

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No. 7c
Date of Meeting January 7, 2015

DATE: January 8, 2015

TO: Ted Fick, Chief Executive Officer

FROM: Kurt Beckett, Deputy CEO
Linda Styrk, Managing Director Seaport

SUBJECT: Seaport Briefing – Terminal 5 (T-5) Modernization Project, East and West Waterway Deepening Project, T-5 Interim Uses and Pier 34 Mooring Dolphins

OVERVIEW

This briefing is a status update to the Port Commission on:

- T-5 Big-Ship-Ready Modernization Project - scope, schedule and budget
- US Army Corps of Engineers (USACE) Seattle Harbor Deepening Project
- T-5 Temporary Interim Uses for marine cargo
- Pier 34 Mooring Dolphins Project (mooring-infrastructure for marine cargo vessels)

In order to strengthen the Puget Sound Trade Gateway, promote maritime jobs and attract more marine cargo for the region, the Port of Seattle continues its strategic response to the competitive pressures that are reshaping the global container shipping industry, while also continuing its long-standing strategy of a diversified seaport business. Unprecedented measures underway include the creation of the Seaport Alliance with the Port of Tacoma and modernizing T-5 to be big ship ready for the larger vessels that are changing the international container business.

Projects covered in this briefing are cornerstones of the Seaport Business Plan for 2015-20 and advance several Century Agenda goals, including increased quality job opportunities for local communities in maritime and logistics, momentum for workforce development programs and advances port environmental programs.

The T-5 container terminal lease agreement between the Port of Seattle (Port) and Eagle Marine Services, Ltd. was terminated in July 2014 which provided an initial step in the T-5 modernization project. The Port Commission also directed staff to seek interim business opportunities at T-5 to help maximize use of public assets, create jobs and generate revenues to support the facility investments to be big ship ready. Business options are limited to maritime-

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related, water-dependent uses based on the facility permit, bond covenants and Port strategy to promote maritime-industrial jobs. One interim use is a short-term lease and berthing agreement proposed by a local company, Foss Maritime, with over 125 years of maritime industry experience in the Puget Sound. Foss Maritime proposes several potential interim uses and these are covered in more detail below.

BRIEFING

Terminal 5 Modernization Project

Staff continues to advance and refine project design so that it is aligned with future needs of prospective container terminal tenants. Staff is working to incorporate elements that advance our environmental stewardship goals including storm water treatment, energy-efficiency improvements and electrified container handling equipment.

Project scope, schedule and budget updates include:

Scope – the work remains consistent with the three original core elements:

1. *Dock strengthening* – for larger gantry cranes and cargo handling
2. *Berth deepening* – for deeper drafts of larger vessels while at berth
3. *Power upgrades* – for larger cranes and increased terminal operating needs

Schedule – Consistent with original schedule, including successful 30% Design Completion at the end of 2014. 2015 milestones:

2015 1st half	Apply for Permits, SEPA Publication
2015 Mid-year	60% design
2015 1st half	Solicit Tenant Interest
2015 2nd half	90% Design Completion (depending on new tenant status)

Target completion for permitting is mid-year 2016 and construction mid-year 2018. The date of completion will depend in part upon timing of completion of design and permitting relative to the in-water work windows associated with protection of fish and wildlife habitat (early spring through mid / late summer), and coordination with tribal fishing interests. Final design work will take into consideration associated tribal fishing activities, coordination with Seattle City Light for power upgrades, and potential customer specific improvements yet to be determined. Staff plans to solicit demand for container terminal tenants in the first half of 2015. Ideally, the final design phase would incorporate future tenant needs to mitigate design or construction modifications needed after tenant selection. Commission request for construction authorization is scheduled for mid-year 2016 and to commence in early 2017.

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Budget – Spending and updated cost estimates as of Q4 2014:

Projected spending through 2014	\$1.4 million
Approved for 30% Design	\$5 million
Project Estimated Cost Range	\$180-250 million

The primary factors influencing the Port's total cost estimates for completing the work are the characteristics of the sediments associated with berth deepening, should power demand requirements necessitate an additional substation, and any additional phasing associated with constructing around in-water work windows. Staff will continue to provide periodic updates to Commission, and as key milestones are achieved.

East / West Waterway Deepening Project

Reconnaissance Study Completed Fall 2014, Feasibility Study funded at full capability for 2015: The Port of Seattle and the U.S. Army Corps of Engineers (USACE) have partnered on a project, also known as the Seattle Harbor Channel Deepening Project, to evaluate the navigation channel depths in the East and West waterways to accommodate the current and future classes of ultra large container ships navigating into Port marine container terminal berths. The Reconnaissance Study of the need to accommodate deeper drafts of the larger container ships in deployment now and expected in future was completed last fall along with the Federal Cost Sharing Agreement (FCSA). This kicked-off the start of the three year Feasibility Study phase and the Port's 50% cost share of \$1.5M over the three year period.

Due to great progress on the Feasibility Study, the Port has just learned that the U.S. Army Corps will provide the full federal share of \$500,000 this year, which means the project is funded at their maximum capability, up from \$200,000 that was originally included in the President's Fiscal Year 2015 budget. The Port seeks an additional \$500,000 in the President's Budget for Fiscal Year 2016, due in mid-February 2015.

Pier 34 Mooring Dolphins

Project on track for completion in March 2015: Scope, schedule and budget is on track for completion target date of late March 2015. The two refurbished mooring berths expected to open in April. This asset stewardship investment in Port infrastructure aligns well with Century Agenda goal of growing the maritime cluster.

T-5 Temporary Interim Uses

The Seaport has aggressively explored and continues to pursue opportunities for temporary interim maritime business opportunities at T-5 during its modernization, with an emphasis on

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alignment with the Commission's Century Agenda, and a pragmatic eye toward commercial and regulatory constraints to such uses.

Key benefits from temporary interim uses

- *Revenues to Seaport* – offset T-5 interim operational costs and bolster bottom line.
- *Jobs* – direct jobs to maintain a healthy maritime sector as a full-service port.
- *Regional economic impact* – indirect and induced jobs to bolster the regional economy.
- *Regional tax revenues* – support public sector investments in services and infrastructure.

T-5 care-taker cost considerations

- *Security* - three guards, 24/7 for perimeter security estimated at \$1M annual.
- *Stormwater* - stormwater fees estimated at \$660K annual.
- *Utilities* – water, electricity, natural gas, sewer, telecommunications, as needed.
- *Maintenance* – normal and customary requirements while in caretaker status.

Other considerations for temporary interim uses at T-5

- *Minimize Port investment* to accommodate uses.
- *Zoning* – limited to industrial uses – no commercial, retail or other uses allowed.
- *Bond Covenants* – uses must be water-dependent and aligned with covenants.
- *Permits* – uses must be water dependent and aligned with existing Substantial Development Permit held by the Port.
- *Modernization Construction* – temporary interim users must enable the Port's continued access for T-5 Modernization Project to proceed on schedule.
- *Term* – temporary interim users must be willing to vacate as early as June 2018.
- *Economic Viability* – use creates a mutually beneficial outcome for both parties.

Prospective Opportunities Explored for Temporary Interim Uses

- *Storage* – Prohibited by bond covenants if not water-dependent.
- *Bulk cargo* – Liquid bulk requires major capital investment; dry bulk limited to commodities that do not require major infrastructure and that would not damage the yard with high imposed loads.
- *Tramper vessels* – Vessels with irregular service schedules, proved cost-prohibitive due cargo handling equipment needed for operations and nominal revenue potential.

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- *Breakbulk (scheduled) service* – Several opportunities, but require seven to 10-year commitment to establish service; not viable for temporary interim timeframe due to the need for capital investment in special equipment and nominal revenue potential.
- *Autos/Ro-Ro* – Strong interest from import/export of autos and heavy equipment, but requires a long term lease commitment to establish service due to need for major capital investment in auto processing facility and nominal revenue potential.
- *Project cargo* – Viable prospects are limited to those with project schedules that dovetail with terminal modernization project, are water-dependent, do not require gantry cranes, and enable continued Port access for construction, including interruptions to utility service. Viable projects have potential for appropriate revenue to Port, including offsetting operational cost during caretaking status.
- *Commercial Moorage* – There is interest in short-term and seasonal moorage of vessels at T-5. Moorage is limited to space available around the areas out of service during the construction phase of T-5 modernization. The Port proudly serves the homeport moorage needs of a majority of the North Pacific Fishing Fleet at Terminal 91, thus further temporary interim moorage at T-5 would generate nominal revenue and create few jobs.

Foss Maritime Temporary Interim Use Opportunities

Overview –

- In anticipation of Eagle Marine Lease termination to modernize T-5 for the ultra large container ships, Port staff reached out to a number of businesses, including Foss Maritime, to identify potential temporary interim uses of the terminal during the modernization project.
- By May of 2014, Foss and the Port began discussing the potential of using a Portion of T-5 as a place to receive and handle logistics for modules for a Liquid Natural Gas (LNG) plant that would be transported by barge to Canada for assembly into a final plant.
- In June of 2014, when Foss Maritime learned the T-5 berth area offered up to 50 feet of water depth, they expressed interest in additional berth and yard area at the terminal to temporarily support offshore oil and gas exploration and support vessels.
- Foss has identified additional prospects for breakbulk and bulk business that would complement the LNG project and prove financially viable once Foss was mobilized to support its two initial customers.

LNG Plant Modular Assembly Project –

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- A consortium of European companies solicited bids from two global construction firms to construct an LNG plant in Prince Rupert, Canada. Foss has submitted a bid for the logistics-related activity that would utilize 50-100 acres of T-5 to assemble modules for the LNG plant.
- Major components would be delivered to T-5 by truck, rail and breakbulk ship, where they would be assembled into modules then subsequently delivered to Prince Rupert by truck and barge for final assembly over a 3-5 year period.
- This project has the potential to generate substantial direct family-wage jobs, significant revenue to the Port, and generate broad economic impacts to the region. It would dovetail seamlessly with the Port's modernization of T-5; this project was to be awarded in December 2014, now likely January 2015.

Vessel Berth Moorage and Provisioning

- As a complement to the LNG project outlined above, Foss, in partnership with Shell, has expressed interest in leasing approximately 50 acres at T-5 for use as a short-term berth for vessels used in oil and gas exploration in Alaska.
- All activities related to this use would be limited to research and exploration.
- T-5 would receive, inventory, and stage equipment and supplies that would be loaded to a fleet of vessels, including exploration drill rigs, ice-breakers, provisioning vessels, environmental response vessels, tugs and barges for seasonal operations in Alaska.
- The fleet of vessels would depart for exploration in June and return to homeport late summer for over-wintering October through May.
- Over-wintering moorage plans currently indicate 8 vessels to homeport at T-5 and 3 vessels to homeport in Everett. The project would commence in March of 2015 for two years and could extend up to four years assuming it does not impact T-5 modernization schedule.
- Use of T-5 for this berth and provisioning activity is expected to generate at least two hundred quality family-wage jobs at the terminal, significant revenue to the Port, generate state and local tax revenue and support the region's economy and Puget Sound maritime cluster.

With Foss Maritime mobilized for temporary interim operations at T-5, the ability to pursue other business at T-5 would be significantly enhanced. Examples include:

- Aggregates for Sea-Tac 16 Center Runway Reconstruction Project – With the terminal up and running, Foss would be in a position to compete to furnish

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roughly 100,000 tons of aggregates to Sea-Tac's center runway repaving project.. Vessels would deliver aggregates to T-5 where they would be transported to SeaTac International AirPort over the road in a manner that would reduce air emissions and regional traffic congestion versus traditional routes.

- Tramper, Breakbulk and Ro-Ro – With the terminal up and running, Foss would be able to provide terminal services to tramper vessels requiring a single Port call, as well as short-term scheduled services for breakbulk and ro-ro vessels. Such services would harmonize with the Port's T-5 modernization, while generating incremental revenues to the Port, jobs at the terminal, and attendant regional economic impacts.

Benefits of Temporary Interim Uses to the Port –

- T-5 Modernization -- Opportunities for viable interim uses of T-5 are limited, given project constraints. Interim uses identified above have potential to offset caretaker costs, generate incremental revenue for the seaport capital program, including T-5 modernization project elements such as dock strengthening, stormwater treatment and energy-efficient power upgrades and lighting..
- Century Agenda Alignment – advances several Century Agenda goals, including increased quality job opportunities for local communities in maritime and logistics, momentum for workforce development programs and advances progress and investment in Port environmental projects.
- Seaport Plan of Finance – Optimizing utilization of T-5 during modernization, contributes needed Seaport revenues to improve financial performance under the Seaport's Plan of Finance.
- Seaport Alliance - Sound financial performance is a timely factor in larger financial assessments necessary during the final implementation of a Seaport Alliance between the Ports of Seattle and Tacoma.

Moving Forward

- Early Access Agreement – If the Port is to pursue the above temporary interim uses, Foss Maritime, in meeting the schedule requirements of its customers, needs to undertake Tenant Improvements at this time to prepare the terminal for temporary interim use.
- Negotiate and Execute a Lease with Foss Maritime – Foss has expressed interest in entering into a two year lease agreement with the Port for approximately 50 acres including dock space with options to expand premises and extend term with the Port.

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Time is of the essence if the Port is to secure one or more of the above interim opportunities at T-5.

- Coordination of T-5 interim temporary use with the Port's Modernization Project – ongoing.

ATTACHMENTS TO THIS BRIEFING

- Seaport Terminal 5 Briefing Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- September 11, 2014 – Second reading of Resolution No. 3695, PACECO cranes surplus
- August 19, 2014 – First reading of Resolution No. 3695, PACECO cranes surplus
- July 22, 2014 – Lease termination agreement authorization for Terminal 5
- June 3, 2014 – Harbor Island long-term environmental service agreement commitment authorization
- May 13, 2014 – Terminal 5 Facility Modernization Briefing