

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5A
Date of Meeting August 1, 2017

DATE: July 21, 2017
TO: Managing Members
FROM: John Wolfe, Chief Executive Officer
Sponsor: Don Esterbrook, Deputy Chief Executive Officer
Project Manager: Dustin Stoker, Chief Operations Officer
SUBJECT: 2017 Extended Service Hours Program

A. ACTION REQUESTED

Request Managing Member authorization to fund the Extended Service Hour Program to expand gate hours at the NWSA's international container terminals during the 2017 peak season, not to exceed \$2,000,000.00.

B. SYNOPSIS

The international marine terminals across the NWSA gateway are experiencing periodic backups at the truck gates. These backups cause congestion on the surface streets in and around the Port's complexes. The Beneficial Cargo Owners (BCOs) are forecasting a 3-5% increase in volume during the 2017 peak season which will start in August and continue through December. The anticipated increase in volume will put further strain on the gate infrastructure.

The funds proposed for the program would be used to incentivize extended gate hours by reimbursing a portion of the cost the Marine Terminal Operators (MTOs) would incur to extend operating hours during the 2017 peak season. The goal of the program is to reduce roadway congestion, improve safety and ultimately enhance service levels to the BCO by adding additional gate service hours.

C. BACKGROUND

One of the key strategic pillars of the NWSA is to be the gateway that is the easiest to do business with by providing best in class service delivery. In addition, Goal 1.B of the Alliance's Strategic Business Plan is to enhance its competitive position through improving the efficiency and cost competitiveness of the supply chain. To support and drive this effort, the Operations Service Center (OSC) was established. Since its inception, the OSC has been focused on both engagement in day-to-day operations and working on strategic improvement initiatives to improve and sustain service delivery through the gateway.

The Executive Advisory Council (EAC) was formed shortly after the OSC to structure the NWSA's engagement with the supply chain stakeholders. Key metrics and initiatives were established through the EAC to measure and improve service for all three modes of transport; vessel, truck and rail. Over 15 separate initiatives have either been implemented or are in development, with 70% of the initiatives focused on improving service delivery to the truck segment. Examples of a few key improvement initiatives are enhanced visibility tools, mobile notifications, continuous operations, virtual empty street turns and a Port Community System.

So, why is service to the drayage community so important for our gateway? It helps to go back in time. From the 1980s until roughly 2005 the gateway's main mode of land transportation to and from the marine terminals was via rail. In fact, 70% of the international containerized cargo moved via rail during this timeframe. Most of the terminals in the gateway were designed and constructed with a focus on intermodal cargo. In the late 2000's, this trend started to change. Many factors went into this transition, however one of the main drivers was the economics of transloading. The ability for a shipper to load more cargo into a domestic 53' container coupled with relatively inexpensive domestic rail rates drove more cargo to be transloaded and move via this mode. This is evident by our current cargo mix which has increased the percentage of cargo moving via truck from 30% prior to 2005 to just over 50% today. Additionally, the South Intermodal Yard (SIM) was established as a domestic rail ramp and warehousing businesses along Highway 167 have increased significantly. In fact, over time our area has developed the second largest warehouse and distribution complex in the country, creating jobs and improving our region's economic vitality.

The increased truck activity at our international cargo facilities has strained service levels. Further, in April of this year the new Ocean Carrier Shipping Alliances were launched. With the formation of the new Alliances the gateway has experienced increased service delivery issues at the truck gates. Supply chain participants have expressed their concerns with the perceived service degradation and further apprehension that this trend will continue into the 2017 peak shipping season. The BCOs make cargo routing decisions based on price, transit time and service levels. The service quality to their drayage segment is a cornerstone of their logistic product and a key driver in their routing options. During both routine customer visits and the Peak Planning and the Executive Advisory Council (EAC) meetings, the BCOs have appealed for improved service levels at the gates. Specifically they have requested that additional service hours be provided to improve overall fluidity to the supply chain during the peak season.

Ultimately, a supply chain funded extended service hours program must be implemented. The NWSA staff has been working tirelessly on developing and launching a sustainable program. The structure of a permanent program has been difficult to solidify and will need some time to further design and launch. The major barrier has been the legal mechanism to both fund and facilitate the program. To implement the long-term program the leases with the MTOs will need to be amended to allow for the program to function. Opening the leases is an arduous process with financial risk that must be managed carefully. The goal is to have a permanent program ready for launch in June of 2018 to be in effect during the 2018 peak season. With the 2017 peak season just around the corner it is not recommended that the NWSA wait for the sustainable program to be launched. Based on BCO's feedback and the timeline to implement a permanent solution, the 2017 Peak Season Extended Service Hours Program is recommended in the short-term.

D. PROJECT DESCRIPTION AND DETAILS

The 2017 Peak Season Extended Service Hours Program incentivizes the Marine Terminal Operators to extend service hours during the 2017 Peak Season. The funds would be used to reimburse MTOs for a portion of actual costs incurred to run extra gates.

Program Objectives

Goal 1.B of the NWSA's strategic business plan is to enhance the competitive position of the Alliance through improving efficiency and cost competitiveness of the supply chain. By expanding gate service hours, the following benefits will be achieved:

- Provide additional service hours to the supply chain
- Reduce congestion in and around the port complex thus;
 - improving safety
 - reducing NWSA and other agency costs associated with congestion management
- Improve service to the drayage driver and BCOs
- Positively influence BCO's future cargo routing decisions

Program Scope

The program funds will be utilized to reimburse MTOs for a portion of actual cost incurred to provide extended service hours to the drayage community.

The program will reimburse MTOs for the following extended service hours:

- One (1) off-shift gate per week per terminal. Off-shift gates are defined as second and third shift Monday – Friday or any shift on Saturday or Sunday
- Off-hour gates would be reimbursed up to a maximum of \$15,000 per gate shift
- The program will run for the duration of the 2017 peak shipping season and/or when total reimbursements reach \$2,000,000, whichever occurs first.
- Reimbursement is expressly contingent on the NWSA receiving documentation that the targeted activities actually occurred.
- The NWSA reserves the right to cancel, modify or extend the program at any time.

Schedule

MM Authorization	August 1, 2017
MTO and Supply Chain Outreach	August 2 – 11, 2017
Proposed Program Duration	August 12, 2017 to Peak Season end
Program Evaluation	Weekly During Program
Program Closeout	January 31, 2018

FINANCIAL IMPLICATIONS

Program Cost Details

Terminal max per week	Program Duration (weeks)	Terminals	Estimated Cost
\$15,000	Estimated at 19	7	\$1,995,000*

**Requesting \$2 million for possible minor cost overruns.*

Source of Funds

The program will be funded using working capital generated through normal NWSA operations. The NWSA operating income as of June 30, 2017 exceeds the budgeted operating income by \$9.6 million. \$2.7 million of this positive variance is underspending in the administrative support functions that will not be deferred to future years. It is expected that the NWSA will still meet or exceed its budgeted operating income for 2017 if this program is approved.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

1. **Do nothing:** The NWSA is operating in a fiercely competitive industry. This option is not recommended as we risk eroding our competitiveness and losing overall market share.
2. **Implement an extended gate program:**
 - A. **Port incentivized 2017 peak season extended gate program:** This option improves service levels in the gateway during the 2017 peak season. By improving service levels it increases the likelihood of maintaining, with the intent of growing, the NWSA's cargo market share. The lack of sustainability is an issue with this option.
 - B. **Establish a sustainable extended service hour program:** This alternative calls for the NWSA to manage a permanent program that is funded by the supply chain. Through this program the service levels in the gateway are improved thus increasing the likelihood of maintaining current market share with the intent of growing the Alliance's overall market share. This program must be implemented through an amendment to the marine terminal operator leases. The financial risk of opening the leases is extreme and thus a calculated approach is warranted. The lease complication leads to a longer implementation timeline.

Alternative 2.B is the preferred long-term option. Due to the complications of Alternative 2.B, the implementation of this option cannot occur prior to the 2017 peak season. Therefore, staff recommends Alternative 2.A as a short-term solution with the intent of implementing Alternative 2.B prior to the 2018 peak season.

F. ENVIRONMENTAL IMPACTS / REVIEW

Permitting: Not Applicable

Remediation: Not Applicable

Stormwater: Not Applicable

Air Quality: Reduction of fuel consumption and associated emissions due to reduced drayage truck idling.

G. ECONOMIC IMPACT

The 2016 extended gate program was viewed favorably by the supply chain stakeholders. A correlation can be made between the NWSA's increase in market share and the improved service levels during the 2016 peak season.

This proposed NWSA program will add service hours throughout the NWSA terminal gateway thereby helping to improve freight safety by reducing congestion. These benefits will be experienced throughout the larger NWSA complex. In turn, the improved service is expected to positively impact the BCOs' experience in the NWSA and favorably influence their cargo routing decisions during the remainder of 2017 and moving into 2018. These factors are expected to promote economic growth through increased volumes and throughput for the NWSA.

H. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.