

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA – STAFF BRIEFING**

**Item No.** 7a  
**Date of Meeting** December 6, 2011

**DATE:** November 28, 2011

**TO:** Tay Yoshitani, Chief Executive Officer

**FROM:** Melinda Miller, Director, Portfolio Management  
Darlene Robertson, Director, Harbor Services  
Joseph Gellings, Seaport Senior Planner

**SUBJECT:** Fishermen's Terminal 20-Year Plan and Net Shed Briefing

**SYNOPSIS:**

The Real Estate Division is committed to the maintenance and improvement of capital assets at Fishermen's Terminal (FT). Between 2002 to 2011 the Port invested nearly \$70 million in various capital improvement projects that included the modernization of Docks 3 through 10, south and west wall replacement, the NW Dock fender system, and utility upgrades among others.

These investments set the stage for a comprehensive assessment of all assets including the upland buildings, which resulted in the compilation of the 20-Year Asset Condition Assessment and Plan. Thus, the 20-Year Planning effort has been launched as an umbrella project for the important components of the Net Shed Code Compliance project as well as the Asset Condition Assessment. The planning process has created a framework for considering new upland development opportunities that could contribute to the Port's long-term goal of self-sustainability of Fishermen's Terminal. However, unlike the discretionary decision-making for new development, the Net Shed Code Compliance project involves a Seattle Fire Department-mandated deadline for adopting and executing a compliance action plan.

The process has also generated the following questions:

- Should the Port replace some aging buildings when financial modeling indicates a marginal increase in net present value compared with maintaining the existing buildings?
- Should the Port pursue a ground leasing arrangement for redevelopment of selected areas at FT?

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This briefing covers some preliminary conclusions and poses several questions for which staff seek Commission guidance. The next steps in the process are also summarized.

### **BACKGROUND:**

#### Economic Significance

While Washington State's fisheries have seen significant changes in recent decades, the majority of commercial fishers at FT continue to have a strong link to fisheries in Alaska and an increasing presence off the continental coast including the North Pacific. The North Pacific and Bering Sea fisheries are generally regarded as amongst the most sustainably-managed in the world. Two advantages that FT will continue to have over Alaskan fishing ports are freshwater moorage and proximity to a deep network of suppliers and specialized trades. The 2009 Martin Associates Economic Impact Study found that FT is responsible for 3,424 local jobs and \$179 million in business revenue.

#### Planning Guidelines

Throughout the process of evaluating existing upland assets and development opportunities staff adhered to the following planning guidelines:

1. Supporting the fishing fleets
2. Achieving a financial return that justifies the capital investment
3. Achieving maximum utilization of assets
4. Aligning the Port's triple bottom line mission

#### Stakeholder Outreach Program

Stakeholder outreach activities have been ongoing throughout the planning process. At the beginning of the process, the stakeholder groups were identified as 1) the fishing fleets, 2) upland tenants, and 3) community and industry groups. Several forums for engagement were used ranging from one-on-one interviews, an open house, community group meetings, a postcard survey, the creation of a subcommittee of the FT Advisory Committee. A project website was also created. Combined with other FT news, it has generated 1,047 email addresses which have been used for notices of project milestones. A planning and real estate consulting firm was asked to render an assessment of the completeness of the stakeholder outreach program. The result was supportive of our program.

#### Asset Condition Assessment

The Capital Development Division and Marine Maintenance staff have completed an Asset Condition Assessment of all FT assets. The effort identified the maintenance and repair projects that will likely be needed to support the existing upland assets for the next

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20 years. Cost estimates for this work have been developed with all dollars assigned to specific years within the 20-year horizon.

### Summary of Planning Constraints

The planning process started with an inventory of constraints on development of the site. The primary constraints are

- **Land use regulations** – Two bodies of land use code apply to the FT property. The Shorelines Management Overlay places limitations on the amount of non-water-dependent uses that are allowed in the portion of the site governed by this code. (See Attachment 1). The base zone regulations place limitations on the amount of non-industrial land uses. A 2007 ordinance tightened the base zone use restrictions and created a nonconforming use situation in which FT exceeds the allowed size-of-use standards for the use categories of office and restaurant. Continuing these uses above the size limit is allowed under grandfathering provisions. However, such grandfather rights expire if the building containing the use is demolished.
- **Soil conditions** – The soils on the property are predominately poor soils for construction. Our planning process assumed that any new building will require pile foundations, which is a significant addition to the per-square-foot cost of the building. A 2009 consultant report also points to the possibility of soil contamination issues. Furthermore, the long history of industrial operations on the site suggests that remediation cost contingencies should be part of any development proforma on the site.
- **Low revenue services** – Approximately 15% of the site is devoted to the net shed function with lease rates in the range of \$5 to \$6 per square foot per year. In addition approximately 10% of the site is devoted to the open gear storage function with lease rates in the range of \$2 to \$4 per square foot per year. Stakeholder outreach and general industry knowledge indicate that both functions are of vital importance to the fishing fleets. However, it should be noted that these lease rates are quite low compared to typical on-site retail and offices leases in the range of \$14 to \$18 per square foot per year. One condition that provides a small amount of planning flexibility is that not all of the net shed units are presently leased to active fishermen. A small portion of the units are leased to other businesses, which can be viewed as a non-essential service for FT to provide.

### Real Estate Market Research

Staff has relied on a combination of consultant recommendations and first-hand experience with the local real estate market. The recommendations include industrial flex space that is a common format of industrial space for which we believe there is a strong demand in the Ship Canal area. In fact, there are many maritime businesses that use this type of product. Also, the market for retail space is relatively strong. However,

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the demand for retail is highly dependent on our marketing strategy and the actual configuration and location of the space. The office market is presently saturated and recovery is estimated at five to seven years into the future.

### Financial Analysis

Staff developed a financial model with the intent of determining the financial performance of the planned developments. Due to the conceptual nature of this planning effort, the model is appropriately meant to be a high-level comparative view of the incremental return on the Port's potential investment in the site. To identify overall financial performance, results were aggregated into four composites (see Attachment 5) that addressed each development zone (see Attachment 2). Financial modeling included capital costs required to develop the property, the revenue associated with such development, and the reversion value of the assets at the end of the 20 year analysis period. The capital costs, which include demolition, construction, and asset management costs where appropriate, are inflated based on the anticipated year of implementation. Asset management costs include significant projects, such as roof and electrical system replacements, as well as code compliance costs associated with the net sheds located in the development zones. In addition, a capital reserve assumption was included as a proxy for sustaining the value of the assets. The revenue streams accrue over the twenty year analysis period, inflate over time, are based on current lease rates, and assume a certain percentage of vacancy dependent upon asset type. At the end of the twenty year analysis period, the value of the assets was captured, utilizing market terminal capitalization rates, to determine a reversion value. It is important to note that the model does not include site-wide operating costs such as staffing, utilities, and insurance; nor does the model include land value or the value of the existing improvements. These factors would clearly affect the returns identified in the financial model.

### Preliminary Conclusions

1. **Determination of critical functions** – FT is already providing the upland functions that are the most critical to supporting the fishing fleets. A clear message from the outreach to the fleets is that open gear storage, secured covered storage (net sheds), and a net repair yard are the three most critically-needed support functions for the fleets.
2. **Serviceability of buildings** – While various repair projects are projected, the Asset Condition Assessment found that all but one building is still serviceable for its current use. The exception is the C9 (“Seattle Ship Supply”) building. The former tenant, Seattle Ship Supply, vacated the building in 1999. Its interim use has been limited to short-term storage and bi-monthly onsite safety training. Making the building fit for leasing again would trigger cost-prohibitive repairs to bring the building to code including but not limited to seismic, electrical, and Americans with Disabilities Act standards, and fire suppression regulations.

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3. **Feasibility of building new net sheds** – Staff has explored alternative configurations of net sheds including single-purpose new construction buildings as well as newly constructed buildings that combine net sheds with other higher-revenue uses. In both cases, however, financial analysis showed that the low revenue from the net sheds would not cover the capital cost.

### **KEY MESSAGES AND ISSUES:**

#### **Net Shed Building Code Compliance**

**Background** – FT currently contains nine net shed structures that vary in age, size, construction, and interior net locker configuration. Although the majority of these net sheds were originally constructed to primarily accommodate cotton fishing nets to be hung while being stored, this is no longer typically needed by commercial fishermen as modern nets are made of synthetic materials. Consequently, over the past 40+ years, tenants have constructed non-permitted structural modifications, such as lofts and stairways, within many net lockers in order to better utilize their available storage height. The overall quantity and types of items being stored in the net sheds have increased accordingly and this in turn has resulted in an existing mixed commodity storage condition that is defined as “high-piled” per code, and is subject to greater regulatory restrictions and/or building improvements than are currently in place.

Recognizing the need to correct a potentially hazardous storage condition, the Port of Seattle began working with FT tenants in 2006 to address the non-permitted interior structural additions within net lockers as well as storage policy violations. After inspecting the net sheds in April 2009 as part of this effort, the Seattle Fire Department (SFD) cited the Port for various City of Seattle fire and building code violations. Since receiving this citation letter, the Port has been working with the SFD and Department of Planning and Development (DPD) to develop a viable plan to bring all of the net sheds into compliance with the applicable fire and building codes as quickly as possible. As part of this effort, FT Operations has implemented various programs to assist tenants with cleaning out their net lockers and to encourage their participation in a pilot storage program in which the Port has removed tenant constructed lofts and supplied rack shelving units.

Additionally, the Port procured the services of a fire protection engineering consultant to assist staff in determining and evaluating code compliant net shed storage options. After numerous meetings with SFD and DPD, four separate code compliant net shed storage options were identified. The report was submitted to the SFD and DPD in February 2011, for their review and requested concurrence regarding the code compliance of the proposed options. After further coordination, in June of 2011 the SFD and DPD concurred that the various net shed storage options identified were compliant with the

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applicable fire and building codes and could therefore be used as a basis for developing a net shed improvement project design for eventual permit review by the City prior to construction.

**Code Compliant Net Locker Storage Options** – The four code compliant net shed storage options that are acceptable to the Seattle Fire Department are summarized below. All of the options contain a common requirement that a two foot minimum width aisle be maintained among the stored commodities between the entrance and rear wall in each net locker for firefighter access purposes in the event of a fire. Another common requirement is that hazardous materials must be stored in a certified metal cabinet. Options 2, 3, and 4 also commonly require the monitoring of the required sprinkler systems by an automatic alarm system. The preliminary cost estimates range from \$2 million to \$10 million for the nine buildings.

Note: The following illustrations reflect the general required storage limitations within a generic net locker. They are not to scale.

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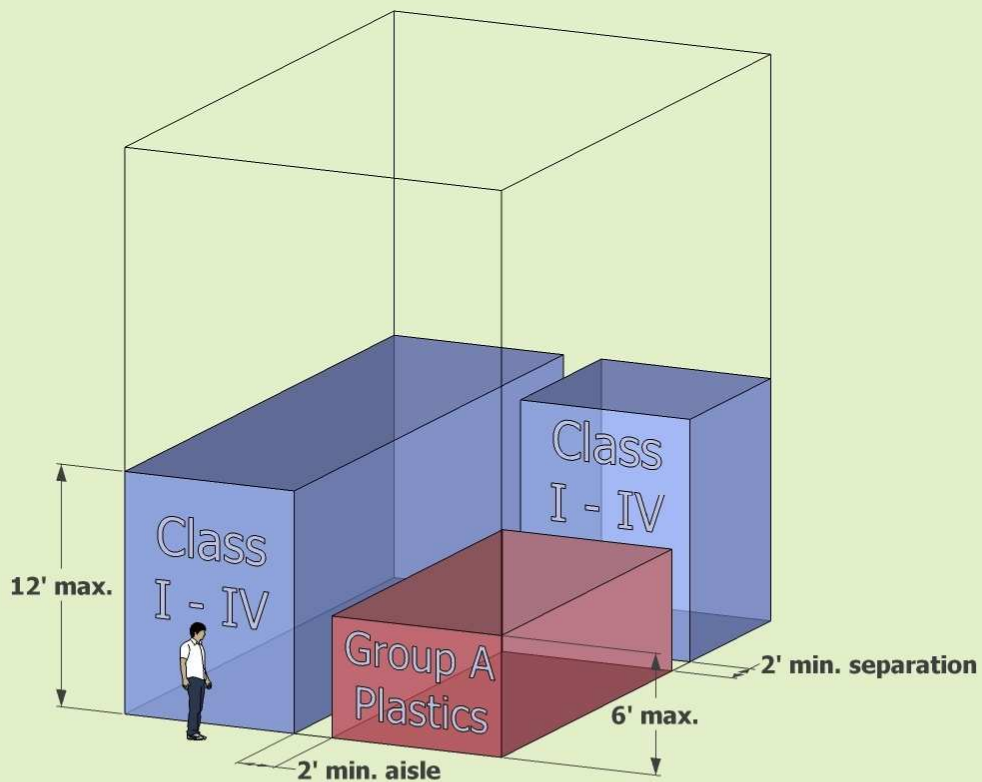
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### *Option 1 – Single Level Non-High-Piled Storage*

This option avoids the “high-piled” storage classification, and any associated required building improvements, by restricting the maximum storage height of commodities to 6 feet for Group A (most) plastics and 12 feet for Class I-IV (most other) commodities. These two groups of commodities are also required to be segregated from one another and physically separated by a 2 feet minimum width horizontal space wherever they are adjacent to one another. Hazardous materials such as paints, oils, marine flares, etc. will need to be stored within a type of metal cabinet that is specifically certified for that purpose.



# Option 1

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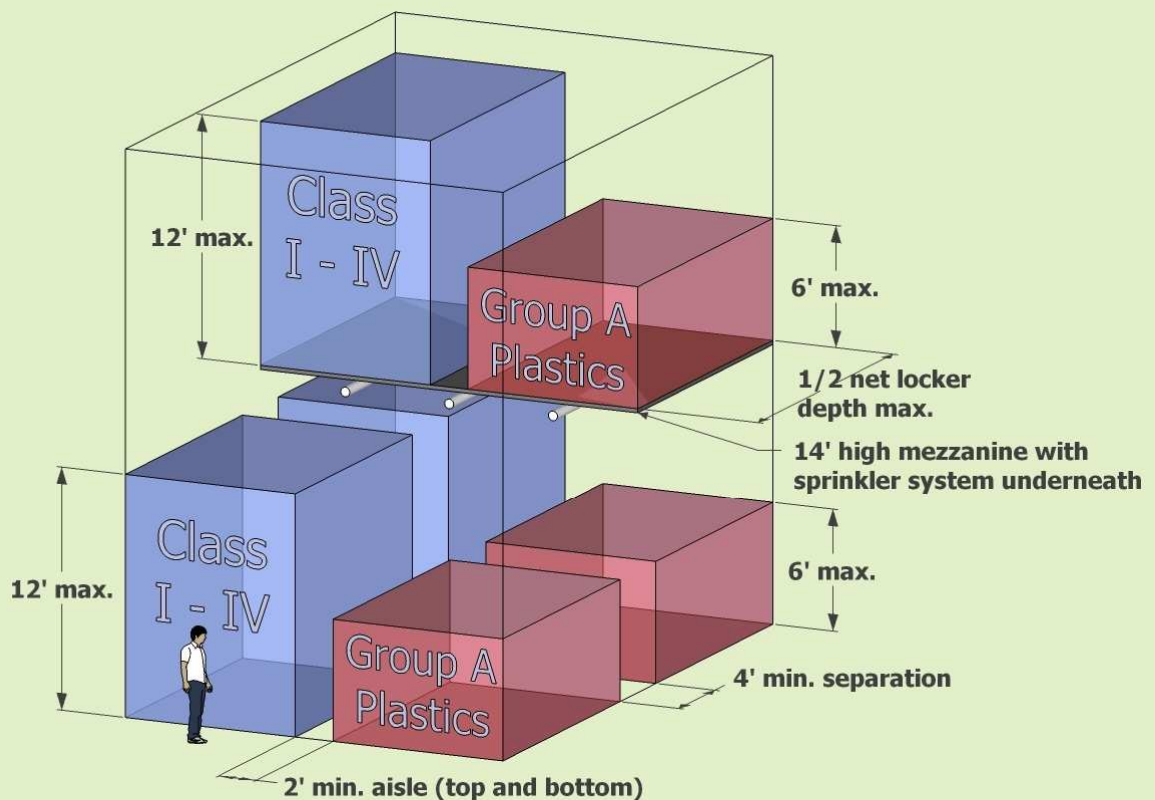
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### *Option 2 – Multi-Level Non-High-Piled Storage*

As in Option 1, Option 2 also avoids the “high-piled” storage classification, and any associated required building improvements, by restricting the maximum storage height of commodities to 6 feet for Group A (most) plastics and 12 feet for Class I-IV (most other) commodities. These two groups of commodities are also required to be segregated from one another and physically separated by a 2 feet minimum width horizontal space wherever they are adjacent to one another. Hazardous materials such as paints, oils, marine flares, etc. will need to be stored within a type of metal cabinet that is specifically certified for that purpose. Additionally, this option includes a second level of storage, by means of an installed structurally independent mezzanine level that may be approximately up to half the depth of each net locker and will require a sprinkler system to be installed underneath it. All aforementioned commodity segregation and separation requirements apply to the mezzanine level storage as well.



# Option 2



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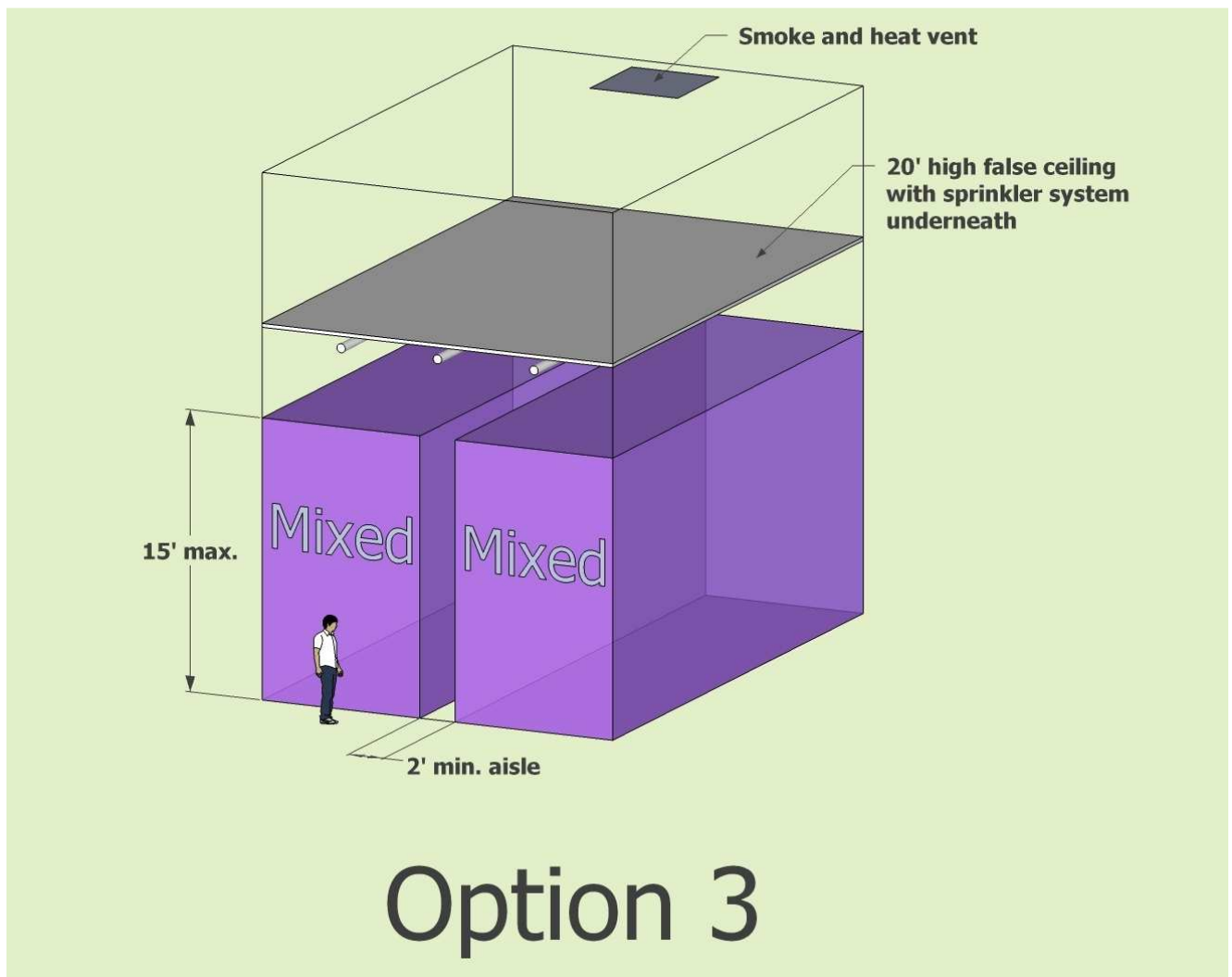
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### *Option 3 – Single Level High-Piled Storage. RECOMMENDED.*

Option 3 allows “high-piled” storage (which is the current situation in the majority of the lockers) of mixed commodities up to 15 feet in height by installation of a false ceiling, a sprinkler system to provide coverage below the new ceiling, and smoke/heat vents in the overall net shed building roof. Since the stored items are allowed to be mixed, there is no segregation or separation required between the different commodities which works well for the fishermen and the way gear and other materials are currently stored. Hazardous materials such as paints, oils, marine flares, etc. will need to be stored within a type of metal cabinet that is specifically certified for that purpose.



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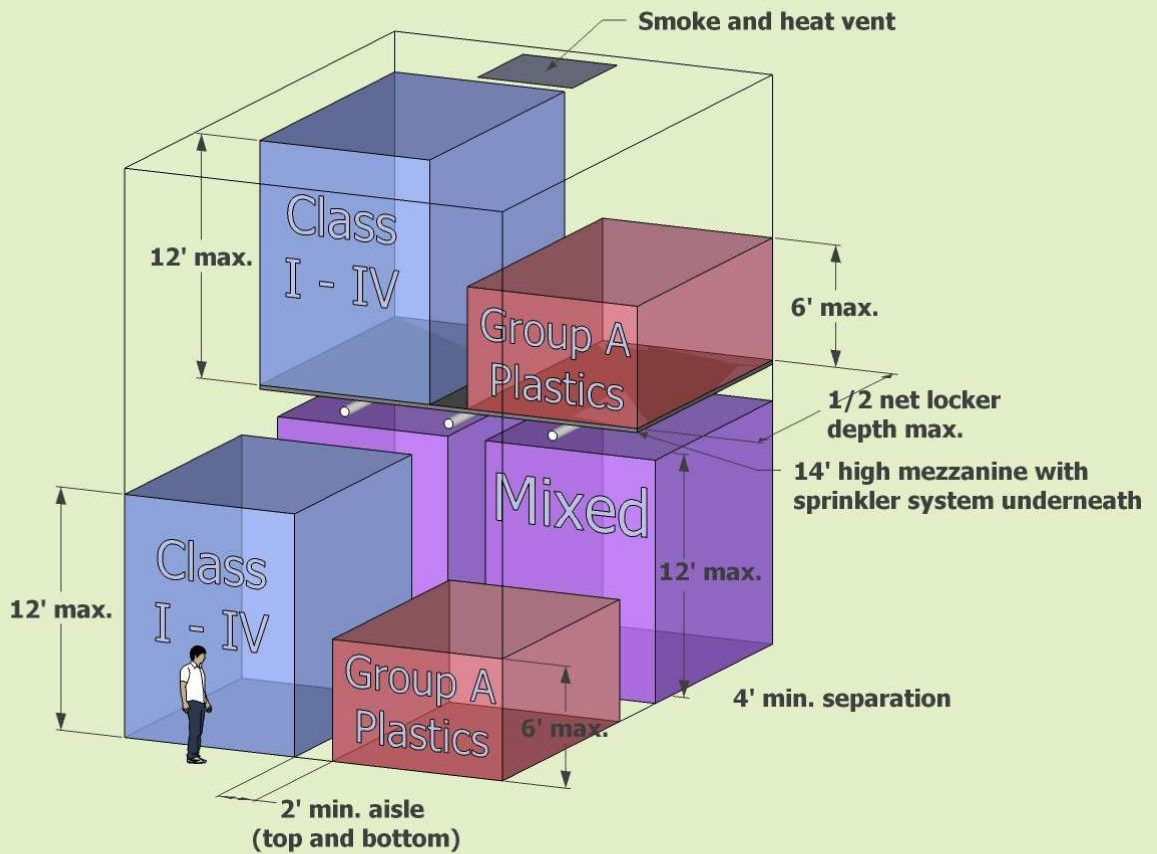
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*Option 4 – Multi-Level High-Piled Storage*

Option 4 is essentially the same as Option 2 with the exception that “high-piled” mixed commodity storage is allowed underneath the mezzanine level structure by virtue of a higher flow sprinkler system being installed below it, and smoke/heat vents being installed in the overall net shed building’s roof. Mixed commodities are not allowed above the mezzanine level due to overall commodity density and height limitations per the applicable codes. Hazardous materials such as paints, oils, marine flares, etc. will need to be stored within a type of metal cabinet that is specifically certified for that purpose.



# Option 4

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### **Storage Options Evaluation and Recommendation**

Recommendation: Option 3. Staff has evaluated the four options that are acceptable to the Seattle Fire Department using various criteria including, but not limited to, the amount of storage provided, the impacts to tenants and staff in understanding, implementing and enforcing code requirements for each option, and the cost of the required improvements. After consideration of all these factors, staff is recommending that the Port proceed with a net sheds improvement project to implement Option 3 and achieve the required code compliance. This option was selected for the following major reasons:

- Option 3 most closely matches the way the majority of lockers are currently used i.e. the existing mixed commodities storage condition within the net sheds and as such, provides the greatest flexibility in meeting tenants' storage needs.
- Option 3 is the only option that does not require segregation of and separation between different classes of stored commodities such as plastic fenders for vessels and other plastics needing to be separated from non-plastic materials and gear and at differing heights. This alleviates the very challenging requirement for tenants and staff to be able to differentiate between different commodity types for segregation purposes, ensuring the different height limits required between commodities, as well the never ending effort necessary to maintain and/or enforce long-term code compliance in 242 lockers.
- Option 3 is the only option that does not require overall storage master planning within each net shed in order to maintain the required separation between stored commodities in adjacent net lockers.
- Option 3's preliminary estimated improvement costs are in the range of \$5.7 to \$6.4 million to bring nine buildings into code compliance.

Staff will be further developing an implementation plan and preliminary cost estimate for the preferred option and returning to Commission early 2012 to request funding for design, permitting and a more detailed cost estimate.

### Suggested New Fishing Fleet Support Services for the 20-year plan

In addition to confirming the importance of net sheds, open storage, and net repair, the stakeholders suggested that eight new fleet support services are needed. Staff has been investigating each of these with a focus on 1) up-front capital costs, and 2) utilization rates and cost recovery. The suggestion was that the Port should undertake the investment in providing these services and they are evaluated below in that context.

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Risks to the Port would be eliminated if the Port ground leased to private party to establish these services but no such proposal has emerged.

Attachment 3 is a graphical depiction of the process undertaken to study all discrete planning strategies including the eight suggested new services. The graphic reflects four different milestones in the planning process, which are termed “feasibility screens.” As shown in the diagram staff is recommending no further consideration of four of the new support services. Further detail is as follows:

- Covered work areas – A roof-only structure available to all moorage customers for bench work or minor fabrication. This idea has had support to the extent that hot work that was occurring within net shed units and is no longer allowed so this facility may be an attractive alternative. Staff is concerned about the upfront capital costs and utilization rates. Only 10 percent of postcard survey respondents stated that they would pay “a reasonable fee” to use the facility.
- Covered net repair – A roof-only structure. An enhancement of the existing net repair yard in that it offers shelter from the elements as well as better net support via overhead rigging. Staff is concerned about upfront capital costs and utilization rates. Only 6 percent of postcard survey respondents stated that they would pay to use the facility.
- Farmer’s market stalls – The suggestion was for a Port-managed farmer’s market at some regular interval in some multi-purpose outdoor area. The event would help those fishers interested in marketing their own product. Staff is concerned about low utilization rates. Only 8 percent of postcard survey respondents stated that they would pay to use the facility. Feedback from operators of existing markets and various associations that represent the market community indicate that there may already be over-saturation of the current market for farmer’s markets.
- Wash down facilities – The suggestion was for a permanent facility for processing fish. Staff is concerned about upfront capital costs, utilization rates, and the feasibility of securing health department permits. Only 8 percent of postcard survey respondents stated that they would pay to use the facility. Staff recommends no further consideration.
- Smokehouse – The suggestion was for a permanent facility for smoking seafood products. Staff is concerned about upfront capital costs and utilization rates. Only 6 percent of postcard survey respondents stated that they would pay to use the facility. Staff recommends no further consideration.
- Cold storage – The suggestion was for cold storage facilities available to moorage customers. Staff is concerned about utilization rates and management issues. Only 12 percent of postcard survey respondents stated that they would pay to use the facility. Staff recommends no further consideration.
- Large scale ice machine – The suggestion was for an ice machine sized to supply the ice needs of a small fishing boat such as a gillnetter or a troller. Staff is concerned about upfront capital costs and utilization rates. Only 12 percent of

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- postcard survey respondents stated that they would pay to use the facility. Staff recommends no further consideration.
- Conference center – The suggestion was for a facility catering to commercial fishing and other maritime organization with conference space needs. Staff is concerned about upfront capital costs and utilization rates. Staff believes that the Port would most logically pursue such a venture in conjunction with development of new offices at FT. However, at this juncture new office development does not appear to be feasible.

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### Redevelopment Concepts Examined

The current tenants of leased building space at FT are a mix of businesses that are related to maritime industry and those that are not. The outreach process suggests that new developments will attract a similar mix and that the industrial character of FT will not be eroded. Two logical development pads were explored. The vicinity of Building C9 is a logical development pad because Building C9 is no longer serviceable, the net shed pair of N3 and N4 could be demolished to enlarge the pad, and the waterfront location could be an asset to potential tenants. This led to designation of the “Waterfront Yard Development Zone” as shown in Attachment 2. A second logical development pad is centered on Building C12 (“Bank Building”). That footprint could be expanded with the demolition of the net shed pair of N7 and N8 and the combined pad could attract tenants with its visibility to the considerable traffic on Emerson Street. This led to the designation of the “Parking Lot Development Zone” and the “Emerson Net Sheds Development Zone” per Attachment 2.

As stated above not all net sheds are presently leased to active fishers. There is some fluctuation in the portion that are leased to active fishers but historic trends suggest that two of the nine net sheds could be demolished without an impact to the fleets.

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After identifying the two logical development pads the land use regulations played the biggest role in defining the actual development scenarios. Industrial flex space is unlimited in size and has high demand. Retail space has relatively strong demand but only 15,000 square feet can be added due to the non-industrial size-of-use restrictions. One scenario emphasized visibility along Emerson by demolishing net shed buildings N7 and N8 and putting a combination of retail and industrial flex in along Emerson Street as well as more industrial flex at the current C9 (“Seattle Ship Supply”) location. However, a better financial performance came from building 40,000 square feet of retail and industrial flex space on the waterfront in the footprints of net shed buildings N3, N4, and the C9 building. This would be configured as two buildings of 20,000 square feet each as shown below. Since the retail is restricted to 15,000 square feet, it is assumed that it would be clustered together in the west building – closer to the retail core of the property.



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Ground leasing is a potential strategy to accomplish new development while avoiding the higher costs associated with a Port-managed development process. Possible disadvantages are the Port's reduced control over the ongoing management and maintenance of the area and the potential for operational conflict over time. The boundaries of two different ground leasing concepts are shown below.





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Staff also examined the development possibilities under a hypothetical rezone of the property or a portion of a property to a zone designation that is less restrictive of commercial uses. Various scenarios featuring office, retail and incubator space were modeled. However, the financial performance of the scenarios did not merit further consideration of a rezone at this time.

### Economic Impact Considerations

Staff has been coordinating this process with the ongoing Terminal 91 planning process and it is recognized that economic impact is a key driver of the development schemes in the Terminal 91 process. Similar to Terminal 91, there is already substantial economic impact generated by the fishing fleets moored at FT. This is due to the jobs multiplier effect associated with the fishing vessels that homeport at FT. Differing from Terminal 91, the amount of land available for new development at FT cannot compare with the amount of vacant land and corresponding job creation potential at Terminal 91. As a result it appears that the best economic impact strategy for FT is continued protection of the fishing fleet moorage business.

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**FINANCIAL MODELING OF DEVELOPMENT SCENARIOS:**

The table below summarizes the financial performance by zone and by total of each of the four proposed development composites. As constituted, Composites 2 through 4 result in a positive NPV that can be compared to Composite 1 (Maintain or Status Quo). The financial projections for each option; however, are best understood by separately examining the different development zones. In preparing the four development composites, staff envisioned that any recommended option will likely be a hybrid of two or more of the initial options and that feedback from the Commission and further refinement of the financial modeling will be necessary before developing a firm staff recommendation.

<b>FISHERMEN'S TERMINAL 20 YEAR PLAN</b>					
<b>Summary Table</b>					
<b>Zone</b>		<b>Composite #1: Maintain</b>	<b>Composite #2: Current Code, Major Investments</b>	<b>Composite #3: Ground Lease Waterfront Yard &amp; Bank Building</b>	<b>Composite #4: Ground Lease Emerson Net Sheds &amp; Bank Building</b>
<b>Waterfront Yard - Current Code</b>	<i>Option</i>	#1 Maintain w/Demo	#3 Ind Flex/Retail	#2 Ground Lease	#1 Maintain w/Demo
	<i>Port Investment</i>	\$4,572,970	\$13,169,264	\$1,052,152	\$4,572,970
	<i>NPV</i>	(\$798,864)	(\$2,252,288)	\$2,221,064	(\$798,864)
<b>Nordby Building</b>	<i>Option</i>	#1 Maintain	#1 Maintain	#1 Maintain	#1 Maintain
	<i>Port Investment</i>	\$1,316,846	\$1,316,846	\$1,316,846	\$1,316,846
	<i>NPV</i>	\$1,615,829	\$1,615,829	\$1,615,829	\$1,615,829
<b>Emerson Net Sheds</b>	<i>Option</i>	#1 Maintain	#1 Maintain	#1 Maintain	#2 Ground Lease
	<i>Port Investment</i>	\$2,057,270	\$2,057,270	\$2,057,270	\$462,835
	<i>NPV</i>	\$59,655	\$59,655	\$59,655	\$924,151
<b>Parking Lot</b>	<i>Option</i>	#1 Maintain	#1 Maintain	#2 Ground Lease	#2 Ground Lease
	<i>Port Investment</i>	\$2,604,272	\$2,604,272	\$2,197,898	\$2,197,898
	<i>NPV</i>	\$640,027	\$640,027	\$1,214,388	\$1,214,388
<b>Total</b>	<i>Port Investment</i>	<b>\$10,551,359</b>	<b>\$19,147,653</b>	<b>\$6,624,167</b>	<b>\$8,550,549</b>
	<i>IRR</i>	<b>11.0%</b>	<b>9.4%</b>	<b>17.90%</b>	<b>13.2%</b>
	<i>NPV - 10% Discount Rate</i>	<b>\$2,160,150</b>	<b>\$1,555,380</b>	<b>\$5,561,821</b>	<b>\$3,487,051</b>
	<i>NPV - Zone Specific</i>	<b>\$1,516,648</b>	<b>\$63,224</b>	<b>\$5,110,936</b>	<b>\$2,955,504</b>
	<i>NPV - 7% Discount Rate</i>	<b>\$4,896,245</b>	<b>\$5,600,852</b>	<b>\$8,745,055</b>	<b>\$6,345,387</b>

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**OTHER DOCUMENTS ASSOCIATED WITH THIS BRIEFING:**

Attachment 1: Land Use Regulations

Attachment 2: Development Zones

Attachment 3: Concept Screening Summary

Attachment 4: PowerPoint

**NEXT STEPS:**

For the Net Shed Code Compliance portion of this effort, the Port must identify which option it plans to proceed with and submit a plan to the SFD. Staff would further develop the implementation plan for this option and preliminary cost estimates and return to the Commission in the first quarter of 2012 with a request to fund the design, permitting, and more detailed cost estimation.

The intent of the 20 Year Plan process is to arrive at a strategy to guide investment in the upland facilities. After Commission feedback and guidance and additional outreach to existing tenants, the community, and other stakeholders, the planning work will be refined to a recommended course of action.