,072	\$203,720
LIABILITIES AND EQUITY		
Accrued Payables	\$9,022	\$5,183
Related Party Payables - JV	21,391	41,381
Payroll and Benefits Liabilities	1,138	1,059
Other Accrued Liabilities	10,002	11,305
Total Current Liabilities	41,553	58,928
Deferred Rents	3,900	0
Rent Deposits	13,619	13,655
Net Payroll Liability	2,123	0
Total Long Term Liabilities	19,642	13,655
Total Liabilities	61,195	72,583
Deferred Inflows of Resources		
Deferred Pension Inflow	349	0
Total Equity	207,528	131,137
Total Liabilities, Deferred Inflow & Eq...	\$269,072	\$203,720

NORTHWEST SEAPORT ALLIANCE
Statement of Cash Flows
December 31, 2017
(Dollars in Thousands)

	Current Year		Prior Year	
	Month	YTD	Month	YTD
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 15,947	\$ 188,004	\$ 27,871	\$ 186,291
Cash held for customer deposits	(12)	(36)	7	1,042
Cash paid to suppliers longshore labor, employees	(4,451)	(62,420)	(5,321)	(36,069)
Cash paid to Homeports (for operations and support services)	(1,363)	(23,010)	(1,683)	(34,257)
Cash received from federal grants activities (TIG02)	7	7	-	-
Net cash provided by operating activities	<u>10,128</u>	<u>102,545</u>	<u>20,874</u>	<u>117,007</u>
CASH FLOWS FROM NON-CAPITAL & RELATED FINANCING ACTIVITIES				
Cash received from Homeports - Operating Fund	-	-	-	51,000
Cash received from Homeports for balance sheet items transferred to NWSA	-	-	(718)	15,762
Cash distributions to homeports	(9,040)	(113,320)	(10,800)	(95,084)
Net cash provided by non-capital & related financing activities	<u>(9,040)</u>	<u>(113,320)</u>	<u>(11,518)</u>	<u>(28,322)</u>
CASH FLOWS FROM CAPITAL & FINANCING ACTIVITIES				
Cash received from Homeports - Capital Construction Fund	6,636	75,678	1,526	40,556
Cash received from federal and state grants	75	112	-	-
Acquisition and construction of capital assets (net)	(6,353)	(76,624)	(8,382)	(38,856)
Net cash provided/(used) from Capital & Financing Activities	<u>359</u>	<u>(834)</u>	<u>(6,856)</u>	<u>1,700</u>
CASH FLOWS FROM INVESTMENTS				
Cash used to purchase investments	(48,182)	(65,142)	(5,481)	(99,162)
Proceeds from sales and maturities of investments	45,146	61,300	8,140	30,000
Cash received for interest on investments	58	767	41	595
Net cash from/(to) investments	<u>(2,978)</u>	<u>(3,075)</u>	<u>2,700</u>	<u>(68,567)</u>
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	(1,532)	(14,684)	5,200	21,818
CASH & CASH EQUIVALENTS - BEGINNING OF MONTH / YEAR	8,665	21,818	16,618	-
CASH & CASH EQUIVALENTS - END	<u>\$ 7,134</u>	<u>\$ 7,134</u>	<u>\$ 21,818</u>	<u>\$ 21,818</u>



Northwest Seaport Alliance
Managing Members Cash Distribution Report
 December 31, 2017

The cash distributions per Article IV of the Charter are shared 50/50 by each homeport. Homeports will receive 50% of the \$10,140,000 or \$5,070,000 each.

<u>Distribution Date*</u>	<u>Fiscal Month/Yr</u>	<u>Amount</u>	<u>YTD Distributions</u>
2/15/18	December 2017	\$10,140,000	\$102,580,000

Unaudited

*Distribution date is approximate, actual cash transfer date is determined by NWSA Treasurer and is estimated to be one week prior to month-end.

Note:

This report is per Article IV cash distributions, reserves and member bond obligations, section 4.1(a) "The PDA through the CEO will make distributions of all Distributable Cash to the Managing Members as soon as practicable after each Calculation Period. Prior to executing any distribution, the CEO shall provide a report of planned distributions to Managing Members."