

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5E

Date of Meeting June 5, 2018

DATE: May 25, 2018

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Jason Jordan, Director, Environmental and Planning Services

Project Manager: Sara Cederberg, Environmental Senior Project Manager

SUBJECT: Clean Truck Fund Program Design Request

A. ACTION REQUESTED

Request Managing Members' authorization for the Chief Executive Officer or their delegate to:

- a. Develop and execute the Clean Truck Fund Program design as currently proposed by staff:
 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 nonprofit agency skilled in financial counseling to coordinate the program through March 2019.
 4. Loans will be made by Community Development Financial Institutions who meet 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.
- b. Enter into a new Interlocal Agreement (ILA) with the Washington State Department of Ecology for a \$1,200,000 contribution to the Clean Truck Fund.

B. SYNOPSIS

At the February 6, 2018, NWSA meeting, Managing Members authorized the establishment of the Clean Truck Fund with \$1,000,000 of funding. Staff has developed a proposed program design which is provided here for Managing Member review and action.

C. BACKGROUND

Since the February Managing Member meeting, the NWSA successfully received the support of the legislature to revise state law to implement the program. During session, the NWSA also received a \$1.2 million grant in the State capital budget. This funding was part of the state settlement with Volkswagen (VW) and can be used toward truck conversion, although this funding will require current trucks to be scrapped.

Staff has been in near constant contact with truck owners and drivers. The creation of the temporary access pass allowed staff to collect more information on the needs of drivers and build a contact database for all non-compliant truck owners. This list will prove invaluable as we work to get these individuals the information they need regarding truck financing and conversion as the end of year deadline approaches.

On April 26, staff convened a meeting of program “funders,” NWSA, Washington State Department of Ecology (Ecology) and Puget Sound Clean Air Agency (PSCAA) to discuss program structure and use of funds.

That meeting led to a broader workshop on May 17. Workshop attendees included funding partners, non-profits, community development financial institutions (CDFIs), truck owner representatives, and other stakeholders. The workshop allowed staff to circulate the draft concept to determine whether the structure will work and what role all parties could play. Subsequent conversations and meetings have further informed this proposed draft program.

Proposed Program Structure, Purpose and Goals

Drayage trucks are an integral component of an effective and efficient port operation. Quick turn times benefit the entire gateway and are central to providing high quality service and cargo fluidity. The NWSA is also 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 the gateway. The NWSA's Clean Truck Program aims to balance these priorities.

The purpose of this project is to expand the options available to drayage truck drivers to support truck conversion to meet the 2007 emission standard and maintain an adequate truck fleet to continue to serve the NWSA international container terminals on January 1, 2019.

Unfortunately, there is not enough funding to support every noncompliant truck, and staff recommends prioritizing drivers who frequently operate at the NWSA and have the highest need for this support. Beginning in March, drivers who could not upgrade their truck by April 2, 2018, were offered the option of applying for a Clean Truck Temporary Access Pass to gain access to the international container terminals through the end of 2018. Staff presented

the results of those applications to the Managing Members at the May 1, 2018, meeting. Approximately 2000 trucks are now entered into this temporary access system. Of those, 1250 cited that their primary duty cycle is short haul (less 50 miles) or local rail ramps (SIG/ARGO yards). When asked why their truck is not in compliance, 477 of the 1250 cited, "Unable to finance a newer truck at market rate."

The NWSA is targeting converting one quarter of the noncompliant trucks, 500 trucks, through the Clean Truck Fund with highest priority given to drivers who have frequently called the gateway over the past two years and have the largest limitations to access fair lending. Based on feedback from CDFIs, staff recommends a 10% loan loss reserve, per loan. Assuming an average loan of \$60,000 with \$10,000 down payment and administration costs, staff estimates the \$2.4 million in the Clean Truck Fund would provide a 10% guarantee for 446 loans. This assumes coverage for 100% of loans, though the expected default rate is far lower.

NWSA will procure the support of a nonprofit financial counseling agency to coordinate and administer the process. Engaging a nonprofit for this work provides an objective third party review of the driver's financial situation, help identify the best options for each driver's needs and this service will be provided free of charge. Additionally, the NWSA and homeports are neither staffed to support this type of working internally nor is it preferable to provide individual financial recommendations to truck drivers. CDFIs have indicated the critical role these counselors play in accelerating the lending process by pre-vetting and matching applicants with appropriate loan products. Lenders indicate this role will allow them to provide better loan terms and lower guarantees, which should result in the Clean Truck Fund leveraging more loans. We anticipate a cost to the NWSA of under \$150,000 to provide both this non-profit financial counseling service to the truck drivers and support tracking and reporting requirements that ensure full compliance of the program objective and the grant requirements.

In partnership with multiple stakeholders in the trucking community and the Pacific Northwest chapter of the African Chamber of Commerce, the NWSA will notify the 2000+ truck drivers enrolled in the Clean Truck Temporary Pass of the loan program and related financial counseling.

A financial counselor will meet with drivers who opt-in individually 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 (see below for details), or whether their business is not viable and should consider alternative referrals for vocational support.

Counselors will be required to assist with, review and assess:

- Complete net worth and cash flow statement,
- Complete budget,
- Review credit report and, if needed, will coach on credit usage and debt repayment,
- Verify car insurance is current and driver's license is valid,
- Conduct financial health assessment,
- Duty cycle of driver and frequency of calls to the NWSA,
- Collect as much information as possible on viability of business,

- Drivers who are good candidates for the Clean Truck Fund must agree in writing to continue to serve the NWSA for four years or the term of their lease, whichever is shorter, and maintain at least 200 calls per year. The counselor will be responsible for issuing these agreements.

Counseling sessions will be scheduled concurrently and held at three locations (South Seattle Community College in Georgetown, SeaTac, and Tacoma).

After pulling credit scores and engaging in in-depth conversations about credit, debt, cash flow, income, expenses etc., financial counselors will determine a monthly payment that each individual driver can reasonably afford for a compliant truck. The counselor then shares this recommendation with a summary of their recommendation with the Community Development Financial Institutions (CDFIs) who have opted into the program and met the NWSA criteria for participation.

CDFIs must:

- Have at least five (5) years of experience providing and administering alternate and affordable forms of financing.
- Have experience working with immigrant and minority communities.
- Enter into loan agreement with a driver if he/she meets the application criteria.
- Be licensed to do business in the state of Washington and be bonded.

Once the financial counselor makes a recommendation, CDFIs can present options for loan amounts, terms, and interest rates that will meet or beat the counselor's recommended monthly payment. The CDFIs can also state how much of the default must be covered by the Clean Truck Fund to achieve this monthly payment, up to 10%.

There is an additional requirement for loans backed by the grant from Ecology that the noncompliant truck will be scrapped and not resold. The counselor will verify the noncompliant truck has been scrapped. The counselor shall confirm through photographs and a certificate signed and dated by an authorized scrap yard that the noncompliant truck along with the engine has been destroyed or rendered useless by:

- Cutting a three-inch by three-inch hole in the engine block (the part of the engine containing the cylinder); and
- Disabling the chassis by cutting through the frame/frame rails on each side at a point located between the front and the rear axles.

There must always be 10% of total lending available in the fund. It will be up to the financial counseling agency, in partnership with the NWSA, to record and monitor the burn rate of the fund. Grant funds will be co-located in an internal account at the NWSA.

These loans will be secured by the value of the vehicle and the Clean Truck Fund will cover a percentage of the difference of loan loss after collateral is liquidated (truck is repossessed and sold).

Should a loan ever go into default, the CDFI would seek recovery of collateral, likely the truck itself, and would then request payment from the NWSA on the guarantee of their actual losses up to the 10% original guarantee amount.

After loans are fully repaid, the guaranteed amount becomes unencumbered and the NWSA may use those funds for other emission control and reduction activities.

ILA with Ecology

Funding for the Clean Truck Program was provided by the Washington State Legislature in Section 3010 of the enacted 2018 Supplemental Capital Budget. This section directs the Department of Ecology to enter into a contract with the NWSA to establish a Clean Truck Program for the purpose: Reduce Air Pollution from Transit/School Buses/State-Owned Vehicles and Vehicles Serving Ports.

- The program is statutorily required by the overarching budget section to replace and scrap old vehicles.
- NWSA staff will report the emission reductions from converted trucks associated with Ecology funding.
- NWSA will agree to spend any funds not used to guarantee loans on projects and vehicle replacement that will result in commensurate emission reductions.

NWSA will provide Ecology with a reporting of other matching funds in program and their sources. Staff is in the process of drafting and negotiating the ILA with the Department of Ecology. Typically, a request for ILA approval would not come forward until after the agreement was drafted and agreed to in principle by staff. We are requesting Managing Members approve this ILA in advance for two reasons:

First, the funding was provided in the 2018 supplemental budget, hence, it is available now. All other capital appropriation made as part of the usual 2017-2019 budget will become available July 1. Ecology staff will have many other requests from grantees at that time and it may take longer to finalize our agreement.

Second, due to schedule conflicts, the July Managing Member meeting will not be held until July 17. Waiting for that meeting to approve the ILA will slow down the implementation of the fund and program.

Should the final agreement differ significantly from the key elements outlined above, staff will bring the ILA to the Managing Members for re-approval in July.

Other Clean Truck Support Opportunities:

As previously directed by the Managing Members, staff has pursued multiple additional options to continue to support drayage truck drivers upgrading older trucks to 2007 or newer emission standards. Staff is currently pursuing two additional opportunities that, if successful, will be presented to the Managing Members for approval later in the summer.

1) Washington State Department of Ecology Clean Diesel Grant

As noted above, one of the requirements of the \$1.2 million in funding provided for the Clean Truck Fund from the State is that the noncompliant trucks be scrapped. In the past, NWSA and the home ports have offered scrapping grants to fund up to 50% of the replacement cost of the new truck. This grant will be different. To meet the requirement for Ecology and avoid shifting older, polluting trucks to other places, staff recommends supplementing the difference between trade-in value and the value of the scrap metal for a scrapped truck. For example, if a 2001 Freightliner is worth \$12,000 in trade-in value, but only \$3,000 in scrap metal, this grant would give the truck owner a voucher for the difference (\$9,000), up to \$10,000.

Approximately \$500,000 total is available for projects within three eligible project categories:

1. Idle reduction projects using fuel-fired heaters
2. Marine shore power systems for harbor vessels
3. Scrap incentives for heavy-duty on-road vehicles and buses

The NWSA proposes applying for the third category. Awards for scrap incentives will be limited to a maximum amount of \$10,000 per scrapped vehicle, not to exceed the current fair trade-in value offered by commercial vehicle dealers in the region.

The financial counselors who will manage the intake of drivers in the Clean Truck Fund would also administer this grant, and the costs associated with management would be built into their overall fee. Ecology limits the amount that can be charged for project administration by the project applicant at 10 percent of total project costs.

Assuming an average voucher of \$6,000 (the average trade-in value of \$8,865 minus the value of the scrap metal), at least 90 trucks could be served if the full \$500,000 award is granted. If one third of the grant is awarded, at least 35 trucks would be served.

Ecology's Clean Diesel Grant program, separate from the \$1.2 million, is now accepting applications through June 7. Notice of award will be July 19.

2) South Coast Air Quality Management District 2017 DERA Grant

In 2017, the California South Coast Air Quality Management District (SCAQMD), in partnership with the Puget Sound Clean Air Agency and Oregon Dept of Environmental Quality, successfully applied for a 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. Under this program, SCAQMD 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 WA to replace a pre-2007 truck and the pre-2007 truck will be scrapped. The total selling price of the 2012-compliant truck cannot exceed \$30,000. The Washington truck purchaser will pay the SoCal fleet owner up to \$30,000 for the sale of the 2012-compliant truck.

PSCAA was originally going to administer this program in Washington, but is no longer able to and approached NWSA to take over the project. Ten trucks are available and all have very low mileage, 50,000-100,000, are 2012 or newer and will cost no more than \$30,000.

Staff proposes accepting these trucks and including the driver selection process and grant administration in the scope of work for the consultant managing the Clean Truck Fund. This grant will provide \$25,000 to cover administrative costs.

The change in grant management must go before the SCAQMD board, scheduled for early July. If approved, the related ILA would be presented to the Managing Members in July or August.

D. FINANCIAL IMPLICATIONS

Financial Impacts

Funding contributions from other agencies will be recognized as grant income when received. Administrative costs and guarantees paid-out will be operating expenses in the period incurred. If any grant funds remain at the conclusion of the program, they will be internally restricted for future eligible environmental projects.

Source of Funds

The Managing Members previously authorized \$1,000,000 for this project at the February 6, 2018, meeting. The 2018-2022 Capital Investment Plan (CIP) allocates \$1,380,000.00 for the Clean Truck Program of which, \$1,000,000 has been allocated for this project.

In addition, the NWSA received a \$1.2 million grant from the State of Washington Department of Ecology through the WA State settlement with Volkswagen and the Puget Sound Clean Air Agency is considering a \$200,000 grant in support of this effort.

Less than 10 percent of the total fund will be used toward administration, loan vetting and financial counseling.

Source	Amount for Loan Loss Reserve	Amount for Scrap Bounty	Cost of Administration
NWSA	\$830,000	-	\$145,000
Dept of Ecology	\$1,200,000	-	-
PSCAA	\$200,000	-	-
Clean Diesel Grant*	-	Up to \$500,000	\$15,000
SCAQMD DERA*	-	-	\$25,000
Total	\$2,230,000	Up to \$500,000	\$185,000 (6.8%)
Number of Trucks Served	446 @ \$5,000 reserve	Up to 92 @ \$6,000 bounty	

* Pending grant award and Managing Member approval.

The balance of funds will be held in a 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.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative:** Truckers will be required to find trucks and appropriate financing without support from the NWSA. Some truckers will be left without access to market rate financing and be forced to leave the business.
- **Recommended Action:** Authorize the draft program design.

F. ATTACHMENTS TO THIS REQUEST

- Appendix A: February 6, 2018 Memo to Managing Members for Clean Truck Fund Authorization
- Computer slide presentation

G. NEXT STEPS

- Enter into contract with not-for-profit partner
- Hold 6/9 workshop with truckers
- Bring ILAs with Ecology and PSCAA to Managing Members for action

H. PREVIOUS ACTIONS OR BRIEFINGS

- 2/6/2018 – Managing Member authorization of \$1,000,000 and direction to establish the program.
- 5/1/2018 – Program update at Managing Member meeting