

PORT OF SEATTLE

MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>6C</u>
Date of Meeting	<u>8/19/2014</u>

DATE: July 14, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: Linda Styrk, Managing Director Seaport
Bari Bookout, Director Commercial Strategy
SUBJECT: USACE Feasibility Cost Share Agreement (FCSA)

Amount of This Request:	\$1.5M
Est. Total Project Cost:	\$1.5M
Est. State and Local Taxes:	\$
Net Proceeds to the Port:	\$ n/a

ACTION REQUESTED

Commission authorization requested for the Chief Executive Officer to sign a Feasibility Cost Sharing Agreement (FCSA) with U.S. Army Corps of Engineers (USACE).

SYNOPSIS

Commission authorization is requested for the CEO to sign the USACE's FCSA, a commitment for Port of Seattle to contribute 50% of the estimated \$3M cost of a Feasibility Study of alternatives for potentially re-authorizing and deepening the East & West Waterways as part of Port of Seattle "Big Ship Ready" strategy.

BACKGROUND

While the Port of Seattle already is a deep-water port with navigation channels at depths mostly at least -51' with a significant percentage deeper than -53', an update is needed to the federally recognized depths of the port's waterways to reflect the current and future cargo fleets. The East Waterway is only partially authorized to -51' Mean Low Low Water (MLLW); the remainder of the East Waterway and the West Waterway are authorized to -34' MLLW, while the expected size of the fleet calling Seattle is growing past a draft + clearance need of -50' and deeper. In order to continue to serve as a competitive international trade gateway and support nearly 23,000 seaport-related jobs, the Port has an interest in reauthorizing and deepening these channels. Authorization by USACE is important, since USACE would then share both the construction cost and the Operation & Maintenance cost of navigation channels to their authorized depths.

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The Port of Seattle is a major gateway for regional and national exports, which tend to be heavy, high-value goods like vegetables, apples, identity preserved grains, and seafood. Ships must be able to call Seattle and take on cargo to their deadweight capacity and maximum draft. Ships deployed on the U.S. West Coast have been rapidly increasing in size, and these ships need drafts greater than -50' MLLW for safe passage.

The Port worked with the USACE in 2012 to conduct an initial harbor appraisal. The appraisal recommended that there is sufficient reason to investigate the feasibility of modifying the channel depth in the East & West Waterways. The Reconnaissance Study will determine whether there is federal interest for continuing the study project, which is informed by the potential for positive cost-benefit ratios, national impact, safety improvement, and demonstrated need. USACE received funding in the President's Fiscal Year 2014 budget for a Reconnaissance Study and Congress authorized USACE to pursue only three "new starts" navigation studies in the Murray-Ryan budget compromise. Port staff has been working with USACE to contribute information, and the reconnaissance report is expected to be issued by September 2014.

The Feasibility Study will be the first under the new 3x3x3 principles in the Water Resources Reform Development Act that stipulates Feasibility Studies be completed at a cost of no more than \$3M total in 3 years or less, and undergo concurrent reviews by 3 levels at USACE: districts, divisions, and headquarters. Cost sharing for this study is 50% by Port of Seattle, with Work in Kind (WIK) counting toward part of that commitment. The Feasibility Study will begin after the Reconnaissance Study is completed only if the Reconnaissance Study results in a favorable recommendation to study alternatives. A favorable outcome of reconnaissance is expected.

The next stage after Feasibility would be the actual project construction phase to deepen the waterways to the chosen alternative. The Port will participate in cost share of the project but cost share of construction and O&M may be different than a 50/50 split. Details and cost estimates will be available when the Feasibility Study is completed.

PROJECT JUSTIFICATION AND DETAILS

The FCSA will be signed the last week in September by Port of Seattle and USACE, timed with the release of the completed Reconnaissance Study. The port must signal our approval to sign the document in August, committing Port of Seattle to 50% of the cost of the Feasibility Study, to fit in with timing of the USACE internal review process. A letter of intent has already been sent indicating our support for this process.

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Project Objectives

The Port has an interest to deepen both waterways to handle the next generation of container ships that are currently being deployed on the West Coast. The FCSA is a step in the process toward reauthorizing and deepening our channels to handle these ships.

Scope of Work

The USACE Feasibility Study will examine the cost and benefits of a range of alternatives for improving navigation in the East & West Waterways in the Port of Seattle. The Port of Seattle will contribute cash and work in kind (WIK) to the USACE study, up to \$1.5M under this agreement. Work in kind will include staff time, sediment sampling, outreach and NEPA meetings facilitation, data purchase and compilation, and other similar contributions. The Feasibility Study will examine:

- Environmental & commercial benefits of deepening
- Several alternatives with a detailed cost benefit analysis of each that will lead to a preferred outcome.

Schedule

USACE has included \$200,000 of federal funding in the President's 2015 budget for this Feasibility Study, which should begin in October 2014, and is planned to be completed by October 2017. Funding is also included in the House of Representatives Energy and Water Appropriations legislation. The best current estimate of Port fund allocations is up to \$500,000 each year. USACE will draw upon these funds, taking into account estimated anticipated WIK from the Port and the proportion of the non-federal share of the cost share. Continued work by USACE is dependent on Federal appropriations and the President's Budget each year, until Study completion.

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$0	\$1,500,000	\$1,500,000
Total Authorizations, including this request	\$0	\$1,500,000	\$1,500,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$0	\$1,500,000	\$1,500,000

Project Cost Breakdown To be determined

	This Request	Total Project
Construction	\$0	\$0
Construction Management	\$0	\$0
Design	\$0	\$0
Project Management	\$0	\$0
Permitting	\$0	\$0
State & Local Taxes (estimated)	\$0	\$0

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Total	\$0	\$0
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Budget Status and Source of Funds

Beginning with 2015, Seaport will include \$500,000 annually for 3 years in the operating expense budget for this project. No funds were included in the 2014 Operating Budget. However, costs in 2014 could be covered by underspending (approximately \$1M) on the Terminal 5 Maintenance Dredge project.

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Financial Analysis and Summary

CIP Category	NA																																								
Project Type	Expense Project																																								
Risk adjusted discount rate	NA																																								
Key risk factors	<ul style="list-style-type: none">• It is possible that the feasibility study will not support going forward with the dredging of the East and West waterways and funding from USACE would not be forthcoming.• Of the total budget of \$1,500,000, approximately \$950,000 is expected to be in the form of in kind contributions of Port labor and outside contracting with the remaining will be cash contributions. These contributions are requested annually in advance. Should the Port be entitled to a refund upon final accounting for the project, it will be provided subject to the availability of government funds. If not available, government will seek additional appropriations. This may take some time.• In general, delays in Federal appropriation of funds for the project could result in project delays.																																								
Project cost for analysis	\$1,500,000																																								
Business Unit (BU)	Seaport - Container																																								
Effect on business performance	<p>The estimated total project costs will have the following effect on Net Operating Income (NOI) in future years. It is assumed that labor of existing Port employees is not an incremental expense. Depreciation expense will not be impacted by this project, as it is an operating expense.</p> <table><thead><tr><th>NOI (in \$000's)</th><th>2015</th><th>2016</th><th>2017</th><th>Total</th></tr></thead><tbody><tr><td>Incremental Revenue</td><td>\$0</td><td>\$0</td><td>\$0</td><td>\$0</td></tr><tr><td>Total Costs</td><td>\$500</td><td>\$500</td><td>\$500</td><td>\$1,500</td></tr><tr><td>Less: Port Labor</td><td>(\$100)</td><td>(\$80)</td><td>(\$80)</td><td>(\$260)</td></tr><tr><td>Incremental Costs</td><td>\$400</td><td>\$420</td><td>\$420</td><td>\$1,240</td></tr><tr><td>NOI</td><td>(\$400)</td><td>(\$420)</td><td>(\$420)</td><td>(\$1,240)</td></tr><tr><td>Depreciation</td><td>\$0</td><td>\$0</td><td>\$0</td><td>\$0</td></tr><tr><td>NOI After Depreciation</td><td>(\$400)</td><td>(\$420)</td><td>(\$420)</td><td>(\$1,240)</td></tr></tbody></table>	NOI (in \$000's)	2015	2016	2017	Total	Incremental Revenue	\$0	\$0	\$0	\$0	Total Costs	\$500	\$500	\$500	\$1,500	Less: Port Labor	(\$100)	(\$80)	(\$80)	(\$260)	Incremental Costs	\$400	\$420	\$420	\$1,240	NOI	(\$400)	(\$420)	(\$420)	(\$1,240)	Depreciation	\$0	\$0	\$0	\$0	NOI After Depreciation	(\$400)	(\$420)	(\$420)	(\$1,240)
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IRR/NPV	NA																																								

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Lifecycle Cost and Savings

The project is designed to update the existing federal authorization to reflect current and likely future use conditions. If constructed, the project would provide for safer and more efficient use of Port terminals. Tracking and trending of project benefits would be conducted in the FS. Port operational costs associated with maintenance dredging post construction will likely either decrease or remain the same as O&M in navigation channel would be cost shared with USACE if the waterways are reauthorized to -50' or greater.

STRATEGIES AND OBJECTIVES

The Harbor Deepening Project is in line with the Port's Century Agenda strategy to position the Puget Sound as a premier logistics hub and achieve the objectives of growing annual container volume and tripling the value of outbound cargo. The Seaport has identified the ability to handle big ships at our container facilities as a key priority in positioning the Seaport to remain competitive and achieve growth. As a strategic export gateway, the ability to handle the largest ships at a maximum departure draft will position the Port of Seattle well as a gateway for United States commerce and preserve maritime jobs into the future.

TRIPLE BOTTOM LINE

Economic Development

Container vessels are trending larger and channel deepening is essential to maintaining the Port of Seattle's competitive position as a premier international trade gateway, particularly relative to Canadian ports. U.S. ports on both coasts have deepening projects and Prince Rupert has no depth limitation. Economic analysis from John Martin and Associates found that 6,200 of the nearly 23,000 jobs that depend on the port's container business are at risk from cargo diversion to Canada.

Environmental Responsibility

The project will likely remove low levels of additional contaminated sediment from the waterways not already addressed as part of separate cleanup efforts. The FS will examine the environmental impacts to the project and recommend mitigation measures, where impacts are identified. If constructed, the project will encourage the fleet of larger, new, more efficient and environmentally friendly container ships to call Puget Sound, replacing smaller, less efficient ones. Potentially fewer ships will be required to carry the same amount of cargo.

Community Benefits

A strong working port is vital to the economic health of King County and Washington state. Modernizing the Port of Seattle's navigation channels preserves tens of thousands of well-paying maritime jobs that support the local economy, and \$475.5 million in state and local taxes generated by economic activity at the port. The port is a critical link connecting Washington's exporters and other businesses with global markets. By ensuring the Port can continue to serve a modern container fleet, this project will protect over \$1 billion of the Port of Seattle's

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investments in our container facilities since the late 90s and the over \$340 million the Port has contributed to local road and rail projects over the last 5 years.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do Nothing – Leaving the current authorization levels at -34’ MLLW in the West Waterway and partially authorized to -51’ MLLW in the East Waterway would mean the Port would either need to assume the full cost of deepening to handle large ships or would become uncompetitive as a gateway for container business. This is not the recommended alternative.

Alternative 2) – Participate as the Non-Federal Sponsor in the USACE Feasibility Study for Harbor Deepening: Signing the FCSA is the first step for Port of Seattle participation in a study of the alternatives for deepening our navigation channels to accommodate current and future needs of containerships. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- FCSA draft agreement (not available yet from USACE)

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None