

Washington State Pilotage Best Practices Review

Presentation to Joint Transportation Committee

September 14, 2017

Discussion Outline

- Team Introduction & Project Background
- Introduction to Pilotage in Washington
- Pilotage Tariffs & Fees
- Recruitment & Training
- Diversity Initiatives
- Pilotage Expenditures & Compensation
- Discussion & Q&A

Team Introduction & Project Background

Pilotage Consultant Team

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Role: Project Manager



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Role: Analyst

Project Background and Purpose

- Review and assess
 - Governance;
 - Licensing and regulation of pilots; and
 - Tariff- and fee-setting practices of the Washington State Board of Pilotage Commissioners.
- Identification of best practices and recommendations for:
 - Analytically driven tariff- and fee-setting processes
 - Increased pilot diversity.
 - Board make-up.
 - Most effective agency oversight.

Introduction to Pilotage in Washington

Pilotage Regulations

Federal and State Level

- All foreign-flagged commercial vessels (cargo and passenger) must be conned (i.e., controlling a ship's movements while at sea) by a federally licensed master with district-specific pilotage endorsement when entering a U.S. pilotage district.
- All pilotage districts are federally designated.
- All coastal states (24), with the exception of some of the Great Lakes, have state-regulated pilotage.
 - Great Lakes pilotage regulated by the Coast Guard
- California is unique in that only some pilotage districts are subject to state licensure.
 - Example: state licensure required for San Francisco and Sacramento river system, but not in LA/Long Beach.

Introduction to Pilotage

- Marine pilots are Coast Guard master-licensed, federally endorsed mariners who take control of (conn) vessels entering or exiting a federal pilotage district.
- Pilots work with the captain on the ship's navigating bridge to direct vessels into and out of harbors, straits, rivers, and bays.
- Pilots utilize specialized local knowledge of weather, tides, currents, and aids to navigation.

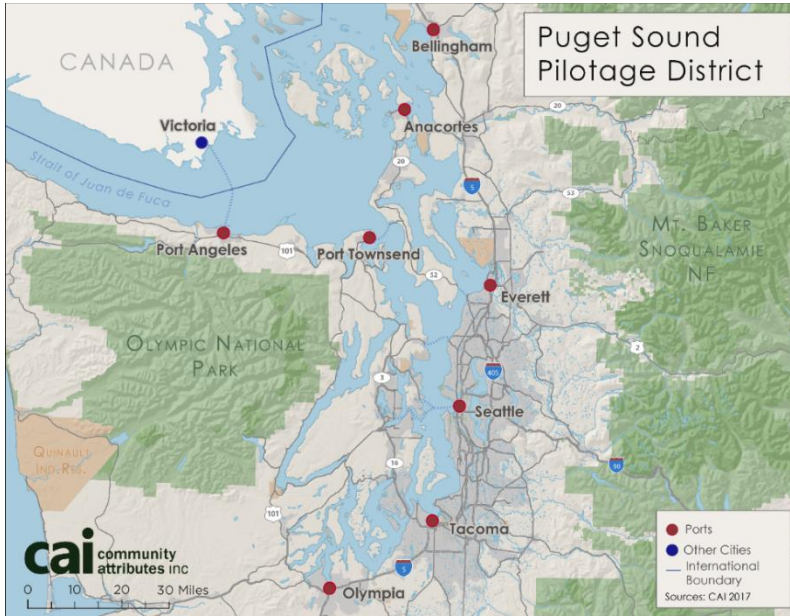
Pilotage in Washington

- Washington State Pilotage Act passed in 1935 (Chapter 88.16 RCW)
 - Vests authority in the Washington State Board of Pilotage Commissioners to regulate pilotage in Washington state.
- In Washington state, pilots must be state-licensed (in addition to federal endorsement).
 - Columbia River and Columbia River Bar Pilots are regulated by the State of Oregon.

Pilotage in Washington, Continued

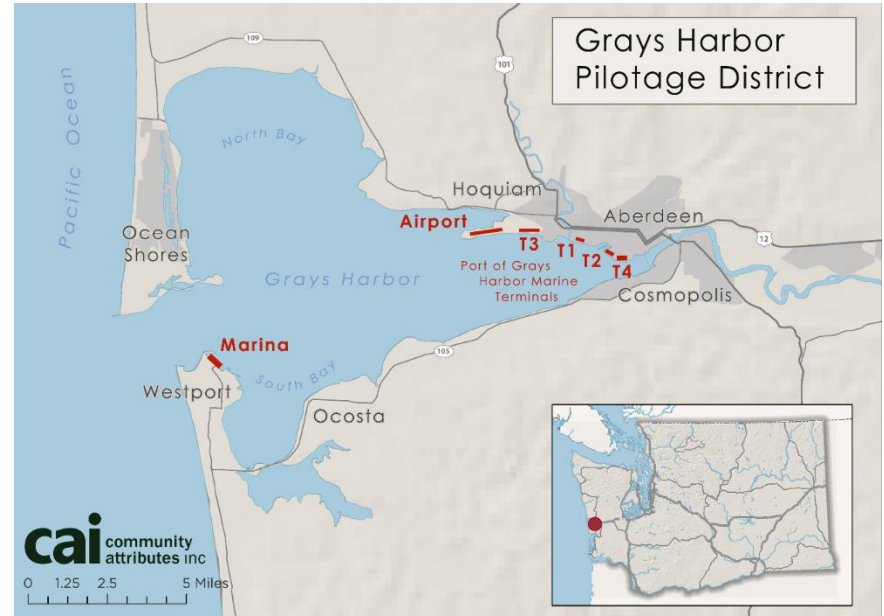
- There are two (2) federal pilotage districts in Washington state: Puget Sound and Grays Harbor.
- 54 currently active licensed pilots in Washington: 52 in Puget Sound and 2 in Grays Harbor
- Pilots in Puget Sound are independent contractors that freely associate as the Puget Sound Pilots Association.
- Grays Harbor pilots are employees of the Port of Grays Harbor (since 2001)

Pilotage in Washington



Puget Sound Pilotage District

- 7,000 square miles
- 12 ports
- 52 active pilots



Grays Harbor Pilotage District

- 280 square miles
- 2 active pilots

Key Stakeholders

- State
 - Washington State Board of Pilotage Commissioners (BOPC)
- Pilots
 - Puget Sound Pilots (PSP)
 - Grays Harbor Pilots (employees of Port of Grays Harbor)
- Ports
 - Northwest Seaport Alliance (NWSA)
 - Other ports
- Industry
 - Cruise lines
 - Tanker vessels
 - Cargo (Pacific Merchant Shipping Association)
- Washington state citizens and businesses

Washington State Board of Pilotage Commissioners (BOPC)

- Established by Pilot Act of 1935.
- Mission to “ensure against the loss of lives, loss of or damage to property and vessels, and to protect the marine environment by maintaining efficient and competent pilotage service on our State’s inland waters.” (RCW 88.16.005)
- Today BOPC Governs:
 - Number of licensed pilots
 - Tariff and fee rate-setting
 - Pilot workload and rest periods
 - State pilotage examination and training
 - Licensing and oversight of pilots
 - Incident investigation

BOPC (continued)

- 9 members, including:
 - A chairperson who is either the Washington State Department of Transportation Assistant Secretary of Marine Operations or designee.
 - Director of the Washington State Department of Ecology or designee.
 - Seven members appointed by the Governor and confirmed by the Senate, including:
 - Two licensed, active pilots;
 - Two shipping representatives—one American and one foreign-flagged shipper;
 - Two representatives of the public at large with broad maritime industry experience; and
 - One representative from a recognized environmental organization concerned with marine waters.

BOPC (continued)

- 3 full-time staff
 - Executive Director
 - Program Specialist
 - Administrative Assistant
- Non-appropriated regulatory body.
- All expenses are covered by pilot license fees, vessel exemption fees, and vessel surcharges, with overhead support from Washington State Ferries (office, IT support).
- Attorney General's office provides a general counsel.

Pilotage Tariffs & Fees

Tariff and Fee Charge Revenue by Category

Puget Sound Pilotage District, 2016

Category	Description	Amount	Share of PSP Charges
Transportation Charge	Equivalent to one-way taxi fare from Seattle to port of embarkation/debarkation.	\$1,097,109	3.2%
Cancellation or Delay	Hourly charge for delayed arrival, departure, or slowdown due to vessel operator. Cancellation fees assessed based on zone of vessel.	\$702,335	2.0%
Pilot Commission Charge	Includes training surcharge of \$15 stipend for each trainee on vessel.	\$457,800	1.3%
Tonnage	Charges by gross tonnage of vessel, broken into three tiers with escalating rate. \$0.0084 per gross ton for first 20,000 gross tons, \$0.0814 per gross ton for next 20,000-50,000 gross tons, and \$0.0974 per gross ton for tonnage above 50,000. There is a minimum of \$500 per vessel.	\$19,345,689	56.1%
LOA and Zone Charge	Rate schedule incrementally adjusted by vessel length and distance (zones I through VI).	\$9,765,678	28.3%
Pilot Boat	\$348 charge.	\$1,922,352	5.6%
Bridges & Waterways	For specified locations based on vessel size (\$266 for up to a 90' beam, \$361 for larger vessels).	\$792,989	2.3%
British Columbia Charge	Charge for pilot boarding or debarking a vessel at a British Columbia port.	\$389,795	1.1%
Compass Adjustment	\$359.00 per adjustment.	\$5,744	0.0%
Sea Trials	PSP charges, at \$169/hr, for when a pilot needs to be on-board during any sea trials.	\$16,224	0.0%
Other	Miscellaneous charges.	\$2,378	0.0%
Total		\$34,498,093	100%

The primary factors driving pilotage revenues are gross tonnage, vessel length and distance travelled (LOA/Zone), and number vessels.

Note: other than the training surcharge, Board of Pilotage Commissioners revenues come primarily from pilot license fees and vessel exemption fees. Total revenue for the Board in 2016 was \$2.1 million, including revenues from the Grays Harbor Pilotage District.

Process for Developing and Setting Tariffs

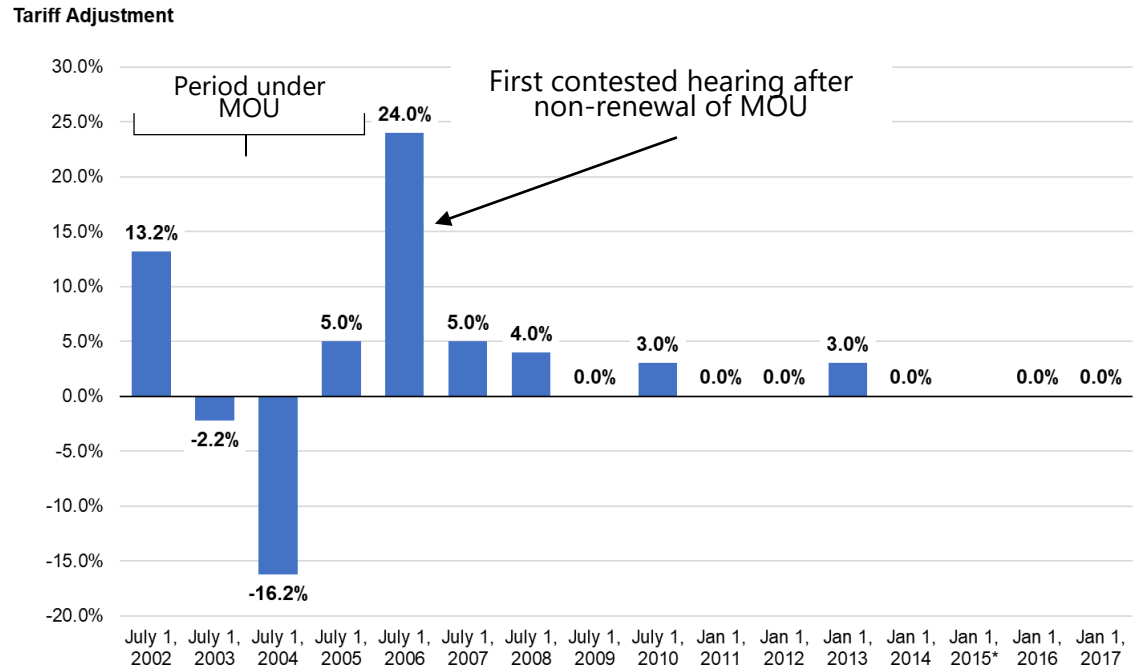
- The Pilotage Act, RCW 88.16 requires that the Board of Pilotage Commissioners “annually fix the pilotage tariffs for pilotage services provided under this chapter.” (RCW 88.16.035 (1)(e))
- Licensed pilots, ship operators, and interested members of the public may jointly or separately present tariff proposals to the board for its consideration. (WAC 363-116-175)

Process for Developing and Setting Tariffs

- Rates set in a public hearing in October (for Grays Harbor) and November (Puget Sound).
- Pilots or representatives submit to the Board of Pilotage Commissioners:
 - Capital spending plan (paid for either out of pocket or with a tariff increase), including:
 - Personal Pilotage Units (PPUs) for navigation
 - Boat maintenance and repair
 - Operating budget projections
 - Best available year-to-date revenue data
 - Audited financial data

Process for Developing and Setting Tariffs

- Between 1996 and 2000 and 2001 to 2005, pilots and shipping interests **agreed to an MOU on rate changes** based an adjustment formula and target net income calculation.
- 2006 was the first contested hearing since 1995.



*In 2015, changes were made to zone-based fees in January and a \$500 minimum tonnage charge was added in July.

Source: Washington State Board of Pilotage Commissioners

Process for Developing and Setting Tariffs

Findings

- Beyond the general direction provided by state law, the Board of Pilotage Commissioners provides little guidance to the stakeholders in the law regarding methods to be employed when making tariff proposals annually.
- Stakeholders submit and often interpret the data provided to the Board in consideration of rate change requests. There is no in-house staff capacity to perform this.

Process for Developing and Setting Tariffs

Findings, Continued

- The Board decides tariff adjustments without the benefit of an established and agreed upon methodology, or even consistent variables for consideration.
- Stakeholders, including the Board, PMSA, NWSA, and PSP have noted that it is challenging to address other important issues related to pilotage when the tariff adjustment process is in dispute.

Pilotage Expenditures & Compensation

Puget Sound Pilots Expenditures

Category	Amount	As % Pilotage Revenue
Seattle Office Operations	\$9,789,222	28.2%
Boat Operations	\$1,828,644	5.3%
Port Angeles Station	\$498,628	1.4%
<i>Subtotal, operating expenses</i>	<i>\$12,116,494</i>	<i>34.9%</i>
Pilot Pooled Shared Revenue	\$20,450,685	59.0%
Other expenses	\$1,616,115	4.7%
Total	\$34,681,922	100.0%

- Boat operations include expenses directly related to pilot boarding and debarking of vessels at Port Angeles, such as: boat employee salaries and benefits, fuel, and boat maintenance.
- Seattle office operations include employee salaries and benefits, office lease, dispatch center, and retirement benefits.

Pilot Compensation

Annual Individual Earnings of Puget Sound Pilots, 2015 and 2016

Disposition of Net Earnings	2015	2016
Earnings distributed from pooled tariff revenue	\$357,363	\$393,282
Individual business expense allowance	\$9,979	\$9,981
Transportation allowances and reimbursements	\$21,041	\$21,098
Individual pilot medical insurance	\$30,158	\$29,137
Tariff Generated Earnings to Pilots	\$418,541	\$453,498

Source: Washington State Board of Pilotage Commissioners, 2016 Annual Report.

Annual Individual Earnings of Grays Harbor Pilots, 2015 and 2016

Disposition of Net Earnings	2015	2016
Pilot Wages	\$279,551	\$266,015
Incremental Duty Pay	\$39,000	\$21,517
Employer-Provided Benefits*	\$109,446	\$84,008
Gain Sharing**	\$0	\$40,816
Travel Allowance	\$11,273	\$11,130
Total Compensation to Pilots	\$439,270	\$423,486

*Employer Provided Benefits include health, life, medical, and disability insurance, federal and state taxes, and retirement funding.

** A salary premium is paid by the employer when upon various thresholds being met creating a positive net income for the Port. The final net income is shared between the Port and the pilots who, in turn, share equally in the salary premium when this occurs.

Retirement

- Puget Sound Pilotage District
 - Unfunded defined benefit liability
 - Current retirees receive benefits through tariff on a pay-as-you-go basis (WAC 363-116-315)
- Grays Harbor District
 - PERS 2 retirement plan
 - For those who accrued benefits before 2001, pre-2001 accrued benefits funded through tariff, on a pay-as-you-go basis.

Recruitment & Training

The Process for Becoming a Pilot

Challenging and Highly Selective

- Pre-qualifications
 - U.S. citizen
 - USCG Master's license with 1,600 gross ton endorsement
 - 1-2 years sea time experience as a master captain on an ocean-going vessel, depending on vessel type.
- Exam
 - 150 question written exam and simulator
 - Ranking for those above cut score
- Training program
 - Observation
 - Training
 - Evaluation
- Federal pilotage endorsement specific to the district
- State licensing

Recruitment and Training

- In recent years the Board has implemented measures to provide greater transparency and documentation of evaluation and standardization of the process.
- Trainee Evaluation Committee
 - Committee appointed by the BOPC.
 - At a minimum, three active licensed Washington state pilots, one U.S. Coast Guard master's licensed marine industry representative, one other member of the Board who is not a pilot.
 - Responsible for: developing training program, assigning initial routes, review trainee performance and recommend to issue or deny a new license. (WAC 363-116-078(11))

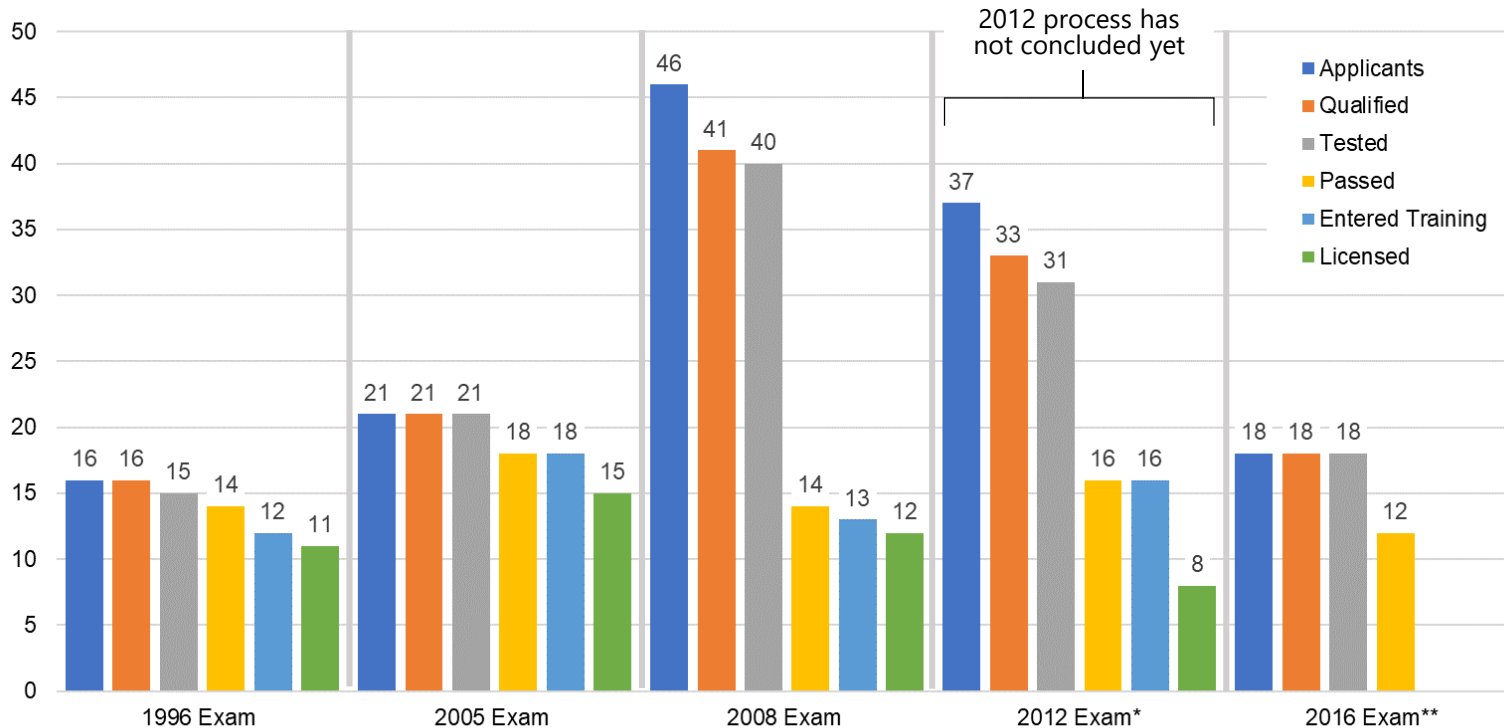
Recruitment and Training

- Pipelines:
 - Mariners who come up through the ranks of tug boats, ferries, and other vessels, aka the “Hawse pipe.”
 - Graduates from maritime academies
 - Coast Guard
 - “Blue water” background, e.g., ocean-going cargo ships

Recruitment and Training

Board of Pilotage Exams, Applicant Success

Number of Applicants/Trainees



*Trainees from this class are still working through their training program.

** The first trainee from this class began her program in late Spring 2017.

Source: Washington State Board of Pilotage Commissioners, 2017.

Recruitment and Training—Challenges

- Exam cost to the candidate was \$5,000 in 2016. The pipeline for recruiting candidates for the exam covers a variety of mariner occupations; for some candidates, this is significant financial cost.
- Amount of time needed to study and prepare for the exam often conflicts with full-time maritime employment. In some cases, candidates are out at sea and find it very difficult to set aside sufficient time to prepare for the exam.
- Recruitment pipeline depends on existing pool of master licensed candidates with 2+ years sea time.

Diversity Initiatives

Diversity

- No currently (or past) serving female pilots in Washington.
- 54 pilots all male, and we have been told 2 of minority background
 - Of the 4,022 federally licensed pilots nationwide in 2014, only 109 were women (2.7%).
 - Oregon: 2 out of 62 active pilots were women.
 - No active female pilots in San Francisco.

Diversity

- One female trainee—ranked #1 in 2016 examination. Expected to complete training in 2018.
- To address diversity, maritime industry as a whole must start much earlier in the pilotage pipeline, beginning at maritime academies or even at the high school level.
- Within the control of the BOPC and PSP, must evaluate whether barriers exist in the process of licensing pilots. The BOPC has formed a diversity committee to begin this evaluation.

Discussion and Q&A