

PORT OF TACOMA
ACTION ITEM

Item No. 3A
Date of Meeting September 6, 2018

DATE: September 6, 2018

TO: Port of Tacoma Commission

FROM: John Wolfe, CEO

Sponsor: Erin Galeno, Chief Financial and Administrative Officer

SUBJECT: Port of Tacoma Future Management Structure Resolution and Request for authorization to enter a Management Services Inter-local agreement with the Northwest Seaport Alliance (NWSA)

A. ACTION REQUESTED

Request commission approval of Resolution Number 2018-05-PT, which addresses the future management structure for the Port of Tacoma.

Request Commission approve an Inter-local agreement with the Northwest Seaport Alliance to provide Management services.

B. SYNOPSIS

The NWSA charter contemplated the need for a temporary period of duality, whereby the NWSA CEO may also serve as the Port of Tacoma CEO for a period of five years commencing August 4, 2015 ("Transition Period").

This resolution and the supporting documents are intended to formalize the future management structure for the Port of Tacoma.

C. BACKGROUND

The Managing Members of the NWSA and the Port of Tacoma Commission separately evaluated three different alternatives (excerpts from materials provided on March 30, 2018):

1. Stand-alone organizations for the NWSA and the homeports.

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Cost Implications

Creating three separate entities is a **high cost** solution.

Estimated Cost Impact	NWSA	Port of Tacoma	Port of Seattle
One-time costs	\$16 – 20 million	\$0	\$0
Incremental Annual Costs	\$4 - \$6.5 million	\$1 – 3 million	\$0

Note: Although, additional Port of Seattle costs are not anticipated, any cost increases to the NWSA will reduce the operating income and cash distributed to the Homeports.

Potential Advantages

- This option provides clear decision-making authority for each separate entity and provides direct accountability for the support services.
- This alternative achieves the intent of the NWSA charter requirement.

Potential Barriers

- This is a high cost solution.
- This model would require changes to labor contracts in both the North and South Harbor.

This alternative was eliminated due to the significant costs associated with developing separate information technology and increased staffing.

2. Separate Executive Leadership with support services maximized from the homeports.

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.

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

Estimated Cost Impact	NWSA	Port of Tacoma	Port of Seattle
One-time costs	\$1 – 3 million	\$0	\$0
Incremental Annual Costs	\$.7 - \$1.3 million	\$.7 – 1.3 million	\$0

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Note: Although, additional Port of Seattle costs are not anticipated, any cost increases to the NWSA will reduce the operating income and cash that is distributed to the Homeports.

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.
- This alternative achieves the intent of the NWSA charter requirement.

Potential Barriers

- The NWSA would be purchasing critical support services from both Homeports while having no direct management control over these functions. Total services from the Port of Tacoma to the NWSA amount to nearly 70% of the functional costs in the Port of Tacoma.
- Under this scenario Port of Tacoma would oversee a significant portion of the critical support services for the NWSA, thereby creating the potential for Port of Tacoma to exert more control over the NWSA without adequate Managing Member discussion and oversight.

This alternative was discussed extensively and ultimately determined to create additional staffing costs beyond the 3rd alternative and limited direct management oversight for work being performed on behalf of the NWSA.

3. Separate Leader for the Port of Tacoma with NWSA Executive leadership managing the support services from the Port of Tacoma.

Cost Implications

The primary one-time cost implications associated with the model are associated integrating work activities and tools associated with transactions originating in the North Harbor.

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

Estimated Cost Impact	NWSA	Port of Tacoma	Port of Seattle
One-time costs	\$1 – 3 million	\$0	\$0
Incremental Annual Costs	\$.2 - \$.3 million	\$.3 – .5 million	\$0

Note: Although, additional Port of Seattle costs are not anticipated, any cost increases to the NWSA will reduce the operating income and cash that is distributed to the home ports.

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Potential Advantages

- Provides greater management decision making over the critical support services for the NWSA that reside in the Homeport of Tacoma.
- Minimizes additional staffing costs associated with managing the work activities that support both entities.

Potential Disadvantages

- Role clarity for the new Port of Tacoma leader and the leadership role of the NWSA CEO.

This alternative was selected as the most cost-effective solution while providing separation at the leader level for the Port of Tacoma and the NWSA.

D. SUMMARY OF CHANGES/ NEXT STEPS

The following transition priorities were established for 2018:

1. Finalize the management structure for the NWSA and homeport of Tacoma:

Status: See attached draft resolutions and supporting documents.

Next Step: The Managing Members approved the first reading of resolution 2018-03 during the August 14th public session. Once the resolution and ILA are approved, staff will evaluate the need to amend the NWSA charter. (These documents will be considered as part of the founding documents and filed with the FMC).

2. Complete a work space/HQ needs assessment followed by a market search for NWSA office space for staff supporting the commercial, operations, and support functions:

Status: Work space needs assessment has been completed (Phase 1 of contract); recommendations and market search decision criteria have been developed.

Next Step: Staff will request Managing Member authorization to conduct a market search once the management structure has been finalized.

3. Complete an assessment associated with developing a total rewards program including an implementation plan:

Status: The consultants have completed the initial phase of Management Member, Port of Tacoma Commission and employee (both entities) workshops. A separate briefing document was provided to the Managing Members/Commissioners and staff in mid-August.

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Next Step: The consultant is gathering market data associated with benefits and compensation.

4. Transition lease administration to the NWSA from the homeports:

Status: Transition planned for end of first quarter 2019.

Next Step: Complete the “As is and to be” process documentation in preparation for a year-end conversion.

5. Support the Port of Tacoma Commission in the search and selection of a new leader:

Status: Currently under review by Commission.

Next Step: The Port of Tacoma Commission have discussed options in public session during July and August meetings, with the intent to approve a final structure at a special public meeting in September or October.

6. Make a recommendation associated with the one-time membership interest affirmation (revaluation):

Status: Recommendation to defer the final assessment of the impact of the revenue that was not secured with long-term contractual agreements was made and approved in March 2018.

Next Step: Review status and report final recommendation in March 2019.

E. FINANCIAL IMPLICATIONS

The approval of the second reading of this resolution and the inter-local agreement does not have any direct financial impacts.

F. ATTACHMENTS TO THIS REQUEST

- Port of Tacoma Resolution Number 2018-05-PT
- ILA Management Support Services
- Management organization structure diagram
- NWSA Resolution Number 2018-03
- Draft job description for Port of Tacoma leader role
- Draft job description for NWSA CEO
- 2015 Transition Plan document
- NWSA Charter
- Maps of licensed and non-licensed properties for both harbors
- Marine Cargo Supply Chain wheel diagram
- Transition timeline schedule