COMMISSION STUDY SESSION

Item No: 10A

Meeting: 11/19/20

DATE: November 4, 2020

TO: Port Commission

FROM: Eric D. Johnson, Executive Director

Sponsor: Jason Jordan, Director, Environmental and Planning Services

Project Managers: Tony Warfield, Environmental Senior Project Manager, and Mark Rettmann, Environmental Project Manager II

SUBJECT: STUDY SESSION: Mitigation Banking Policies

A. STUDY SESSION: MITIGATION BANKING POLICIES

Staff seeks Commission input in establishing policies for the use and potential sale of mitigation credits from the Port's mitigation bank.

B. BACKGROUND

Project proposals that impact wetlands, other waters of the US (waters regulated under the US Clean Water Act), and waters that fall under state and local environmental regulations require compensatory mitigation for those impacts[1]. That mitigation is usually accomplished through reestablishing or creating new habitat to replace what will be lost. Depending on the circumstances, the permitting agency usually requires that more habitat is built than is lost/impacted in any given project. Some projects could require a mitigation ratio of up to 6:1 (6 acres built for every 1 acre lost/impacted).

There are many approaches a public organization can take to project mitigation from narrow square foot by square foot of onsite mitigation replacement to full watershed-based approaches. The Port's fundamental approach is rooted in the Puyallup Lands Claim Settlement. The Port's Commission approved approach is to build habitat mitigation in advance of its need (most permits give a project proponent five years after impact to build mitigation) and to focus on salmon recovery as opposed to narrower views of compensatory mitigation, such as wetlands with no salmon habitat.

[1] There are four types of compensatory mitigation: proponent provide concurrent, in-lieu fees, advance, and bank. The mitigation ratios are generally worst for proponent provided concurrent and best for bank. The disparity stems from temporal loss (or lack thereof) of habitat and risk of establishing new habitat. Many proponent-supplied concurrent mitigation projects fail or don't reach full ecologic value and thus agencies require higher ratios to account for those risks. Bank mitigation poses the least risk and, therefore, has the lowest required (best) mitigation ratios.

The Port of Tacoma has a history of more than 30 years of providing exceptionally high ecological value mitigation. The Port has built over 20 habitat sites, totaling 148 acres, and has preserved an additional 40+ acres. Our approach has been used as a template of success by others public agencies to enhance salmon recovery in the Lower Puyallup[2]. In 2014, Port Commission memorialized our approach in the Port-Wide Mitigation Strategy (Resolution 2014-02). There are three fundamental principles that emerge from that Strategy:

1. Do not locate mitigation sites in the path of future development. Protect the working waterfront by viewing mitigation sites as a permanent part of the Port's infrastructure.
2. Build large strategically located mitigation sites where they can do the most ecologic good, particularly in support of migrating salmonids. These large sites are also more cost effective to design, construct and maintain than numerous small sites.
3. Build sites in advance of their need. This both stems from the Puyallup Land Claims Settlement and allows the Port to take advantage of improved mitigation ratios (e.g., replacing one acre of impact with approximately one acre of advance/bank mitigation rather than replacing two or three acres if built concurrently) and thus reducing our overall mitigation costs, while providing maximum ecological benefits.

An administratively difficult but possibly financially advantageous way of implementing these principles is through the use of an environmental mitigation bank. In Washington State, these mitigation banks are approved by the US Army Corps of Engineers (Corps) and the Washington State Department of Ecology (Ecology) in close consultation with other interested governmental bodies, including tribes. Navigating a mitigation bank from inception through establishment is a notoriously difficult administrative process in Washington. Most mitigation banks take more than six years to certify and permit and most private parties have concluded the process takes too long to be commercially viable. Staff from the Ports of Tacoma and Seattle and The Northwest Seaport Alliance (NWSA) have worked with the Corps and other interested agencies on process improvements that will hopefully allow future mitigation banks, including the Port of Seattle's bank and any additions to the Port of Tacoma's bank to move on a much faster track.

As the Port's Mitigation Strategy makes clear, there are very significant advantages to mitigation banking once a bank is in place. These include:

1. Lower cost of mitigation per acre of development impact because of efficiency of scale/size and better mitigation ratios;
2. As compared to concurrent mitigation, advance mitigation and banks have more certainty in permitting schedule and mitigation cost in that little negotiation regarding project mitigation is required; and
3. Mitigation bank credits are an asset that can be sold for revenue or used to support tenant and/or development partners' projects.

[2] This includes Pierce County, Floodplains for the Future, South Puget Sound Salmon Enhancement Group, City of Sumner.

The Port's approved bank produces two types of environmental mitigation credits including 12.56 Acre-Credits (the currency for wetland credits) with an associated 273.16 Discounted Service Acre Years (DSAYs) credits (the currency of fisheries credit under the Endangered Species Act [ESA]) when all credits are eventually released over the next 7 years. On September 24, 2020, the Port received its first credit release of 1.76 wetland credits and 38.28 fish credits. The Port anticipates an additional release of 4.59 wetland credits and the associated 98.52 fish credits within the next year (upon approval of monitoring reports) with the remaining 6.21 wetland credits and 136.36 DSAYs released over the next 7 years.

As this is Pierce County's only active bank, it is difficult to provide a precise value of the bank credits. We are continually approached by private and public parties requesting mitigation bank credits. One party asked for first right of refusal for all the bank's credits. Prior to the pandemic, Port staff estimated there was at least three times the demand as there were credits in the Port's bank.

The only price point for reference is the Pierce County's In-Lieu Fee program which sells credits for roughly $1.4 million per wetland credit (acre-credit). That program is based on a Category III wetland with no fish credits (DSAYs). The Port's bank is a Category I (best) wetland with significant fish credits including ESA-listed Chinook. In conversations with prospective buyers, Port staff are clear that if the Commission choses to sell credits, the price will be set by the Commission or a Commission approved mitigation bank policy. No potential credit buyers have expressed concerns at the theoretical price of $1.4 million matching that of Pierce County's In-Lieu Fee program. Using the County's price as the only surrogate, the Port's mitigation bank would have a total value of nearly $18 million in 7 years when the remainder of the 12.56 credits have been released. The value would be higher if the credits are sold at a higher price. This analysis discusses pricing for wetland credits as there are more price comparisons available. As wetland credits and fish credits are dual credits (tied together), the price for fish credits can be back calculated from the wetland credit price.

The Port spent approximately $8 million on the bank portion of the Upper Clear Creek (UCC) Mitigation Site. Thus, the cost of developing each acre credit of wetlands is approximately $637,000. The cost of developing each fish credit (DSAY) is approximately $29,000.

The Port has completed a basis of design (BOD) for Port owned property next to the existing bank site that would allow for approximately 10 acres of expansion providing approximately 2-4 Acre-Credits (wetland credits) with potentially an associated 120-170 fish credits. Both wetland and fish credit potentials depend on the design alternative selected, and agency negotiations. This site is a good example of the inefficiency of smaller sites where much of the potential credit is lost to buffer requirements, thus making the cost per credit substantially higher than a larger site. In addition, the above project will allow relocation of a portion of the bank non-creditable buffer which could then generate an additional approximately 0.58 wetland credits for the bank. According to regulatory agency staff, amending the current bank to expand in this area would take about 4 years.

Existing Mitigation Credit Portfolio

The Port currently has one approved advance mitigation site with mitigation credits (Place of Circling Waters [POCW], one approved mitigation bank with mitigation credits (Upper Clear Creek Mitigation Bank [Bank]), and one advance mitigation site (Lower Wapato Creek Habitat

Project [LWCHP]) currently in permitting and design for approval and mitigation credit release beginning in 2023. Various types of aquatic resources can be impacted, which herein are generally referred to as "wetlands" and "fish" impacts or credits (generically "Habitat Impacts"). The total anticipated mitigation credits from these three sites and credit availability (based on credit release schedules of each site) are provided in Table 1 and summarized below:

- Five Years (2025): 19.74 wetland credits with an associated 358.45 fish credits
- Ten Years (2030): 25.98 wetland credits with an associated 385.42 fish credits

Table 1: Projected Mitigation Credit Portfolio

Mitigation Site	Mitigation Credits		
	Current (2020)	5 Years (2025)	10 Years (2030)
Place of Circling Waters Advance Mitigation Site	3.42 wetland (112.26 fish)	3.42 wetland (112.26 fish)	3.42 wetland (112.26 fish)
Upper Clear Creek Mitigation Bank	1.76 wetland (38.28 fish)	11.32 wetland (246.19 fish)	12.56 wetland (273.16 fish)
Lower Wapato Creek Advance Mitigation Site (planned)	0 wetland	5 wetland (n/a fish)	10 (n/a fish)
Total	**5.18 wetland (150.54 fish)**	**19.74 wetland (358.45 fish)**	**25.98 wetland (385.42 fish)**

See the attached map entitled "Mitigation Credit Portfolio and Potential Development Sites" which displays the above three mitigation sites and the eight potential development projects described below.

Potential Development Projects with Possible Impacts to Wetlands

The Port owns more than 2,700 acres of property and maintains a list of potential development and redevelopment (development) projects, along with an inventory of critical areas and wetlands. The list of potential development projects could possibly impact up to 40 acres of wetlands (not considering timing of development projects or changing sizes of wetlands). The list of potential development projects has been categorized into three development timeframes: 1) less than 5 years, 2) 5-10 years, and 3) greater than 10 years. The uncertainty of conducting a project increases as the development horizon increases and is largely dependent on market demand and economic conditions. The lists have been revised to delay potential development projects to later timeframes based on the current economic and COVID-19 climate. Only the first two development timeframes are used in this analysis of potential credit needs and remaining credit balance. Any actual project would be approved and authorized based on the master policy.

The “less than 5 years” development timeframe list of potential projects includes the following:

- Thorne Road properties (Parcel 72, 85, 87) redevelopment located at Port of Tacoma Road (near the Washington United Terminals [WUT] and Husky Terminal truck queueing lot);
- Former Tacoma Public Utilities site (Parcel 117) redevelopment near Taylor Way and 11th Street on the Blair-Hylebos Peninsula; and
- Former Tacoma Public Utilities site (Parcel 6, 114) redevelopment

The “0-10 years” development timeframe list of eight potential projects includes the above three “less than 5 years” projects plus the following:

- Earley Business Center ramp/shoreline redevelopment
- Fabulich Center area redevelopment/expansion
- Mouth of the Hylebos Waterway remediation mitigation (American Construction liability)
- Wheeler-Osgood Waterway/shoreline redevelopment
- WUT pier extension

Table 2 below provides a summary of the projected mitigation credit balance (credit availability) for the 5-year (2025) and 10-year (2030) development timeframes. Based on the projected mitigation credit portfolio (Table 1) and the potential development projects listed above, within 5 years (by 2025) the Port is projected to use 7.60 wetland credits and have a remaining balance of 12.14 wetland credits. Within 10 years (2030) the Port is projected to use 15.00 wetland credits and have a remaining balance of 10.98 wetland credits, assuming no Bank credits are sold. This analysis only considers wetland credits as the Port has a higher need for wetland credits and they are easier to estimate the needs than fish credits.

The Port’s total needed (used) credits is subject to Port development plans (could go up or down) and is subject to change based on when the credits are needed/used and performance of the mitigation sites for releasing credits. If we accelerate development and need credits sooner than assumed, we will have fewer credits available at the given timeframes, if development (and associated impacts) happens at a slower pace than assumed, we will have a higher remaining balance of credits at the timeframes noted.

Table 2: Projected Mitigation Credit Balance (Existing Credits minus Potential Needs)				
Development Timeframe	Impacted Habitat (ac)	Mitigation Need (ac-credits) Adv/Bank Ratios	Available Mitigation Credits (ac-credits) 5-Year Balance (2025) 19.74	Available Mitigation Credits (ac-credits) 10-Year Balance (2030) 25.98
<5 Year (2025) Development Timeframe (3 Projects)	8.27	7.60	19.74 - 7.60 = **12.14**	25.98 - 7.60 = **18.38**
0-10 Year (2030) Development Timeframe (8 Projects), includes above 3 projects	13.27	15.00	19.74 – 15.00 = **4.74**	25.98 – 15.00 = **10.98**

Notes/Assumptions:

- a Projected available mitigation credits for 2025 and 2030. See Table 1 for details.
- Development projects, impacts, and timeframes are estimated and are not based on any specific existing plans. Projects may occur earlier or later which would result in less or more credits available at the 5-Year and 10-Year Balances, respectively.
- "Impacted Habitat" is estimated and actual project impacts may be more or less depending on the design of a project and the actual size of the habitat at the time of the project.
- "Mitigation Need" reflects advance (adv) and bank mitigation ratios which are typically the best available mitigation ratios. Concurrent mitigation may require two to three times the amount of mitigation as compared to the Adv/Bank Ratios

C. POLICY QUESTIONS

1) Will the Port sell bank credits under any circumstance?

a. ***No. The Commission may choose not to sell credits under any circumstance.*** If that is the case, then much of the rest of this analysis is moot. Staff would need to finalize how the use of credits affects the proforma of Port and NWSA projects that make use of the credits. Use of credits would be authorized by the Commission as part of the project authorization process or potentially as a dual action vote for NWSA projects.

Advantages:

- Maintains all existing credits for Port use.
- The easiest path forward administratively (avoids further policy development, new accounting treatments and some work with regulatory agencies).

Disadvantages:

- Removes potential source of revenue.
- Eliminates Port support of our development partners' projects, economic development within Pierce County, or help homeowners or small developers with their mitigation needs[3].
- Minimizes incentive to expand current bank (any future habitat development would be for advance or concurrent mitigation to support Port projects).

b. Yes. The Commission may choose to sell credits, based on defined circumstances or criteria. If the Commission chooses to sell credits several further policy questions will need to be addressed and are discussed below.

Advantages:

- Provides a new revenue source.
- Expands the program to support our development partners on mutually beneficial projects, economic development within Pierce County, and potentially Pierce County homeowners and small developers.
- Provides direct incentive and revenue source for Port to expand our Mitigation Bank and provide additional high-quality fish and wetland habitat at a large, landscape scale which is more ecologically beneficial than small, disconnected, and isolated habitat sites.

Disadvantages:

- The Port would have to very carefully manage our credit balance between our three credit sources (bank, Place of Circling Waters advance credits, and future Lower Wapato Creek advance credits) and the Port's projected credit needs and

[3] Homeowners and small developers tend to struggle significantly to provide mitigation for their own needs complicating their permitting processes and producing mitigation with a high failure rate.

timing. Credits will need to be managed to ensure credits are available to support the Port's own business opportunities.

- An active bank (selling and producing more credits) would be a significant administrative effort. The banking process is slow, cumbersome, and requires significant consultant and staff resources to establish a bank.

Staff Recommendation: The Port should consider selling credits.

2) If the Commission chooses to sell credits, to whom will they be sold? If the Commission chooses to sell credits, the Port will need a policy to determine to whom credits will be sold, whether sales are limited to only certain categories of customers/partners, or whether instead, the credits will be sold on the open market.

a. ***Customer/partner focus:*** The Commission may choose to sell credits only to Port customers or other development partners (transportation agencies, railroads, etc.). Each transaction would require Commission approval, as does the sale of comparable Port assets.

Advantages:

- Focuses an important Port asset (mitigation credit) directly on our business needs and the needs of our direct service providers (such as road/highway departments and rail providers).

Disadvantages:

- Eliminates a significant portion of the potential market for our credits.
- Reduces or eliminates ability to support broader economic growth in Pierce County by providing mitigation.
- Creates perception of excluding residential and most smaller developers with their mitigation needs.
- Unless sufficient criteria are established, a potential buyer could approach the Port to purchase credits in support of a project inconsistent with Port goals and Strategic Plan.

b. ***Sell on open market:*** The Commission may choose to make credits available on an open market within our service area (lands generally in the Lower Puyallup River area). Each transaction would require Commission approval.

Advantages:

- Maximize the number of potential customers and therefore demand for our credits.
- Allows the Port to support broad economic development within the Pierce County (within the Bank credit service area).
- Allows the potential for the Port to provide a service to residential and small developers (within the Bank service area).

- Supports a mitigation credit revenue source. Revenue could be used to renew/maintain the Port's credit balance portfolio (advance or bank).

Disadvantages:

- The Port has a limited supply of credits and producing more bank credits is a slow and difficult process. However, maintaining the Port's credit portfolio by producing more advance mitigation credits for only the Port's use is more efficient and has some similar mitigation ratio advantages as bank credit.
- Unless sufficient criteria are established, a potential buyer could approach the Port to purchase credits in support of a project inconsistent with Port goals and Strategic Plan.

Staff Recommendation: The Port should only consider selling credits to public entities that provide infrastructure to support port operations. Each sale should be addressed on a case-by-case basis.

3) *If the Commission chooses to sell credits, what pricing policy should be established?*

Pricing models: There are many pricing models the Port could choose from. Four are outlined below:

i. ***Cost Plus Model:*** Under this model the Port would pre-determine the rate of return it will accept. For example, if that rate of return is 20% a wetland credit would cost $764,400 ($637,000 x 1.2 = $764, 400). The cost of a fish credit would be $34,800 ($29,000 x 1.2 = $34,800). The Port may choose to escalate the price of unsold credits each year to account for inflation.

Advantages:

- Clear and transparent pricing provide a pre-determined rate of return on our investment (assuming demand exists at chosen price).

Disadvantages:

- May not maximize rate of return on Port's investment.
- May not keep up with the incremental cost to replace the sold credit (i.e., the cost for creating additional credit to maintain the Port's credit portfolio).

ii. ***Peg to Pierce County's In-Lieu Fee program*:** Under this model the Port would simply use the price as established by Pierce County for their In-Lieu Fee program.

Advantages:

- The Pierce County's In-Lieu Fee price is established based the Corps In-Lieu Fee pricing guidelines (based on their cost accounting), using that price is a transparent process but not necessarily reflective of the Port's bank site.

- Uses a price as set by the closest thing there is to a market price in Pierce County.
- Price theoretically incorporates the full life-cycle cost of establishing and maintaining mitigation sites and accounts for inflation.

Disadvantages:

- Given that the Pierce County program is in a different watershed/service area and does not include a fish benefit that price may not reflect the full value of the Port's bank credits. It may under-value the Port's bank credits.

iii. ***Price set by open market:*** Under this model the Port would use a bidding process to make credits available. The highest bidder would receive the credits. The Port would need to establish a minimum bid price and choose not to sell if no bids at least matched that price in order to comply with statutory requirement that when offering these types of services to others, the Port must include conditions and set rates sufficient to reimburse the Port for all costs, including reasonable amortization of capital outlays caused by or incidental to providing the services.[4]

Advantages:

- Of all options would best maximize return on the Port's investment.
- The process is clear, transparent and objective.

Disadvantages:

- Port may face criticism of favoring customers with the deepest pockets over those with the most acute needs. A project with the most money behind it is not necessarily a project that provides the most high-wage jobs.
- The Port may not time the market well and miss demand spikes or sell in times of low demand. However, a minimum price could guarantee a rate of return.

iv. ***Set Price as Replacement & Management Cost:*** Under this model the Port would set the price based on what it would cost to replace the bank site/credits including long-term management costs of all banks, bank sites, and bank management. The Port may choose to escalate the price of unsold credits each year to account for inflation.

[4] RCW 53.08.040, A Port "**may make such facilities available to others under terms, conditions and rates to be fixed and approved by the Port Commission**. (2) Such conditions and rates shall be sufficient to reimburse the Port for all costs, including reasonable amortization of capital outlays caused by or incidental to providing such other pollution control facilities.(3) No part of such costs of providing any pollution control facility to others shall be paid out of any tax revenues of the Port."

Advantages:

- Sets a known return on the Port's investment and/or provides revenue for expanding mitigation banking (create or expand a bank to replenish credits).
- Lowers the likelihood of selling out of bank credits too fast and controls demand with price if credit supply is a concern to the Commission.
- Price may be similar to or above the open market pricing model.
- The process is clear and transparent.

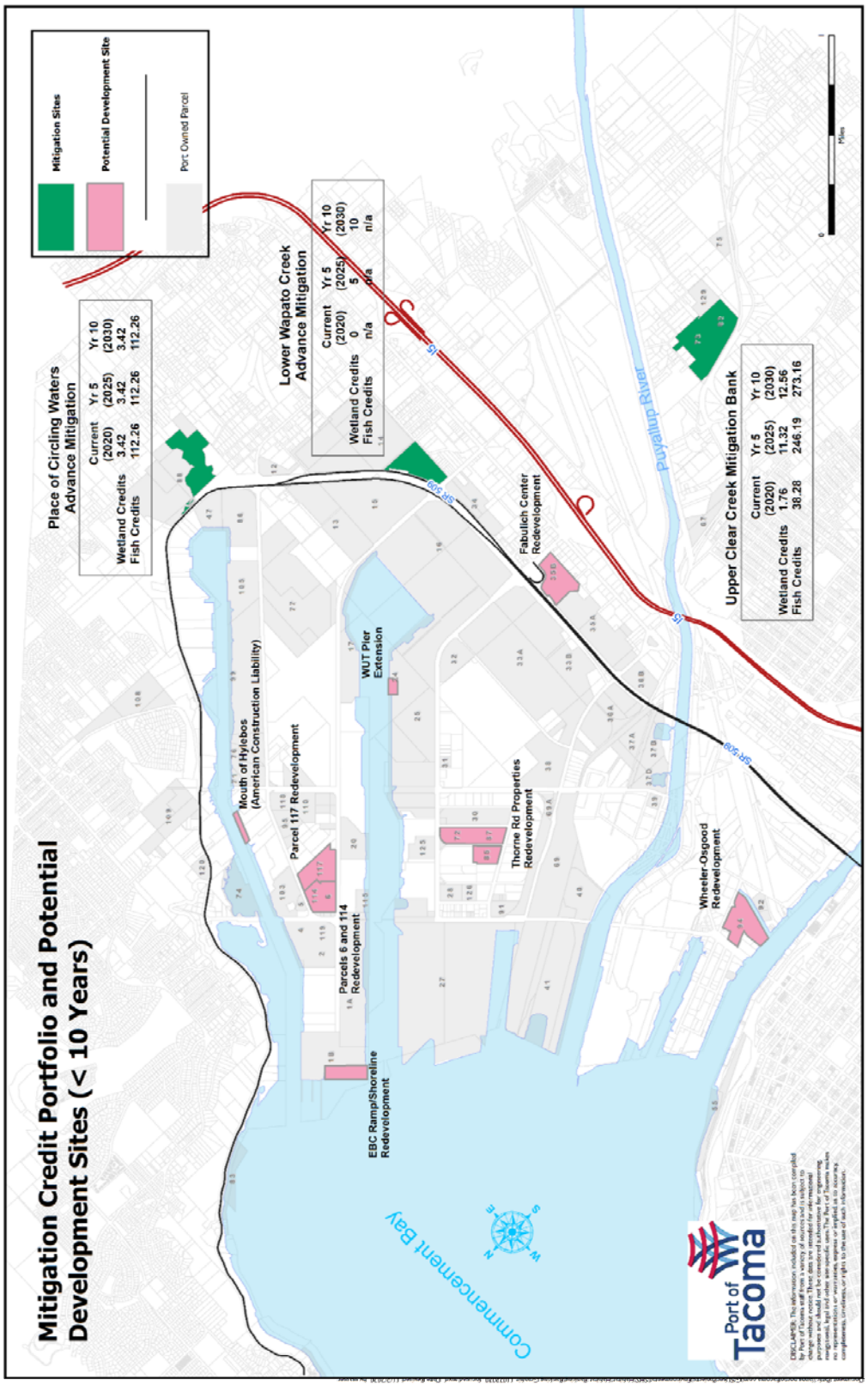
Disadvantages:

- May limit who can or wants to buy credits.
- Likely lowers demand of credits.

Staff Recommendation: The Port should use a Cost Plus pricing model, i.e., cost + 20%.

D. NEXT STEPS

- Draft language implementing Commission policy direction (Q1 2021).
- Present draft language for Commission approval either as an independent policy effort or as part of the Port's Master Policy update process (Q1 2021).
- In the Port's Strategic Plan or the Mitigation Strategy (Resolution 2014-02), review how mitigation credits should be developed/replenished to generate revenue and/or to maintain the Port's mitigation credit portfolio.


Mitigation Credit Portfolio and Potential Development Sites (< 10 Years)
Mitigation Sites
Potential Development Site
Port Owned Parcel
Place of Circling Waters Advance Mitigation
Current (2020) Yr 5 (2025) Yr 10 (2030)
Wetland Credits 3.42 3.42 3.42
Fish Credits 112.26 112.26 112.26
Lower Wapato Creek Advance Mitigation
Current (2020) Yr 5 (2025) Yr 10 (2030)
Wetland Credits 0 5 10
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Upper Clear Creek Mitigation Bank
Current (2020) Yr 5 (2025) Yr 10 (2030)
Wetland Credits 1.76 11.32 12.56
Fish Credits 38.28 246.19 273.16
Mouth of Hylebos (American Construction Liability)
Parcel 117 Redevelopment
Parcels 6 and 114 Redevelopment
EBC Ramp/Shoreline Redevelopment
WUT Pier Extension
Thorne Rd Properties Redevelopment
Fabulich Center Redevelopment
Wheeler-Osgood Redevelopment
Puyallup River
Commencement Bay
I-5
SR 509
Miles
Data Source: Port of Tacoma, ESRI
Port of Tacoma

Item No.: 10A
Date of Meeting: November 19, 2020

Study Session on Mitigation Banking Policies

Tony Warfield
Environmental Senior Project Manager

Mark Rettmann
Environmental Project Manager II

Port of Tacoma
People. Partnership. Performance.

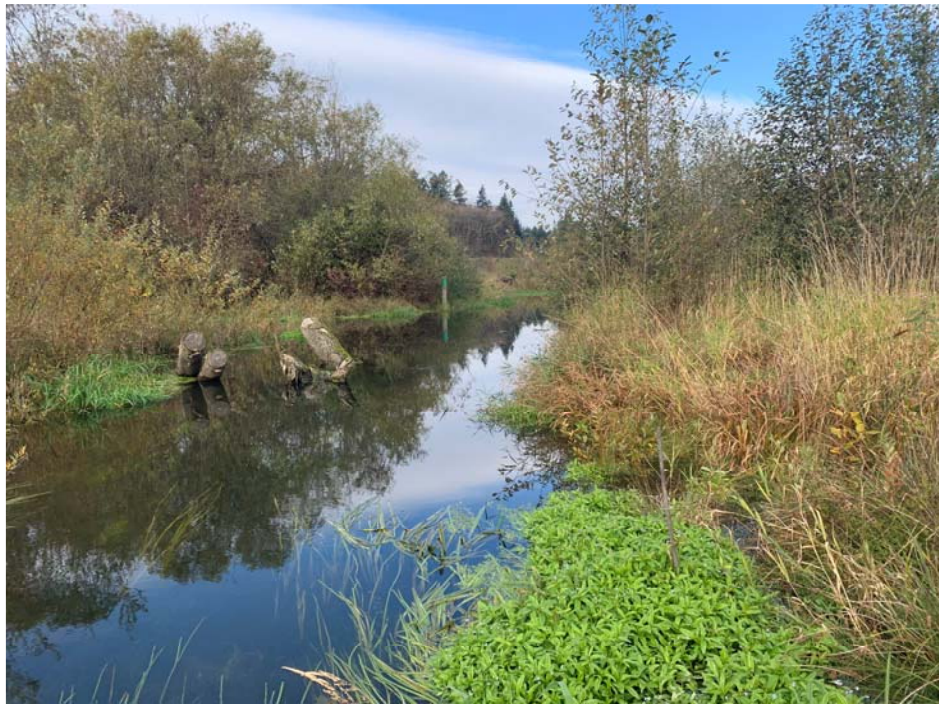
Briefing Requested
Mitigation Banking Policies

Staff will provide an update on the Mitigation Banking Policies.

No action is requested.

Where we are & What we need

- Diverse mitigation credit portfolio
- Bank is certified
- First bank credits released
- Started bank policy conversation in June 2020
- Need to answer three bank policy questions



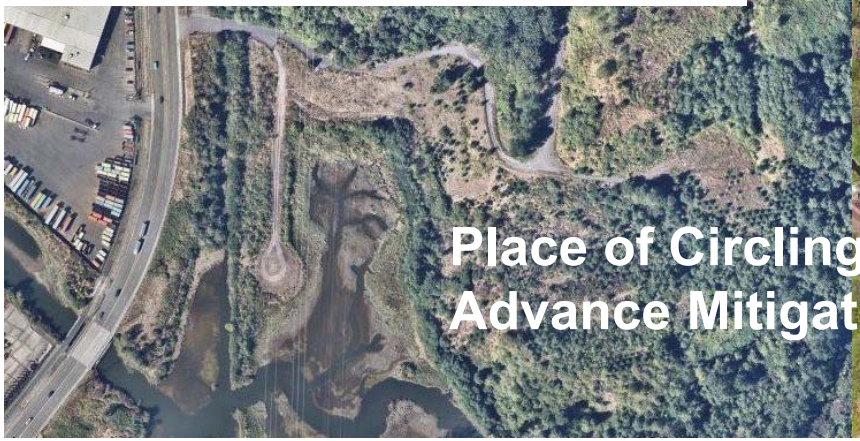
Mitigation Bank Timeline

Port of Tacoma

Applied for permits & began drafting plans — June 2013	**Start of construction** — July 2014	**Public notice for Bank prospectus** — August 2014	**Completion of construction** — August 5, 2016
Public notice for certifying the Bank — July 2017	**Bank is Certified** — June 24, 2020	**First Bank credits released** — September 24, 2020	**Anticipated final Bank credit release** — 2027

Mitigation Credit Portfolio

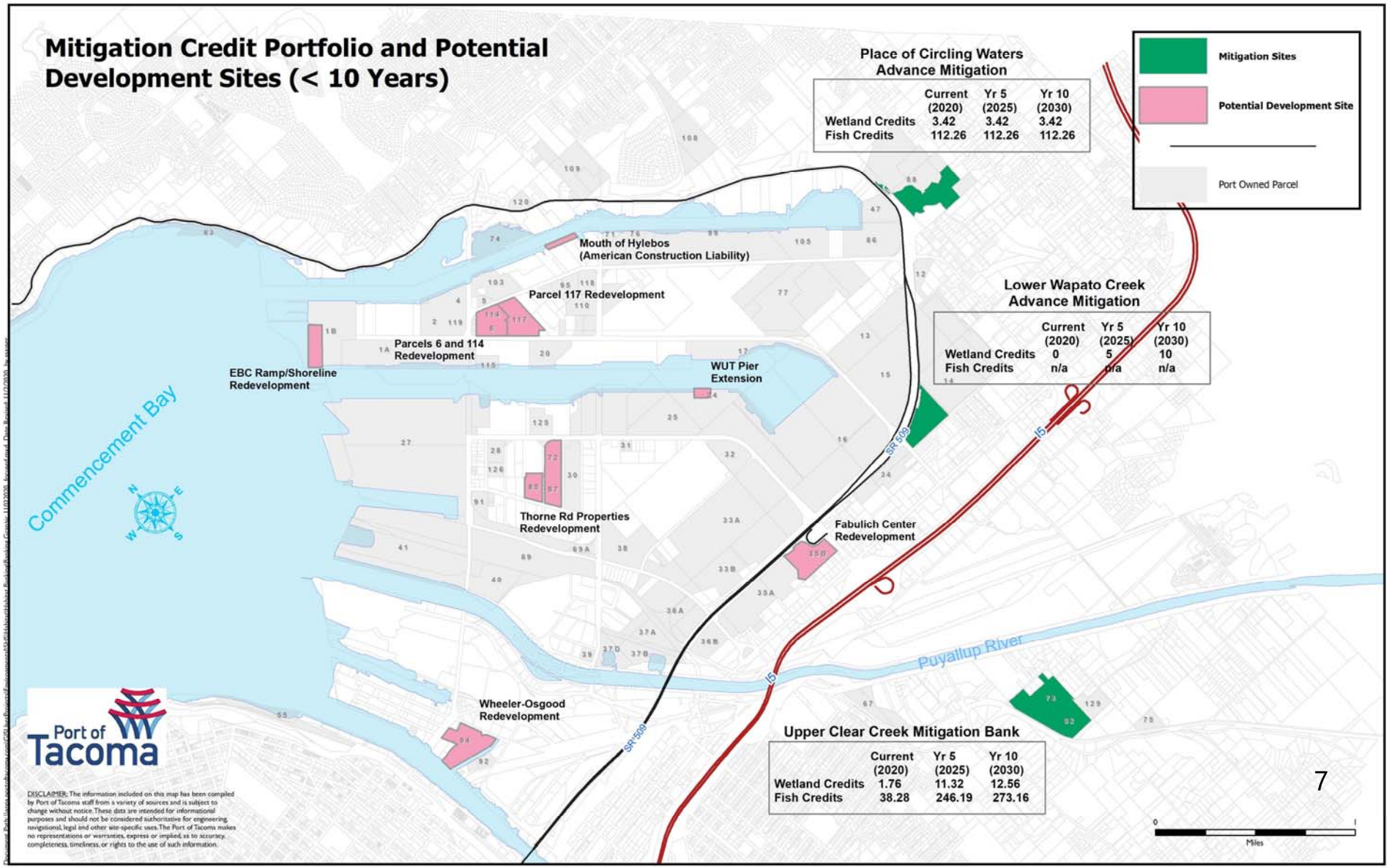
Projected Mitigation Credit Portfolio			
	Current (2020)	5 Years (2025)	10 Years (2030)
Wetland Credits	5.18	19.74	25.98
Fish Credits	150.54	358.45	385.42



Potential Impact Projects

- Port owns ~2,700 acres with ~40 acres of habitat that could potentially be impacted by future development.
- <5 year timeframe (~8.27 ac habitat impacts):
  - Thorne Road properties (Parcels 72, 85, 87) redevelopment
  - Parcel 117 (Former TPU site) redevelopment
  - Parcels 6 & 114 redevelopment
- 0-10 year timeframe (~13.27 ac habitat impacts):
  - Same 3 projects listed above
  - Earley Business Center ramp/shoreline redevelopment
  - Fabulich Center area redevelopment/expansion
  - Mouth of the Hylebos Waterway (American Construction liability)
  - Wheeler-Osgood Waterway/shoreline redevelopment
  - WUT pier extension

Mitigation Credit Portfolio and Potential Development Sites (< 10 Years)



Projected Mitigation Credit Balance

Table 2: Projected Mitigation Credit Balance (Existing Credits minus Potential Needs)				
Development Timeframe	**Impacted Habitat (ac)**	**Mitigation Need (ac-credits) Adv/Bank Ratios**	**Available Mitigation Credits (ac-credits)**	
			2025 5-Year Balance 19.74	**2030 10-Year Balance 25.98**
<5 Year (2025) Development Timeframe (3 Projects)	8.27	7.60	19.74 - 7.60 = **12.14**	25.98 - 7.60 = **18.38**
0-10 Year (2030) Development Timeframe (8 Projects), includes above 3 projects	13.27	15.00	19.74 – 15.00 = **4.74**	25.98 – 15.00 = **10.98**

Policy Question: Will the Port Sell Credits? Mitigation Bank

1. **Will the Port sell bank credits?**

   a. **No, the Commission will not sell credits:**

   Advantages:

   - Maintains all existing credits for Port use
   - Easiest path forward

   Disadvantages:

   - Removes potential source of revenue
   - Eliminates support for others (economic development)
   - Minimizes incentive to expand current bank

Policy Question: Will the Port Sell Credits? Mitigation Bank

Port of Tacoma

1. Will the Port sell bank credits?

b. Yes, the Commission will sell credits:

Advantages:

- New revenue source
- Supports others (economic development)
- Incentive & revenue to expand mitigation bank

Disadvantages:

- Need careful management of credit portfolio
- Admin effort of selling & expanding the bank

Recommendation: Port should consider selling credits.

Policy Question: To Whom?
Mitigation Bank

Port of Tacoma

2. If the Commission chooses to sell credits, to whom will they be sold?

a. Customer/partner focus:

Advantages:

- Focuses Port asset directly on our business needs

Disadvantages:

- Reduces potential market for credits
- Reduces support of broader economic growth in PC
- Perception of excluding others (residential/developers)
- W/o sufficient criteria, potential perception of support for a project that is inconsistent w/ Port goals/plans

Policy Question: To Whom?
Mitigation Bank

Port of Tacoma

2. If the Commission chooses to sell credits, to whom will they be sold?

b. Sell on open market:

Advantages:

- Maximizes credit market/demand
- Supports broad economic development
- Allows support of residential & small developers
- Provides revenue

Disadvantages:

- Port must manage supply of credits or replenish
- W/o sufficient criteria, potential perception of support for a project that is inconsistent w/ Port goals/plans

Staff recommendation: The Port should only consider selling credits to public entities that provide infrastructure to support port operations.

Policy Question: What price? Mitigation Bank

Model 1: Cost Plus Model:

Cost plus return on investment (ROI), consider inflation adjustments

Advantages:

- Clear and transparent with a pre-determined ROI

Disadvantages:

- May not maximize ROI
- May not keep up with cost to replace the sold credit

Policy Question: What price? Mitigation Bank

Model 2: Peg to Pierce County's In-Lieu Fee (ILF) program:

Use the price as established by ILF

Advantages:

- Established price for County site
- Closest thing to a market price in Pierce County
- Theoretically incorporates the full life-cycle cost and considers inflation

Disadvantages:

- May not reflect true value of Port's site (Category I fish & wetland)

Policy Question: What price?
Mitigation Bank

Model 3: Price set by open market:

Use a bidding process; could establish a minimum bid price

Advantages:

- Likely maximizes Port's investment
- Could set minimum bid to guarantee a minimum ROI
- Clear, transparent, and objective process

Disadvantages:

- May face criticism of favoring customers with the deepest pockets
- May not time market well

Policy Question: What price?
Mitigation Bank

Port of Tacoma

Model 4: Set Price as Replacement & Management Cost:

Based on cost to replace credit and manage bank

Advantages:

- Provides a known ROI and/or revenue for reinvestment
- Lowers likelihood of selling out (controls demand)
- May maximize ROI (similar to open market pricing)
- Clear and transparent process

Disadvantages:

- May limit who can or wants to buy credits
- Likely lowers demand (if no concern for selling out)

Policy Question: What price? Mitigation Bank

Model 1: Cost Plus Model
Model 2: Peg to Pierce County's In-Lieu Fee (ILF) program
Model 3: Price set by open market
Model 4: Set Price as Replacement & Management Cost

Staff Recommendation: The Port should use a Cost Plus pricing model, i.e., cost + 20%.

Next Steps
Mitigation Banking Policies

- Draft mitigation bank policy (Q1 2021)
- Present draft policy to Commission (Q1 2021)
- Review if and how to reinvest in mitigation credits (Strategic Plan or Mitigation Strategy)

Discussion
Mitigation Banking Policies