

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	<u>5D</u>
Date of Meeting	<u>August 6, 2019</u>

DATE: July 30, 2019

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Don Esterbrook, Deputy CEO

Project Manager: Dustin Stoker, Chief Operations Officer

SUBJECT: Gate Efficiency Program Agreement Amendment – SSAT Terminal 18

A. ACTION REQUESTED

Request Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to amend the Gate Efficiency Program (GEP) with SSAT Terminal 18.

B. SYNOPSIS

International container volumes during the month of June have softened. Import container volumes have slowed, yet laden exports have experienced the largest decrease year-over-year, dropping by 12.5% in June 2019 as compared to June 2018. As a result of the soft export market, the utilization of night gates at SSAT Terminal 18 have been extremely low. Only 3% of the total gate transactions have occurred during the off-hour gates.

Due to the lack of utilization of night gates at Terminal 18, staff is seeking Managing Member authorization to amend the Gate Efficiency Program (GEP) with SSAT and suspend off-hour gate operations until volumes necessitate additional gate service hours, as determined by the NWSA in its sole and exclusive discretion. Upon NWSA notifying the suspension term has ended, SSAT commits to running extended gates beyond the original Program Term (with current completion date of December 31, 2020) for the same duration that the GEP is suspended (i.e., if the program is suspended for three (3) months their commitment would be extended to March 31, 2021).

C. BACKGROUND

During the 2019 Peak Planning Meeting Beneficial Cargo Owners (BCOs), both Importers and Exporters, forecasted 3-5% growth in container volume for the upcoming peak shipping season. To handle the peak volumes the industry insisted on extended service hours at the international container terminal gates to ensure smooth, reliable service to the trucking community. In response to the market, the Managing Members authorized to fund the Gate Efficiency Program (GEP) to expand gate hours at the NWSA's international container terminals in an amount not to exceed \$2,000,000. The Program funds were authorized to reimburse Marine Terminal Operators (MTOs) for a portion of actual cost incurred to provide extended gate service hours. In return, MTOs committed to run additional gate hours (based on GEP Tier Level) through the end of 2020. The following tier options were available through the program.

- **Tier 1:** MTOs will be required to run three (3) off-hour gates per week during the peak shipping season in 2019 and 2020 (July – December) and two (2) off-hour gate per week during the non-peak shipping season (January 2020 – June 2020). Under Tier 1 the NWSA will reimburse each MTO up to a maximum of \$600,000 for actual cost incurred to run additional gates.
- **Tier 2:** MTOs will be required to run three (3) off-hour gates per week during the peak shipping season in 2019 and 2020 (July – December). Under Tier 2 the NWSA will reimburse each MTO up to a maximum of \$300,000 for actual cost incurred to run additional gates.
- **Tier 3:** MTOs will be required to run two (2) off-hour gates per week during the peak shipping season in 2019 and 2020 (July – December). Under Tier 3 the NWSA will reimburse each MTO up to a maximum of \$200,000 for actual cost incurred to run additional gates.

SSAT Terminal 18 and Everport enrolled in the program. Both MTOs chose to participate at the Tier 1 level. Based on the MTO participation level, only 1.2 million of the authorized amount of \$2,000,000 will be spent.

Although volumes were anticipated to grow during the peak shipping season the ongoing tariff situation has impacted international trade. Year-over-year (YOY) loaded container volumes have declined in June and continue in July. Washington exports have been the hardest hit by the tariff battle. Full international exports declined YOY by 12.5% in June 2019 as compared to June 2018. The decrease in volume has severely hindered the utilization of SSAT's night gates. During the first three weeks of the program daily gate transactions have averaged 116 during the off-hour gates. In comparison, an average of 3,500 transactions occurred each day on the regular day shift. Only 3.2% of the total daily transactions are occurring on the

nightside. What is even more troubling is that of the 116 average night gate transactions, only 25% of those are full export loads, whilst the remaining 75% are empties. The night gates are wildly underutilized and are not being supported by the industry.

On a positive note, SSAT has been offering superior service to the trucking community. During the month of June (prior to offering extended gates) and in July they have averaged full turn times just under 70 minutes. In comparison, most international container terminals in Los Angeles and Long Beach average 90 minutes.

Due to the low volume and poor utilization, SSAT Terminal 18 has ceased offering night gates. They have requested to amend the GEP Agreement to allow for the suspension of the program. Off-hour gates would be resumed when volumes dictate the need for additional gate service hours, as determined by the NWSA in its sole and exclusive discretion. Upon NWSA notifying SSAT that the suspension term has ended, SSAT Terminal 18 commits to running extended gates beyond the original Program Term (with completion date of December 31, 2020) for the same duration that the GEP is suspended (i.e., if the GEP is suspended for three (3) months SSAT's commitment shall be extended to March 31, 2021). See attached draft 'First Amendment to Gate Efficiency Program Agreement' document for more details.

D. FINANCIAL IMPLICATIONS

Source of Funds

Original funds were to be generated through normal NWSA operations. Staff had identified over \$2 million in budgeted spending for other projects that will not occur in 2019. The forecasted operating income for 2019, including this program, is anticipated to meet or exceed the budgeted operating income.

Although \$2 million was authorized to fund the program only \$1.2 million of the authorized amount will be spent due to MTO participation level. Through July 19, 2019 SSAT Terminal 18 has been reimbursed \$150,879 and Everport has been reimbursed \$108,846 of actual cost incurred to run extended gates.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative:** Under this alternative, SSAT would be in breach of the agreement and be required to pay back the funds the NWSA reimbursed. In addition, when volumes improve the incentive funds will not be available to SSAT decreasing the likelihood that off-hour gates would be offered to the market.

- **Recommended Action:** Amend the Program Agreement with SSAT Terminal 18 to allow the program to be suspended until volumes necessitate additional off-hour gates, as determined by the NWSA in its sole and exclusive discretion. This alternative ensures that the NWSA realizes the benefit of the program when needed by our customers.

F. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation
- T18 GEP 2019.pdf
- DRAFT – SSAT 1st Amendment to MTO Gate Efficiency Program Agreement – August 6th, 2019

G. PREVIOUS ACTIONS OR BRIEFINGS

- June 2019 - Authorization to fund the Gate Efficiency Program (GEP)