

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6b

Date of Meeting March 1, 2011

DATE: February 28, 2011

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Burke, Senior Manager, Lease and Asset Management
Fred Chou, Capital Project Manager

SUBJECT: Terminal 10 Utility Infrastructure Upgrade Project
CIP #C800264

Amount of This Request: \$6,225,000

Source of Funds: General Fund

Est. State and Local Taxes: \$512,000

Est. Construction Jobs Generated: 63

Total Project Cost: \$7,205,000

ACTION REQUESTED:

Request authorization for the Chief Executive Officer to (1) enter into an agreement with Lockheed Martin Corporation; and (2) in accordance with Resolution No. 3628, advertise, award, and execute construction contracts for the Terminal 10 Utility Infrastructure Upgrade Project, for an additional estimated cost of \$6,225,000, bringing the total authorized amount of this project to \$7,205,000. If the pending agreement is not finalized by the time of selection of a contractor, the project will not be awarded, and construction will likely be delayed until 2012.

SYNOPSIS:

The proposed project at Terminal 10 will add to the Seaport's long-term capability by providing improved, secure container cargo marshalling area and drayage truck parking. The Port is proposing to construct the following utility infrastructure improvements at Terminal 10:

- Installation of a replacement storm water conveyance system and outfall to the West Waterway;
- Site leveling and placement of a uniform upland pavement vehicle use surface and improved environmental cap;
- Installation of lighting;
- Layout of parking and vehicle use areas; and,
- Installation of fencing and access control.

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This project is located on a former Superfund cleanup site (Lockheed Shipyard Upland Operable Unit). EPA has required Lockheed to complete stormwater improvements; however the Port has a pre-existing duty to maintain the cap. The Port and Lockheed propose to enter into an agreement that clarifies their legal relationships for the construction of the Utility Infrastructure Upgrade Project.

At the time of the June 22, 2010, Commission meeting, staff estimated the total project costs would be approximately \$6,700,000. Since then, EPA has mandated that construction storm water be disposed off site. Total project costs is now increased by \$505,000 to \$7,205,000 to address this requirement. If favorable weather condition is encountered, costs to address storm water runoff could be drastically reduced.

In order to implement construction during periods of low rainfall and to meet aquatic area construction requirements, the project is on a tight timeline. Staff is requesting Commission approval for construction funding now, allowing initiation of the public bid process. Construction is expected to be substantially completed by October 31, 2011, a one-month delay from the schedule shared with the Commission on June 22, 2010. If the pending agreement is not finalized by the time of selection of a contractor, the project will not be awarded, and construction will likely be delayed until 2012.

ADDITIONAL BACKGROUND:

Terminal 10 is located on the west shoreline of Harbor Island, within the boundaries of the Harbor Island Superfund area. The Port purchased the former shipyard site, now referred to as Terminal 10 (T-10), from Lockheed Martin Corporation (Lockheed) in 1997 to provide land necessary for implementation of the Terminal 18 (T-18) Redevelopment Project. Between 1998-1999, Lockheed conducted a cleanup project at T-10 in compliance with Consent Decree No. C94-1823 (the "Upland Remedial Action"), which consisted of excavating soils and installing areas of asphalt cap to isolate remaining upland contaminated soils. Under the terms of the purchase and sale contract, the Port agreed to (1) maintain the asphalt cap in compliance with the Upland Remedial Action Consent Decree; (2) pay environmental costs arising from any subsequent redevelopment of the property; (3) ensure that any improvements constructed on the uplands would not diminish the effectiveness of the Uplands Remedial Action; and (4) conduct no activities on the uplands that would contribute to increased costs of the Sediment Remedial Action (see below). Lockheed retained responsibility for groundwater monitoring of the Upland Remedial Action, and for the entirety of the Sediment Remedial Action.

In 2004, Lockheed conducted a cleanup of the aquatic lands adjacent to the property, in compliance with a separate Consent Decree (the "Sediment Remedial Action"). This consisted of removing approximately 3.4 acres of overwater creosote piling dock and platform structures, approximately 2650 linear feet of vertical steel, concrete, and timber bulkheads, and excavation of contaminated sediments, as required by EPA. In addition, a five feet thick aquatic area cap was installed to isolate remaining contaminants from the West Waterway. Because the Sediment Remedial Action was conducted on State-owned aquatic land, Lockheed obtained a Use

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Authorization Agreement from the DNR for the construction and long-term maintenance of the remedy. A small portion of the proposed Utility Infrastructure Upgrade project will be located on this State-owned land.

In January 2011, EPA formally notified Lockheed of its determination that there were serious problems with the integrity of the upland cap affecting the long-term protectiveness of both the Upland Remedial Action and the Sediment Remedial Action. EPA therefore determined that it is necessary to permanently repair the cap problems and implement stormwater controls on the uplands as quickly as possible. EPA agreed that Lockheed could meet this requirement by having the Port implement its planned Utility Infrastructure Upgrade project.

Accordingly, the Port and Lockheed have negotiated an agreement in principle in which the Port agrees to act as Lockheed's agent and construct the Utility Infrastructure Upgrade project in accordance with the Upland Remedial Action Consent Decree, and indemnifies Lockheed from claims that could arise if the Port fails to do so. Lockheed agrees to submit these plans to EPA.

At the time of purchase of the property in 1997, it was anticipated that the approximately 11 acres that would remain at T-10 following the T-18 project would be used in support of adjacent container cargo uses or serve as a separate marine cargo site. Since then T-10 has been used to accommodate temporary surges in container and chassis equipment and for staging marine terminal construction materials. However, it has been generally under-utilized. The present infrastructure improvement project will prepare T-10 for more effective use as container drayage truck parking, container cargo marshalling area, and overflow parking for Todd Pacific Shipyard employees (a use required by terms of a previous agreement). Following completion of utility improvements at the site, the capability for either temporary or long term container cargo use increases substantially.

Construction in the summer months is necessary for control of storm water during trenching and grading required for installation of the replacement storm water system. In order to have sufficient time to advertise for qualified contractors, scrutinize bids and competitively award the project and meet the 2011 construction schedule, staff is requesting Commission approval for construction funding at this time without final approvals and the agreement in place. If the final agreement is unavailable at the time of final selection of a contractor, the contract will not be awarded, and construction will likely be delayed until 2012.

PROJECT STATEMENT AND OBJECTIVES:

Project Statement:

This is a request for \$6,225,000 additional project funds to advertise, bid and construct the Terminal 10 Utility Infrastructure Upgrade Project.

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Project Objectives:

- Fulfill the Port's contractual duty to maintain the Uplands Remedial Action.
- Improve infrastructure at T-10 for effective marine cargo operations.
- 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.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

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

Schedule:

Commission Authorization	March 1, 2011
Advertise bid	March, 2011
Receive final authorizations, agreements, permit	April, 2011
Award	April/May, 2011
NTP	June, 2011
Start onsite construction	July, 2011
Construction Substantially Complete	October, 2011

FINANCIAL IMPLICATIONS:

Budget/Authorization Summary

Previous Authorizations	\$ 980,000
Current request for authorization	\$6,225,000
Total Authorizations, including this request	\$7,205,000
Remaining budget to be authorized	\$ 0

Project Cost Breakdown

Capital	
Construction	\$4,510,000
Project Management & Other Soft Costs	\$1,090,000
Sales Tax	\$430,000
Sub-total Capital Project Costs	\$6,030,000

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Environmental Remediation Liability	
Construction	\$868,000
Environmental & Other Soft Costs	\$225,000
Sales Tax	\$82,000
Sub-total Environmental Remediation Liability Project Costs	\$1,175,000
Total Project Costs	\$7,205,000

Source of Funds

This project was included in the 2011 Plan of Finance as a committed project under CIP# C800264, Terminal 10 Interim Development, in the amount of \$6,118,000.

The portion of the project, amounting to \$6,030,000, not included in the Environmental Remediation Liability work described below will be funded from the General Fund.

It is expected that approximately \$1,175,000 of the project construction costs will involve disposal of contaminated soil, storm water and groundwater to be paid as operating Environmental Remediation Liability. The source of funds for the Environmental Remediation Liability portion of the project will be the General Fund.

Financial Analysis Summary:

CIP Category	Renewal/Enhancement
Project Type	Renewal & Replacement
Risk adjusted Discount rate	NA
Key risk factors	<ul style="list-style-type: none">• 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.• Adverse weather conditions could negatively impact the cost and timing of this project.
Project cost for analysis	\$7,205,000
Business Unit (BU)	Container Support Properties

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Effect on business performance	<ul style="list-style-type: none">• Effect on business performance is pending until a determination of market demand for future use is known.• Incremental depreciation for this project is estimated at \$349,000/yr.
IRR/NPV	To be determined by future leasing efforts.

ECONOMIC IMPACTS AND 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 Terminal 10 marketability and utilization by installing utilities necessary for commercial use as a cargo support area.

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.
- Provides storm water upland source controls for storm water runoff protecting the sediment cap from contamination.
- Maintain remedy of the existing isolation cap over the upland contaminated soils and sediments within the project boundaries.

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

ENVIRONMENTAL SUSTAINABILITY AND 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.

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- 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.
- Residential communities near the Duwamish industrial area support improvement of the T-10 site to reduce truck traffic congestion, truck parking in residential areas and air pollution from idling trucks.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Alternative 1 - No Action. This alternative would result in the Port breaching its obligation to maintain the upland cap under the Purchase and Sale Agreement, and may endanger project permits. It would also not allow for proposed interim or long term uses of T-10. Alternative 1 is not recommended.
- Alternative 2 – Installation of minimal improvements necessary to meet maintenance cap requirements but insufficient to allow any significant cargo-related uses or truck parking at the site. Cost of this alternative is estimated at between \$1,000,000 to \$3,700,000. Alternative 2 may endanger project permits and would not allow for proposed interim or long term uses of T-10. 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 would maintain the Upland and Sediment Remedial Action as required by the EPA. Cost of development is estimated at \$7,205,000. **This is the recommended alternative.**

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- On August 27, 1996, Commission authorized execution of a purchase and sale agreement and all other necessary documents providing for the acquisition of certain real properties (Lockheed Yard 1), for \$6,020,000

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- On March 25, 2008, Commission approved \$530,000 to complete 100% design and permitting for the redevelopment of T-10 uplands into truck parking.
- 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 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 approved 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 and City coordination on construction issues.
- On June 22, 2010, Commission approved an additional \$180,000 to support easement and permit negotiations with Lockheed Martin and State agencies.