

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6b

ACTION ITEM

Date of Meeting September 11, 2014

DATE: September 4, 2014

TO: Tay Yoshitani, Chief Executive Officer

FROM: Steve Queen, Container Operations Manager
Curtis Stahlecker, Project Manager

SUBJECT: Second Reading and Final Passage of Resolution No. 3695, surplus of Port Cranes 61, 62, 63, 64, 66, and 68 at Terminal 5

Source of Funds: No funding requested at this time.

ACTION REQUESTED

Request Second Reading and Final Passage of Resolution No. 3695: A Resolution of the Port Commission of the Port of Seattle declaring certain personal property surplus (Port of Seattle Cranes No. 61, 62, 63, 64, 66, and 68) for Port of Seattle purposes and authorizing its sale or disposal; and authorizing the Chief Executive Officer to execute all documents related to such sale or disposal.

SYNOPSIS

Port staff has started the Terminal 5 Facility Modernization project design effort. The objective of this effort is to design and build a facility capable of handling two EEE class vessels by mid-2018. While fully functional for the ships that had been calling on Terminal 5, the existing six cranes do not have capacity (height and outreach) to handle cargo for EEE class ships and will need to be removed to accommodate the larger cranes that will be needed.

The cranes were purchased between 1984 and 1986 and are classified as Post-Panamax, having a rail gauge of 100 feet and an outreach of 145 feet. Cranes 63, 64, and 68 have their original lift height of 95 feet; the other three were modified in the late 1990s to have a lift height of 115 feet. The cable reels were replaced on five of the cranes in 2013, Crane 66 had the cable reel replaced in 2004. The remaining book values are primarily from the installation of cable reels in 2013, crane drives in 2007, and spreader beams purchased in 2010.

With the direction to modernize Terminal 5, and as there are no other open Port terminals where the cranes could be utilized, it is desirable to sell the cranes while they are fully functional and have current certifications.

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BACKGROUND

Cranes No. 61, 62, 63, 64, 66, and 68 are located at Terminal 5. They were purchased from PACECO Corporation and are classified as post-panamax cranes. Cranes 61, 62, 63, and 64 were commissioned in 1984 followed by the purchasing and commissioning of Crane 66 in 1986 and Crane 68 in 1989. The cranes have a capacity of 50 long tons and a rail gauge of 100 feet with an outreach of 145 feet. The original lifting height for all the cranes was 95 feet. In the late 1990s the lifting height of Cranes 61, 62, and 66 was increased to 115 feet. The cable reels on all of the cranes were replaced in 2013 except for Crane 68 which was replaced in 2004.

The Port has no other terminal location or lessor with a need for these cranes. These cranes are fully operational and in good mechanical, structural and electrical condition. They are anticipated to compare favorably with similar cranes within the limited used crane market.

The Port had a valuation appraisal performed on the cranes in April of 2012. The valuation indicated that, provided a willing buyer was available, the sale value of the six cranes relocated from the terminal was estimated to be \$3,750,000. While market conditions can change, there is the potential for the Port to gain revenue up to this amount from the sale of the cranes.

In order to maintain the maximum marketability of the cranes, it is desirable to sell as soon as practical since, without use, equipment such as cranes deteriorate rapidly due to corrosion, evaporation of lubricants, and moisture penetration into electrical components thus diminishing the residual value. The current book value of the cranes are approximately \$2,142,000.

Additionally there is the potential that the cranes would not sell and Port would need to demolish them. Should the cranes need to be demolished Staff would return to Commission and request authorization for the funds.

PROJECT JUSTIFICATION AND DETAILS

Project Objectives

Advertise and sell Cranes No. 61, 62, 63, 64, 66, and 68 for use by others in order to allow the modernization of Terminal 5 and the installation of larger dual-hoist cranes.

Scope of Work

Even though these cranes are post-panamax size with a 100 -foot gauge and fully operational, there may be no market for them as the used crane market is slow and limited. For this reason, our actual sale price could be very low, or they may not sell as we have seen recently with Cranes 51, 52, and 53.

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Schedule

When a buyer is found or the cranes are removed, the cranes may be transferred with at least one spreader beam per crane and with any spare parts that have no value for re-sale and no other use to the Port.

If the cranes do not sell within six months, staff will return to Commission to obtain authorization to dispose of them in accordance with Port procedures, including paying to have the cranes dismantled and scrapped.

FINANCIAL IMPLICATIONS

As of June 30, 2014, the remaining book values for the PACECO cranes and associated components were approximately:

Crane 61 (PACECO Crane S/N 1264) = \$305,000;
Crane 62 (PACECO Crane S/N 1263) = \$305,000;
Crane 63 (PACECO Crane S/N 1262) = \$305,000;
Crane 64 (PACECO Crane S/N 1261) = \$305,000;
Crane 66 (PACECO Crane S/N 1355) = \$107,000;
Crane 68 (PACECO Crane S/N 1473) = \$305,000;
Associated Components
(Lifting beams, Spreader Beams) = \$510,000

Combined net book value for the cranes totals \$2,142,000.

Budget Status and Source of Funds

No funding is requested with this Commission request, if the cranes do not sell staff will return to Commission requesting funding to remove the cranes.

The advertisement for the sale of the cranes will be funded by the General Fund.

Financial Analysis and Summary

CIP Category	NA
Project Type	NA
Risk adjusted discount rate	NA
Key risk factors	Key risk factors include: <ul style="list-style-type: none">• The possibility that no buyer will be found for Cranes No. 61, 62, 63, 64, 66, and 68• The Port may eventually need to pay for the demolition and removal of these cranes.
Project cost for analysis	NA

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Business Unit (BU)	Container Operations
Effect on business performance	The sales proceeds, if any, from sale of Cranes No. 61, 62, 63, 64, 66, and 68 and the related recognition of gain or loss on sale of fixed assets will be recorded as a non-operating activity in the year of sale. If these cranes are sold for less than the remaining book value of the asset (approximately \$2,142,000), then the result would be the recording of a non-operating loss in the year of sale.
IRR/NPV	NA

Lifecycle Cost and Savings

Removal of the cranes allows for the modernization of our existing assets and 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 by removing older equipment that is not suitable for the anticipated class of vessel that will be calling on the terminal.

TRIPLE BOTTOM LINE

Removing the PACECO cranes from the facility will assist in the modernization of Terminal 5 by allowing the installation of larger cranes to support larger vessels which 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 surplus and removal of the older equipment allowing for the installation of more efficient equipment 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 by selling the cranes.

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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** - An option of doing nothing would leave Cranes No. 61, 62, 63, 64, 66, and 68 where they are. This would limit the use of the modernized Terminal 5 since they would take space away from the new cranes that will need to be purchased for the EEE class vessels. Additionally, required maintenance and certification expense to keep these cranes operational during the modernization process does not benefit the Port as no revenue will be generated
- **Alternative 2** – Sale or Disposal of Cranes No. 61, 62, 63, 64, 66, and 68 are a key component in the Port’s Century Agenda strategies of increasing container volumes by allowing more efficient equipment to be installed. **This is the preferred alternative.**

ATTACHMENTS TO THIS REQUEST

- Resolution No. 3695

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- August 19, 2014, Commission authorized the First Reading of Resolution No. 3695, declaring certain personal property surplus (Port of Seattle Cranes 61, 62, 63, 64, 66, and 68) for Port of Seattle purposes and authorizing its sale or disposal.
- May 4, 2010, Commission authorized replacement of cable reels on five Cranes at T-5.
- January 10, 2005, Commission authorized new crane drives for six Terminal 5 Cranes
- February 10, 2004 Commission authorized the relocation of Crane 66 to Terminal 5 and the installation of a cable reel system.
- November 28, 1989 Commission authorized installation of personnel hoisting system on Cranes 61 through 68.
- March 25, 1986, Commission authorization for the purchase of two additional PACECO crane under the current contract.
- October 9, 1984, Commission authorization to award contract to PACECO, Inc. for purchase of four (4) 50-long ton electric container cranes.