

## The Northwest Seaport Alliance - Transition Plan

**DRAFT AS OF 5/5/15**

### 1.0 Introduction

This document fulfills requirements for a Transition Plan as defined in the Framework ILA. It defines the steps and timeframes needed to fully execute and optimize the performance of The Northwest Seaport Alliance (Alliance).

As described in the Alliance Agreement Framework ILA, there will be a transition period to the unified management structure. This will begin upon adoption of the final Alliance Agreement.

As defined in the Framework ILA, this Transition Plan document addresses:

- Management structure and organizational functions, and organizational development
- Financial start-up framework and processes
- Human resources transition plan, identification of Homeport support functions and an integrated allocation process
- Refinement of a 10-year strategic business plan, with identification of performance metrics in coordination with key stakeholders, including customers and labor
- Formulation of an internal and external communications strategy, and development of a robust plan for a public engagement and comment process.

### 2.0 Management Structure and Organizational Development

#### Organizational Development

The Alliance will be established soon after approval is received from the Federal Maritime Commission. The Alliance is expected to begin independent operations under the terms of the Alliance PDA Charter on August 1, 2015. Also effective at that time, the Homeports will license to the Alliance the operation, management and use of identified Port properties.

The Alliance will develop as an independent organization during a thoughtful Transition Period. The move to independent operations will support stronger accountability, clarity and efficiency – to meet the objective defined by the Framework ILA (approved in October 2014) for the Alliance to have an independent and financially sustainable business model.

Major steps in this process are as follows:

- It is anticipated that the Alliance will be established in August 2015.
- August – December 2015 is defined as the “Startup Period”. During this startup period in 2015, the Alliance will begin to operate under the terms of the PDA

Charter. Staff identified as working full time on Alliance business will be assigned from their Homeport to the Alliance (see legal description below)<sup>1</sup>. Service Agreements will be put in place for other staff support. Each Homeport will collect their respective costs associated with Alliance activities in preparation for creating the formal financial entity on January 1, 2016.

- Calendar Year 2016 is a Transition Period. Employees assigned to the Alliance will begin to move into Alliance employment. Most transition processes are anticipated to be complete by the end of 2016, although some will be provided a longer timeframe if needed to support a sound transition.
- Through the Transition Period, it is expected that no existing Port of Seattle or Port of Tacoma employees will be out of work due to formation of the Alliance, although employees assigned to the Alliance may have different scopes of work and responsibilities than in their existing jobs.
- Employees covered by current Collective Bargaining Agreements (CBAs) will remain employed by their respective Homeports. No changes to those CBAs or to the terms and conditions of represented employees are anticipated. The allocation of the cost of services provided by represented employees to the Alliance will be made through Service Agreements.

### Staff Assignment

Initially, approximately 30 to 40 people who are currently Port of Seattle and Port of Tacoma employees will be assigned to the Alliance. These are people who work full time or close to full time on Alliance (marine cargo related) business. These include all of the “customer facing” employees in the Commercial and Operations segments of the Alliance business, plus management positions for all primary Alliance functions.

In January 2016, these people will begin to transition to Alliance employment. It is expected that by the end of 2016, all of these people will be Alliance employees. The Alliance will implement a compensation package (salary and benefits) that is designed to attract, retain, reward and motivate the productivity and commitment of a highly qualified and diverse workforce.

It is assumed that the primary offices for Alliance employees (and Homeport employees assigned to the Alliance) will be both in Seattle and Tacoma, and assignment to the Alliance will not require relocation. However, Alliance customer and team coordination will require frequent travel between the Ports, and to centrally located meetings. The Alliance will work on development of transportation strategies to maximize productivity and efficiency associated with this travel.

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<sup>1</sup> Staff assigned full-time to the Alliance PDA will be employed directly by the PDA, or will be formally assigned from the Port of Tacoma or Port of Seattle to the Alliance through Seconding ILA Agreements between the Homeports and the Alliance. Seconding agreements specify that assigned employees will report to Alliance management, but their salary and benefits will continue to be paid by their Homeport.

Many Port of Seattle and Port of Tacoma employees who are not assigned to the Alliance will provide service to the Alliance through Service Agreements, as described below.

### Support Services Provided through Service Agreements between Homeports and the Alliance

Focused support will be provided to the Alliance from Homeport staff through specific Service Agreements<sup>2</sup>. These include non-represented employees who will provide services to the Alliance for engineering, construction management, permitting and environmental services, public affairs, accounting, financial analysis, human resources, information technology, public records management, legal, and similar. These also include represented employees (under Collective Bargaining Agreements), who will provide services to the Alliance for equipment and facilities maintenance, Port security/police, railroad operations, construction inspection, and similar.

During the initial years of Alliance operations, Alliance employee functions and those functions provided through Service Agreements will be evaluated and adjusted as appropriate to best support the Alliance business model.

Following the Alliance organizational development, Alliance staff could also provide support to the Homeports if needed, using Service Agreements.

### Management Structure

Upon formal initiation of the Alliance, John Wolfe will serve as Alliance CEO, reporting directly to the Alliance Managing Members. John will have two direct reports: Don Esterbrook will lead the Commercial team, and Kurt Beckett will lead Operations. Mr. Wolfe, Mr. Esterbrook and Mr. Beckett intend to meet weekly with leads from all primary functions such as: Business Development; Service Delivery; Project Delivery, Planning & Environmental; External Affairs; Finance & Administration; Human Resources and Legal.

In order to support development of key industrial projects underway at the Port of Tacoma, Port of Seattle and Port of Tacoma Commissions agree that John Wolfe will initially serve as both the CEO of the Alliance and the CEO of the Port of Tacoma. Both Commissions recognize the duality of these responsibilities, for both CEO Wolfe and other management team members. Port of Tacoma employees will be organized based on the Alliance organizational structure, through which they will report for execution of Service Agreements.

CEO Wolfe and other team members with dual responsibilities shall, with all good faith, conduct themselves in an open and transparent manner, disclose any area of potential or real conflict of interest, and promote the best interests of the Alliance. No

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<sup>2</sup> Service Agreements between the Alliance and the Homeports will provide efficient mechanisms for Homeport staff to allocate their time and associated overhead to the Alliance for Seaport Alliance business

individual, including CEO Wolfe, shall hold dual executive management responsibilities for a period of more than five years. By the end of this period, the Port of Tacoma shall transition to a new and independent management structure and team.

### **3.0 Financial Framework and Processes**

During the Startup Period, anticipated to begin August 1, 2015 and continue through December 2015, each Homeport shall continue to receive all revenues and pay all expenses related to the operations, management and use of the licensed properties. For fiscal year 2015, all financial activities associated with the Alliance licensed properties will continue to be accounted for as part of the Homeport financial information. Each Homeport will collect their respective costs associated with Alliance activities in preparation for the commencement of Alliance budget accounting activities on January 1, 2016. During the 2015 Startup Period:

- The Homeport accounting teams will develop consolidated financial statements for the Alliance to be prepared beginning fiscal year 2016.
- The Homeports will jointly develop an Alliance budget for 2016 and plan of finance as part of the current budget cycle for each Port.
- A final calculation of Members' Interests will be conducted at the end of Fiscal Year 2015 to affirm assumptions used in the due diligence valuation. A true-up mechanism may be implemented at year end if agreed by the Members.

Beginning January 1, 2016, the Managing Members (Port of Seattle and Port of Tacoma) will make the capital contributions required under the Charter.

The Alliance will use a Joint Venture Accounting Model consistent with governmental accounting standards. Each Port's Income Statement will be modified to reflect participation in the Alliance. The Alliance will have its own financial statements. Revenues and expenses contributed to the Alliance will be transferred from each Port's Income Statement and combined to form the Alliance Income Statement. Alliance net income will be shared consistent with the Membership Interest (50/50), and each Port's net income share will be recognized as operating revenue on its own financial statements. The Alliance income that will be shared (and booked as operating revenue by the Ports) will be the bottom line after all operating and non-operating revenues and expenses. Each Port will also recognize its equity interest in the Alliance as an asset on its balance sheet.

- The initial working capital and capital contributions will be made to the Alliance by the Homeports to create the formal financial entity on January 1, 2016.
- During fiscal 2016, the Managing Members will determine the process for and selection of the external audit resource for the Alliance.

### **4.0 Strategic Business Plan**

#### Strategic Business Plan Development

During the Due Diligence Period for the Alliance, the joint Commercial Teams and Commissions from the two Ports worked together to develop a Strategic Business Plan for the Alliance, with a 10-year planning horizon. This plan sets forward a strategic vision for the Puget Sound gateway for the period 2015-2025.

The Strategic Business Plan will be used as a framework to guide individual future down-line build-out decisions which will be based on market demand, capital capacity, speed to market, and Alliance decision criteria.

The plan defines guiding principles for increased cargo volumes, job creation and financial performance. It defines opportunities for development of Strategic Terminals with the ability to handle ultra-large container ships and increased throughput. It proposes approaches for phased build-out of strategic terminals based on market drivers, opportunities to optimize existing facilities, and opportunities to use excess container terminal acreage for alternative cargos and boost the Alliance diversified cargo portfolio. The plan additionally addresses the Alliance commitment to deliver best value to customers and stakeholders, through focus on operational excellence - ease of doing business, reliability, operational efficiency and cost of doing business.

#### Customer and Stakeholder Outreach

Beginning with FMC approval of the Framework ILA in December 2014, the Commercial Teams from the two Ports have been conducting joint customer and stakeholder outreach and gateway marketing. That work has continued in earnest through 2015, including a joint trip to central and eastern Washington customers in April 2015. It has both informed development of the Strategic Business Plan, and begun steps to implementation.

With formal initiation of the Alliance in August 2015, the Alliance will market and secure customers under the new Alliance brand, including an official launch event with customers.

#### Strategic Business Plan Tracking and Updates

Periodic reporting and evaluation of key Alliance metrics is essential to success. Beginning in January 2015, the two Ports are reporting joint, combined cargo statistics. The Strategic Business Plan will be periodically evaluated relative to market and performance data, and updated accordingly.

### **5.0 Communications Strategy**

Beginning with the Alliance initiation on August 1, 2015, the Alliance will do business under its new brand – with distinct logo, website, and e-mail domain.

During the Alliance Startup and Transition periods, a comprehensive communications strategy will be implemented with the media, editorial boards, elected officials, civic

leaders, customers and stakeholders. The communications strategy will focus on elements including:

- Regular internal and external updates on progress to start the Alliance.
- Capturing key “firsts” and milestones (e.g. first 100 days, end of 2015, 1<sup>st</sup> year, gateway cargo volume reports, progress on key Alliance metrics, etc.) of the Alliance and related commission actions.
- Proactive introduction/increased visibility of CEO with statewide and industry media and key leaders.
- Aligning proactive industry media reports with commercial marketing efforts.

External/public affairs professionals at the Alliance and both Homeports will work closely with one another to implement comprehensive outreach activities including public policy advocacy, community relations engagement and fostering stakeholder partnerships to ensure a unified Alliance voice with external audiences. Ongoing work will be required to develop protocols to delineate situations and issues where a distinct Homeport communications or advocacy position and voice is required and/or appropriate.

Communications staff at the Homeports will support human resources staff in ongoing efforts to facilitate two-way dialogue with employees about the startup and transition process. Additionally, Alliance communications will partner with human resources and Alliance executives to support the creation of a new and distinct Alliance culture.

### **6.0 Public Records Management**

The following approach will be used to prepare the Alliance organization to efficiently handle public records requests, in accordance with statutory requirements.

During the “start-up period”, anticipated to by August 1, 2015 – December 31, 2015 the Homeports will continue to respond to any alliance public records requests:

1. A common email domain for all Alliance business will be established (users can be identified by Homeport and included in any public records request for that Port).
2. Common policies and procedures for document retention will be implemented for all Alliance business.
3. The Homeports will work together to ensure compliance with public records requests.

As of January 1, 2016, when the PDA becomes a full legal entity, a single person will be identified as the Alliance Public Records Officer, with supporting staff at both Homeports.

This will ensure appropriate documentation and record keeping, and ability to respond to public records requests. The Alliance, as an independent entity must retain records and be able to respond efficiently to requests.

## **The Northwest Seaport Alliance FMC Due Diligence Team**

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Debbie Givens at the Port of Tacoma will be appointed as the Alliance Public Records Officer upon Alliance startup. In advance of Alliance startup, Ms. Givens will oversee development of the Alliance records management policies and procedures, for approval by the Alliance Due Diligence Steering Committee and Commission as appropriate.