

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5a
Date of Meeting May 4, 2010

DATE: April 5, 2010
TO: Tay Yoshitani, Chief Executive Officer
FROM: Michael Burke, Director, Seaport Cargo Services
Michael Kuhlmann, Capital Project Manager
SUBJECT: Terminal 5 Crane Cable Reel Replacement
CIP #C800349

Amount of this request: \$3,420,000 **Source of Funds:** General Fund.

Total Project Cost: (Estimate) \$3,420,000

State and Local Taxes to be paid: (Estimate) \$300,000 (est.)

ACTION REQUESTED:

Request authorization for the Chief Executive Officer execute a contract for materials and manufacturer technical support to coordinate installation, startup and training to replace five (5) Crane cable reels at the Seaport's Terminal 5 (T-5) for a total Port capital investment estimated at \$3,500,000.

SYNOPSIS:

The Seaport Division authorized \$80,000 for staff to design and prepare documents for purchase of materials to replace the existing crane cable reels to meet our lease obligation to Eagle Marine Services (EMS) to provide functioning cranes at Terminal 5.

Installation of the new crane cable reels will be completed at the tenant's cost, by EMS maintenance personnel.

BACKGROUND:

On September 26, 1985, the Port of Seattle entered into a lease for T-5 with American President Lines (APL). In that lease, the Port agreed to furnish five "functionally operational" Paceco "Type E" cranes for the lessee's preferential use. The lease is now assigned to APL's terminal operator, Eagle Marine Services, Ltd. (a wholly owned subsidiary of APL, Ltd).

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

April 5, 2010

Page 2 of 5

The existing cable handling systems on five of the cranes is now 24 years old and at the end of their useful lives. Replacement parts are difficult to find and often require custom fabrication.

In 2004, the Port relocated to T-5 a sixth Paceco crane. The Cable handling system on this crane was replaced as part of the relocation.

Port will purchase the equipment and EMS will do the installation using their own maintenance personnel; with supervision, startup assistance and training from the cable reel manufacturer's technical personnel paid by the Port. The new cable reel equipment will be expected to last for the remaining life of the Paceco cranes, approximately 10 more years.

PROJECT DESCRIPTION AND JUSTIFICATION:

Project Statement:

This is a request to execute a contract for materials and associated technical support to replace five (5) Crane cable reels at T-5 for a total Port capital investment estimated at \$3,500,000.

Project Objectives:

- Maintain equipment at acceptable operational standards.
- Complete the project within budget.
- Meet customer schedule needs.
- Maintain community support.
- Comply with all environmental and permitting requirements.
- Analyze potential alternatives to this proposal.
- Meet the Port's financial criteria.
- Meet strategic asset management criteria.

Scope of Work and Schedule:

This project would involve the Port issuing a contract to:

- Purchase necessary new mechanical, electrical and hydraulic equipment for installation of new crane cable reels on 5 Paceco cranes at T-5.
- Procure vendor supplied technical support to supervise installation by EMS maintenance personnel, provide startup assistance and training.

Planning and design began in March 2010 Materials for the cranes will be ordered in the second quarter of 2010. Deliveries and installation will continue through the first quarter

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

April 5, 2010

Page 3 of 5

of 2011 as EMS maintenance crews are available for this project. Project is scheduled to be completed by March 2011.

STRATEGIC OBJECTIVES:

This project supports the Ports strategy of “Ensuring Airport and Seaport Vitality”.

BUSINESS PLAN OBJECTIVES:

Maintains lease agreements with the Terminal tenant, will preserve revenue and will reduce disruption to the tenant for cable reel repairs.

FINANCIAL ANALYSIS:

Budget/Authorization Summary

Original Budget	\$0
Previous Authorizations	\$80,000
Current request for authorization	\$3,420,000
Total Authorizations, including this request (estimated construction costs)	\$3,500,000
Remaining budget to be authorized (pending permit requirements)	\$0

Project Cost Breakdown

Construction	\$0
Construction Management	\$0
Material Purchase	\$3,085,000
Design	\$75,000
Project Management	\$40,000
Permitting	\$0
State & Local Taxes (estimated)	\$300,000
Total	\$3,500,000

Source of Funds

The \$3,500,000 being requested for this project would be drawn from CIP# C800349, T-5 Crane Cable Reel Replacement. This project was included in the 2010 Plan of Finance as a committed project in the amount of \$4,000,000.

The funding source for this project will be the General Fund.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

April 5, 2010

Page 4 of 5

Financial Analysis Summary

CIP Category	Renewal/Enhancement																								
Project Type	Renewal & Replacement																								
Risk adjusted Discount rate	7.5%																								
Key risk factors	<p>This project involves installing new components in existing cranes, which carries some risk of equipment incompatibility. The risk of incompatibility is deemed minimal, as similar retrofits have been successfully performed on other Port cranes.</p> <p>There are a limited number of suppliers in this business, mostly foreign companies. The optimal project timeline for equipment purchase could be delayed if the Port encounters difficulty in securing a qualifying bid and obtaining agreement on terms and conditions. This issue was encountered on a similar project (crane spreader beam replacement) and ultimately resolved, but project timing was impacted.</p>																								
Project cost for analysis	\$3,500,000 (current cost estimate)																								
Business Unit (BU)	Container Operations																								
Effect on business performance	<p>This asset replacement project will not generate any incremental revenue. However it complies with the Port’s obligation to provide “functionally operational” Paceco cranes at Terminal 5 and will preserve existing crane rent revenue for the remaining useful life of these cranes.</p> <p>Incremental depreciation expense from this project is estimated at \$350,000/year, based on a 10 year asset life. NOI after Depreciation will decrease by the associated depreciation from this project.</p> <table border="1"> <thead> <tr> <th>NOI (in \$000's)</th> <th>Year 1</th> <th>Year 2</th> <th>Year 3</th> <th>Year 4</th> <th>Year 5</th> </tr> </thead> <tbody> <tr> <td>NOI</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> </tr> <tr> <td>Depreciation</td> <td>(\$350)</td> <td>(\$350)</td> <td>(\$350)</td> <td>(\$350)</td> <td>(\$350)</td> </tr> <tr> <td>NOI After Depreciation</td> <td>(\$350)</td> <td>(\$350)</td> <td>(\$350)</td> <td>(\$350)</td> <td>(\$350)</td> </tr> </tbody> </table>	NOI (in \$000's)	Year 1	Year 2	Year 3	Year 4	Year 5	NOI	\$0	\$0	\$0	\$0	\$0	Depreciation	(\$350)	(\$350)	(\$350)	(\$350)	(\$350)	NOI After Depreciation	(\$350)	(\$350)	(\$350)	(\$350)	(\$350)
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ENVIRONMENTAL SUSTAINABILITY/COMMUNITY BENEFITS:

Environmental

This work is exempt from review under the State Environmental Policy Act (SEPA) and the City’s Shoreline permitting requirements because it consists of equipment replacement.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

April 5, 2010

Page 5 of 5

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative 1 - An option of doing nothing would leave the T-5 cranes with antiquated cable reel systems, will result in increased crane downtime, higher maintenance costs adversely affecting container handling productivity and potential future increases in volume. This alternative would mean that the Port would not be meeting its obligations under the lease.

Alternative 2 - A high cost solution would be the replacement of the existing cranes with state-of-the-art Super Post Panamax Cranes, similar to those at Terminal 46. However, the existing dock, crane power and overall terminal power would need to be upgraded at significant cost, with no guarantee of additional revenue to the port to offset that cost.

Alternative 3 - - A least cost method of improvement is to provide acceptable crane performance by simply replacing the existing Cable Reel systems with modern systems. This will keep the Paceco cranes functional for the remainder of their useful life.

Alternative 3 is the recommended alternative.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

Below is a chronology of events and staff actions, including funding authorizations via re-delegated authority:

- On January 10, 2005 Commission authorized funding for procurement of new crane drives for the six T-5 cranes. This project was completed in 2007. Total Port cost for this project was \$2,150,000. Commission was informed at that time that these cranes will need new cable reels in the next couple of years.