PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 7a

Date of Meeting February 10, 2009

DATE: January 22, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Burke, Director, Cargo and Container Operations
Mark Longridge, Capital Project Manager

SUBJECT: Authorization for design and permitting of fender system improvements at Terminal 18 South.

ACTION REQUESTED

Request Port Commission approval for:

1. Authority for the Chief Executive Officer to execute the Second Amendment to the Lease between Westway Feed Products and the Port of Seattle;

2. Funding for design and permitting of 800 feet of replacement fender system at Terminal 18 South in the amount of $450,000, and

3. Authority to enter into or to amend service agreements for an estimated $250,000 to accomplish design and permitting.

SYNOPSIS

Westway Feeds has been using the southerly berth at Terminal 18 (T18) for product transfer since the mid 1990's. The fender system at that berth is now beyond its estimated useful life and is in need of replacement. Preliminary estimate of total project cost is $3,100,000.

PROJECT DESCRIPTION AND JUSTIFICATION

The southern 1200 feet of dock at T18 has been used for break bulk and barge traffic. The timber fender system for that section is well beyond its estimated useful life and needs to be replaced. Replacing the fender system with steel piling instead of timber will be a more cost effective replacement in the long term.

Westway Feeds has primary berthing rights for the most southerly 400 feet of berth at T18, including maintenance responsibility. Westway also has secondary rights to 300

feet of berth north of their primary berth. Replacement of the secondary berth is not a Westway obligation.

The proposed lease amendment to the Westway lease would obligate the Port to replace the 300 feet of secondary berth fender system section plus the fender system within Westway's primary 400 foot berth. Westway has agreed to a minimum revenue guarantee for dock charges in exchange for the Port constructing these improvements. Staff is also requesting the Commission authorize an additional 100 feet of fender system replacement in this area, making the entire fender project 800 feet. This would create two full barge berths at Terminal 18 South. Staff is not proposing to replace the fender system on the most northerly 400 foot section of the break bulk berths at this time.

SSA Terminals, as part of the T18 lease, has 50 percent maintenance responsibility for the fender systems in this area, but is not necessarily responsible for replacement of the fender system as that appears to be beyond their maintenance obligation in this situation.

MAJOR ELEMENTS OF THE PROPOSED SECOND AMENDMENT TO LEASE

1. The Port will replace the 400 foot fender system for Westway's primary berth and the 300 foot section of fender system for Westway's secondary berth.

2. Westway and/or its agents will pay the Port each year a minimum annual guarantee for dock operations (Dockage, Wharfage, and Service and Facilities charges) of $242,500, starting the first full calendar year following completion of the improvements in item 1.

PROJECT SCOPE OF WORK AND SCHEDULE

- Overall project scope would include the replacement of 800 linear feet of old and deteriorated fender pile system along with the remaining bullrail and brow at the south end of T18 with a new steel fender system to facilitate barge moorage for existing lease tenants and transitory barge traffic.

- Design and permitting scope under this authorization to include preparation of plans, specifications and estimates for completing this work, and submission of all applicable permits required for in water work to repair these sites.

- Tentative Project Schedule:

Permits Submitted	April 22, 2009
100% Design Complete	August 25, 2009
Major Works Construction Advertisement	September 2, 2009
In-Water Construction Begins	January 6, 2009
Construction Complete	March 30, 2010

STRATEGIC OBJECTIVES:

This project supports the Port's strategies to "Ensure Airport and Seaport Vitality" and "Exhibit Environmental Stewardship through our Actions", by:

- Replacing the fender system at the subject Terminal so that the Terminal can return to service for berthing.
- Improving water quality by removing creosote treated timber piles from the marine environment.
- Replacement of the fender system in this area is basically a renewal and replacement project for the Seaport. It will help protect dock revenue the Port currently gets and may allow for some additional barge business in the future.

Meet Environmental Obligations

The project will meet environmental obligations by removing creosote timber fenders. In addition the project will:

- Acquire all necessary and required permits from appropriate agencies prior to start of construction; and
- Comply with all conditions stipulated by permit authorizations.

Develop and Maintain Community Support

This project will develop and maintain community support by retaining a longstanding tenant in our harbor, with its related employment and the necessary purchase of goods and services to service, maintain, repair and upgrade the vessel while at port.

In addition, the permit process requires notification of neighboring communities, agencies of interest and appropriate environmental groups. Comment is expected and welcome. Finally, the waters near Harbor Island are Treaty-protected "usual and accustomed" fishing areas. The Muckleshoot and Suquamish Tribes will be consulted during the permitting process.

BUSINESS PLAN OBJECTIVES:

Replacement of this essential protective system will allow continued operation of break bulk and barge activity in this lease area. The full replacement of 800' of the fender system will also allow secondary and tertiary use as an available barge layberth facility, as planned under the Industrial Moorage Initiative.

Budget/Authorization Summary

Previous Authorizations *(prior CEO authorization)*	$50,000
Current request for authorization	$400,000
Total Authorizations, including this request	$450,000
Remaining budget to be authorized *(to be determined during design & permitting)*	TBD

Project Cost Breakdown

Design Services	$ 250,000
Permitting	$ 65,000
Project Management	$ 135,000
Total	$ 450,000

Source of Funds

This project was included in the 2009 Plan of Finance under Committed CIP#C800121 in the amount of $3,000,000. The initial $450,000 is requested in order to proceed with design and permitting.

This project will be funded from the general fund...

Financial Analysis Summary

CIP Category	Revenue/Capacity Growth
Project Type	Business Expansion
Risk adjusted Discount rate	7.5% for Westway lease revenue 9.0% for barge layberth revenue
Key risk factors	• Key risk factors include permitting delays and potential cost overruns due to project complexity/timeframe. • The proposed 2nd Amendment to the Westway lease would provide minimum annual guaranteed revenue from dock operations in the amount of $242,500/yr for the duration of the current lease (9/30/2018), and would continue to apply for any renewal options or extensions. • The preliminary financial analysis includes estimated revenue from barge layberth. Financial performance could be lower, if usage demand or market rates are lower than anticipated in the analysis.
Project cost for analysis	$3,100,000 (preliminary financial analysis)
Business Unit (BU)	Container Support Properties

<table>
<tr><td>Effect on business performance</td><td>Fender replacement at the south end of Terminal 18 will allow continued operation of break bulk and barge activity for another 30 years.

The estimated impact on Net Operating Income (NOI) and NOI after Depreciation in Year 1 through Year 5 is shown below.
<table>
<tr><th>NOI (in $000's)</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th></tr>
<tr><td>NOI</td><td>$2</td><td>$164</td><td>$245</td><td>$245</td><td>$245</td></tr>
<tr><td>Depreciation</td><td>$0</td><td>($69)</td><td>($103)</td><td>($103)</td><td>($103)</td></tr>
<tr><td>NOI After Depreciation</td><td>$2</td><td>$95</td><td>$141</td><td>$141</td><td>$141</td></tr>
</table></td></tr>
<tr><td>IRR/NPV</td><td>Based on preliminary financial analysis.
<table>
<tr><th>NPV
(in $000's)</th><th>IRR</th><th>Payback
(in years)</th></tr>
<tr><td>($285)</td><td>6.3%</td><td>14</td></tr>
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SUSTAINABILITY AND LIFE CYCLE COSTS

In considering the replacement of the existing timber fender system several alternatives materials and systems were considered. Replacement of the timber system in kind, or with a steel, plastic or concrete fender system was evaluated for their performance at this site. The evaluation considered not only life cycle costs, but also structural performance, maintenance frequency, environmental feasibility and constructability issues. While steel fender systems do have higher initial costs, the overall life cycle cost proved lower than the comparable timber, concrete or plastic systems. This paired with increased protection performance of the steel system made it the recommended choice of material.

- *What plans have been made to reduce maintenance costs? If not, why?*
  This project replaces an essential part of the protective system for T18S (fender piling). The project will by definition reduce maintenance costs to the Terminal by preventing damage from barges and vessels impacting on the apron structure. Also, the proposed steel fender system has the lowest expected maintenance effort of the materials considered for this system

- *What is the design life span of this project?*
  Thirty (30) Years

- *What plans have been made to reduce chemical and pollutant source control (low volatile organic compounds) in the construction of this project to improve air quality? If not, why?*
  This project will remove creosote treated piles and replace them with steel fender piles.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- **Do Nothing**: Doing nothing at this time would mean a Port tenant is not able to utilize 300 feet of secondary berth with sufficient fender system protection to the dock.

- **Replace only 300 foot secondary berth**: Replacing only 300 feet of fender system would leave significant gaps in the fender system at the south end of Terminal 18 and put at risk the revenue the Port gets from Westway's dock operations today.

- **Construct 700 feet of fender system**: Constructing 700 feet of berth at the south would create only a 300 foot berth area the Port could use for other barge business. A 700 foot replacement does not allow for the full use by the Port of the secondary berth for other barge activities.

- **Replace 800 feet of fender system**: Proceeding with the design and permitting for the full 800 foot section of the south Terminal 18 berths keeps the project on schedule around the in-water construction windows and combined with the anticipated minimum revenue stream from Westway gives the Port a reasonable return on the investment. **This is the recommended option.**

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

Policy and Staff Briefing – Industrial Moorage Initiative, June 3, 2008