PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6a

Date of Meeting April 14, 2009

DATE: April 8, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Charles Sheldon, Seaport Managing Director
Stephanie Jones Stebbins, Senior Mgr., Seaport Environmental Programs

SUBJECT: Agreement with the Puget Sound Clean Air Agency to support the Northwest Clean Air Strategy

ACTION REQUESTED:

Request for authorization for the Chief Executive Officer to enter into an agreement with Puget Sound Clean Air Agency to transfer $2.3 million ($1.15 million in 2009 and $1.15 million in 2010) from the Port of Seattle's operating budget to support the implementation of the Northwest Ports Clean Air Strategy

SYNOPSIS

The purpose of this memo is to request authorization for the Chief Executive Officer to enter in to an agreement with Puget Sound Clean Air Agency to transfer $2.3 million ($1.15 million in 2009 and $1.15 million in 2010) from the Port of Seattle's operating budget to support the implementation of the Northwest Ports Clean Air Strategy.

The Port of Seattle and PSCAA have a long history of collaborative partnerships to quantify, understand, and reduce emissions from port-related operations. Examples of these partnerships include the 2005 Puget Sound Maritime Air Emissions Inventory, the Northwest Ports Clean Air Strategy, the Holland America Line and Princess Cruises shore power projects at the Terminal 30 Cruise Facility, and numerous projects to retrofit and replace cargo-handling equipment at the container terminals. This request builds on this successful collaboration to reduce emissions from port operations and protect public health in the Puget Sound region.

The Port intends to enter into an agreement with the PSCAA to advance the Agency's efforts to improve air quality in Elliott Bay and the Puget Sound Airshed. PSCAA may spend the funds when and where it deems necessary. The Port would receive reports on how the funds are spent. Additionally, PSCAA will present their staff recommendations on a truck buy back and scrap program.

BACKGROUND

Shockwaves from the current global economic crisis are rippling through the port industry. Shippers, carriers, terminal operators, longshore workers, and truck drivers alike have been impacted by the sudden drop in consumer spending. The jobs created by cargo are more crucial than ever, and port authorities across the US are taking steps to remain competitive. Southern California ports are creating incentive packages to attract intermodal rail cargo from the Pacific Northwest.

Port container tenants need temporary cost reductions while the Port needs their cooperation to implement the Port's clean truck and other environmental programs. Port staff is therefore proposing a program that combines these customer recovery efforts with the implementation of Port environmental initiatives. Port staff is requesting two separate but integrated Commission actions today: Adoption of a customer recovery program that will be added to the container leases in consideration for the Port's new environmental language and authorization to transfer $2.3 million to the Puget Sound Clean Air Agency (PSCAA).

As terminal leases are modified to include the measures that will maintain our competitiveness, the Port is including language that:

- Requires terminal operators to implement and enforce the proposed clean truck program;
- Formalizes the emissions reductions in cargo handling equipment that terminal operators have already begun implementing voluntarily;
- Establishes protocols for Port and marine terminal operators to meet regarding continued progress on environmental practices.

The following questions and answers further describe these integrated programs:

When cargo returns to previous levels, will the Port attempt to "make up" the lost revenue?

No. The Southern California ports have enacted incentive programs aimed directly at attracting intermodal cargo from other ports, such as Seattle. Our Customer Recovery Program will help our container terminal tenants retain business in these tough economic times. Attempting to recover lost revenue from this program at a later date will create additional costs for cargo in the future, potentially leading to diversion of cargo to other ports. To our knowledge, no other port has sought or received any considerations in exchange for the financial support they've given their customers during these difficult economic times.

What environmental requirements beyond those already required under state law and permits may be added to the leases?

The major elements of the draft lease amendments that go beyond regulatory requirements include:

- Implementation by the terminal operators of the Port's truck program standards for 2011 and beyond.
- Acknowledgment by the terminal operators to meet the goals of the Northwest Ports Clean Air Strategy (NWPCAS) for cargo handling equipment by 2011, something the terminals are on track to do.

- Annual meeting to discuss operations and to look for ways to reduce environmental impacts and implement the goals of the Port's air program.

What monitoring and enforcement mechanisms would be attached to these new lease requirements?

The Port will have several mechanisms for ensuring that these new lease requirements are met.

- Port staff, PSCAA, and the terminal operators will work together to develop a system of periodic audits of the entrance records and ensure that the program is implemented and enforced thoroughly and consistently.

- Equipment lists for cargo handling equipment are submitted to the Port annually for review. This will allow us to determine compliance with the NWPCAS standard.

How much money is needed to implement the proposed truck buy-back and scrapping program?

Enrollees in the buy-back program will receive the fair market value of their truck or $5,000, whichever is greater, for participation in the program. Using the PSCAA's estimate of 300 pre-1994 trucks remaining in the fleet, approximately $1.5 million will fund the initial buy-back and scrapping program.

How will the program ensure that Port of Seattle dollars are spent on the trucks that service our terminals?

PSCAA will require a document summarizing the truck's port drayage activity during the previous year, verifying that the truck is part of the Seattle drayage fleet. Requiring this information should eliminate trucks that are not part of the drayage fleet or that are no longer used for drayage due to the economic downturn.

What criteria or certification or registry will be used to distinguish compliant from non-compliant trucks?

The Port will work with terminal operators and the PSCAA to develop a registry verification system once the Commission has approved a clean truck program. Only trucks that have been confirmed as compliant will be registered initially. Ideally, verification will use RFID or some other automated technology. If automated technologies are not in place by Dec. 31, 2010, we will begin with a simpler verification method, such as a registration and sticker system.

How will POS ensure that terminal operators are only permitting the entry of trucks that are certified or on the registry?

Port staff, PSCAA and the terminal operators will work together to develop a system of periodic audits of the entrance records. The audits may include visual checks of VIN numbers to ensure that they match registered trucks.

How much money would the Port give to the Puget Sound Clean Air Agency (PSCAA)?

Port staff is requesting authorization to transfer $2.3 million total to PSCAA to support the agency's air emissions reduction programs between 2009 and 2010. Of that $2.3 million, $800,000 has already been approved by the Commission and is in the Port's 2009 budget. PSCAA anticipates using an additional $1.5 million would be used by PSCAA to support a buy-back and scrapping program for pre-1994 drayage trucks. PSCAA is a longstanding, reliable partner with a solid track record of results in projects with the Port and other partners.

We do not yet know what funding will be required or available via grants, WSDOE or PSCAA beyond our current request. The current focus is on meeting the 2010 NWPCAS goals; once that is accomplished, Port staff will determine what resources are required to meet goals established for 2015 and 2017.

How will PSCAA be accountable to the Port for the use of the funds?

The Port will provide funding to PSCAA in quarterly installments. Any unused funding will be returned to the Port at the end of the agreement, unless otherwise agreed to by the Port in writing, once all reimbursements and administrative costs are covered.
PSCAA will provide Port with a written report every three months showing how the agency spent the Port funds transmitted under the agreement. The Port can terminate the agreement on 30-days notice.
How would the proposed program incorporate the Northwest Ports Clean Air Strategy (NWPCAS) 2015 goals?

On average, drayage trucks are replaced every ten years. The truck standards and timelines in the NW Ports Clean Air Strategy were designed to work with the natural turnover of trucks in the drayage industry.
In addition, the CSS program would put $100 per month from truckers' lease payments into a savings account to go toward the purchase of a 2007 truck. If the trucker chooses to withdraw from the program, the money will be his or hers (along with the interest). If the driver chooses to stay with the program, by 2015, he or she will have accumulated a significant down payment toward the cost of a 2007 or newer truck.

On January 22, 2008, the Port of Seattle Commission adopted the Northwest Ports Clean Air Strategy, a voluntary and collaborative effort of the Ports of Seattle, Tacoma and Vancouver (B.C.) to reduce maritime and port-related emissions that affect air quality and climate change in the Pacific Northwest. Developed in close collaboration with the Puget Sound Clean Air Agency, Washington Department of Ecology, US Environmental Protection Agency, and Environment Canada with input from stakeholders, customers, and citizens, the Strategy will result in emission reductions to further improve air quality throughout the region.

The strategy has three primary emissions reduction objectives:

- Reduce maritime and port-related air quality impacts on human health, the environment and the economy;
- Reduce contribution to climate change through co-benefits associated with reducing air quality impacts; and
- Help the Georgia Basin-Puget Sound region continue to meet air quality standards and objectives.

The Strategy builds on the significant efforts the Ports of Seattle, Tacoma and Vancouver, BC have invested in emission reductions and establishes common short-term (2010) and long-term (2015) performance measures for further reducing emissions from cargo-handling equipment, rail, harbor vessels, ocean-going vessels, and trucks.

ENVIRONMENTAL BENEFITS

Puget Sound Clean Air Agency has identified reduction of diesel particulate matter (DPM) emissions as one of their top priorities because of the associated public health and environmental impacts. In 2005, the Port of Seattle conducted the Puget Sound Maritime Air Emissions Inventory (EI), which located and quantified DPM from maritime sources in the greater Puget Sound region. Based on the results of the EI, in 2005 the Port of Seattle operations accounted for 9% of all of the DPM emitted in the four county Puget Sound Clean Air Agency region (the relative contributions to that 9% included ocean-going vessel hotelling: 44%, cargo-handling equipment: 32%, rail: 12%, ocean-going vessel maneuvering: 9%, trucks: 3%, fleet vehicles <1%, and harbor vessels <1%).

The expected environmental benefits of implementation of the Northwest Ports Clean Air Strategy performance measures for trucks, cargo-handling equipment, rail, harbor vessels, and ocean-going vessels is a reduction in air pollutants of DPM, oxides of nitrogen (NO_x), volatile organic compounds (VOCs), and sulfur oxides (SO_x), as well as a reduction in fuel consumption and emissions of greenhouse gases (GHGs).

<u>Trucks:</u> A truck that meets 1994 U.S. EPA particulate matter (PM) emission standards is 6 to 2.5 times cleaner than a truck built before 1994. Similarly, a truck that meets 2007 U.S. EPA PM standards is 10 times cleaner than a truck built between 1994 and 2006, and 5 to 60 times cleaner than a truck built before 1994.

<u>Cargo-Handling Equipment:</u> Exhaust retrofits installed on cargo-handling equipment reduce emissions of particulate matter (PM) and oxides of nitrogen (NO_x). Switching from off-road diesel fuel (500 parts per million sulfur [ppm]) to ultra-low sulfur diesel fuel (15 ppm) reduces emissions of sulfur oxides (SO_x).

Ocean-Going Vessels: The At-Berth Clean Fuels Vessel Incentive Program (ABC Program) incentivizes the use of lower-sulfur marine fuels, not to exceed 0.5% sulfur content, in auxiliary engine operations while at a Port of Seattle berth. Switching from high-sulfur marine fuels (~2.7% sulfur) to lower-sulfur marine fuels (not to exceed 0.5% sulfur) is expected to reduce emissions of sulfur dioxide (SO_2) by 95% and particulate matter (PM) by 60%.

FINANCIAL IMPLICATIONS

Source of Funds

The 2009 Seaport Operating Budget included $600,000 in Operating Expense(1) for the implementation of the Northwest Ports Clean Air Strategy. Assuming $1,150,000 (50%) of the requested funds are transferred to PSCAA in 2009, the transfer will create an unfavorable Operating Expense variance of $550,000. To the extent the amount transferred in 2009 is greater or less than 50% of the total, then the unfavorable Operating Expense variance will increase or decrease accordingly. Any amounts not transferred in 2009 will be included in the 2010 Operating Expense Budget.

Note (1): An additional $200,000 was included in the 2009 Budget as a Non-Operating Public Expense but, pending determination from Accounting, it is currently assumed that the full amount of the transfer will be treated as an Operating Expense.

Financial Analysis Summary

CIP Category	Not applicable
Project Type	Environmental
Risk adjusted Discount rate	N/A
Key risk factors	• Since the grants are unrestricted and the reporting of expenditures is subsequent to disbursement, there is a risk that the funds are not spent in way that the Port might consider most effective and efficient. • There is a risk that the proposed uses do not reduce emissions to the extent expected. This risk is mitigated by the expertise and past successes of the Port and PSCAA in understanding and reducing emissions.
Project cost for analysis	$2,300,000
Business Unit (BU)	Containers
Effect on business performance	The estimated total project costs will have the following impact on Net Operating Income (NOI) assuming 50% of the funds are transferred in 2009 and the remaining 50% in 2010.

	NOI (in $000's) | **2009** | **2010** | **Total** NOI* | ($1,150) | ($1,150) | ($2,300) Depreciation | $0 | $0 | $0 NOI After Depreciation | ($1,150) | ($1,150) | ($2,300) *To the extent that some or any of the uses qualify, certain of the expenses may be recorded as a Non-Operating Public Expense.
IRR/NPV	N/A

PREVIOUS COMMISSION ACTION

On February 16, 2007, the Commission passed a series of environmental motions that required, in part, that staff present an air quality action plan for Commission approval.

On January 22, 2008, the Commission adopted the Northwest Ports Clean Air Strategy.