

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>3a</u>
Date of Meeting	<u>June 3, 2014</u>

DATE: May 23, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: Michael Burke, Director Seaport Lease and Asset Management
Anne Porter, Capital Project Manager
SUBJECT: Terminal 5 Facility Modernization Project Design Funding

Amount of This Request: \$4,700,000 **Source of Funds:** General Fund

Est. Total Project Cost: Range from \$180,000,000 to \$250,000,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to direct staff to conduct planning, perform site investigations, evaluate scope elements, develop design documents, select consultants, execute consultant contracts, publish environmental review documents, apply for permits, and prepare construction documents as part of the Terminal 5 Facility Modernization Project for an estimated cost of \$4,700,000, that is in addition to the previously division-authorized amount of \$300,000 for a new total authorization of \$5,000,000.

SYNOPSIS

On May 13, 2014, Commission was briefed on the opportunity to modernize Terminal 5 infrastructure to prepare for larger container vessels and allow the Port to remain competitive in the container business. This memo requests Commission approval for \$4,700,000 for initial design, permitting, and project management funding in addition to the previously division-authorized amount of \$300,000 for a new total authorization of \$5,000,000. This amount is not expected to be the final design funding authorization for the project, but will be enough to complete initial planning, site investigations, permit documentation, and up to 30% design.

BACKGROUND

Terminal 5 began operating as a container terminal in 1964. Since that time, the Port invested in significant environmental cleanup and facility improvements to create a 182-acre state-of-the-art international container terminal, which was completed in 1997. The site is currently leased and is operated by Eagle Marine Services, a subsidiary of American President Lines.

Vessels calling at the Port of Seattle have grown in size from 4,800 TEUs in 1997 to 10,000 TEUs today with 18,000+ TEUs currently operating globally. To maintain the Port's competitive position and preserve jobs, dock and infrastructure upgrades are needed to

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modernize the terminal for handling current and future classes of container vessels including the capability for installing larger dual-hoist cranes.

PROJECT JUSTIFICATION AND DETAILS

Project Objectives

Project objectives include ensuring the dock is capable of handling two EEE class vessels by mid-2018. The proposed capital improvements will maintain the economic and job benefits from the cargo business at Terminal 5.

Scope of Work

The scope of work includes planning, site investigations, evaluation of scope options, development of design documents, and preparation of environmental review documents. Key elements of the project include crane rail strengthening, structural repairs to the existing dock, fender system replacement, berth deepening, slope stabilization, and electrical supply/distribution. In addition, storm water upgrades may be necessary to meet code requirements. Other needs will be evaluated during design such as pavement overlay, infrastructure upgrades, beneficial use of site for sediment disposal, mitigation, water supply conveyance, demo or salvage of existing cranes, and other terminal improvements or operating equipment.

Schedule

Design and construction phases will vary for each element of the scope due to compliance requirements, operational constraints, or availability of the terminal area. The design team will evaluate the scope of work to determine a cost-effective approach to efficiently implement the work.

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$300,000	\$0	\$300,000
Current request for authorization	\$4,700,000	\$0	\$4,700,000
Total Authorizations, including this request	\$5,000,000	\$0	\$5,000,000
Remaining budget to be authorized	TBD	TBD	TBD
Total Estimated Project Cost	\$180,000,000 to \$250,000,000	\$0	\$180,000,000 to \$250,000,000

Project Cost Breakdown

	This Request	Total Project
Construction	\$0	TBD
Construction Management	\$500,000	TBD
Design	\$2,700,000	TBD

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Project Management	\$1,000,000	TBD
Permitting	\$500,000	TBD
State & Local Taxes (estimated)	\$0	TBD
Total	\$4,700,000	\$180,000,000 to \$250,000,000

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

Budget Status and Source of Funds

This project, Terminal 5 Facility Modernization, was not specifically included in the capital budget and 2014 Draft Plan of Finance. The \$5,000,000 required for funding the design and permitting portion of this project is available under CIPs C800132 – T-5 Upgrade 600’ of Existing Docks – and C800002 – Contingency Renewal & Replacement.

The design and permitting portion of this project will be funded by the General Fund.

Financial Analysis and Summary

CIP Category	Renewal and Replacement
Project Type	Infrastructure Upgrade
Risk adjusted discount rate	NA
Key risk factors	<ul style="list-style-type: none">• Future market and revenue potential for Terminal 5 is unknown.• Source of funding for overall project cost is not yet determined.• Amounts spent for design and permitting will be expensed if the overall project is not executed.
Project cost for analysis	Current Request - \$4,700,000 for Design & Permitting Prospective Project Cost \$180,000,000 to \$250,000,000
Business Unit (BU)	Containers
Effect on business performance	<u>Current Request:</u> The \$4,700,000 for design and permitting will be capitalized as incurred and ultimately rolled into the overall project costs and be depreciated. If the overall project is not executed, then the amount spent will be written off as an operating expense.

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Effect on business performance, cont.	<u>Prospective Project Cost</u> Based on the range of prospective project costs presented, annual depreciation would increase by \$6,000,000 to \$8,333,333 per year based on a rough approximation of average service life of 30* years. Net Operating Income after Depreciation would decrease by the corresponding amount. Note*: Actual depreciable life will depend on actual assets created and relative cost of each.
IRR/NPV	The NPV is the present value of the project cost.

Lifecycle Cost and Savings

Modernizing our existing assets readies them for current and future changes, extends their useful service life, and preserves the economic vitality of our operations.

STRATEGIES AND OBJECTIVES

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

TRIPLE BOTTOM LINE

Modernizing Terminal 5 for larger vessels 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 or requirements will be established, accordingly.

Economic Development

Terminal 5 modernization will allow the Port to keep pace with current trends in order to stay relevant as the shipping industry changes. The project represents an investment in effectively stewarding competitiveness of the region for market share.

Environmental Responsibility

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 storm water;
- Improvements aimed to balance one-time capital improvement and annual maintenance and operational costs.

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Community Benefits

This project benefits the local community by preserving existing jobs and adding new living wage jobs in construction and terminal operations.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – No action. Delay or cancellation of the project work would reduce our ability to compete for West Coast container volumes. This is not the recommended alternative.

Alternative 2) – Request Commission authorization for individual projects within the larger program. This action would not allow maximum efficiency of a coordinated design approach, resulting in increased construction and soft costs. This is not the recommended alternative.

Alternative 3) – Proceed with action request. Modernize the facility for current and future class container vessels. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- PowerPoint Presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- May 13, 2014 – Commission was briefed on the Terminal 5 Facility Modernization project.