

**THE NORTHWEST SEAPORT ALLIANCE**  
**MEMORANDUM**

**MANAGING MEMBERS**  
**ACTION ITEM**

**Item No.:** 9D  
**Meeting Date:** 12/3/2024

**DATE:** November 25, 2024

**TO:** Managing Members

**FROM:** John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial Officer & Strategy Officer

Project Manager: Steve Balaski, Director of Business Development,  
Commercial Team

**SUBJECT:** 2024 NWSA International Container Rail Cargo Program Update and  
Funding Request

**A. ACTION REQUESTED**

Request the Managing Members of The Northwest Seaport Alliance (NWSA) approve additional funding for the 2024 International Container Rail Cargo Program of \$4,000,000 for a total program funding of \$12,000,000 and amending the allowable maximum reimbursement for any single participating carrier to a fixed amount of \$1,200,000 with a possible Exemplary Incentive Payment of up to \$200,000 each for the top two performing carriers.

**B. SYNOPSIS**

At the April 2, 2024 regular meeting, the Managing Members authorized the 2024 International Container Rail Cargo Program and approved a funding amount of \$8,000,000.

A total of 12 companies have executed an agreement to participate in the program representing all international ocean carriers currently calling the NWSA.

Through the first six months of the program (May-October) participating ocean carriers have moved over 103,000 eligible incremental international rail containers through the NWSA. This represents approximately 34% of international intermodal lifts at the NWSA during the same time period. Carrier feedback confirms that the incentive program was an important factor in their routing decisions for intermodal rail.

The program has contributed to a period of high rail volumes at the NWSA. Through October, YTD total rail lifts at the NWSA are up 20% and monthly volumes grew over 50% in June and July respectively. Stronger than expected volumes were due in part to diversions of rail cargo from Canada to avoid the impacts of a potential and, ultimately, actual strike at the Canadian railroads.

The Participation Agreement for the 2024 program states that the maximum reimbursement for any single participating ocean carrier cannot exceed 15% of the authorized funds available. This equates to \$1,200,000 for any single participating carrier of the current \$8 million authorized.

The actual final reimbursements will be determined at the conclusion of the program term, scheduled for April 30, 2025, when each participating carrier's total rail lift activity for the entire program term will be measured. As such, a carrier who shows a positive incremental lift count through October could end up with a negative total variance at the end of the twelve-month period, depending on the rail activity in subsequent months.

Based on market conditions and current volume trends, it is currently anticipated that as many as 10 carriers could achieve eligibility for up to \$1.2M in maximum reimbursement when the current program term concludes. As a result of the strong carrier participation, if the amount of the total authorized funds in the program was greater, the NWSA's current potential obligation would be \$8,976,200 in eligible reimbursements based on year-over-year volumes for this time period. (May-October).<sup>1</sup>

Should NWSA seek to allow full participation in the program to allow every carrier to receive the originally-planned \$1.2M maximum reimbursement, this would equate to a possible \$12 million total reimbursement obligations based on the current program.<sup>2</sup> There is insufficient funding authorized in the program to allow this to occur.

The NWSA is under NO obligation to increase the funding level. The executed Participation Agreement states that if multiple carriers earn incentives in the period in which the funding for the program is exhausted, the NWSA will allocate remaining payments reimbursements to the participating and eligible carriers in an equitable fashion, at NWSA's sole and absolute discretion.

However, ocean carriers have shifted additional rail volumes to the NWSA with the expectation that the maximum benefit would be available, if achieved. To demonstrate the NWSA's commitment to the rail program and our ocean carrier partners, staff recommends increasing the authorized funding level to assure them that the maximum benefit will be available if achieved and to encourage continued support of the program.

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<sup>1</sup> The incremental volume of three ocean carriers has exceeded their maximum reimbursement amount under the current program. Their total volume is included in the above total, however the financial reimbursement beyond the maximum reimbursement allowed (15% of the total program funds) has been excluded from the dollar total referenced.

<sup>2</sup> 15% x \$8 million = \$1,200,000. \$1,200,000 x 10 = \$12,000,000

To ensure the maximum potential reimbursement as originally anticipated is available to all carriers who qualify, the NWSA requests approval an additional \$4 million for the 2024 program for a total program funding of \$12 million.

Staff also requests amending the maximum reimbursement from a 15% to a fixed amount of \$1,200,000 to ensure funds would remain within the new maximum funding level of \$12 million and allowing for an Exemplary Incentive Payment of up to \$200,000 each for the **top two** performing carriers. The Exemplary Incentive Payment is intended to encourage ongoing support of the program. Exemplary Incentive Payments would only be paid if funds remain in the Incentive Program after all payments obligations to the multiple carriers participating in this Incentive Program have been satisfied.

## **C. BACKGROUND**

### **2024 International Container Rail Cargo Incentive Program Outline**

#### **Original Program Summary:**

- A per-lift incentive payment of \$100/lift for incremental year-over-year increases in international container rail volume, measured on aggregate rail lifts of a qualified participating ocean carrier at the NWSA. Domestic intermodal cargo/lifts are excluded.
- Eligible inland ramp locations include all intermodal inland ramp locations served and/or operated by the BNSF and Union Pacific Railroads with the EXCEPTION of Portland, OR. To support the NWSA's inland rail hub strategic initiative, ramp locations in Minot, ND, Pocatello, ID, Millersburg, OR and Wallula, WA have been called out specifically as eligible for the program.
- The maximum reimbursement for any single participating carrier cannot exceed 15% of the authorized funds available (\$1,200,000).
- The term of the program is May 1, 2024 through April 30, 2025.
- Reimbursements are based on the full 12-month program and will be paid at the end of the program (April 20, 2025)

#### **Eligibility Requirements:**

- The program is open to all international ocean carriers in good financial standing with the NWSA (i.e., current on financial accounts as defined by the NWSA in the associated Participation Agreement).
- Each ocean carrier is required to enter into the NWSA's Participation Agreement that outlines program eligibility, requirements and other program details.

**Program Results:**

**Volumes - May to October 2024**

May-October 2023 Eligible Lifts	May – October 2024 Eligible Lifts	Net Change	% of total NWSA International lifts May-October
196,748	299,927	<b>+103,279</b>	34%

**Funds and Program Details:**

**Current Program**

Total Authorized Funding	\$8,000,000	<b>Note</b>
Maximum Allowable Reimbursement per carrier	\$1,200,000	15% of authorized funding
Reimbursements “achieved” May-October*	\$8,976,200	Three carriers have reached their maximum reimbursement, <i>if program ended in October.</i>

\* The actual final reimbursements will be determined at the conclusion of the program term, scheduled for April 30, 2025

**Proposed Changes:**

	<b>Proposed</b>	<b>Current</b>
Total Authorized Funding	\$12 million	\$8 million
Maximum Allowable Reimbursement per carrier	\$1.2 million (fixed)	15% of total authorized funds
Exemplary Incentive Payment for Top 2 Carriers*	Up to \$200,000 each	N/A

\*only applies if funds remain in the Incentive Program after all payments obligations to the multiple carriers participating in this Incentive Program have been satisfied.

**D. FINANCIAL IMPLICATIONS**

**Source of Funds**

The two homeports received funds of approximately \$53.9 million from Water Resource Development Act (WRDA) and Harbor Maintenance Tax (HMT) in 2024, and are expected to receive similar amounts in future years. These funds will impact the Homeport Profit and Loss (P&L) statement and will not be reflected on the NWSA’s P&L.

The use of NWSA funds for the incentive program is offset by the WRDA Section 2106 / HMT funds received by the Homeports.

### **Financial Impact**

The \$12,000,000 rail incentive fund will utilize cash generated from NWSA operations and available rent credit from Tacoma Rail in lieu of rent payments for the use of South Intermodal Yard (SIM) estimated at \$1.5 million through May 2025. The WRDA/HMT funds received by the Homeports will be used for eligible HMT projects that would have been funded by the NWSA generated operating cash that is now being used for this incentive program.

The 2024 operating budget includes \$3,000,000 per year for the rail incentive expense. Based on actual intermodal revenue and expense results to date, plus the updated 2024 forecast, and assuming the total incentive payment for these proposed programs of \$12,000,000 in 2024, it could result in a \$4.4 million reductions in NWSA international Intermodal line of business income in 2024 compared to the original 2024 budget.

## **E. PREVIOUS ACTIONS OR BRIEFINGS**

April 2, 2024 – Managing Member authorization for the International Container Cargo Incentive Program at an initial funding level of \$8 million.

## **F. ATTACHEMENTS TO THIS REQUEST**

- 2024 RAIL INCENTIVE PARTICIPATION AGREEMENT AMENDED

**2024 Northwest Seaport Alliance  
RAIL CARGO INCENTIVE PROGRAM  
FIRST AMENDMENT TO PARTICIPATING CARRIER AGREEMENT**

This Northwest Seaport Alliance Rail Cargo Incentive Program First Amendment to Participating Carrier Agreement (“First Amendment”) is entered into by and between The Northwest Seaport Alliance (“NWSA”) and \_\_\_\_\_ ocean carrier (“Participating Carrier”) (each a “Party” and collectively the “Parties”).

- A. The Parties previously entered into The Northwest Seaport Alliance Rail Cargo Incentive Program Participating Carrier Agreement (“Original Agreement”) dated \_\_\_\_;
- B. The Incentive Program referenced in the Original Agreement has been successful, and additional funding has been authorized by the NWSA’s Managing Members to further encourage International Ocean Container Carriers to grow their international intermodal rail cargo volumes to and from all inland rail locations served and/or operated by Burlington Northern/Santa Fe Railroad (BNSF) and Union Pacific (UP)(together, “Railroads”) with the exception of Portland, OR; and
- C. Due to the additional funding in the Incentive Program, and the need for clarity for certain elements of the Incentive Program, the parties wish to amend the Original Agreement as set forth herein.

Wherefore, based on the above, the Parties agree to amend the Original Agreement as follows:

1. Section 1 of the Original Agreement is removed in its entirety and replaced with the following:

**1. NWSA Rail Cargo Incentive Payments.**

**1.1 Incentive Payments.** During the Term of this program (May 1, 2024 – April 30, 2025, unless terminated earlier, or otherwise extended), and conditioned upon the Participating Carrier’s compliance with this Agreement, for all Qualifying Rail Volumes over the Base Measurement (as such terms are defined in Section 2 herein), NWSA will pay to Participating Carrier \$100 per rail lift (“Incentive Payment”). Incentive Payments to any Participating Carrier may not exceed \$1,200,000.00 of the authorized funds during the Term of this program. Incentive Payments will be made within 60 days following the end of the program which is currently scheduled for April 30, 2025, unless terminated earlier subject to Sections 1.2.4 and 4 of this Agreement, or extended.

**1.1.2 Exemplary Incentive Payment.** The NWSA seeks to encourage ongoing support of the Incentive Program and continue to incentivize top performing carriers. As such, the top two eligible and Participating Carriers that achieve the highest incremental volume growth as of April 30, 2025 (unless the Incentive Program is terminated earlier) may receive additional incentive funds beyond the maximum amount allowed in Section 1.1.1 (“Exemplary Incentive Payment”). The top two performing carriers may be eligible for the Exemplary Incentive Payments calculated according the same criteria of Section 1.1.1. of this Participation Agreement, provided that sufficient funds are available at the end of the Incentive Program. Any Exemplary Incentive Payment may not exceed \$200,000 to any eligible carrier. Exemplary Incentive Payments will only be paid if funds remain in the Incentive Program after all payments obligations to the multiple carriers participating in this Incentive Program have been satisfied.

2. The first introductory sentence of Section 1.2 of the Original Agreement is removed in its entirety and replaced with the following:

**1.2 Conditions for Payments.** Incentive Payments and any Exemplary Incentive Payments will be paid provided that all of the following conditions in Sections 1.2.1 – 1.2.4 have been met:

3. Section 1.2.4 of the Original Agreement is removed in its entirety and replaced with the following:

1.2.4 Funds remain in the 2024 Rail Incentive Program. The Parties acknowledge that a total of \$12 million has been authorized for the Incentive Program, and multiple carriers are expected to participate. If Qualifying Rail Volumes across all participating carriers exhaust the total authorized funds, the NWSA has no obligation to continue and may close or terminate the Incentive Program, making no further payments thereunder. If multiple carriers earn incentives in the period in which the funding for the program is exhausted, NWSA will allocate remaining payments reimbursements to the participating and eligible carriers in an equitable fashion, at NWSA's sole and absolute discretion. The NWSA may seek authorization to increase the program funding level, but is not obligated to do so, nor does NWSA make any representations regarding the availability of additional funds beyond the original authorization.

4. The first, introductory sentence of Section 2 of the Original Agreement is removed in its entirety and replaced with the following:

**2. Qualifying Rail Volumes and Measurement of Growth.** Incentive Payments and Exemplary Incentive Payments are made only for Qualifying Rail Volumes, defined herein, which represent incremental growth in international intermodal rail cargo volumes to and from certain inland rail ramp locations based on a year over year comparison:

5. Section 2.3 of the Original Agreement is removed in its entirety and replaced with the following:

**2.3 Qualifying Rail Volumes.** To be eligible for Incentive Payments or Exemplary Incentive Payment, the Participating Carrier must increase total international intermodal rail lifts year-over-year compared with the corresponding Base Measurement's full year period volumes for cargo moving between NWSA terminals and all inland ramp locations served and/or operated by Railroads with the exception of Portland, OR ("Qualifying Rail Volume").

For example, if Carrier A moved 20,000 international intermodal lifts between May 1, 2023 and April 30, 2024, 20,000 lifts becomes the Base Measurement volume for Carrier A. If Carrier A moves 25,000 international intermodal rail lifts between May 1, 2024 and April 30, 2025, 5,000 lifts would be considered incremental and eligible for a \$100/lift reimbursement or \$500,000.

Import loads, export loads and empty container repositioning rail lifts are included in Qualifying Rail Volumes. For avoidance of doubt, both the Base Measurement and the Qualifying Rail Volumes will be calculated by combining the volume activity of the entities listed together in the introductory paragraph of this Agreement as comprising the "Participating Carrier."

6. **All other terms remain the same.** Except as expressly and specifically amended by this First Amendment, all terms and conditions of the Original Agreement remain the same and without modification and the Original Agreement shall be read and construed as if the terms of this First Amendment were included therein by way of addition or substitution, as the case may be.

WHEREFORE, the parties have executed this First Amendment to the Original Agreement on the dates set forth below.

The Northwest Seaport Alliance

Participating Carrier:

\_\_\_\_\_  
John Wolfe  
Chief Executive Officer

\_\_\_\_\_  
By:  
Its:

Date \_\_\_\_\_

Date \_\_\_\_\_



draft

Item No.: 9D  
Meeting Date: Dec. 3, 2024

# 2024 NWSA International Container Rail Cargo Program Update and Funding Request




**THE NORTHWEST  
SEAPORT ALLIANCE**  
SEATTLE + TACOMA

Steve Balaski, Director of Business Development  
Commercial Team

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## ACTION REQUESTED

Request the Managing Members of The Northwest Seaport Alliance (NWSA) approve additional funding for the 2024 International Container Rail Cargo Program of \$4,000,000 for a total program funding of \$12,000,000 and amending the allowable maximum reimbursement for any single participating carrier to a fixed amount of \$1,200,000 with a possible Exemplary Incentive Payment of up to \$200,000 each for the top two performing carriers.



THE NORTHWEST  
SEAPORT ALLIANCE  
SEATTLE + TACOMA

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## Background

At the April 2, 2024 regular meeting, the Managing Members authorized the 2024 International Container Rail Cargo Program and approved a funding amount of \$8,000,000.

### Program Results May-October:

Participating Ocean Carriers: **12** (all international carriers currently calling NWSA)

Eligible incremental international rail containers: **103,279**

Percent of total NWSA International lifts May-October: **34%**

Carrier feedback confirms that the incentive program is an important factor in their routing decisions for intermodal rail.



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## Background

The Participation Agreement for the 2024 program states that the maximum reimbursement for any single participating ocean carrier cannot exceed 15% of the authorized funds available. This equates to \$1,200,000 for any single participating carrier of the current \$8 million authorized.

The actual final reimbursements will be determined at the conclusion of the program term, scheduled for April 30, 2025.

Based on market conditions and current volume trends, it is currently anticipated that as many as 10 carriers could achieve eligibility for up to \$1.2M in maximum reimbursement when the current program term concludes.



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## Background

As a result of the strong carrier participation, if the amount of the total authorized funds in the program was greater than the current \$8M, the NWSA's current potential obligation would be \$8,976,200 in eligible reimbursements based on year-over-year volumes for May – October.

Should NWSA seek to allow full participation in the program to allow every carrier to receive the originally-planned \$1.2M maximum reimbursement, this would equate to a possible \$12 million total reimbursement obligations based on the current program. There is insufficient funding authorized in the program to allow this to occur.

The NWSA is under NO obligation to increase the funding level. The executed Participation Agreement states that if multiple carriers earn incentives in the period in which the funding for the program is exhausted, the NWSA will allocate remaining payments reimbursements to the participating and eligible carriers in an equitable fashion, at NWSA's sole and absolute discretion.



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## Background

Ocean carriers have shifted additional rail volumes to the NWSA with the expectation that the maximum benefit would be available, if achieved.

To demonstrate NWSA's commitment to the program, ensuring the maximum potential reimbursement as originally anticipated is available to all carriers who qualify, the NWSA requests approval an additional \$4 million for the 2024 program for a total program funding of \$12 million.

Staff also requests amending the maximum reimbursement from 15% to a fixed amount of \$1,200,000 to ensure funds would remain within the new maximum funding level of \$12 million.

Staff recommends allowing for an Exemplary Incentive Payment of up to \$200,000 each for the **top two** performing carriers. The Exemplary Incentive Payment is intended to encourage ongoing support of the program. Exemplary Incentive Payments would only be paid if funds remain in the Incentive Program after all payments obligations to the multiple carriers participating in this Incentive Program have been satisfied.



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## Proposed Program Changes

	Proposed	Current
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<b>Exemplary Incentive Payment for Top 2 Carriers*</b>	Up to \$200,000 each	N/A

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## Financial Implications

### Source of Funds

- The two homeports received funds of approximately \$53.9 million from Water Resource Development Act (WRDA) and Harbor Maintenance Tax (HMT) in 2024
- The use of NWSA funds for the incentive program is offset by the Section 2106 / HMT funds received by the Homeports.

### Financial Impact

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- Based on actual intermodal revenue and expense results to date, the rail incentive could result in a \$4.4 million reduction in NWSA International Intermodal line of business income in 2024 compared to the original 2024 budget.



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