

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6c

Date of Meeting June 1, 2010

DATE: April 29, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Burke, Senior Manager, Container Leasing and Operations
Catherine Chu, Capital Construction Project Manager

SUBJECT: Terminal 5, Terminal 18, and Terminal 105 Street Vacations

Amount of This Request: \$1,500,000 **Source of Funds:** General Fund

Total Project Cost: \$4,000,000

ACTION REQUESTED:

Request authorization for the Chief Executive Officer to execute consultant services contracts or services directives, advertise and award small works contracts, and employ Port staff, for a total of up to \$1,500,000 for street vacations at Terminals 5, 18 and 105. The total project cost is estimated at \$4,000,000.

SYNOPSIS:

Funds to secure street vacations at Terminals 5 (T-5), T-18, and T-105 were authorized by Commission during the terminal expansion projects in the 1990's and early 2000's as part of project-wide authorizations. This request brings authorizations for street vacations current and is intended to improve transparency and financial controls by bringing the dollar amount of the authorizations in line with the remaining work to be done. The budget of \$1,500,000 pays for investigations, negotiations, tax payments, and minor construction. The additional \$2,500,000 (not included in this authorization) may be needed for major construction and/or settlement costs pending the outcome of negotiations. The Port continues to work cooperatively with the City of Seattle departments and Mayor's office to resolve remaining issues.

PROJECT DESCRIPTION AND JUSTIFICATION:

In the last two decades, the Port of Seattle (Port) grew its container terminal capacity by more than 200 acres. To accomplish the expansions, the Port needed to acquire significant additional land, including some public rights-of-way. Street vacation in the City of Seattle is a process where a property owner adjacent to a public right-of-way can

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petition the City Council to acquire, or vacate, the property. It requires City Council review and approval, and must meet specific public benefit requirements.

The Terminal 5 street vacations were the result of the T-5 expansion project in the 1990's. The Port invested nearly \$300,000,000 to expand T-5 from 83 acres to 190 acres, including approximately 16 acres of street vacation area. The street vacation petitions were conditionally approved by the City in 1995. The Port has satisfied the majority of the numerous conditions, including completion of 11.3 acres of public shoreline access and open space improvements at Jack Block Park and along Harbor Avenue and Southwest Spokane Street. The remaining work at T-5 to comply with the conditions of the street vacation approval include finalizing a property exchange between Burlington Northern Santa Fe (BNSF) and the Port; negotiate and execute easements between the Port and the City; resolve any dispute regarding construction completion and payments; ensure City Council final approval of street vacations; and properly complete all real estate transactions.

The Terminal 18 Street Vacations were the result of the T-18 expansion project in the late 1990's, when the Port expanded T-18 from 110 acres to 200 acres, and needed to vacate nearly 30 acres of public right-of-way. The Port has since completed 15 out of 16 conditions for the street vacations, including reconstruction of significant public infrastructure on Harbor Island. Remaining work includes completion of utility ownership transactions, easements, and settlement of any dispute regarding construction completion.

Street vacation actions at Terminal 105 were the result of relocating displaced land owners from T-5 and T-18 expansion areas to T-105. The vacation includes approximately 4 acres of public right-of-way, and once vacated, the street vacation areas will go to the relocated land owners per agreements they have with the Port. To satisfy the conditions to vacate the streets, among many other things, the Port completed improvements at public shoreline access sites at T-105 and T-107, and improved pedestrian/bike trails in the area. The Port has yet to complete agreements with the private land owners, and complete easement agreements with the City of Seattle. Once the street vacations at T-105 is complete, the vacation areas will go to private land owners adjacent to the streets per contractual agreements, and the Port will have an opportunity to recover substantial costs, in the order of \$500,000.

The funds being requested in this memo will also be used to close the books on a transaction involving the Kinder Morgan pipeline relocation on Harbor Island. The Port and Kinder Morgan negotiated the relocation of a petroleum pipeline from the middle of Terminal 18 to the north end of Harbor Island about seven years ago. As part of the consideration for the overall transaction, the Port successfully obtained Kinder Morgan's quitclaim deed for the portion of 11th Avenue SW that Kinder Morgan would be entitled to receive when the City finally vacates 11th Avenue. The seller in real estate conveyances typically pays what is known as the real estate excise tax based on the value of the property. Kinder Morgan signed the conveyance deed for the parcel along with executing the new easements for its pipeline (the deed was actually an exhibit to one of

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the agreements). Because of the swiftness of this closing, the parties never discussed the excise tax arrangements. Staff estimates that the amount of the taxes to be paid is less than \$15,000. Because of the time that has passed on this transaction and the need for the Port to record the deed with King County (the Port needs to show the recorder's office an affidavit demonstrating that the tax was paid), staff recommends that funds from this authorization be used to cover this cost.

The Port is also pursuing street vacations at Terminal 30 Alaskan Way South. Staff plans to return to the Commission at a later date for separate funding authorization when that project is ready to move forward.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

The project scope of work includes negotiation of real estate transactions, easements, and settlements with City of Seattle and private land owners at T-5, T-18, and T-105, in order to finalize street vacations. It includes substantial staff time and outside consultant services to provide survey, real estate, legal, design, project management, environmental, and other technical services, small works projects, overhead, tax, fees, and other administrative costs for work going forward. It does not include costs to date that were previously authorized under project-wide authorizations. Once this request is authorized, we will stop charges to any of the previously authorized budgets and use this current authorization. Also, this request does not include future project specific settlement, and/or major construction costs. Our plan is to ask for additional authorizations when the settlements and/or major construction projects are ready for approval.

Schedule:

Street vacations for Terminals 18 and 105 are expected to be complete by the end of this year or early 2011. The T-5 street vacation is expected to be complete in 2011 or 2012. Port staff will endeavor to complete these street vacations as soon as possible but these completion dates are estimates only and are dependent on negotiations with the City and other property owners.

Budget/Authorization Summary

T-105	\$50,000
T-18	\$400,000
T-5	\$1,050,000 (for up to 2 years of negotiations)
Previous Authorizations	Part of project-wide authorizations*

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Current request for Authorization	\$1,500,000
Total Authorizations, including this request	\$1,500,000
Future possible commitment yet to be authorized	\$2,500,000, pending negotiations

*Street vacations for T-5, T-18, and T-105 were authorized within project-wide authorizations under the expansion projects, and the costs were not tracked separately.

Source of Funds:

Funds were included for street vacations and related necessary construction under multiple Committed CIP's in the 2010 Plan of Finance.

CIP #	Description	2010-2014 Amount
C102858	T-5 Completion	\$ 2,868,000
C102874	T-18 Complete Const. Issues	\$ 824,000
C102875	T-18 Complete RE Issues	\$ 120,000
Expense	T-105 Street Vacations	2010 expense budget

The projects will be funded from the General Fund.

Financial Analysis Summary

CIP Category	Revenue/Capacity Growth
Project Type	Business Expansion (original expansion of Container Terminals)
Risk adjusted Discount rate	N/A
Key risk factors	Street vacation open issues cannot be resolved in a timely and cost effective manner <ul style="list-style-type: none">• Agreements cannot be reached on a timely basis with outside parties.• Key personnel at the Port who are in the best position to resolve open issues are no longer available.• If street vacations cannot be resolved, the Port may be subject to street use fees from the City at Terminals 5, 18 and 105.• City is currently withholding review on Alaskan Way street vacation until all past vacations are complete.
Project cost for analysis	\$1,500,000 plus other major construction costs and/or settlement costs in the order of \$2,500,000 pending negotiations.
Business Unit (BU)	Container Operations

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Effect on business performance	No incremental revenue will result from resolution of the street vacation issues as the Port is already receiving rent from tenants who are leasing the vacated street land. However, as described above, in the case of T-105 there is an opportunity to receive a fee from a third party, in the amount of up to \$500,000 (to be negotiated), for securing the street vacation on its behalf. In general, the resulting asset from completion of the street vacation will be land. Because land is not depreciated, there is minimal or no impact on NOI before or after depreciation.
IRR/NPV	No incremental revenue will result from resolution of the street vacation issues. Accordingly, amounts expended will be an additional investment in the container terminal which reduces the total return on the terminals.

ECONOMIC IMPACTS AND BUSINESS PLAN OBJECTIVES:

This project supports growth of container terminals. The economic impact of the expansion projects was significant. For example, T-5 expansion project created an estimated 1,000 direct jobs, \$220,000,000 new annual business revenue, and \$4,700,000 new annual taxes to the regional economy. T-18 expansion project generated an estimated 1,300 new direct jobs, \$330,000,000 new annual business revenue, and \$14,000,000 new annual taxes.

ENVIRONMENTAL SUSTAINABILITY AND COMMUNITY BENEFITS:

Street vacations need to pass the public benefit reviews by the City of Seattle before the Council would approve. As discussed earlier under Project Description and Justification, in order to complete the street vacations, the Port invested tens of millions of dollars in public infrastructure, public shoreline access parks, and environmental remediation and habitat restoration projects.

PREVIOUS COMMISSION ACTION

On February 9, 2010, staff briefed the Commission regarding background and status of street vacations.