

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6c

ACTION ITEM

Date of Meeting April 9, 2013

DATE: March 20, 2013

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Burke, Director Seaport Leasing & Asset Management
Ticson Mach, Capital Project Manager

SUBJECT: Terminal 46 Lease Improvements Design Funding

Amount of This Request: \$6,000,000

Source of Funds: General Fund

Est. State and Local Taxes: Construction Phase only

Est. Jobs Created: N/A

Est. Total Project Cost: Range from \$20,000,000 to \$35,000,000

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to direct staff to develop design documents, execute consultant contracts, apply for permits, and prepare construction documents as part of the Terminal 46 (T-46) Lease Improvements project for an estimated cost of \$6,000,000.

SYNOPSIS:

On December 11, 2012, Commission approved execution of the 13th Amendment to the lease with Total Terminals, Inc., at Terminal 46. This memo requests Commission approval for permitting, design, and project management funding in the amount of \$6,000,000 to allow the Port to comply with Paragraph 9 "Alteration and Improvement" of the 13th Amendment.

BACKGROUND:

Total Terminals, Inc. (TTI) is the current tenant at Terminal 46. Hanjin Shipping Lines is the majority owner of TTI. Hanjin leased Terminal 46 in 1990, and later in 2003 assigned that lease to TTI. Hanjin is part of the CKYH alliance, which also includes COSCO, K-Line and Yang Ming. K-Line and Yang Ming operate terminals in the Port of Tacoma.

Terminal 46 is an important component of the container terminal inventory, generating approximately 20% of the container cargo passing through the Port. Cargo volumes at Terminal 46 are currently estimated to generate 3,200 direct, induced and indirect jobs annually. In addition, current activities at the terminal are estimated to annually generate over \$370,000,000 in business revenue and over \$24,000,000 in state and local taxes. Maintaining Terminal 46 as an operating container terminal is key to the Port meeting its Century Agenda strategies of increasing container volume in Seattle to 3.5 million TEUs and doubling the value of exports from Seattle.

On December 11, 2012, the Commission authorized the Chief Executive Officer to execute the 13th Amendment to the lease for Terminal 46 with TTI. This lease amendment extended the lease term by 10 years and committed the Port to certain capital improvements to the terminal.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

April 1, 2013

Page 2 of 6

The Port intended to rehabilitate T-46 regardless of whether TTI continued to lease the facility after 2015 to keep the terminal leasable for any potential tenant.

PROJECT JUSTIFICATION:

Project Objectives:

The objective is to fulfill the terms of the lease amendment authorized in December 2012. The proposed capital improvements will maintain the economic and job benefits from the cargo business at Terminal 46.

This is a preliminary estimated range of the project cost. The project team will provide an updated total project cost in a future construction-funding request.

PROJECT SCOPE OF WORK AND SCHEDULE:

The scope of the improvements is outlined in Paragraph 9 of the T-46 Lease, 13th Amendment, as listed below:

- 1) Container Dock Apron: Upgrade approximately 200 lineal feet at the north end of existing dock apron for 100-foot gauge cranes to match the load capacity of the existing 2,300 lineal feet of dock apron.
- 2) Container Dock Structure: Rehabilitate the existing dock and improve as necessary with the installation of pile caps and deck panels. This component is not in the scope of this authorization, and is covered in CIP# C800603 T46 Dock Rehabilitation.*
- 3) Container Yard Pavement: Overlay existing pavement with up to (6) six inches of asphalt where the existing pavement section is failing.
- 4) Storm Water Facilities: Construct improvements that meet current storm water standards, which is to be carried out in conjunction with Lessee's implementation of operational best management practices. Port of Seattle obligations include upgrading the existing wash rack to meet existing storm water standards.
- 5) Lighting: Upgrade existing lighting controls to allow for control of the lighting system from a central point inside the terminal administration building, or at another location as determined jointly by the Port and Lessee.
- 6) Crane Pin Down: Construct three additional crane pin-down locations within the existing dock apron and install similar crane pin-down locations on the to-be-upgraded 200 lineal feet of container dock apron.
- 7) Fender System: Add covers over the fender system to prevent ship line entanglement.

The Port intended to rehabilitate the T-46 dock whether TTI continued to lease the facility or not as that work was necessary to keep the facility leasable for any potential tenant. Therefore, while the **Container Dock Structure work was listed in the 13th amendment under ALTERATIONS AND IMPROVEMENTS, it was not a new or incremental obligation related to the 13th amendment – simply restated there, at the tenant's request. Only incremental obligations of capital investment by the Port are included in this project scope of work and reflected in the associated financial analyses.*

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

April 1, 2013

Page 3 of 6

Schedule:

Design and construction phases will vary for each element of the scope listed above due to compliance requirements, operational constraints, or availability of the terminal area due to the Alaskan Way Viaduct Replacement and Tunnel Project. The design team will evaluate the scope of work and coordinate with the terminal operator to determine a cost effective approach to implement the work.

FINANCIAL IMPLICATIONS:

<i>Budget/Authorization Summary:</i>	Capital	Expense	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$6,000,000	\$0	\$6,000,000
Total Authorizations, including this request	\$6,000,000	\$0	\$6,000,000
Remaining budget to be authorized	TBD	TBD	TBD
Total Estimated Project Cost	\$20,000,000 to \$35,000,000	\$0	\$20,000,000 to \$35,000,000

<i>Project Cost Breakdown:</i>	This Request	Total Project
Construction	\$0	TBD
Construction Management	\$0	TBD
Design	\$3,650,000	TBD
Project Management	\$1,700,000	TBD
Permitting	\$ 650,000	TBD
State & Local Taxes (estimated)	\$0	TBD
Total	\$6,000,000	\$20,000,000 to \$35,000,000

Budget Status and Source of Funds:

The Port's obligation for capital improvements at Terminal 46 under the terms of the 13th Amendment with TTI are estimated at between \$20,000,000 and \$35,000,000. The 2013 Draft Plan of Finance included \$37,500,000 under CIP #102554 T-46 Development associated with capital improvement obligations under the 13th Amendment. These improvements will be funded from the General Fund.

Financial Analysis and Summary:

CIP Category	Renewal/Enhancement
Project Type	Renewal & Replacement
Risk adjusted discount rate	9.0% (rate used in TTI 13 th amendment Commission Memo dated December 11, 2012)

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

April 1, 2013

Page 4 of 6

Key risk factors	<p>Key risk factors which may impact project costs include:</p> <ul style="list-style-type: none"> • Construction costs may increase if required work is more extensive than currently known. The construction cost estimate will be refined during the design process included in this request. • Project schedule could be delayed due to project complexity, weather, permitting delays, potential scheduling conflicts with the Alaskan Way Viaduct Replacement and Tunnel Project, and the need to minimize disruptions to Terminal 46 operations. This risk is expected to be partially mitigated with a phased construction approach. • Incremental costs due to expansion of project scope resulting from the presence of contaminated materials, subsidence, or other unanticipated damages. 																																										
Project cost for analysis	\$20,000,000 to \$35,000,000 for capital improvements specified in the 13 th Amendment.																																										
Business Unit (BU)	Container Operations																																										
Effect on business performance	<p>Below is an estimate of the incremental impact of the 13th Amendment to the Terminal 46 lease on NOI after Depreciation. The results shown below for years 2013 through 2018 reflect the initial six years of the new thirteen year minimum annual guarantee (MAG) rent plus a container lift rate fee lease rate structure.</p> <p>Incremental impacts were calculated by comparing the new MAG lease rate structure to the prior lease terms (at Eagle Rate) for the remaining 3 years of the prior lease that was scheduled to terminate on December 13, 2015. If this lease extension had not occurred, it was expected that Terminal 46 would become vacant after 2015, so years 2016 through 2018 reflect the incremental positive impact of the MAG lease rate structure.</p> <p>The \$4,000,000 impact fee paid to TTI in December 2012 (upon execution of the 13th Amendment) is amortized over the thirteen-year term of the MAG structure as a reduction in revenue, in accordance with GAAP guidelines for financial reporting.</p> <p>Net Operating Income – without new cranes:</p> <table border="1" data-bbox="483 1518 1500 1724"> <thead> <tr> <th>NOI (in \$000's)</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> </tr> </thead> <tbody> <tr> <td>Incremental Revenue</td> <td>(4,995)</td> <td>(5,512)</td> <td>(5,383)</td> <td>10,205</td> <td>10,590</td> <td>10,876</td> </tr> <tr> <td>Incremental Expense</td> <td>(200)</td> <td>(205)</td> <td>(210)</td> <td>(215)</td> <td>(221)</td> <td>(226)</td> </tr> <tr> <td>NOI Before Depreciation</td> <td>(5,195)</td> <td>(5,717)</td> <td>(5,593)</td> <td>9,990</td> <td>10,369</td> <td>10,650</td> </tr> <tr> <td>Depreciation</td> <td>-</td> <td>-</td> <td>(535)</td> <td>(1,130)</td> <td>(1,724)</td> <td>(2,319)</td> </tr> <tr> <td>NOI After Depreciation</td> <td>(5,195)</td> <td>(5,717)</td> <td>(6,128)</td> <td>8,860</td> <td>8,645</td> <td>8,331</td> </tr> </tbody> </table> <p>Estimated annual depreciation is based on the \$35,000,000 capital investment (high end of the range). Actual depreciation will depend on the specific assets constructed, and may be lower if the required terminal improvements can be</p>	NOI (in \$000's)	2013	2014	2015	2016	2017	2018	Incremental Revenue	(4,995)	(5,512)	(5,383)	10,205	10,590	10,876	Incremental Expense	(200)	(205)	(210)	(215)	(221)	(226)	NOI Before Depreciation	(5,195)	(5,717)	(5,593)	9,990	10,369	10,650	Depreciation	-	-	(535)	(1,130)	(1,724)	(2,319)	NOI After Depreciation	(5,195)	(5,717)	(6,128)	8,860	8,645	8,331
NOI (in \$000's)	2013	2014	2015	2016	2017	2018																																					
Incremental Revenue	(4,995)	(5,512)	(5,383)	10,205	10,590	10,876																																					
Incremental Expense	(200)	(205)	(210)	(215)	(221)	(226)																																					
NOI Before Depreciation	(5,195)	(5,717)	(5,593)	9,990	10,369	10,650																																					
Depreciation	-	-	(535)	(1,130)	(1,724)	(2,319)																																					
NOI After Depreciation	(5,195)	(5,717)	(6,128)	8,860	8,645	8,331																																					

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

April 1, 2013

Page 5 of 6

	constructed at a lower cost in the range of estimates provided.												
IRR/NPV	<p>The estimated incremental impact of the 13th Amendment to the Terminal 46 lease is shown below. The analysis results are based on the MAG lease rate structure at Terminal 46 for the thirteen-year term from January 1, 2013, through December 31, 2025. <u>Not</u> included in the below calculations is the opportunity cost of land or possible future investment in facilities, including the T-46 Dock Rehabilitation project (C800603).</p> <p>Financial Impacts – without new cranes</p> <table border="1"><thead><tr><th>Terminal 46 Impact Only (range of required investment)</th><th>NPV (in \$million's)</th><th>IRR</th><th>Payback (in years)</th></tr></thead><tbody><tr><td>\$20 million capital investment</td><td>\$22.2</td><td>18.6%</td><td>8</td></tr><tr><td>\$35 million capital investment</td><td>\$9.9</td><td>12.7%</td><td>9</td></tr></tbody></table> <p>The tenant has the option (<i>until December 31, 2017</i>) to request the Port to purchase and install two new Super Post Panamax cranes. The analysis results shown above does not include an investment in new cranes, as the tenant has not yet exercised that option and, per the terms of the amendment, TTI will reimburse the Port for the costs of the new cranes through a special improvement rent.</p>	Terminal 46 Impact Only (range of required investment)	NPV (in \$million's)	IRR	Payback (in years)	\$20 million capital investment	\$22.2	18.6%	8	\$35 million capital investment	\$9.9	12.7%	9
Terminal 46 Impact Only (range of required investment)	NPV (in \$million's)	IRR	Payback (in years)										
\$20 million capital investment	\$22.2	18.6%	8										
\$35 million capital investment	\$9.9	12.7%	9										

Lifecycle Cost and Savings:

Extending the useful service life of our existing assets defers eventual replacement costs, supporting the economic vitality of our operations.

STRATEGIC OBJECTIVES:

This project will support our Century Agenda Strategic Objective to grow Seaport annual container volume to more than 3.5 million TEUs.

ENVIRONMENTAL SUSTAINABILITY:

This project will provide the opportunity to apply environmental sustainability principles associated with the new improvements, including:

- Practices to avoid and minimize potential negative environmental effects;
- Upgrading the drainage system to better manage stormwater;
- Improvements aimed to balance one-time capital improvement and annual maintenance and operational costs.

BUSINESS PLAN OBJECTIVES:

- Comply with Port responsibilities under the existing terminal lease agreement.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

April 1, 2013

Page 6 of 6

TRIPLE BOTTOM LINE SUMMARY:

Maintaining Terminal 46 as an operating container terminal is key to the Port meeting its Century Agenda strategies of increasing container volume in Seattle to 3.5 million TEUs and doubling the value of exports from Seattle. Environmental sustainability principles will be employed consistent with Port policy. In addition, procedures set forth in the Port's Small Contractors and Suppliers Program and other small business participation opportunities in support of the Century Agenda goals will be used when applicable in the project contracting process.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative 1: No action. Delay or cancellation of the project work would violate the terms of the lease amendment.

Alternative 2: Request Commission authorization with individual projects. This action would not allow maximum efficiency of a coordinated design approach, and increase in both construction and soft costs. This would create additional burdens on terminal operation due to a lack of coordination on the required improvements.

Alternative 3: Proceed with action request. Comply with the terms of the lease amendment. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

On December 11, 2012, Commission approved execution of the 13th amendment to the lease for Terminal 46 with Total Terminals, Inc.