

# COMMISSION AGENDA

Item No: 4B

Meeting: 08/16/18

**DATE:** August 7, 2018

**TO:** Port Commission

**FROM:** John Wolfe, Chief Executive Officer

Sponsor: Tong Zhu, Chief Commercial Officer

Project Manager: Mike Reilly, Director, Business Development, Commercial Team

**SUBJECT:** Pacific Rail Services, Inc. Intermodal Yard Operating Contract: Thirteenth Addendum

## A. ACTION REQUESTED

Authorize the Chief Executive Officer to execute the Thirteenth Addendum to the Pacific Rail Services (PRS) Intermodal Yard Operating Contract, Purchased Service Contract No. 83245.

The requested action will retroactively re-establish an expired vendor services contract, and will reflect payments made for services provided during the lapse.

## B. BACKGROUND

The Port of Tacoma has been contracting with Pacific Rail Services (PRS) at the South Intermodal (SIM) yard since 1985. Initially, the primary customer was Sea-Land and later, its successor companies, Maersk Sealand and Horizon Lines. Beginning in 2009, the primary customer has grown to be the Union Pacific (UP) Railroad Company with its Premium Services (including Domestic Intermodal) division.

In Tacoma, the Union Pacific's domestic intermodal operations helps to recapture import cargoes which, following handling at various marine terminals in our gateway and subsequent re-packaging into 53-foot containers at our region's transload facilities, return as domestic movement by rail to inland destinations. In 2017, the operations handled 87,709 lifts (nearly all in the form of 53-foot containers). For 2018, volumes are projected to reach 100,000 lifts, an approximate 14% increase. These local operations generate multiple revenue streams including lift charges, facility fees, gate charges (for loaded and empty containers) and rents on approximately 30.6 acres leased to the UP. The Lease and Operating Agreement with the UP will expire on January 11, 2019.

PRS provides the operational, logistical and communication services needed to support the Union Pacific's Domestic Intermodal service, including handling all gate transactions, railcar loading and unloading and equipment operations and maintenance. The Port has contracted with PRS to provide these services to the UP. Thus, fees paid to PRS are reimbursed by the UP, with mark-ups ranging between 5% and 25%.

From its inception, the contractual framework for delivering these services was uniquely suited to our Gateway. It involves a locally-organized, dedicated workforce represented by the International Longshore and Warehouse Union (ILWU). The associated labor contract is bargained independently from the coast-wide agreement. PRS remains this collective bargaining

unit's sole employer. As a vendor, PRS has grown over the years so that it now provides intermodal rail services to the UP in 15 other locations nationwide.

### **C. PURPOSE OF THIS REQUEST**

The contract that is the subject of this request was first approved by the Port Commission in 1991 and has been updated and amended via 12 succeeding addenda, the most recent addendum being approved by the Port Commission on September 25, 2014, prior to the formation of the Northwest Seaport Alliance (NWSA).

Earlier this month, it was noted that the PRS contract had lapsed on October 1, 2017 following the expiration of the Twelfth Addendum.

In the intervening months, no service interruptions were experienced and all parties have been compensated. Rates during this period remained unchanged and vendor services continued to be provided by PRS, with payment by the NWSA (as agent for the Port of Tacoma) totaling \$4,342,952 (valued as of July 13, 2018) for services rendered. These payments have been reimbursed by the UP (with appropriate mark-up).

The requested action will retroactively re-establish the PRS Intermodal Yard Operating Contract enabling services to properly continue at the current rates which are unchanged from July 2016 and which will remain fixed through January 11, 2019. A copy of the Thirteenth Addendum, signed by PRS, is attached to this memorandum.

Failing to renew a required vendor services contract prior to its expiration is not acceptable. Port and NWSA staff and management do not take this oversight lightly. Immediate corrective actions have been taken to ensure adequate checks and balances going forward to include transitioning this agreement from an operating agreement to a vendor services contract.

The contract and this proposed Thirteenth Addendum, along with any subsequent addenda, will be issued as Purchased Service Contract No. 83245 whereupon it will be entered into the Port's and the NWSA's contract management system. This action will facilitate the proactive management of this contract. The contract management system precludes payments on expired contracts and, in addition to providing ongoing visibility to the terms, conditions and the termination date, will automatically issue notifications prior to contract expiration.

This matter will be recorded in the 2018 Regulatory Compliance Report.

### **D. SCOPE OF WORK**

There is no change to the scope of work.

### **E. ECONOMIC INVESTMENT / JOB CREATION**

Today, PRS employs 20 individuals working daily. This figure is up substantially from a decade ago when PRS had only five (5) employees. The operations additionally generate a substantial number of indirect jobs. Since 2015, PRS has invested more than \$2,500,000 in new equipment purchases to support its Tacoma operations.

## F. FINANCIAL SUMMARY

The domestic rail operation generates cash and remains profitable.

	Five-Year (2013-2017) Annual Average (in millions)	2018 Projected Original Budget (in millions)
<b>Revenues</b>	<b>\$9.728</b>	<b>\$10.188</b>
Payments to PRS	(4.999)	(5.257)
Maintenance Expense	(0.186)	(0.165)
Other Operating Expenses (Incl. NWSA Depreciation)	(0.804)	(0.926)
<b>Operating Income</b>	<b>\$3.739</b>	<b>\$3.840</b>
<b>Return on Revenue (ROR)</b>	<b>38.4%</b>	<b>37.7%</b>
<b>Net Assets (in millions)</b>	<b>-</b>	<b>\$16.562</b>
<b>Return on Assets (ROA)</b>	<b>-</b>	<b>23.2%</b>

Revenues include land rents, facility fees and various other charges. The Port receives 50% of the Operating Income as part of the distribution from the NWSA. The Port of Tacoma additionally recognizes approximately \$686,000 annually in legacy depreciation. No additional costs will be incurred as a result of this action.

## G. ENVIRONMENTAL IMPACTS

The operations and services that are the topic of this request involve the movement of cargo by rail. Compared to long distance transport by truck, rail movements are quantitatively more efficient, consuming less fuel and generating fewer greenhouse gases per ton of cargo.

Truck idling is minimal and queues are virtually non-existent at this facility. The efficiency of the operation is perhaps best reflected by the exceptionally brief truck turn times which often range from five (5) to seven (7) minutes.

## H. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

For the requested period, there is no viable alternative and staff recommends this addendum to the PRS contract be approved for the following reasons. The UP expressed preference for PRS during recent negotiations. Utilizing PRS' services will allow the long-settled issue of labor jurisdiction to remain undisturbed. PRS has the necessary operational expertise and capabilities. The current rate structure is considered satisfactory.

## I. NEXT STEPS

Upon Commission's approval of this requested action, the Thirteenth Addendum will be executed by the Chief Executive Officer and issued to PRS as Purchased Service Contract No. 83245. As all associated facilities and operations are now licensed to the NWSA, the re-established PRS contract will be novated to the NWSA.

This Thirteenth Addendum with PRS will expire on January 11, 2019. Staff is discussing long term arrangements with the UP and plans to carry a recommendation and request for action to the Managing Members before January 2019.