

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6a

ACTION ITEM

Date of Meeting September 11, 2012

DATE: August 31, 2012

TO: Tay Yoshitani, Chief Executive Officer

FROM: Steve Queen, Container Operations Manager
Curtis Stahlecker, Project Manager

SUBJECT: Second Reading of Resolution No. 3666, declaring certain personal property surplus (Port of Seattle Cranes 51, 52, and 53) for Port of Seattle purposes and authorizing its sale or disposal.

Potential Disposal Cost to the Port: not to exceed \$1,500,000

Source of Funds: Operating expense in the 2014 budget

ACTION REQUESTED:

Request (1) Second Reading and Final Passage of Resolution No. 3666: A Resolution of the Port Commission of the Port of Seattle declaring certain personal property surplus (Port of Seattle Cranes No. 51, 52, and 53) for Port of Seattle purposes and authorizing its sale or disposal; and (2) authorization of disposal cost of said cranes in an amount not to exceed \$1,500,000, provided the cranes are not able to be sold.

SYNOPSIS:

SSA Marine (SSA), the tenant at Terminal 18 (T-18), has requested that Port-of-Seattle-owned Cranes No. 51, 52, and 53, non-preferential cranes under the lease, be removed from the terminal as soon as possible. These cranes are not desirable to either SSA or to the Port for future container handling needs. SSA is currently installing three additional new container cranes at T-18, making a total of six new Super Post-Panamax cranes valued at \$54 million installed since November 2011. SSA desires the IHI (Ishikawajima-Harima Heavy Industries, Ltd.) cranes be removed to make room on the terminal for the operation of the new cranes.

The IHI cranes are the last remaining 50-foot gauge cranes in the Port's crane fleet and there are no other terminal locations available for them. They were purchased in 1984.

As of June 30, 2012, the remaining book values for the IHI cranes were approximately:

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Crane 51 (IHI Crane S/N IC9980) = \$323,000;
Crane 52 (IHI Crane S/N IC9981) = \$336,000;
Crane 53 (IHI Crane S/N IC10000) = \$343,000;
Combined net book value of \$1,002,000.

The remaining book values are from the work performed in 1996 to raise the legs and extend the booms on these cranes.

The minimum annual usage requirement for the IHI cranes ended on December 31, 2009. Due to the functionality constraints of these 50-foot gauge cranes, a separate tariff rate of \$200/hour was implemented in August 1, 2010. While the tenant has continued to use the group of IHI cranes in recent years (4,700 hours in 2010; 4,200 hours in 2011; and 1,500 hours in YTD 2012), this usage has been entirely discretionary since January 1, 2010. After the arrival and installation of the three Phase I SSA-owned cranes on the terminal, the tenant communicated to Port staff that they will no longer be using the discretionary IHI cranes and requested they be removed to make room for the delivery and operation of the next three SSA-owned Phase II cranes.

According to the second amendment to the T-18 Crane Agreement with SSA, the Port is obligated to remove Cranes No. 51, 52, and 53 at the tenant's request after the three Phase II SSA-owned cranes have been installed and are operational on the terminal. The remaining three cranes were delivered to the terminal in July 2012 and are anticipated to be fully operational by October 2012.

In order to begin the advertisement process for the sale of the cranes, the Seaport Division requests approval to surplus Cranes No. 51, 52, and 53 and to dispose of property by sale for use by others or sold as scrap. The actual disposal of the cranes will not occur until all six SSA-owned cranes have been installed and are fully operational in accordance with terms of the T-18 Crane Agreement.

Should the cranes not sell and in the interest of efficiency, staff is requesting authorization for the disposal cost of the cranes upon final passage of the resolution on second reading. This disposal amount will not exceed \$1,500,000.

PROJECT DESCRIPTION AND JUSTIFICATION:

Cranes No. 51, 52, and 53 are located at Terminal 18 and were purchased in 1984 from IHI. They are essentially identical and have a capacity of 40 Long Tons with 50-foot gauge. The cranes were raised to have a lift of 105 feet above the rail and had the outreach extended to 135 feet in the mid-1990s to service Post-Panamax ships.

Terminal 18 tenant SSA Marine took delivery of three new Super Post-Panamax container cranes in November 2011. These new cranes have a maximum lift above the rail of 146 feet and an outreach of 210 feet. Now that SSA's additional cranes have arrived, T-18 has a total of 13 cranes and no longer has a need or room on the terminal for the smaller IHI cranes.

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As such, SSA has requested the Port remove Cranes No. 51, 52, and 53 from the terminal as soon as possible. The Port has no other terminal location or lessor with a need for this type of crane and would need to dispose of the cranes by sale or salvage.

These cranes are still fully operational and are in good mechanical, structural and electrical condition and are anticipated to compare favorably with similar cranes within the limited used crane market. In order to maintain the maximum marketability of the cranes, it is desirable to sell them as soon as practical since, without use, equipment, such as cranes, can deteriorate rapidly due to corrosion, evaporation of lubricants, and moisture penetration into electrical components thus diminishing the residual value.

Should the cranes not sell within six months from the advertisement date; staff will proceed with the disposing of the cranes. Salvage cost for the cranes can vary widely since the costs are partly based on the price of used steel, demolition market and labor conditions. However, using the demolition cost for Crane 36 as a basis, the cost for disposing of the three cranes is estimated not to exceed \$1,500,000.

The Port has a lease obligation to remove the cranes within a reasonable time (no more than 24 months) upon written request from the tenant, after the Phase II SSA-owned cranes are delivered and made operational on the terminal. The Phase II cranes were delivered and will become operational by October 2012. This Commission action is in advance of the Phase II cranes becoming fully operational in order to begin the advertisement process for the sale of the IHI cranes. The surplus of Cranes No. 51, 52, and 53 would not occur until all six of the SSA-owned cranes are fully operational on T-18.

PROJECT SCOPE OF WORK AND SCHEDULE:

The scope of work is to advertise and sell Cranes No. 51, 52, and 53 for use by others or as scrap.

Unfortunately, the used crane market is slow and limited. Even though these cranes are unique, given they are Post-Panamax size with a 50-foot gauge and fully operational, there may be no market for them due to their age as other U.S. ports are giving away or paying to scrap similar cranes of this vintage. For this reason, our actual sale price could be very low, or they may not sell as we have seen recently with Crane 54.

When a buyer is found or the cranes removed, the cranes may be transferred with at least one older spreader beam per crane and with any spare parts that have no value for re-sale and no other use to the Port.

If the cranes do not sell within six months, staff requests Commission authorization to dispose of them in accordance with Port procedures, including paying to have the cranes dismantled and scrapped.

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STRATEGIC OBJECTIVES:

This project supports the Port's Century Agenda preliminary goal of “positioning the Puget Sound region as a premier international logistic hub” through completion of evaluation, design and construction of upgrades for T-18. This action to surplus Cranes No. 51, 52, and 53 will allow for growth and development of marine and marine-related business at T-18.

BUSINESS PLAN OBJECTIVES:

- Improve operating efficiency of T-18. Removal of Cranes No. 51, 52, and 53 will allow the newer cranes to make full use of the terminal.
- Support tenant’s objective to control costs and improve efficiencies. SSA has no need of these cranes and desires they be removed.

FINANCIAL ANALYSIS:

Source of Funds

If a sale transaction is successfully completed in a reasonable timeframe, no funds will be needed for this request.

However, if a viable buyer is not found and demolition of these cranes at Port cost is required, the estimated cost of demolition and removal (not to exceed \$1,500,000) will be included as an operating expense in the 2014 budget.

Financial Analysis Summary

CIP Category	N/A
Project Type	N/A
Risk adjusted Discount rate	N/A
Key risk factors	Key risk factors include the possibility that no buyer will be found for Cranes No. 51, 52, and 53, and the Port may eventually need to pay for the demolition and removal of these cranes.
Project cost for analysis	N/A
Business Unit (BU)	Container Operations
Effect on business performance	The 2012 operating budget did not anticipate revenue from the IHI cranes, since usage of these cranes by the tenant is discretionary and the tenant intended to install six new SSA-owned cranes on the terminal between late-2011 and year-end 2012. The sales proceeds, if any, from sale of Cranes No. 51, 52, and

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	<p>53 and the related recognition of gain or loss on sale of fixed assets will be recorded as a non-operating activity in the year of sale. If these cranes are sold for less than the remaining book value of the asset (approximately \$1,002,000), then the result would be the recording of a non-operating loss in the year of sale.</p> <p>If demolition at Port cost is required to remove Cranes No. 51, 52, and 53 from the terminal, the Net Operating Income before Depreciation (NOI) will be reduced by the cost of demolition (not to exceed \$1,500,000) in the year the costs are incurred.</p>
IRR/NPV	N/A

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Alternative 1 - An option of doing nothing would leave Cranes No. 51, 52, and 53 where they are. This would limit the use of T-18 Apron. The required maintenance and certification expense to keep these seldom used cranes operational does not benefit the tenant or the Port. This would not meet our lease obligations once the three new cranes are installed.
- Alternative 2 – Sale or Disposal of Cranes No. 51, 52, and 53 will support the tenant’s objective and is consistent with the Port’s Century Agenda preliminary goal of “positioning the Puget Sound region as a premier international logistic hub.” **This is a lease obligation and the preferred alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Resolution No. 3666
- Slide comparing IHI and ZPMC Cranes on Terminal 18

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- January 12, 1982, Commission authorized the procurement of two cranes.
- June 14, 1983, Commission authorized the procurement of two additional cranes.
- September 26, 1995, Commission authorized raising the legs and extending the booms on the IHI cranes.
- August 7, 2012, Commission authorized First Reading of Resolution No. 3666, declaring certain personal property surplus (Port of Seattle Cranes 51, 52, and 53) for Port of Seattle purposes and authorizing its sale or disposal.