Port of Seattle

COMMISSION
AGENDA MEMORANDUM

ACTION ITEM

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| **Item No.** | 4c |
| **Date of Meeting** | September 12, 2017 |

**DATE:** September 5, 2017

**TO:** Dave Soike, Interim Executive Director

**FROM:** Kenneth R. Lyles, Director Fishing & Commercial Operations
Kelli Goodwin, Maritime Operations Manager
MaryAnn Lobdell, Sr. Mgr. Marine Maintenance Compliance - Fleet

**SUBJECT:** Procure 55,000 lb. capacity Heavy Lift Truck (forklift) for Terminal 91

**Amount of this request:** $400,000
**Total estimated project cost:** $400,000

## ACTION REQUESTED

Request Commission authorization for the Executive Director to authorize procurement of one 55,000 lb. capacity heavy lift truck (forklift) for the Terminal 91 rental fleet at a cost of $400,000 including taxes.

## EXECUTIVE SUMMARY

A fleet of heavy lift trucks (HLTs) is in service at T-91, managed by our T-91 Maritime Operations Team, for the use of customers on site. This request facilitates the retirement of a 1975, 33,000 lb. capacity HLT and its replacement with a new, 55,000 lb. capacity HLT. This equipment replacement improves the fleet, enhances worker and customer safety, and is a significantly more environmentally responsible unit. This HLT is rated at EPA Tier 4 Final, the highest standard for this class of equipment. The new unit will better support the North Pacific Fishing Industry, as well as Port of Seattle capital projects, corrective maintenance, cruise mobilization, and events like Seafair Fleet Week.

## JUSTIFICATION

The workload for T-91's fleet of HLTs is steady and the fishing industry tenants depend on the availability of these tools. Ships are increasing in size and their needs for loading and off-loading are similarly increasing. These heavier load demands include larger nets, trawl doors, spools, propulsion equipment and cruise ship standoff barges. The existing 1975 HLT has reached the end of its service life and parts are obsolete and unavailable.

The Port will benefit financially, environmentally, and by improving safety with the acquisition of a new larger capacity HLT. This unit will show a payback within 5.9 years based on initial costs, maintenance, depreciation, expected revenue, indirect benefits and residual value. In addition, a new unit will assure more "up time" for additional potential rental revenue. Increased load capacity allows for potential new revenues and reduced maintenance, breakdowns and costs associated with overloading our existing equipment. This is the size our customers require for convenient rental. As an alternative, T-91 customer's and Port of Seattle Operation's only recourse is to rent this size HLT. However, this size unit is rarely available and delivery/pick-up fees add additional costs and inefficiencies to both the Port and our customers.

Replacement of the older 33,000 lb. capacity HLT takes out of service a unit that has no emission control components and a very basic muffler for sound control. The new unit is more energy efficient, with the Tier 4 Final engine/emission system, and supports our goal to be the cleanest and greenest Port in North America. The new unit will be ergonomically correct, has power control features, and includes safety alarms and limiters to protect against improper operation.

## DETAILS

Procuring this larger capacity HLT supports the North Pacific Fishing Fleet, Marine Maintenance, Cruise Operations, and other industrial tenants at T-91. This is an opportunity for increased rental revenue and decreased maintenance costs in the T-91 HLT fleet. Estimated cost of the vehicle is $400,000. This purchase is included in the phased capital fleet replacement program.

### *Scope of Work*

Procure a 55,000 lb. capacity forklift at a cost of $400,000, working in conjunction with CPO and ensuring adherence to Port purchasing policies and guidelines.

### *Schedule*

Port staff is currently working on a delivery schedule of the asset. It is expected to be operational by the end of first quarter 2018.

## ALTERNATIVES AND IMPLICATIONS CONSIDERED

**Alternative 1** –Continue with Planned Phased HLT Replacement Program and replace 33,000 lb. capacity HLT with another medium sized HLT and continue to rent Large HLT from third party for cruise operations.

Cost Implications:

- Budget already accounts for $400,000 replacement cost.
- Cruise spends $7,200/yr. on rental fees for 55,000 lb. capacity HLT to deploy/retrieve cruise standoff barges.
- Higher maintenance costs per annum on smaller machines as they continue to work in excess of capacity.

Pros:

(1) Already accounted for in our budget planning.
(2) Relatively easy to procure.

Cons:

(1) Maintenance costs and down time will be higher as users lift loads that are at or in excess of maximum capacity for medium sized HLT.
(2) Cruise will still need to rent a 55,000 lb. capacity HLT to retrieve and deploy cruise standoff barges at cost of $7,200+/year.

***This is not the recommended alternative.***

**Alternative 2** – Do not procure an HLT at this time.

Cost Implications: $5,000+/year expense. Undetermined lost revenue opportunity.

Pros:

(1) No capital outlay.

Cons:

(1) Added value of providing on-site access to HLTs will be diminished as existing, smaller HLTs eventually cannot handle the loads required.
(2) Higher maintenance costs as smaller fleet of HLTs is used at or in excess of load capacity for extended periods of time.
(3) Cruise will need to rent a larger HLT each year at increasing rental rates. Possibility exists that a HLT with needed capacity may not be available for rent when needed to accomplish the work.

***This is not the recommended alternative.***

**Alternative 3** – Lease 55,000lb HLT - Staff examined three different lease options –

Full Pay-out Lease, Fair Market Value Lease Option and Rental Purchase Option.

Cost Implications: $50,000 – 310,000 additional cost ranges, respectively

Pros:

1. Avoids initial capital outlay

Cons:

1. Additional cost in each option
2. Additional annual expense for rental and for maintenance performed by dealer as lease requirement

***This is not the recommended alternative.***

**Alternative 4** – Procure 55,000 lb. HLT

Cost Implications: $400,000

Pros:

(1) Larger lift capacity will save undo wear and tear on smaller machines which are currently lifting at max capacity. Maintenance savings.
(2) Cruise Ops will be able to use this new machine to deploy/retrieve cruise standoff barges and save $7,200+/yr. rental fees.
(3) Fishing fleet has been asking for larger HLT to accommodate heavier equipment and gear. Tariff 5 has been updated to include a higher rental rate for this larger capacity HLT. This should translate to increased rental revenue to the Port.

Cons:

(1) High initial capital cost.

***This is the recommended alternative.***

## FINANCIAL IMPLICATIONS

| ***Cost Estimate/Authorization Summary*** | Capital | Expense | Total |
|---|---|---|---|
| **COST ESTIMATE** | | | |
| Original estimate | $400,000 | $0 | $400,000 |
| **AUTHORIZATION** | | | |
| Previous authorizations | 0 | 0 | 0 |
| Current request for authorization | $400,000 | 0 | $400,000 |
| Total authorizations, including this request | $400,000 | 0 | $400,000 |
| Remaining amount to be authorized | $0 | $0 | $0 |

### *Annual Budget Status and Source of Funds*

The heavy lift truck asset procurement was included in 2018 plan of finance under CIP #C800442 in the amount of $400,000. This project will be funded by General Fund.

### *Financial Analysis and Summary*

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| Project cost for analysis | $400,000 |
| Business Unit (BU) | Maritime Division |
| Effect on business performance (NOI after depreciation) | The purchase of this equipment will increase the Net Operating Income due to the incremental revenue from Lift Truck Rental. |
| IRR/NPV (if relevant) | MIRR 13%/NPV $687,352 |

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| | The NPV of this purchase is the present value of the net cash flow shown below:<br>Incremental Revenue from Rental $320,614<br>Estimate Salvage Value 39,866<br>Cost Savings from Cruise 102,971<br>Cost Savings from Marine Maintenance 766,916<br>Acquisition Costs (400,000)<br>Maintenance Costs (143,015)<br>Net Cash Flow (NPV) 687,352 |
| CPE Impact | N/A |

***Future Revenues and Expenses (Total cost of ownership)***

Future revenues reflect the incremental revenue from Lift Truck Rental due to more availability as a result of the purchase of this equipment. This is partially offset by the maintenance costs. The expenses for maintenance are estimated to be $10,000 in 2018 with 2.5% inflation rate thereafter.

**ATTACHMENTS TO THIS REQUEST**

None

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

None