

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
STAFF BRIEFING

Item No. 5A
Date of Meeting December 4, 2018

DATE: November 21, 2018

TO: Managing Members

FROM: John Wolfe, CEO

Sponsors: Jason Jordan, Director, Environmental and Planning Services, and
Nick Demerice, Director, Public Affairs

Project Manager: Jason Jordan, Director, Environmental and Planning Services

SUBJECT: Clean Truck Program Briefing

A. SYNOPSIS

The Clean Truck Program requires all trucks serving the international container terminals to have a 2007 engine or newer or equivalent verified emission controls after December 31, 2018. In October 2018, 67% of the trucks met the standard.

The Clean Truck Fund launched in September 2018 with two lenders and a financial counselor to assist non-compliant truck owners. Applicants are able to apply directly to the lender for a loan or through an initial evaluation with Sound Outreach. Both lenders are currently administering loans for both replacement trucks and certified retrofits, with the drivers enrolled expected to be ready for the December 31 deadline.

Outreach to the trucking community has stepped up in preparation for the deadline with themed workshops throughout the year, and Financial Resource Fairs held to connect drivers with lenders and financial counselors in October 2018. Ten non-compliant NWSA truck owners have been selected and connected with Southern Californian fleet owners to negotiate prices for 2012+ model year trucks, working with California's South Coast Air Quality Management District (SCAQMD) under the NWSA Second Chance Trucks program. Installation of RFID infrastructure and software has been fully installed in both the North and South Harbors to begin testing in December 2018, in preparation for our December 31, 2018, deadline.

B. BACKGROUND

The Ports of Seattle, Tacoma, and Vancouver, BC, collectively set a goal in 2008 of having 2007 or newer model year truck engines exclusively serving the international container terminals by January 2018 as part of the NWPCAS. In February 2018, the Managing Members took the following action:

- Effective April 1, 2018, all trucks entering NWSA international container terminals must have a 2007 engine or newer or equivalent emissions control retrofits to be considered compliant (“2007 Emission Standard”). To continue to access the terminals after April 1, 2018, a driver with a non-compliant truck may apply for a Temporary Access Pass. This pass will require a commitment from the trucker to become compliant by the end of 2018. The application was available by March 1 on the NWSA website.
- Effective January 1, 2019, all non-compliant trucks will be turned away from NWSA international container terminals.
- Trucks meeting the 2007 Emission Standard will be able to serve the gateway until at least 2025. This provides certainty to drivers in the process of upgrading that the standard will not change in the immediate future.
- Authorization for the NWSA to spend \$1 million to develop a Clean Truck Fund Program and to partner with certified Community Development Financial Institutions (CDFI) to ensure all drivers have access to fair and affordable financing.

As of the end of October, the gateway had approximately 67% of the trucks meeting the standard. New gate technology has been installed in both harbors during 2018 to track compliance with the Clean Truck Program and improve visibility into congestion at the terminals.

Over the summer, staff held workshops for drivers and communicated regularly that the end of the year deadline will be enforced. The Clean Truck Fund – the loan loss reserve program – was launched in September 2018. Workshops were held in October to help drivers enroll for loans with Clean Truck Fund lenders. Additional funds have been added to the fund, towards both the loan loss reserve and towards 157 scrapping bonuses of \$6,000.

The NWSA Clean Truck Program is one element of the Northwest Ports Clean Air Strategy that will have a profound impact on port-related emissions of diesel particulate matter. Drayage trucks with 1993 or older model-year engines emit over twice the diesel particulate matter (DPM) as 1994 engines. The US Environmental Protection Agency’s (EPA’s) on-road diesel engine emissions standards for DPM remained constant for engine model-years 1994-2006 at 0.10 g/bhp-hr and were lowered to 0.01 g/bhp-hr for 2007 model-year engines. By raising the minimum engine year requirement to 2007, the Clean Truck Program can effectively reduce drayage truck DPM emissions by over 98%.

C. CURRENT STATUS

The following has been accomplished:

- Sound Outreach has met with over 100 truckers and expects to meet with approximately 100 more prior to the deadline;
 - Has reviewed 10 credit scores and recommended 5 for loan processing
- Opportunity Fund has reviewed 51 applications:
 - 4 compliant trucks have been funding, 9 more have been approved;
 - 9 applicants elected to leave the loan program; and

- 4 were denied for insufficient credit scores (less than 600 FICA Score).

NWSA staff has inquiries into Harborstone but expects similar results.

In addition, staff has asked our lenders to consider alternatives to the loan guarantee requirements that would serve those with less than a 600 FICA credit score. Alternatives continue to be considered, however, concerns exist around Interagency Agreement (ILA) language (i.e., Department of Ecology dollars required to be spent first and emission reductions achieved); timing and inconsistent messaging.

D. PROGRAM STATUS

The Clean Truck Program requires all trucks serving the international container terminals to have a 2007 engine or newer or equivalent verified emission controls after December 31, 2018. In October 2018, 67% of the trucks met the standard. It is unknown exactly how many trucks are needed to serve the gateway, however, based on 2017 feedback from marine terminal operators (MTOs) and the trucking community, both agreed that there were approximately 20% too many trucks in the system for it to operate at optimal efficiency. At that time, approximately 4,200 trucks were serving the gateway. Eighty percent is equivalent to 3,360 trucks.

Truck numbers have been tracked over different time scales, therefore, the dataset is a different size each time and makes comparison difficult. Note that beginning in May, the cameras at PCT were down during RFID reader installation and PCT is not included. It is unlikely there is a significant number of trucks only serving PCT. In October 2018, 67% of trucks (2,420 trucks) were compliant with the Clean Truck Program.

<u>Time Range</u>	<u>Number of Compliant Trucks</u>	<u>Total Number of Trucks</u>	<u>% Compliant</u>
July – Aug 2017	2,111	4,281	49%
Sept – Oct 2017	2,106	4,076	52%
Nov – Dec 2017	2,216	4,149	53%
Jan – Mar 2018	2,444	4,388	56%
April 2018	2,177	3,732	58%
May 2018	2,415	3,807	63%
June 2018	2,216	3,602	62%
July 2018	2,223	3,510	63%
August 2018	2,282	3,538	64.5%
September 2018	2,262	3,439	66%
October 2018	2,420	3,614	67%

TEMPORARY ACCESS PASS:

Beginning in July 2018, the approximately 2,100 drivers each registered for a Temporary Access Pass through the end of the year and agreed to provide NWSA monthly progress reports. In the first month, NWSA received a low response rate, despite multiple email reminders, updated website text, and reminders at in-person events. Although the response rate was still low in October, the responses the NWSA did receive indicate that the drivers were becoming more prepared for the deadline, as many were in the process of identifying suitable trucks and securing financing.

RESPONSES:

Have you upgraded your non-compliant truck?

Yes	6
No	257

If no, where are you in the process to become compliant with the Clean Truck Program?

Identifying a suitable truck	84
I have not started	57
Identifying a suitable certified retrofit	34
I will not be making this truck compliant	38
Securing financing. (i.e., Loan application process)	44

CLEAN TRUCK FUND:

As approved by the Managing Members at the June 5, 2018, meeting, the Clean Truck Fund will provide a level of loan loss security to qualified lenders that will ensure market rate loans are provided to truck owners serving marine terminals so that those owners can replace their older trucks and purchase trucks with 2007 and newer engines, in compliance with the goals of the Northwest Ports Clean Air Strategy and the NWSA Clean Truck Program. The Clean Truck Fund totals \$2,809,000, including grants from the State of Washington, the Puget Sound Clean Air Agency and contributions from NWSA and the City of Seattle.

The Managing Members approved developing and executing a Clean Truck Fund with the intent of providing equal access to fair lending to drayage drivers. The Managing Members took the following action:

Develop and execute the Clean Truck Fund Program:

1. The Clean Truck Fund will provide equal access to market rate truck loans by providing a loan loss reserve for Community Development Financial Institutions (CDFIs). Loans issued through the program will be pegged to market rate interest and loan terms.
2. Highest priority for loans will be given to drivers who have frequently called the gateway over the past two years and have the largest limitations for access to fair lending.
3. NWSA will procure a non-profit agency skilled in financial counseling to coordinate the program through March 2019.

4. Loans will be made by Community Development Financial Institutions who meet The Northwest Seaport Alliance (NWSA) criteria.
5. Less than 10 percent of the total fund will be used toward administration, loan vetting, and financial counseling.
6. The balance of funds will be held in an NWSA account as loan guarantees through the life of the loans. Once the loan is fully repaid, the guarantee is released and the NWSA will be free to invest funds in other emission reduction strategies.

NWSA Clean Truck Fund		
Funding Source	Contribution	Use
WA State Department of Ecology – VW State Fund	\$1,200,000	Scrapping and LLR
NWSA	\$1,000,000	LLR and Admin
WA State Clean Diesel Grant	\$234,000	Scrapping
PSCAA	\$200,000	LLR
City of Seattle	\$150,000	Scrapping
SCAQMD DERA 2017 Administrative Costs	\$25,000	LLR
Total Funding	\$2,809,000	

Use	Amount	Source
Available for Loan Loss Reserve (LLR)	\$1,625,000	WA State, NWSA, PSCAA, SCAQMD
Available for Admin – 10% cap of LLR (includes financial counselor costs)	\$242,500	NWSA
Available for Scrap Bonuses	\$941,500	Clean Diesel Grant, COS, WA State
Total Use	\$2,809,000	

The Clean Truck Fund includes grants from the State of Washington, Washington State Department of Ecology, Puget Sound Clean Air Agency, California South Coast Air Quality Management District, and contributions from NWSA.

The CDFIs are offering loans to non-compliant truck owners to fund replacement trucks and retrofits. The State of Washington grant for \$1.2M requires that any loans backed by those dollars, the non-compliant truck owned by the recipient must be scrapped. For loans backed by these dollars, there are 157 \$6,000 scrap bonuses available for drivers to use towards a down payment on a compliant truck. Funding for the bonuses comes from Clean Diesel Grant, City of Seattle and some of the State of Washington grant dollars.

FINANCIAL COUNSELING:

A Request for Proposals (RFP) for financial counselors was issued June 7, 2018, with responses due June 20, 2018. One response was received. In addition to publishing the RFP, staff informed the 15 organizations that participated in the May 17, 2018, workshop of the opportunity. Of those 15, three focused on financial counseling and workforce development.

The purpose of the May workshop was to socialize the concept of the NWSA Clean Truck Fund design, especially with respect to the loan loss reserve components, and gain as much insight as possible to refine our thinking on how best to set up the program for success. The NWSA engaged the responding non-profit financial counselor, Sound Outreach, who helps drivers who opt-in to assess their finances, their business, and direct them towards their best options, free of charge.

Financial counselors with Sound Outreach are meeting individually with drivers who opt-in to help determine whether the driver should be directed to a mainstream lender, whether they need their finances vetted further as part of this initiative, or whether their business is not viable and they should be referred for vocational support. After pulling credit scores and engaging in in-depth conversations about credit, debt, cashflow, income, expenses (drivers bring proper documentation) etc., financial counselors will determine a monthly payment that each driver can reasonably afford. The counselor then shares their recommendation, along with a background summary, to the recommended CDFIs.

CDFI LENDERS:

A Request for Qualifications (RFQ) for CDFI lenders was issued August 7, 2018, with responses due August 24, 2018. There were two responders who indicated they could finance up to 325 loans by the December 31, 2018, deadline. The NWSA engaged the two responding lenders, Harborstone Credit Union and Opportunity Fund, to administer loans under the Clean Truck Fund. Following Managing Member approval at the September meeting, the loan loss reserve was changed to cover 10% of the total loan pool administered by a lender, as opposed to 10% of each individual loan, allowing the lenders to assume more risk and provide more loans.

Under the Clean Truck Fund, the NWSA offers the CDFI lenders a mechanism to provide loans to drayage truck drivers who have served the NWSA gateway for at least the past two (2) years to assist them in financing heavy-duty vehicles or exhaust retrofits to meet the requirements of the Clean Truck Program. Eligible purchases with loan proceeds are limited to used and new trucks equipped with 2007 year engines or cleaner; the engines can use diesel fuel, compressed natural gas (CNG), liquefied natural gas (LNG); EPA or CARB-verified diesel emission control devices (exhaust retrofits).

Flexibility	Restrictions
<ul style="list-style-type: none"> Lenders independently set the terms and conditions of the loans and decide which loans to enroll into the Clean Truck Fund program. 	<ul style="list-style-type: none"> Maximum interest rate of 15% APR (Annual Percentage Rate).
<ul style="list-style-type: none"> Loans can be short-term or long-term, have fixed or variable rates, be secured or unsecured, and bear any type of amortization schedule. 	<ul style="list-style-type: none"> Maximum loan term of 7 years.

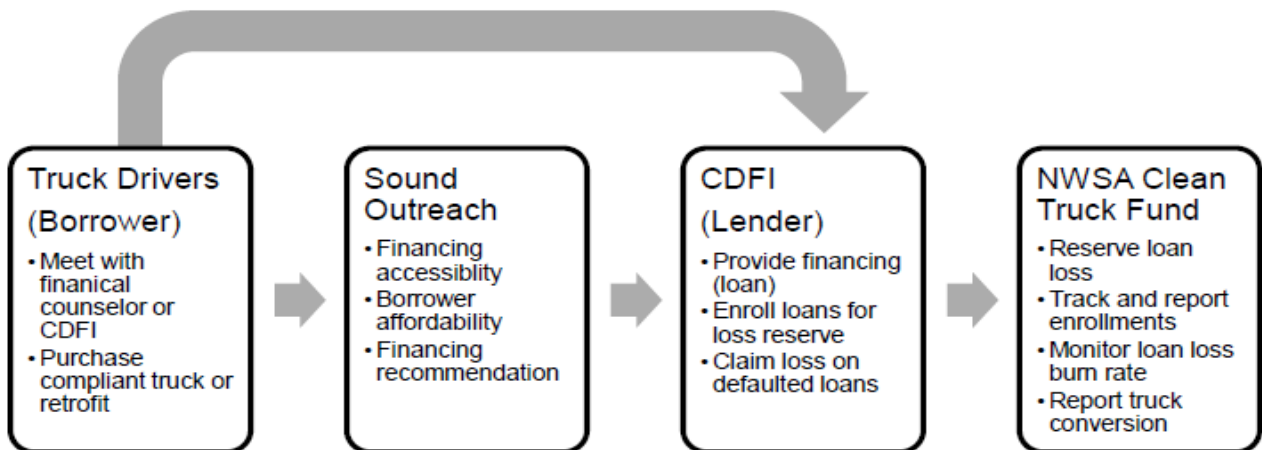
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Flexibility	Restrictions
<ul style="list-style-type: none"> NWSA will maintain reserves in an amount equal to up to 10% of the principle amount of the total loan pool issued in a loss reserve account until the maximum loan loss reserve amount is met. 	

CDFIs independently determine if applicant drivers meet that CDFIs qualifications to decide to whom loans are made. As long as each loan meets the requirements of the Clean Truck Fund (maximum loan term 7 years, maximum interest rate 15%, borrower used loan to purchase compliant truck or retrofit), the CDFI is eligible (though not required) to enroll its loan(s) in the Clean Truck Fund to have a loan loss reserved for each loan enrolled.

A CDFI is required to notify NWSA within 120 days of when the lender has charged off all or part of a qualified loan as a result of default by a borrower. Subject to submittal of a complete claim form, NWSA will reimburse the CDFI lender from the NWSA’s loss reserve account within 30 business days. Claims must include documentation of collateral recovered in the event of default. The loan loss reserve would be used in the event of default after the lender has exhausted their usual process for collecting on loans in default (i.e., recovered collateral – in this case the truck – prior to being paid from the loss reserve). The CDFI will report quarterly on the status of the loans made through the loan term. The roles and responsibilities for the program are outlined in Figure 1.

Figure 1: Clean Truck Fund Roles and Responsibilities



CLEAN TRUCK FUND LOANS:

Due to the different requirements from different funding sources, there are three general loan products available from lenders backed by the Clean Truck Fund. Loans backed by Dept of Ecology funds require the non-compliant truck to be scrapped in order to receive a loan. There are 157 \$6,000 scrapping bonuses available to the first loans enrolled in an Ecology-backed loan. All loans enrolled in the Fund must meet the requirements of the Clean Truck Fund.

REPLACEMENT TRUCK LOANS:

SCRAPPING LOANS:

If a truck driver is able and willing to scrap their truck, they will receive an Ecology-backed loan. This option will best suit truck owners with non-compliant trucks that have a low trade-in value. The truck is required to be scrapped at an NWSA-approved scrapyards, with documented proof of destruction sent to the NWSA. Once reviewed and approved, the loan funds can be released. The scrapping bonus can be used by the truck owner towards a down-payment on a compliant truck.

NON-SCRAPPING LOANS:

If a truck owner is unwilling to scrap their non-compliant truck (i.e., they wish to keep it operating elsewhere or can receive a higher trade-in value than the \$6,000 scrapping bonus plus the scrap value of the non-compliant truck), they will receive an NWSA-backed loan for a replacement, compliant truck. They will not be required to scrap their truck and are not eligible for a scrapping bonus.

CERTIFIED RETROFIT LOANS:

If a truck owner wishes to keep operating their non-compliant truck into NWSA international container terminals, they can install a certified equivalent emissions device onto their non-compliant truck. Loans are eligible to be enrolled for a certified CARB Level 3 device, or an EPA-verified device that reduces PM emissions by at least 85 percent. It takes time to test and data log before installation, so truck owners should have this completed and ready to install before a loan can be issued by a lender.

SECOND CHANCE TRUCKS UPDATE:

At the July 3, 2018, meeting, Managing Members authorized the NWSA CEO to enter into an Interlocal Agreement with the Puget Sound Clean Air Agency (PSCAA) to transfer to the NWSA the responsibility for implementing the tasks required of PSCAA in Agency Contract 2018-035 (SCAQMD Agreement #C18221) between PSCAA and the California South Coast Air Quality Management District (SCAQMD). In 2017, the California South Coast Air Quality Management District (SCAQMD), in partnership with the Puget Sound Clean Air Agency and Oregon Department of Environmental Quality (DEQ), successfully applied for a Diesel Emissions Reduction Act (DERA) grant for scrapping and replacing drayage trucks. Since the project was awarded, Oregon DEQ has backed out of the agreement, cutting the available funding in half.

The State of California and the San Pedro Bay ports have more aggressive truck requirements than the NWSA's 2007 engine standard – moving to a 2014 model year (MY) this summer and near zero standard by 2023. Several drayage companies in California had recently upgraded trucks to 2012 MY or newer and are reluctant to scrap what is still a useable and valuable truck. SCAQMD received a \$1 million DERA grant in 2017 which will reimburse Southern California fleet owners \$100,000 for purchasing a low NOx emission truck. In addition, their 2012 MY truck will be sold in Washington to replace a pre-2007 truck and the pre-2007 truck will be scrapped. The Washington truck purchaser will pay the SoCal fleet owner up to \$30,000 for the sale of the 2012-compliant truck. Retail value of second-hand trucks is approximately \$45,000-\$60,000.

PSCAA was originally going to administer this program in Washington, but earlier this year was no longer able to and approached NWSA to take over the project. Ten trucks are available and, based on local estimates from dealerships, are valued at least \$15,000 below market rate. The price of the trucks is capped at \$30,000.

The NWSA was responsible for identifying ten NWSA non-compliant truck owners, to be matched up with the Southern Californian fleet owners, to negotiate a price (capped at \$30,000). Once a price has been agreed, the PNW non-compliant (pre-2007 engine) truck will be scrapped, and the NWSA will take delivery of the new compliant truck. On September 5, the NWSA launched 'Second Chance Trucks' – an online enrollment form for drivers to indicate their interest in the program. To be eligible for one of the ten trucks, truck owners had to submit mileage logs for their non-compliant truck for calendar year 2017, to ensure the draw was merit-based (i.e., the top ten polluters). When the drawing closed on September 25, there were 43 applications. The ranked top ten applicants, with submitted mileage logs, were put in touch with SCAQMD. Following the initial discussions with the fleet owners, four of the selected top ten NWSA drivers withdrew from the program as they were not interested in purchasing day cabs (i.e., they wanted to purchase sleeper cabs). The next four highest mileage drivers were selected from the back-up list of original applications in October, and will be given additional time to negotiate.

The ten NWSA drivers are currently in negotiations with the Southern Californian fleet owners. Once a price has been agreed, the non-compliant truck will be inspected and scrapped in the PNW. The NWSA received \$25,000 to administer the program, which has been put back into the Clean Truck Fund for the loan loss reserve.

CLEAN DRAYAGE SYSTEM PROJECT UPDATE:

North Harbor

The North Harbor Clean Drayage System is being implemented at Terminals 18, 30, and 46. Physical installation and commissioning of all RFID hardware and software is complete, along with required MTO server upgrades complete at Terminal 18 and 30. Terminals are now RFID functional and data is being collected for analysis of RFID tag registration and low-battery issues. A soft-launch is planned on December 3, 2018, with a hard-launch on January 1, 2019, deadline.

South Harbor

The South Harbor Clean Drayage System is being implemented at Tacoma Container Terminals, Pierce County Terminal, Washington United Terminals, and Husky Terminal. Physical installation and commissioning of all RFID hardware and software is complete. Terminals are now RFID functional and data is being collected for analysis of RFID tag registration and low-battery issues. A soft-launch is planned on December 3, 2018, with a hard-launch on January 1, 2019, deadline.

OUTREACH UPDATE:

The NWSA hosted four workshops in partnership with the African Chamber of Commerce Pacific Northwest chapter over the summer:

1. June 9: How to Maintain DPFs, approximately 90 attendees
2. June 21: Business Strategies for Succeeding in Drayage, approximately 20 attendees
3. August 2: Business Planning and Financing Compliant Trucks, approximately 35 attendees
4. August 23: Safe Truck Operations, approximately 20 attendees

Staff also presented an update on the Clean Truck Fund and Clean Truck Program at the July 25 Trucker Outreach Forum.

Following the launch of the Clean Truck Fund in September, Financial Resource Workshops were held for non-compliant truck owners in October (Seattle: October 16 at South Seattle College; Tacoma: October 17 at the Fabulich Center) learning about their options and meeting with lenders. Both events were well attended and drivers were provided information about the program, and set up appointments with the financial counselor, Sound Outreach. Commissioner Meyer spoke at the South Harbor event to welcome participants and confirm the deadline of December 31, 2018. Small group workshops have been held at two trucking companies (RoadOne and XPO) where drivers have been able to work with Sound Outreach, especially if they were unable to attend the NWSA evening workshops. More of these small group workshops are planned.

The NWSA Truck website (www.nw.sa.com/trucks) has been updated to reflect the frequently asked questions (FAQs) received through the truck inbox and to provide resources to drivers, such as a copy of the June 9 presentation and video.

In preparation for the use of RFID technology in the South Harbor, banners, emails and flyers have been distributed at terminals outlining where to purchase an RFID tag and how to register their tag online at www.emodal.com

E. NEXT STEPS

Installation of the Clean Drayage System is complete in both the North and South Harbors, and the new server and data formats have been tested by the NWSA throughout November.

In December, RFID hardware is being used at South Harbor terminals to ensure enforcement of the December 31 deadline can be operated smoothly. Although trucks are not being turned away for not having an RFID tag when entering South Harbor terminals in December (they will still be able to enter using their existing sticker), truck drivers are handed informational flyers if they do not have a tag at the gate, informing them of how and where to get an RFID tag. This is to ensure everyone is aware of both the December 31 deadline, and the requirement to use RFID in both harbors in the New Year. Training sessions with staff from each South Harbor MTO are scheduled for the last week of November, to ensure staff on the gates know how to enforce the RFID program, and know the logistics for turning trucks.

Small group workshops are being held by Sound Outreach with small groups of drivers throughout December, to help drivers assess their options and enroll with a lender in the Clean Truck Fund.

Communications have been stepped up significantly by the NWSA in the final months before the deadline, and will continue to be pushed out throughout December. The key messages are that the deadline will not be changing; that RFID will be required in both Harbors, and information on how to access financing through the CDFIs. The NWSA Clean Trucks website is being kept up-to-date with news and information, emails are sent out multiple times a week, flyers are being handed out at the gates, and banners about both the deadline and RFID technology have been installed at all the international MTO gates.

F. PREVIOUS ACTIONS OR BRIEFINGS

<u>Date</u>	<u>ACTION</u>
November 6, 2018	Clean Truck Program Update
October 2, 2018	Clean Truck Program Update Managing Members approved ILA with City of Seattle to accept \$150,000 contribution to scrapping bonuses under Clean Truck Fund
September 4, 2018	Clean Truck Program Update
August 14, 2018	Clean Truck Program Update Managing Members approved ILA with Ecology to accept \$234,000 Clean Diesel Grant for scrapping bonuses under Clean Truck Fund
July 17, 2018	Clean Truck Program Update Managing Members approved ILA with PSCAA to receive \$200,000 for Clean Truck Fund, and ILA with PSCAA to accept 10 CA trucks from SCAQMD Air Quality Grant Funding Update

(table continued)

<u>Date</u>	<u>ACTION</u>
June 5, 2018	Clean Truck Program Update Managing Members approved Clean Truck Fund program design, approval of contract extension and expansion to S Harbor for RFID technology with Advent
May 1, 2018	Clean Truck Program Update
April 3, 2018	Clean Truck Program Update Puget Sound Emissions Inventory and Greenhouse Gas Inventory Results
March 20, 2018	Clean Truck Program Update Managing Members approved \$2,264,000 funding for Clean Drayage System
February 6, 2018	Managing Members approved adoption of NWSA Clean Truck Program Managing Members authorized the CEO to negotiate and enter into lease amendments to carry out the Clean Truck Program in the South Harbor Managing Members authorized contribution of \$1,000,000 to the Clean Truck Fund
January 16, 2018	Clean Truck Program Briefing and draft Policy Motion
November 7, 2017	Clean Truck Policy Update Briefing