

Item No.: 9C  
Date of Meeting: April 4, 2023

# The 2023 Northwest Seaport Alliance Rail Cargo Incentive Program

Presenter Name: Steve Balaski  
Director, Business Development



# ACTION REQUESTED

Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization to fund a Rail Cargo Incentive Program at an initial level of \$3,000,000 and authorize the CEO to execute Participating Carrier Agreements for the program as presented. The rail incentive fund will include \$1,500,000 of NWSA cash plus \$1,500,000 of credit associated with Tacoma Rail for rental of the South Intermodal Yard.



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# Background

- International rail shipments remain a key driver of volume growth for the NWSA. The discretionary nature of this cargo means it will most often move via the lowest cost and most efficient option.
- Ensuring the NWSA is the most efficient gateway option for both importers and ocean carriers is critical as the competitive nature of our industry continues to intensify.
- Import volumes at the NWSA and most West Coast ports are down due to a very soft Trans-pacific market. As a result, ocean freight rate levels have seen a rapid decline from historic highs and now stand at pre-pandemic levels. Ocean carriers are focused on cost-control as they forecast a challenging operating environment in 2023.



# Background

- Given current market conditions and the operating priorities of our ocean carrier partners, the proposed rail cargo incentive program is an important tool we can use to help protect market share and encourage incremental volume to the gateway.
- Supporting the establishment, and growth, of inland rail hubs to drive agriculture export cargo to the NWSA remains a strategic initiative. A rail incentive can both encourage growth of recently established operations and support new service locations.



# Key Program Elements

- Eligible volumes must be incremental, measured on aggregate rail volumes of an ocean carrier at the NWSA.
- Eligible inland ramp locations will 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.
- Eligible rail volumes will receive a \$50/lift incentive.



# Key Program Elements

- The suggested term of the program is May 1, 2023 through April 30, 2024.
- Ocean carriers must be current on their accounts with the NWSA to be eligible for the program. For purposes of this agreement, a carrier is deemed to be not current in its accounts if it has any accounts with NWSA over 30 days past due on the date that the NWSA makes the incentive payments. If a carrier is not current on the date incentive payments are made, the carrier will not be issued an incentive payment and will have 30 days to become current on all accounts in order to be eligible for the incentive payment or otherwise forfeit the incentive payment.

# Key Program Elements

Volumes moving through both the North and South harbors would be eligible for the program. Given the requirement to apply the Tacoma Rail rent savings to cargo moving via South Harbor facilities, we are seeking additional funds from Managing Members to ensure the entire gateway can benefit from this proposed rail incentive program.

If total funds requested were distributed, we expect it to generate approximately 60,000 rail lifts. Represents approximately 15% of 2022 international intermodal lifts at the NWSA or 10% of the average international intermodal lifts from 2019 – 2021.

# Financial Implications

The \$3 million rail incentive fund will include \$1,500,000 of NWSA cash plus \$1,500,000 of accrued credit to Tacoma Rail for rent payments used for incentive vs rent payment of the South Intermodal Yard (SIM).

Per Lease Amendment No. 3 with Tacoma Rail (TMBL), the alliance has elected the lower rent option and use the savings in rent at the SIM Yard to fund rail incentives or maintenance of rail related infrastructure improvements in the South Harbor. The rail incentive is not budgeted in 2023. The 2024 operating budget will include any expected incremental rail incentive revenue and expenses. The impact to revenue is estimated to be \$1.0 million to \$1.3 million on a 12-month basis based on 2022 intermodal lifts by terminal, and accounting for the Minimum Annual Guarantees. The actual amount will vary depending on actual usage of the rail incentive by the ocean carriers.





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