

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No.	<u>6d</u>
Date of Meeting	<u>June 22, 2010</u>

DATE: May 20, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Paul Meyer, Manager, Environmental Permitting and Compliance
Michael Kuhlmann, Capital Construction Project Manager, Seaport

SUBJECT: Terminal 10 Utility Infrastructure Upgrade Project
CIP #C800264

Amount of this request: \$180,000

Source of Funds: General Fund

Total Project Cost: (Estimate) \$6,700,000

ACTION REQUESTED:

Request authorization for the Chief Executive Officer to approve spending an additional \$180,000 to allow Port of Seattle staff and the project consulting team to continue work necessary for final approvals essential to the Terminal 10 (T-10) utility improvement project.

SYNOPSIS:

The Port purchased Terminal 10 from Lockheed in 1997 to use as a container cargo marshalling area, including containers on chassis and drayage trucks serving container cargo sites in south Elliott Bay. Lockheed had operated a shipyard at the Harbor Island site for more than five decades and had conducted upland clean-up action before the Port bought the property. However, in order to ensure appropriate, controlled use of the T-10, the utility infrastructure must be improved with particular emphasis on installing a replacement storm water drainage system, as well as site leveling and paving, new lighting, laying out parking and vehicle use areas and installing fencing and access controls. After this project is completed, Terminal 10 will support the Seaport's long-term growth by providing valuable container workspace and drayage truck parking.

The cost of this project has risen significantly from an original estimate of \$4,412,000 to \$6,700,000 because of higher engineering and permitting costs and the need for extended review by various federal, state and local government agencies. Costs have also risen because of the addition of site lighting, soil disposal costs and ground and storm water collection/disposal costs during construction. The Commission originally approved

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\$530,000 on March 25, 2008, to complete 100% design and permitting. This request was based on preliminary work done in 2007 which did not anticipate the level of engineering and environmental support necessary for the proposed site improvements. The Commission approved an additional \$270,000 on April 14, 2009, to include design of a replacement storm water conveyance system, including a new outfall to the West Waterway and to provide resources for regulatory review. This review has required additional staff resources, not anticipated in the original budget, to address detailed requests for analysis and evaluation by agency reviewers.

Final regulatory approvals are expected in the later part of the third quarter, but, if they take longer, this request will fund the T-10 project for approximately 10 months. All work in this request is expected to be substantially complete by September 30, 2011. Following approval by the regulatory agencies, staff will return to the Commission to request construction funding.

BACKGROUND:

T-10, including approximately 11 acres located on Harbor Island between the West Waterway and 16th Avenue SW, just south of SW Lander Street, was purchased in 1997 after upland clean-up actions were conducted by Lockheed, operator of a shipyard at the site for more than five decades. The Port intends to use T-10 as a container cargo marshalling area, including containers on chassis and drayage trucks serving container cargo sites in south Elliott Bay. In order to ensure appropriate, controlled use of the site, utility infrastructure at the former shipyard site requires improvement, including:

- (1) Installation of a replacement storm water conveyance system;
- (2) Site leveling and placement of a uniform upland pavement vehicle use surface and cap;
- (3) Installation of lighting;
- (4) Layout of parking and vehicle use areas; and,
- (5) Installation of fencing and access control.

These upgrades are intended to meet City of Seattle code requirements for continuing use of the site. As discussed more below, the Port's site improvements will also support environmental obligations that arise from Consent Decrees applicable to the site, and the Purchase and Sale Agreement with Lockheed. With utility improvements complete, the site's commercial potential for either temporary or long term container cargo use increases substantially. Since acquisition of T-10, the site has been used for stockpiling and lay-down of structural materials used in cargo facility construction and for temporary container cargo activities. A portion of the site is dedicated to overflow parking for Todd Pacific Shipyard employees, a use required by terms of a previous agreement.

On March 25, 2008, Commission approved \$530,000 for staff to complete 100% design and permitting for improving the upland area at Terminal 10 for use in support of

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container cargo operations, including construction of necessary storm water infrastructure. Staff has not been able to complete the design and obtain all necessary project approvals for the approved \$530,000 because the original design and permitting budget was based on preliminary work completed in 2007 and did not anticipate the level of engineering and environmental support necessary for the proposed site improvements.

On April 14, 2009, Commission approved an additional \$270,000 to include design of a replacement storm water conveyance system, including a new outfall to the West Waterway, and to provide resources for regulatory review of the proposed storm water system improvements by federal and state agencies, the City of Seattle, and the Muckleshoot Indian Tribe. The Port has made substantial progress in reviewing the project with participating agencies, including preparation of three alternative storm water outfall designs, obtaining project approval from the Washington State Department of Fish and Wildlife, and approval from the U.S. Fish and Wildlife Service and the National Marine Fisheries Service. However, project review has required substantial unanticipated staff resources to address numerous detailed requests for additional analysis and evaluation by agency reviewers. As a result of these delays, the total additional project costs are estimated at \$1,550,500.

Sediment and Upland Soil Cap Issues

T-10 is located within an operable unit of the Harbor Island Superfund site, managed by the Environmental Protection Agency (EPA). There are two operable units (OUs): the upland section (now T-10) is called the Lockheed Shipyard Number One OU, and the sediments are called the Lockheed Shipyard Sediments OU. The upland site was purchased by the Port in 1997 from Lockheed as an element of the Terminal 18 Redevelopment Project. Prior to the sale, Lockheed demolished some of the shipyard facilities, performed soil clean up required by EPA, and installed areas of asphalt cap to isolate remaining upland contaminated soils. In 2004, Lockheed sediment cleanup actions including removal of nearly 3.4 acres of overwater creosote piling dock and platform structures, approximately 950 linear feet of steel and concrete bulkheads, and dredging of significant volumes of contaminated sediments in the adjoining aquatic area. A five feet thick sediment cap was installed in aquatic area adjacent to the former shipyard, including approximately 4.3 acres, over the dredged area

In the Purchase and Sale Agreement, the Port agreed to be responsible for maintaining the upland cap, which currently consists of irregularly sloped areas and a patchwork of concrete and asphalt surfaces. EPA views control of site storm water as necessary to protect the sediment cap and to avoid infiltration of the upland cap and associated negative effects on site groundwater. To address this concern, the Port has proposed installation of a replacement storm water conveyance system, including storm water treatment vaults and a new outfall, in conjunction with the implementation of operational best management practices to prevent recontamination of the sediment cap and to avoid disruption of upland soil/groundwater conditions.

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Storm Water Drainage Issues

At present, approximately 80 percent of the T-10 site has no working storm drainage system and storm water simply drains to low points throughout the site, forming large pools of standing water, or sheet flows over the bank line of the site into the adjacent West Waterway and sediment cap. Site drainage conditions must be improved before the terminal can be used for container cargo operations. Improvement of the storm water conveyance system must be consistent with state and City of Seattle requirements, including installation of two storm water treatment vaults, ensuring control of site drainage discharged to the West Waterway. The drainage improvements, site leveling, and new four inch thick pavement surface will support container cargo use of the site, consistent with City of Seattle industrial zone and shoreline use requirements. As a component of marine cargo activities at T-10, the Port anticipates use of the site by container drayage trucks as an alternative to drayage truck parking in areas south of marine cargo facilities.

Permit Review

Following submittal of land use and state and federal permit applications in September 2009, the Port has been actively working with the City of Seattle, state and federal agencies, and the Muckleshoot Indian Tribe to move the project forward. In particular, the Port has worked with EPA to determine the most appropriate means for more productive use of the property. The replacement storm water system has been redesigned to meet agency requirements. After extensive review of anticipated storm water discharge conditions, EPA, U.S. Fish and Wildlife Service, and the National Marine Fisheries Service have agreed with the best management practices and storm water treatment facilities the Port plans to use at the site. In addition, the proposed utility improvements have been approved by the Washington State Department of Fish and Wildlife. The Port expects final approval of City of Seattle shoreline and the federal Corps of Engineers permits in the coming two months. Two significant actions remain for the proposed infrastructure project: (1) authority to place the proposed storm water outfall in aquatic area managed by the Washington State Department of Natural Resources and (2) ensuring that the proposed storm water discharge is consistent with Lockheed's requirement for long-term maintenance of the sediment cap on the east shoreline of the West Waterway. The latter two items will require technical, legal, and environmental resources during the coming months.

PROJECT DESCRIPTION AND JUSTIFICATION:

Project Statement:

This is a request for \$180,000 additional project funds to support permit review and approval.

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Project Objectives:

- Improve infrastructure at T-10 for effective marine cargo operations.
- Improve and use T-10 consistent with agency requirements.
- Minimize future maintenance and repair work.
- Project will be managed and completed on budget.
- Project will be delivered on time to meet schedule milestones.
- Ensure acceptable operational standards.
- Meet strategic asset management criteria.

Scope of Work and Schedule:

This project would involve the Port contracting to install utility infrastructure improvements ensuring long-term stable, useable site conditions.

This work will be bid in the fourth quarter of 2010 and construction will take place during the second and third quarter of 2011. Completion is scheduled by September 30, 2011.

The original project estimate was \$5,150,000. The current estimated cost is \$6,700,000. The increased project cost from \$5,150,000 to \$6,700,000 is the result of these items:

Addition of site lighting	\$760,000
Additional ground and storm water collection/disposal costs during construction	\$235,000
Additional soil disposal costs	\$375,000
Additional costs related to permits and associated design revisions	\$180,000
Total Additional Project Costs	\$1,550,000

STRATEGIC OBJECTIVES:

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

- Improves air quality and decreases greenhouse gas emissions in the Duwamish industrial area by reducing container cargo truck drayage travel times and miles traveled serving south harbor industrial facilities, including adjacent public roadways.
- Improve community relations by providing operators of drayage vehicle/equipment a near terminal staging and use area, as an alternative to parking in public right-of-way areas throughout the Duwamish Industrial area and nearby neighborhoods.
- Fulfills Port and City storm water quality requirements for intended uses.

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- Provides storm water upland source controls for storm water runoff protecting the sediment cap from contamination.

Best management practices will be implemented by the Port in the selection of materials, work practice and ongoing total cost of ownership.

BUSINESS PLAN OBJECTIVES:

- Provides needed container cargo marshalling area for use by drayage trucks directly related to movement of cargo to and from the terminals, consistent with regulatory requirements.
- Improve T-10 marketability and utilization by installing utilities necessary for commercial use as a cargo support area.

FINANCIAL ANALYSIS:

Budget/Authorization Summary

Original Budget	\$0
Previous Authorizations	\$800,000
Current request for authorization	\$180,000
Total Authorizations, including this request	\$980,000
Remaining budget to be authorized (<i>estimated construction costs</i>)	\$5,720,000
Total Estimated Project Cost (<i>pending final design</i>)	\$6,700,000

Project Cost Breakdown

Design	\$536,000
Project Management	\$218,000
Permitting	\$226,000
Subtotal – this request	\$980,000
Estimated Construction Costs	\$5,720,000
Estimated Total Project Costs	\$6,700,000

Source of Funds

The project was included in the 2010 Plan of Finance as a committed project under CIP# C800264, T-10 Interim Development, in the amount of \$4,412,000. The additional \$2,288,000 required to fund the balance of this project is available due to lower than anticipated spending on other 2010 Plan of Finance Committed projects, such as the Terminal 104 Site Improvements.

With the exception of the Environmental Reserve work described below, the cost of this project will be funded from the General Fund.

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It is expected that approximately \$610,000 of the project construction costs including disposal of contaminated soil, stormwater and groundwater will be GASB 49 environmental work and, accordingly, will be paid out of operating Environmental Reserves. The source of funds for the environmental portion of the project will be the tax levy.

Financial Analysis Summary

CIP Category	Renewal/Enhancement
Project Type	Renewal & Replacement
Risk adjusted Discount rate	8.5%
Key risk factors	<ul style="list-style-type: none">• Environmental remediation costs will be determined by the final design of the storm water outfall system.• Future operating income from this project is uncertain. While the proposed project would enable the site to be used for either interim drayage truck parking or container cargo marshalling in support of container terminal operations, there are currently no lease negotiations underway for this site.• It is unlikely that revenue generated from potential future leasing opportunities will support the level of investment required for this project.
Project cost for analysis	\$6,700,000 (current cost estimate)
Business Unit (BU)	Container Support Properties
Effect on business performance	<ul style="list-style-type: none">• Effect on business performance is pending until final project cost estimate from completion of design effort is available, and determination of market demand for future use is known.• Incremental depreciation for this project is estimated at \$284,000/yr.
IRR/NPV	To be determined by future leasing efforts.

ENVIRONMENTAL SUSTAINABILITY/COMMUNITY BENEFITS:

- Specifications will encourage recycling asphalt, concrete, creosote timber foundation and metal debris removed from the project area as either construction material or as a source of energy.
- Off-site disposal of excavated soils has been minimized. However, in order to upgrade the site infrastructure, excavation is required to install utilities. The project represents a net disposal of in-ground materials.
- The site contains contaminated soil from the previous owner's operations. Any contaminated soil not replaced into required excavated trenches will require offsite disposal at an approved facility.

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ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Alternative 1 - No Action. This alternative does not allow for continuing interim or long term uses of T10. EPA may still require the Port to place proper storm water controls to protect the upland and sediment caps. Alternative 1 is not recommended.
- Alternative 2 – Installation of upland drainage system and routing to existing eight inch outfall. This would partially address the storm water conditions, although ponding and surface flow from the site would not be corrected due to insufficient discharge capacity. This system would not comply with Port requirements or City of Seattle Storm water Drainage Code. This alternative only provides paving for areas disturbed during installation of the drainage system. Engineering analysis indicated that the existing 2-6 inch thick cap will not support continuous truck traffic. Cost of this alternative is estimated at \$3,700,000. Alternative 2 is not recommended.
- Alternative 3 – Fully develop the site for a cargo support area with the improvements to container yard standards. Cost for complete development to container yard standards, which includes complete lighting system, fire protection and additional asphalt paving is estimated at \$8,000,000 - \$10,000,000. Revenue from this site would not justify this level of investment at this time and the site can always be retrofitted to such standards cost effectively at a later date. Alternative 3 is not recommended.
- **Alternative 4 – Installation of utilities and paving improvements necessary for the use of the site for container cargo marshalling and associated drayage vehicles: These improvements will also allow for safe and clean operation of T-10 as a cargo support area, a use consistent with previously established uses at the site. As a component of marine cargo activities, portions of the site would be used for staging of trucks and vehicles directly engaged in transshipment of cargo between Port marine terminals and other transportation facilities. This alternative includes a new 30-inch outfall and asphalt overlay of the site. This system would comply with Port requirements and/or City of Seattle Storm water Drainage Code, and provide necessary storm water controls to protect the sediment cap as required by the EPA. Cost of development is estimated at \$6,700,000. This 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 March 25, 2008, Commission approved \$530,000 to complete 100% design and permitting for the redevelopment of T10 uplands into truck parking.

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- On September 2, 2008, Commission was advised by staff that:
 - Costs for 100% design and permitting may exceed the authorized amount of \$530,000 by up to several hundred thousand dollars.
 - Staff will proceed only with 30% design to better quantify risks specifically involving use of the site with only the existing asphalt cap and permitting a new 30 inch outfall.
 - Staff will plan to return to Commission in public session to describe the findings and request additional funding for design and permitting if necessary.
- On April 14, 2009, Commission approve an additional \$270,000 to include a new storm water outfall in the permitting and design; and to accommodate increased costs associated with the Environmental Protection Agency (EPA) and City coordination on construction issues.