

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	<u>5B</u>
Date of Meeting	<u>March 2, 2021</u>

DATE: February 28, 2021

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Don Esterbrook, Deputy CEO

Project Manager: Tom Bellerud, Director, Business Development

SUBJECT: **The 2021 Northwest Seaport Alliance (NWSA) Intermodal Rail Incentive Program for Gateway Growth**

A. ACTION REQUESTED

To request authorization and additional funding of \$2,000,000 for the 2020/2021 Northwest Seaport Alliance (NWSA) Intermodal Rail Incentive Program for Gateway Growth for a total of \$3,000,000.

B. SYNOPSIS

NWSA implemented a Rail Incentive Program on July 2nd of 2020. This program was in response to the trending loss of market share the NWSA has been experiencing in the discretionary intermodal rail business.

This rail incentive program was a bit unique in that we partnered in a more significant way with the Class 1 rail roads, ocean carriers, and beneficial cargo owners. Whereby we targeted specific inland locations that offer competitive service and meet the needs of our import and export customers.

The Railroads contribute by providing more competitive line haul rates to these locations, and the NWSA contributes by providing the ocean carrier a rail incentive. The incentive is approximately \$50 per rail/lift, but as discussed below, should be variable depending on market conditions, the targeted inland location, and the ocean carrier's forecasted rail volume commitment. The rail incentive range is \$10 - \$100 per rail/lift.

The rail incentive program has been very successful and is outperforming the original 12-month target of 15,000-20,000 in incremental rail loads. For Q3-Q4 2020,

this program has generated approximately 16,000 incremental Rail/Loads. Therefore, we are estimating that the revised 2021 target will be approximately 40K incremental Rail/Lifts.

C. PROBLEM STATEMENT

As a discretionary gateway, approximately 50% of the cargo utilizing our gateway is not destined, nor originates, in our local region. Cargo owners of this discretionary freight which is destined to inland locations have choices as to what gateway best meets their business needs. Typically, this selection comes down to two primary factors: price and service.

Of these factors, intermodal rail service through the NWSA gateway is widely considered by our customers to be at a high level. Therefore, we need to find a way to address the price component to better compete with the Canadian rail option.

D. OBJECTIVE

- Attract incremental intermodal cargo volume
- Recapture and grow market share
- Improve financial returns and asset utilization

E. UNIQUE FEATURES OF THE PROPOSED INTERMODAL RAIL INCENTIVE PROGRAM

- This will be a strategic, targeted approach where specific inland rail ramp locations are selected that currently attract Canadian rail volume.
- Perhaps most significantly, we are partnering with the Class 1 railroads to jointly target inland locations to create a competitive package for the ocean carriers, including our rail incentive. This package offers strong incentive to win back cargo from Canada, and is a Win/Win for the railroads, ocean carriers, the NWSA and ultimately the Beneficial Cargo Owner (BCO).
- The recently approved SIM lease with the City of Tacoma provides approximately \$76,000 per month to be used for rail incentives or rail infrastructure improvements in the Tacoma Harbor. The amount of funds to be applied to the rail incentive will depend on the incremental volume in the Tacoma harbor.

As implemented per the Managing Members' approval of this Program in 2020, staff have been providing a flat fee of \$50/per rail/lift. However, with additional experience with this program the incentive should be variable depending on changing market conditions, the targeted inland locations, and the ocean carrier's forecasted rail volume commitment.

F. FINANCIAL IMPLICATIONS

The total rail incentive program approved by the Managing Members in July, 2020 has provided \$789,000 to shipping lines for 15,780 lifts from July through December 2020. Combining the estimated incremental revenue from this volume with the historical rail incentives received from Tacoma Rail and the new interlocal agreement for the SIM discussed below, the cash cost to the NWSA is estimated to be \$300,000 for the incentives provided in 2020.

In addition to the existing incentive program which authorized \$1,000,000, the proposed incentive program is estimated to result in 40,000 additional incremental rail moves at an expense of an additional \$2,000,000. Revenue from these incremental lifts, along with other cash available, is expected to cover a portion of the incentive costs.

The financial impact of this increase in the rail incentive program is a decrease in net income of \$2,000,000 partially offset by incremental revenue. Staff successfully negotiated a new interlocal agreement with the City of Tacoma/ Tacoma Rail to redirect the monthly rental expense to fund future rail improvements in the Tacoma Harbor. The actual amount paid as an incentive will vary based on the distribution of cargo between the Seattle and Tacoma harbors, and between terminals within each harbor, and will depend on the timing of the incremental volume. The rail incentive is based on net increase by shipping line in total for the NWSA. If a shipping line has a net decrease in total, that shipping line is not eligible for the rebate. If a shipping line has decreases for some destinations, and increases in other destinations, they will receive the net incentive as long as the net is positive.

ATTACHMENTS TO THIS REQUEST

- PowerPoint presentation.



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The 2020/2021 Northwest Seaport Alliance Rail Incentive Program For Gateway Growth

Presenter: Tom Bellerud
Director, Business Development

Action Requested

Requesting authorization for additional funding in the amount of \$2,000,000 for the 2020/2021 Northwest Seaport Alliance (NWSA) Intermodal Rail Incentive Program for a total of \$3,000,000.



Problem Statement

As a discretionary gateway, approximately 50% of cargo utilizing our gateway is not destined, nor originates, in our local region.

Cargo owners of this discretionary freight destined to inland locations have choices as to what gateway best meets their business needs.

Typically, this selection comes down to two primary factors: price and service.

Of these factors, intermodal rail service through the NWSA gateway is widely considered by our customers to offer a consistent and reliable service.

Therefore, we need to find a way to address the price component to better compete with the Canadian rail option.



Rail Incentive Program For Gateway Growth Objectives

- Attract incremental intermodal cargo volume
- Recapture and grow market share
- Improve financial returns and asset utilization



2020/2021 NWSA Rail Incentive Program

Rail Incentive Program Elements

ARTICLE	
Term	July 2020 – December 2021
Targeted Inland Markets	Incremental import and export cargo volumes moving To/From specific inland rail hub locations via NWSA gateway.
Participating Ocean Carriers	All ocean carriers calling NWSA terminals are eligible to participate in the program provided they have completed and returned the appropriate documentation.
Measurement Period	Rail lift volumes to the specific inland ramps will be measured quarterly, then compared to same quarter 2019 to determine incremental growth. 2019 rail volumes will be used as the baseline for the first 12 months of the incentive program. Q3-Q4 2021 will be measured against Q3-Q4 2020. Carriers with Net positive increases across all specific inland ramps will receive the incentive.
Payment Timeframe	Incentive payments will occur quarterly once all quarterly rail volumes have been reported and calculated.
Rail Incentive	The net increase in incremental rail lift count to/from qualifying inland will receive an incentive payment. The incentive is approximately \$50 per rail/lift, but is variable depending on market conditions, the targeted inland location and the ocean carrier's forecasted vol commitment. No payment will be made if the net rail lifts to the specified inland ramps have decreased
Incremental Cargo Volume Estimate	Anticipated cargo growth is approximately 40,000 rail lifts in 2021.
Total Incentive Requested	\$2,000,000 in 2021
Estimated Net Financial Impact	The financial impact of the program is a decrease in net income of up to \$2,000,000 over time for 40,000 incremental rail lifts. The actual amount will vary based on the distribution of cargo between the Seattle and Tacoma harbors, and between terminals within each harbor, and the application of the SIM lease agreement amount available for the Tacoma harbor incentive

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