

Port of Tacoma (Post Formation of the NWSA)

What Stayed the Same

- Remains a Port Authority (Municipal Corporation) governed under RCW Title 53.
- No change to port powers or statutory compliance requirements (ex. maintain debt coverage requirements, statutory budget filing, environmental stewardship)

What Changed

- Created an Inter-local agreement (charter) to form a Port Development Authority that is governed jointly by the Ports of Tacoma and Seattle.
- Marine Cargo business activities including licensed properties are now directly managing by the Northwest Seaport Alliance (NWSA) on behalf of the home ports.

Impact to the Port of Tacoma

- Over 80% of the Port of Tacoma's revenue generating activities are now managed as part of the NWSA. The overall marine cargo related revenue generating activities that occur in the Port of Tacoma (non-licensed activities that are part of the marine cargo supply chain) is closer to 90%.

2017 Port of Tacoma Actual Results

Entity	Gross Revenues	Operating Income
NWSA (50% to POT)	\$98 million	\$55 million
Port of Tacoma (non-licensed)	\$22 million	\$ 5 million[2]

- The Port of Tacoma assumed the *Managing Partner* [1] role for the NWSA due to the high percentage of its overall business activities transitioning to the NWSA (ex. Consolidation and reporting of financial information, cash management, compliance with Master Policy Resolution).
- The Port of Tacoma and NWSA implemented a dual leadership model during the transition phase.
- Currently the NWSA Executive leadership serves as the Port of Tacoma leadership and the NWSA support services are purchases from the home ports.

Notes:

[1] Managing Partner role is defined as the lead agency for purposes of managing the statutory and compliance activities for the joint venture.

[2] Operating income before depreciation and non-operating expenses. 2018 budgeted amount is \$3 million.

Transition Questions

1. What is the optimal functional organization and leadership structure for the home ports of Seattle and Tacoma and the NWSA? (Three alternatives have been developed)
2. What are the specific Economic Development areas of focus for the Port of Tacoma?

Current State

The Executive leadership for the NWSA also serves as the executive leadership for the Port of Tacoma. The NWSA Charter section 2.6 defines a transition period of up to 5 years to allow for dual leadership of the NWSA and the Port of Tacoma. This transition period concludes August 2020.

In April 2017, staff presented alternatives one and two. The recommendation was that alternative two met the requirements of the charter and provided a more cost effective sustainable solution to alternative one (three separate organizations). Staff also noted that additional review was necessary to determine the preferred alignment of jurisdictional labor activities. Based on this review, alternative three was developed as a potential solution to ensure that management oversight and decision making is maintained for critical services that spend the majority of their time supporting the NWSA.

Functional Alternative 1:

Stand Alone Organizations for the NWSA and home ports

Organizational Structure

All three organizations would have separate leadership teams, separate and distinct strategic plans and goals, and separate staff resources. Under this model, each organization would establish its own operations and support functions and would not leverage existing support services between organizations. Any additional support services the NWSA might require would be purchased from a third party (either one of the home ports or another third-party entity).

Potential Advantages

This option provides clear decision-making authority for each separate entity and provides direct accountability for the support services.

Potential Barriers

This is a high cost solution.

This model would require changes in labor groups in both the North and South Harbor to separately align the work by entity. Gaining labor support to enable this change would be a significant barrier and likely involve a protracted negotiation.

Cost Implications

One of the most significant implications of this model is duplication of staff roles and substantial costs and effort required to implement separate infrastructures to support separate POT and NWSA organizations.

The estimated one-time transition costs take into consideration the setup and support of functions, systems, and infrastructure required to run the business, including (but not limited to):

- Infrastructure and data center (including phone/voice, electronic communications, video)
- General ledger/financials/treasury
- Maintenance/purchasing/stores
- Project Management and construction (capital improvement)
- Exchange environment (data/information sharing and interface, intranet)
- Public Records
- Human Resources/Payroll
- Terminal Management (including security and access control)
- Lease Management

Based on industry experience, the one-time costs necessary to establish infrastructure and systems for a stand-alone entity can be estimated based on the annual support costs. The industry benchmark is 4-5 times annual support costs. The NWSA currently relies on the home port of Tacoma for most of its systems. The NWSA leverages IT infrastructure in both harbors to support the needs of the entity. The estimated future annual support costs associated with the systems is approximately \$4 million, resulting in an estimated one-time transition cost of \$16 - \$20 million. This estimate also assumes a loss in vendor leverage which results in losses of vendor discounts.

Staffing costs will be higher due to duplication of roles with the development of three separate leadership teams and the creation of separate support service groups.

Functional Alternative 2:

Separate Executive Leadership for the NWSA and home ports with support services from the home ports

Organizational Structure

This alternative would utilize existing support services already provided by the home ports to the NWSA as well as third party options as needed. There would be duplication of staffing roles among organizations. The duplication would primarily be in the executive leadership roles and additional roles necessary to support the on-going

management associated with purchasing services from organizations with separate leadership.

Potential Advantages

All three organizations would have separate leadership teams, and separate and distinct strategic plans which would provide clear accountability for business goals and expectations.

Potential Barriers

The NWSA would be purchasing critical support services from both home port while having no direct management control over these functions. Several work groups in the Port of Tacoma spend as much as 88% of their time supporting the NWSA and the remainder supporting the home port activities. Many of these groups have represented work activities as part of ILWU local 22. Furthermore, under this scenario Port of Tacoma would oversee critical support services for the NWSA, thereby creating the potential for Port of Tacoma to exert more control over the NWSA.

Cost Implications

The primary one-time cost implications associated with the model are associated with integrating work activities and tools for transactions originating in the North Harbor. These costs exist under all alternatives and are estimated at \$1 – 3 million.

Separately, staffing costs are anticipated to increase to accommodate additional leadership roles and some support roles necessary to oversee services between the organizations.

Functional Alternative 3a:

Dual Leadership (NWSA/POT) with home port support services; Port of Tacoma Economic Development leadership reporting to POT Commission

Organizational Structure

This alternative would leave in place the current leadership structure and support services for the NWSA. Separately, the Port of Tacoma would develop a separate Economic Development function reporting directly to the commission. This function would focus exclusively on developing new economic development opportunities for the Port of Tacoma. The NWSA leadership would continue to manage the supply chain and support services from the Port of Tacoma.

Potential Advantages

Provides greater management decision making over the critical support services for the NWSA that reside in the home port of Tacoma.

Minimizes additional staffing costs associated with managing the work activities that support both entities.

Cost Implications

The primary one-time cost implications associated with the model are associated with integrating work activities and tools associated with transactions originating in the North Harbor. These costs exist under all alternatives and are estimated at \$1 – 3 million.

Separately, staffing costs increases are anticipated to be limited to the hiring of an economic development resource.

Functional Alternative 3b:

Dual Leadership (NWSA/POT) with home port support services; Port of Tacoma Economic Development reporting to CEO

Organizational Structure

This alternative most closely reflects the current organizational model and recognizes the need to make an additional resource investment to support economic development activities for the Port of Tacoma. There would not be any duplication of staffing roles among organizations (specifically Port of Tacoma and NWSA).

Potential Advantages

Provides greater management decision making over the critical support services for the NWSA that reside in the home port of Tacoma.

Minimizes additional staffing costs associated with managing the work activities that support both entities.

Potential Barriers

This alternative requires the NWSA CEO to continue in a long-term oversight role of supporting Economic Development activities for the home port of Tacoma that are separate from the NWSA.

Cost Implications

The primary one-time cost implications associated with the model are associated with integrating work activities and tools associated with transactions originating in the North Harbor. These costs exist under all alternatives and are estimated at \$1 – 3 million.

Separately, staffing costs increases are anticipated to be limited to the hiring of an economic development resource.

Supporting Information

Implications of labor related work activities supporting the NWSA.

Current State

Local 22 (an affiliate of the ILWU) has 4 separate collective bargaining agreements (CBA) that have jurisdictional rights to work activities in the South Harbor. These agreements cover work performed by maintenance, security, customer service, rail car coordinators, purchasing, front desk, mail courier, inspectors, technicians, and administrative assistants. See Exhibit 1.

Recommendation

Staff engaged with members of the represented work force at the Port of Tacoma in 2017 to explore whether the represented work force should continue to bargain with the Port of Tacoma or transition to the NWSA. Labor's recommendation was to bargain directly with the Port of Tacoma and the elected Commissioners in Pierce County.

Exhibit 1: POT Group/Function Containing Represented Work Activities

Group	Function	Includes Represented Work	Supports NWSA & POT
Real Estate/ Economic Development	Real Estate Development		X
	Lease Administration		X
Operations	Customer Service	X	X
	Rail Car Coordinators	X	X
	Maintenance	X	X
	Security	X	X
	Risk Management	X	X
	Terminal Security (SSAT)	X	X
Finance & Administration	Accounting	X	X
	Treasury		X
	Budget		X
	Financial Analysis		X
	Contracts & Purchasing	X	X
	Administrative support	X	X
Facilitates Development	Engineering	X	X
	Environmental		X
	Planning		X
	Administrative support	X	X
Human Resources	Compensation		X
	Benefits		X
	Labor Relations		X
Public Affairs	Administrative support	X	X
	Government Affairs		X
	Communications		X
	Community engagement		X