

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

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

**Item No.** 4E  
**Date of Meeting** February 6, 2018

**DATE:** January 24, 2018  
**TO:** Managing Members, The Northwest Seaport Alliance (NWSA)  
**FROM:** John Wolfe, Chief Executive Officer  
**Sponsor:** Jason Jordan, Director, Environmental and Planning Services  
**Project Manager:** Sara Cederberg, Environmental Senior Project Manager  
**SUBJECT:** Clean Truck Fund Funding Request

**A. ACTION REQUESTED**

Request Managing Member authorization to establish a Clean Truck Fund to support the NWSA Clean Truck Program in 2018, for an amount not to exceed \$1,000,000 and solicit request for proposals from certified Community Development Financial Institutions conditioned upon passage of authorizing state legislation.

**B. SYNOPSIS**

The Clean Truck Program requires all trucks serving the international container terminals of The Northwest Seaport Alliance (NWSA) to have a 2007 model-year engine or equivalent emission controls, pending Managing Member approval. Compliant used trucks range in cost from approximately \$35,000 to over \$100,000. Retrofits can cost \$10,000 to \$25,000. Financing can be difficult for drivers due to high interest rates for those with limited credit history. Interest rates can often be as high as 25 to 30 percent for these drivers. Previous grant programs' matching funds successfully converted over 410 trucks over the past seven years. However, there is no further grant funding anticipated that could be used for similar programs, so grant funding is not an option in 2018. Given that 47 percent of trucks have yet to convert, and to prevent a shortage of trucks to service the terminals, staff recommends expanding the options available to support truck conversion.

To make more market-rate (8-12 percent APR) financing available to qualified drivers without credit history, staff recommends establishing a Clean Truck Fund managed by a local certified Community Development Financial Institution (CDFI)<sup>1</sup> with expertise in this type of lending. NWSA would contribute \$1 million in 2018 to the Clean Truck Fund to help truck drivers access

<sup>1</sup> CDFIs are certified by the Community Development Financial Institutions Fund at the U.S. Department of the Treasury, which provides funds to CDFIs through a variety of programs. A CDFI is a financial institution that has a primary mission of community development, serves a target market, is a financing entity, provides development services, remains accountable to its community, and is a non-governmental entity.

financing for 2007 model-year engine or newer trucks or equivalent emission control technologies verified by the California Air Resources Board (CARB) and/or the US Environmental Protection Agency (EPA). The NWSA contribution will comprise 20 to 25 percent of the CDFI's total funding pool and lower the risk for the CDFI associated with lending to drivers with limited credit history. The contract for the truck or retrofit loan will be between the drayage driver and the financial institution. Any additional funding, from the NWSA or other private and/or public-sector parties, could be added to the fund in the future, with further matching funds from the financial institution.

The initial fund would be expected to provide market-rate financing to purchase at least 100 trucks (in the initial year). As the fund becomes more established, this number would be expected to increase. If the program is not successful, after 1 year, any remaining monies would be returned to the NWSA. As there is currently no grant funding available, the fund would be established using NWSA and CDFI funds.

The establishment of such a fund is contingent upon legislation being passed in the current Washington state legislative session. The latest date that legislation could be signed by the Governor and be effective law this session is March 28, 2018. Given the narrow timeframe, staff recommends, upon Managing Member approval, immediately publishing a Request for Proposals to solicit lenders in the interim with the caveat that any subsequent contract would be contingent upon the bill becoming law. This proactive market outreach will maximize the ability for the CDFI to be selected and begin work at the earliest possible time, thus ensuring this resource is available for qualified truck owners.

## **C. BACKGROUND**

Drayage trucks are an integral component of an effective and efficient port operation. Quick turn times benefit the entire port and are central to providing high quality service. The NWSA is committed to accomplishing comprehensive goals and accompanying programs that benefit the environment in which we live and work, the surrounding community with whom we share the air, and our workforce that helps us move cargo throughout gateway. The NWSA's Clean Truck Program aims to balance these priorities.

As part of the Northwest Ports Clean Air Strategy, the ports of Seattle and Tacoma (now the NWSA) and the Port of Vancouver, BC, adopted guidelines in 2008 for reducing the air emissions from trucks, in addition to ships and cargo handling equipment operating in and around our harbors. The Clean Truck Program requires all trucks serving the international container terminals of the NWSA have a 2007 model-year engine or equivalent emission controls pending Managing Member approval.

The local pool of drayage truck owner-operators and fleet truck drivers consists of many immigrants from Eastern Europe, Africa, and Asia, many come from low-income households and can have low English-language proficiency. Many independent operators can struggle to obtain traditional financing to purchase or retrofit a truck to meet the requirements of the Clean Truck Program.

### **ScRAPs**

Since 2011, the ports and the NWSA have sought grant funding to serve those with the highest need and have successfully scrapped 413 trucks through the Seaport Truck Scrappage and Replacements for Air in Puget Sound (ScRAPs) program in partnership with the Puget Sound Clean Air Agency (PSCAA) and grant funding through U.S. Environmental Protection Act (EPA) Diesel Emissions Reduction Act (DERA) grants, Department of Ecology Clean Diesel grants and US Department of Transportation Congestion Mitigation and Air Quality (CMAQ) grants. Granting agencies included EPA, Washington State Department of Transportation (WSDOT) and Department of Ecology (Ecology). With these partners' grant funds and port operating funds, the Ports of Seattle, Tacoma and The Northwest Seaport Alliance have made a total investment of over \$15 million to spur truck conversion and invest in gate infrastructure.

To be approved for a voucher, a driver had to meet criteria established by the granting agencies, PSCAA and the ports, and sign an agreement to maintain the requirements of the program: they had to meet a threshold number of annual trips into the terminals (200 trips/year), continue to bring their ScRAPs truck into the port for at least three years (trips monitored through the port) and spend at least 50% of their time operating in the State of Washington. Eligible drayage truck drivers who met the ScRAPs requirements received a voucher for up to 50 percent of the purchase price, capped at \$20,000-\$27,000, towards the cost of a newer truck, with the old truck being scrapped. ScRAPs funding was fully distributed by summer 2017. The ScRAPs program was an excellent way for the NWSA to assist drayage drivers already serving the gateway who could not access traditional forms of credit, but had some capital of their own to invest in a new truck.

Grant funding is unpredictable and comes with set criteria. For example, the 2017 round of DERA funding required trucks be a 2012 model-year or newer, while the VW settlement will require trucks to be brand new. There are currently no grant opportunities the NWSA can apply for to aid truck owners to upgrade their truck. In order to provide a more stable, predictable, flexible and scalable source of funding, staff propose establishing a Clean Truck Fund.

### **Request for Information**

In September 2017, the NWSA advertised a Request for Information (RFI) on a loan loss reserve program. Loan loss reserves are accounting entries banks make to cover estimated losses on loans due to defaults and nonpayment. By increasing the reserve, banks mitigate financing higher risk loans.

Two responses were received and showed that the CDFI would absorb any risk encountered. The risk to any funding partner of loan default/nonrepayment will be limited to the funds contributed. Responses can be seen in Appendix A.

	<b>RFI Response A</b>	<b>RFI Response B</b>
Interest Rate	8-12%	Not listed
Loan Amount (average)	\$58,000	\$31,000
Down-payment required from truck owner	10-30% of loan value (\$5,800-\$17,400)	15-20% of loan value (\$4,650-\$6,200)
Funding partner contribution	\$1 million	\$1 million
CDFI match funds	\$5 million	n/a

	RFI Response A	RFI Response B
Total Fund	\$6 million	\$1 million
Assumption truck driver has received ScRAPs voucher?	No	Yes
Number of drivers helped	100	30
Small business training	Not listed	Required

The CDFI would structure the fund so that interest on loan repayments would be put back into the fund and used to provide further loans in the future. The RFI responses indicated that the fund could be structured to allow other organizations (e.g., government agencies, truck companies, or beneficial cargo owners (BCOs)) to input their own funds in the future, thereby increasing the total amount available for truck owners, with the aim that the fund be self-sustaining.

### ***Clean Truck Legislation***

At the November 7, 2017 meeting, the Managing Members directed staff to seek a technical correction to existing state law clarifying the statutory authority for public ports to invest in air quality improvement equipment, fuels, and other methods that provide emission reductions for engines, vehicles and vessels.

In 2007, the Legislature passed a law intended to allow ports to use tax revenue to support this type of investment (E2SHB 1303). Unfortunately, the language adopted had the opposite effect of disallowing these types of investments. To provide legislative clarity and clarity of authority for ports, the NWSA is requesting a technical amendment to clarify state law and fulfill the original intent of the 2007 law, the 1966 amendment to Washington, Article 8, Section 8 constitutional amendment, and RCW 53.08.041, adopted in 1975.

Senators Guy Palumbo and Shelly Short have sponsored the bill (SB 6207) in the Senate, while Representatives Mary McBride and Dan Griffey have sponsored it (HB 2540) in the House of Representatives. The House Local Government Committee heard and passed HB 2540 on January 24. The Senate Local Government Committee took similar action on SB 6207 on January 18. Both bills are now pending a Rules Committee vote in their respective chambers.

Establishing a Clean Truck Fund is contingent upon the legislature's adoption of either SB 6207 or HB 2540. Listed below is the remaining timeline for this legislative session:

Date (2018)	Action
February 14	House of origin cut-off
February 23	Committee cut-off—opposite chamber
March 2	Opposite chamber cut-off
March 7	If the bill passes by March 2, last day for the Governor to sign the bill
June 5	The law will go into effect (90 days after signing)
<b>OR</b>	
March 8	Last day allowed for regular session under state constitution
March 28	If the bill passes after March 2, last day for the Governor to sign the bill
June 26	The law will go into effect (90 days after signing)

### ***Upcoming Grant Opportunities***

There is currently no grant funding available to aid truck conversion, and no concrete grant opportunities on the horizon. Grant funding is not predictable, reliable or guaranteed. Staff will continue to pursue grant opportunities to support the targets and goals within the Northwest Ports Clean Air Strategy. Potential upcoming grant opportunities that the NWSA will be able to apply for include:

Volkswagen (VW) Mitigation Fund – Due to VW’s violation of the Clean Air Act, the Department of Justice and EPA’s civil and criminal enforcement in 2016 resulted in three funds being set up to mitigate NOx emissions from the ‘cheat devices’ installed on VW vehicles since 2009. The NWSA and the Port of Seattle plan to apply for funds from the **Mitigation Trust**. Based on the number of affected 2.0- and 3.0-liter diesel vehicles registered within the state, Washington state will receive \$112.7 million from the Mitigation Trust. The Department of Ecology will administer the funds for the state as beneficiary, and conducted public outreach in summer 2017, which the NWSA contributed to. In October 2017, Ecology published their draft plan outlining how they intend to prioritize projects to mitigate for the excess NOx emitted by the affected VW vehicles (available at: <https://ecology.wa.gov/DOE/files/41/417a6510-a669-4a10-927d-4ebc02282f4a.pdf>). The NWSA provided comments on this draft plan, and is awaiting publication of the Final Plan. Listed in Appendix B are Ecology’s current proposed funding allocations for the eligible mitigation action categories. The eligibility restrictions from the original Consent Decree for replacement drayage trucks are in Appendix B.

Staff are examining options to expand shore power use in the South Harbor under the ‘Marine Vessels’ priority, and have been working with Tacoma Public Utilities to develop a proposal. Staff are examining all necessary network and infrastructure upgrades that would be required to support the installation and use by vessels. Although up to 45 percent of the fund is proposed to go towards scrapping and purchasing drayage trucks, the plan states that the truck purchased would be required to be *“with the engine model year in which the eligible large trucks mitigation action occurs or one engine model year prior”* (i.e., essentially a brand-new truck). More affordable, second-hand trucks would not be eligible under the fund.

The VW Mitigation Fund specifically targets the reduction of NOx – the Clean Truck Fund would not be an eligible project for an application to the Fund.

### **Diesel Emissions Reduction Act (DERA) 2018**

After several rounds of partnership between Puget Sound Clean Air Agency (PSCAA), NWSA and the ports, PSCAA initially supported a joint application for the 2017 round of DERA funding for a further ScRAPs program, but subsequently prioritized its funding elsewhere due to the uncertainty of the 2018 clean truck deadline being maintained. That application was for the maximum award amount for the Pacific Northwest region, capped at \$800,000 last year. The grant requirements mandated trucks to be 2012 or newer and applicants were eligible for up to 50 percent of the cost of the truck. Assuming a used 2012 truck costs approximately \$58,000, with matching funds from the NWSA, the proposal would have scrapped an additional 70 trucks. Although finalized figures for this year’s level of funding has not yet been announced, funding is expected to be lower than in previous years and the model year requirement for used trucks will likely increase. Grant applications are usually due in early summer with awards made in the fall.

#### Ecology Clean Diesel Grants

The NWSA and the home ports have successfully applied for and used Department of Ecology Clean Diesel grants in the past for truck scrapping and replacements under the ScRAPs program and cargo-handling retrofits/replacements. In the Washington State capital budget passed this month, the Ecology Clean Diesel Grant program received \$500,000, which will be reserved for projects that are not eligible for VW funding. Staff are examining which projects would be eligible under those criteria. The Clean Truck Fund is one possibility, pending the publication of the Department of Ecology's guidelines for the grant program this cycle.

#### **D. PROJECT DESCRIPTION AND DETAILS**

The NWSA would provide a lump sum of \$1 million to a financial institution to administer market-rate loans to the port drayage community. The NWSA will provide approximately 20 to 25 percent of the total funding pool available in the fund. The remaining funds would be provided by the financial institution. The contract for the truck or retrofit loan will be between the drayage driver and the financial institution, not the NWSA. Any additional funding, from the NWSA or other private and/or public-sector parties, could be added to the fund in the future, with further matching funds from the financial institution.

The initial fund would be expected to provide market-rate financing to purchase at least 100 trucks (in the initial year). As the fund becomes more established, this number would be expected to increase. If the program is not successful, after one year, any remaining monies would be returned to the NWSA.

The ScRAPs program only funded up to 50% of the purchase value of a new truck, so truck owners still had to fund the remaining 50% themselves. To purchase a compliant truck, drivers will still have to pay a down payment on a new truck. Staff have heard comments that, as the value of an older, noncompliant truck may not completely cover this down payment, drivers will likely have a shortfall to make up, even with the aid of the affordable financing provided by this Clean Truck Fund. This may be exacerbated if many trucks of similar age and condition flood the market at once. Although this will continue to be a challenge, the Clean Truck Fund should aid drivers most at risk of this issue.

#### ***Proposed Criteria for RFP***

The NWSA would seek to enter into an initial one-year contract with a Community Development Financial Institution (CDFI), with the option to extend. The CDFI will:

- Have at least five (5) years of experience providing and administering alternate and affordable forms of financing.
- Have experience working with working with immigrant and minority communities.
- Enter into loan agreement with driver if he/she meets application criteria.
- Provide guidance and support to applicants through the loan application process.
- Be licensed to do business in the state of Washington and be bonded.
- Start program as soon as possible upon contract issuance.

Criteria for applicant eligibility will be similar to eligibility criteria established during the ScRAPs program, to ensure that port and agency dollars specifically targeted the drayage community serving the ports, and air quality improvements are targeted in near-port communities. Upon mutual agreement between the contracted CDFI and the NWSA, successful applicants will be/have:

- Either an independent owner/operator or a trucking company may apply; limited to 2 trucks/owner during life of Clean Truck Fund.
- Committed to meet additional program requirements such as maintaining registration, keeping equipment in legal operating condition, insured, correcting any air pollution citations, and reporting, repairing, or replacing equipment that has been damaged, destroyed, or stolen.
- Compliant truck that must be purchased after owner accepted into program (no pre-purchased trucks allowed).
- Regular caller at NWSA international container terminals (200 trips in the previous year). Commits to continue using truck for drayage at the NWSA international container terminals at frequency of 200/trips/year.
- Updated Radio Frequency Identification (RFID) tag registration information upon purchase of compliant truck, or purchase RFID tag if does not have one.

These criteria will be reevaluated and may be adjusted based on experience and results experienced during project implementation. Criteria may be altered by the NWSA/Port of Tacoma Contracts team and Legal Review.

#### Lessons from ScRAPs Program

The eligibility criteria for participation in the ScRAPs program evolved as new grants were added, with different requirements. Part of the CMAQ grant requirements were that the replacement truck met USDOT "Buy America" requirements (value of iron and steel content less than 90% of total value and assembled in USA). In practice, it was difficult for participants to find a compliant truck that met these requirements. The NWSA would not require this as part of an agreement with the CDFI and the truck owner.

The ScRAPs program itself did not regulate what a fair price was for a replacement truck. Participants were free to choose any participating dealer under contract with the ScRAPs program. If a participant wanted to purchase a truck at a dealer that was not yet under contract, the ScRAPs program would enter into a contract with them, so the program was constantly evolving and expanding. Dealerships under contract with ScRAPs knew that buyers had the opportunity to purchase a truck from many different dealers across the country, creating a fair competition (i.e., buyers were not restricted to only purchasing from one dealer, who would be able to control prices). There were 30 dealers under contract. This importance of freedom of choice for the buyer would help create competition in the market, helping to ensure buyers can find a fair price for a compliant truck. The Clean Truck Fund would also allow this freedom of choice, allowing buyers to find a compliant truck that meets their needs.

### ***Schedule***

In addition to the Clean Truck Pass extension offered to drivers who are in the process of obtaining other forms of financing and/or awaiting receipt of a compliant truck, staff recommends providing an extension to drivers who apply and meet pre-approval requirements of the Clean Truck Fund.

The timeline below outlines the necessary steps to meet an April 1 grace period date.

Issue RFP	February 7, 2018
Select CDFI	March 12, 2018
Execute contract, provided bill has been signed	March 29, 2018
CDFI to begin accepting loan applications	March 30, 2018

## **E. FINANCIAL IMPLICATIONS**

The Capital Investment Plan (CIP) accounts for costs associated with the Clean Truck Program, including truck technology reviews, the ongoing contract to support the RFID registry, the sticker program, the Clean Truck Fund and staff time. These costs are expensed as incurred.

### ***Source of Funds***

The 2018-2022 Capital Investment Plan allocates \$1,000,000 for this program in 2018, pending authorization. See Table 3 for detail.

Table 3. NWSA Clean Truck Program 2018 Budget

<b>NWSA Clean Truck Program</b>	<b>MID 201050.01</b>
RFID contract	\$ 150,000.00
Truck stickers	\$ 15,000.00
Outreach materials and events (space rental, food)	\$ 20,000.00
Meeting facilitation	\$ 15,000.00
Truck technology review	\$ 50,000.00
Clean Truck Fund	\$ 1,000,000.00
<b><i>Sum of outside services</i></b>	<b><i>\$ 1,250,000.00</i></b>
<i>Staff time</i>	<i>\$ 130,000.00</i>
<b>Grand Total</b>	<b>\$ 1,380,000.00</b>

## **F. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS**

Alternative 1) This request.

Alternative 2) Await another round of grant funding.



Alternative 3) Do nothing and rely solely on the market to convert the remaining trucks needed to serve the gateway.

**Alternative 1 is the recommended course.**

**G. ATTACHMENTS TO THIS REQUEST**

- Appendix A: RFI responses
- Appendix B (see below): VW Mitigation Fund Eligible VW Mitigation Action Categories and Appendix D-2 of Consent Decree

## Appendix B: VW Mitigation Fund Eligible VW Mitigation Action Categories

Proposed Department of Ecology (Washington) funding allocations for the eligible mitigation action categories.

Eligible VW Mitigation Action Categories	Fund Percentages
<b>On-Road Heavy Duty Vehicles</b>	≤ 45%
<i>Priority: Electrification of public fleets, especially transit buses</i>	
• Class 4-8 School Bus, Shuttle Bus, or Transit Bus (Eligible Buses)	
• Class 4-7 Local Freight Trucks (Medium Trucks)	
• Class 8 Local Freight Trucks and Port Drayage Trucks (Eligible Large Trucks)	
<b>Non-Road Equipment</b>	≤ 5%
<i>Priority: Electrification</i>	
• Airport Ground Support Equipment	
• Forklifts and Port Cargo Handling Equipment	
<b>Locomotives</b>	≤ 5%
<i>Priority: Publicly owned locomotives</i>	
• Freight Switchers	
<b>Marine Vessels</b>	≤ 45%
<i>Priority: Electrification of public vessels, especially ferry vessels</i>	
• Ferries/Tugs	
• Ocean Going Vessels (OGV) Shore Power	
<b>Light Duty Zero Emission Vehicle Supply Equipment</b>	15%
<b>Diesel Emission Reduction Act (DERA) Option</b>	≤ 5%
	< 120 %

From Original Consent Decree (Appendix D-2) [available at:  
<https://www.epa.gov/sites/production/files/2016-10/documents/amended20lpartial-cd.pdf>]

### ELIGIBLE MITIGATION ACTIONS AND MITIGATION ACTION EXPENDITURES

#### 1. Class 8 Local Freight Trucks and Port Drayage Trucks (Eligible Large Trucks)

- Eligible Large Trucks include 1992-2009 engine model year Class 8 Local Freight or Drayage. For Beneficiaries that have State regulations that already require upgrades to 1992-2009 engine model year trucks at the time of the proposed Eligible Mitigation Action, Eligible Large Trucks shall also include 2010-2012 engine model year Class 8 Local Freight or Drayage.
- Eligible Large Trucks must be Scrapped.

- c. Eligible Large Trucks may be Repowered with any new diesel or Alternate Fueled engine or All-Electric engine, or may be replaced with any new diesel or Alternate Fueled or All-Electric vehicle, with the engine model year in which the Eligible Large Trucks Mitigation Action occurs or one engine model year prior.
- d. For Non-Government Owned Eligible Class 8 Local Freight Trucks, Beneficiaries may only draw funds from the Trust in the amount of:
  - 1. Up to 40% of the cost of a Repower with a new diesel or Alternate Fueled (e.g. CNG, propane, Hybrid) engine, including the costs of installation of such engine.
  - 2. Up to 25% of the cost of a new diesel or Alternate Fueled (e.g. CNG, propane, Hybrid) vehicle.
  - 3. Up to 75% of the cost of a Repower with a new All-Electric engine, including the costs of installation of such engine, and charging infrastructure associated with the new All-Electric engine.
  - 4. Up to 75% of the cost of a new All-Electric vehicle, including charging infrastructure associated with the new All-Electric vehicle.
- e. For Non-Government Owned Eligible Drayage Trucks, Beneficiaries may only draw funds from the Trust in the amount of:
  - 1. Up to 40% of the cost of a Repower with a new diesel or Alternate Fueled (e.g. CNG, propane, Hybrid) engine, including the costs of installation of such engine.
  - 2. Up to 50% of the cost of a new diesel or Alternate Fueled (e.g. CNG, propane, Hybrid) vehicle.
  - 3. Up to 75% of the cost of a Repower with a new All-Electric engine, including the costs of installation of such engine, and charging infrastructure associated with the new All-Electric engine.
  - 4. Up to 75% of the cost of a new all-electric vehicle, including charging infrastructure associated with the new All-Electric vehicle.
- f. For Government Owned Eligible Class 8 Large Trucks, Beneficiaries may draw funds from the Trust in the amount of:
  - 1. Up to 100% of the cost of a Repower with a new diesel or Alternate Fueled (e.g. CNG, propane, Hybrid) engine, including the costs of installation of such engine.
  - 2. Up to 100% of the cost of a new diesel or Alternate Fueled (e.g. CNG, propane, Hybrid) vehicle.
  - 3. Up to 100% of the cost of a Repower with a new All-Electric engine, including the costs of installation of such engine, and charging infrastructure associated with the new All-Electric engine.
  - 4. Up to 100% of the cost of a new All-Electric vehicle, including charging infrastructure associated with the new All-Electric vehicle.