

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>4d</u>
Date of Meeting	<u>June 9, 2015</u>

DATE: June 2, 2015
TO: Ted J. Fick, Chief Executive Officer
FROM: Jasmin Contreras, Property Manager, Leasing and Asset Management
Curtis Stahlecker, Capital Project Manager
SUBJECT: Westway Feed Products Inc. lease extension, easement, and South Gate Rail Spur design funding (CIP #C800721) at Terminal 18

Amount of This Request:	\$151,000	Source of Funds:	General Fund
Est. Total Project Cost:	\$1,000,000		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a third amendment to the lease and easement between Westway Feed Products Inc. and the Port of Seattle, exercising a ten-year extension option; and execute contracts, perform design, prepare necessary permit submittals, and prepare construction bid documents to rehabilitate the Terminal 18 South Gate Rail Spur for an amount of \$151,000, bringing the total authorized amount to \$190,000. The estimated total project cost is \$1,000,000.

SYNOPSIS

For the past 16 years, Westway Feed Products Inc. has leased approximately 62,515 square feet of land located at the southeast corner of Terminal 18 (T-18) for handling bulk molasses and related products by vessel and rail and for the manufacture of animal feed products. As a global supplier of agricultural-based liquid solutions, the tenant uses the south gate rail spur on a regular basis to ship its product to a mix of customers in the U.S. and Canada.

The T-18 rail spur was installed approximately 50 years ago and currently provides rail service to the tenant. The rail spur crosses directly in front of the T-18 South Gate used by the majority of drayage trucks entering the SSA Terminals LLC (SSAT) container yard. Current records show that approximately 1,000 trucks per day are entering the container facility.

In April 2014, rail service was stopped for approximately ten days by the Railroad until temporary repairs were performed on the spur line to prevent derailment, significantly affecting the tenant's operation. The temporary repairs were made and rail service was restored; however, the line is in poor condition and rail service could be stopped again if the Railroad deems the line

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unsafe. Should rail service be stopped for any length of time, the tenant would be required to use trucks to transport their product, significantly increasing operation costs.

Even with the temporary repairs, the underlying deficiencies consisting of: age, rail use, and truck traffic, the rail spur has reached the end of its service life and needs to be replaced to provide predictable and uninterrupted rail service to the tenant as identified in the lease agreement.

In combination with the repairs to the rail spur, Port staff entered into negotiations with the tenant to extend the lease. As part of the lease negotiations, the tenant will perform all future track maintenance on the rail spur once the initial repairs have been completed. This lease amendment extends the revenue for an additional ten years and reduces the long-term operational costs of the Port.

BACKGROUND

The rail spur was designed and installed in 1964 to provide on-dock rail service at Pier 21, which would later become part of T-18. The rail spur now provides rail service only to Westway Feed Products Inc. (previously PM AG Products Incorporated).

In the early 1980s, the T-18 South Gate entrance was installed in the current location, which is just to the north of the rail spur. The south gate was expanded to the east in 1996 to its current configuration of 14 lanes. The vehicle crossing for the gate traffic used the existing asphalt.

PROJECT JUSTIFICATION AND DETAILS

On April 23, 2014, the railroad stopped service to Westway Feed Products due to the condition of the track. Port Maintenance conducted temporary repairs in early May and restored rail service to the tenant. The temporary repairs satisfied the immediate need to re-establish rail service; however, the underlying deficiencies in the rail spur remain and are in need of repair.

The current lease with the tenant states the tenant will be provided rail access to and from the property. The lease expires on September 30, 2018, and the tenant has one 10-year option to extend the lease. Westway Feed Products has expressed its long-term commitment to the facility; consequently, Seaport Lease Management staff entered into negotiations with the tenant to: extend the lease term, clarify future rail maintenance responsibilities, and document the tenant's easement to the molasses pipeline.

Project Objectives

The project objective is to remove and replace the section of the rail spur that services Westway Feed Products on T-18 and replace the vehicle crossing in front of the T-18 South Gate for the Port to fulfill its obligation to provide rail access to the tenant. Failure to maintain this access poses potential risks to the Port.

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Scope of Work

Design and replace the section of rail from the spur switch to the fence line where the spur enters the fenced area of the tenant's leasehold, for a total length of approximately 500 lineal feet. The 500 linear feet of repair includes approximately 180 linear feet of track from the spur switch to the start of the truck gate and 320 linear feet across the truck gate to the tenant's fence line. As the 320 linear feet are in front of the T-18 South Gate, the vehicle crossing will also be replaced.

The size of land-disturbing activity triggers stormwater review. The project anticipates design and construction costs for stormwater infrastructure as required by the City of Seattle stormwater code.

Schedule

The current schedule for this project is:

Design	4 months	July 2015 – Oct 2015
Bidding, award, submittals, and NTP	6 months	Nov 2015 – Apr 2016
Construction	3 months	May 2016 – July 2016

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$39,000	\$0	\$39,000
Current request for authorization	\$151,000	\$0	\$151,000
Total Authorizations, including this request	\$190,000	\$0	\$190,000
Remaining budget to be authorized	\$810,000	\$0	\$810,000
Total Estimated Project Cost	\$1,000,000	\$0	\$1,000,000

Project Cost Breakdown

	Total Authorizations	Total Project
Construction	\$0	\$655,000
Construction Management	\$10,000	\$73,000
Design	\$108,000	\$108,000
Project Management	\$60,000	\$79,000
Permitting	\$12,000	\$20,000
State & Local Taxes (estimated)	\$0	\$65,000
Total	\$190,000	\$1,000,000

Budget Status and Source of Funds

This project was included in the 2015 capital budget and plan of finance as a Committed-Division Approved project: CIP #C800721 Terminal 18 South Gate Rail Spur in the amount of

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\$1,000,000. However, \$500,000 was indicated to be spent in 2014, with the remainder in 2015. Amounts not spent in 2014 are available to fund amounts in 2015 and 2016. The project will be funded from the Seaport General Fund.

Financial Analysis and Summary

CIP Category	Renewal/Enhancement						
Project Type	Renewal & replacement						
Risk adjusted discount rate	7.0%						
Key risk factors	Project costs could exceed current estimates						
Project cost for analysis	\$1,000,000						
Business Unit (BU)	Seaport Industrial Properties						
Effect on business performance	<p>The incremental revenue associated with this project is generated by the lease extension which extends the existing lease termination date from September 2018 to September 2028 with annual average revenue over the 10 year period of approximately \$570,000 per year.</p> <p>Based on an asset life of 50 years, this project will increase depreciation by \$20,000 per year.</p>						
IRR/NPV	<table border="1"><thead><tr><th>NPV (in \$000's)</th><th>IRR (%)</th><th>Payback Years*</th></tr></thead><tbody><tr><td>\$ 2,338</td><td>17%</td><td>5</td></tr></tbody></table> <p>Note* - The payback period is 5 years because the incremental revenue generated from the lease extension commences in 2018.</p>	NPV (in \$000's)	IRR (%)	Payback Years*	\$ 2,338	17%	5
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\$ 2,338	17%	5					

Lifecycle Cost and Savings

The existing rail spur has been in use for the past 50 years and is at the end of its service life. During the design phase, total lifecycle cost analysis will evaluate options. Options that have the lowest total cost of ownership will be included in the construction documents.

STRATEGIES AND OBJECTIVES

Providing a reliable rail connection to the tenant and investing in a critical asset for the movement of bulk cargo supports the Century Agenda strategy of positioning the Puget Sound region as a premier international logistic hub.

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MAJOR ELEMENTS OF THE THIRD AMENDMENT AND EASEMENT

Lease Term: The current lease expires September 30, 2018, and the tenant has one option to extend the lease for 10 additional years. The proposed amendment extends the original term of the lease to 30 years to terminate on September 30, 2028.

Maintenance and Repair: In an effort to control the Seaport's operating expenses and shift all maintenance responsibility to the lessee, the proposed amendment will clarify that all future maintenance and repair responsibilities of the new track located outside the tenant's leased premises will be the tenant's responsibility. The tenant will be responsible for making all repairs and replacements to the leased premises, including repairs to certain railroad track(s) outside the tenant's leased premises.

Easement: An easement will also be required to document the tenant's nonexclusive easement to the underground molasses pipeline for the purpose of operating, maintaining, removing, repairing, replacing, and using the molasses pipeline.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Continued Temporary Repairs - Continue to make temporary repairs to the track alignment as needed to provide reliable rail access to the tenant's facility in accordance with the lease.

Pros:

- Lower initial investment cost.

Cons:

- Risk of potential service disruption to the tenant and south gate operations should a derailment occur along the rail spur.
- Due to the condition of the track, ongoing maintenance costs are difficult to forecast as is the length of time the temporary repairs would be effective.
- Additional cost due to unplanned or emergency type work including replacement of additional ties and subgrade.
- Risk of potential service disruption to the tenant if Railroad determines the track is not safe for travel and stops service until the line is replaced or repaired.

Alternative 2) – Repair the rail spur line

Pros:

- Provides reliable rail access to the tenant's facility in accordance with the lease.
- Repair work is planned within a specified time frame and budget.

Cons:

- Highest initial investment.

Alternative 2 is the recommended alternative.

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ATTACHMENTS TO THIS REQUEST

- PowerPoint
- Draft Lease Amendment
- Draft Easement

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- On February 4, 2010, Commission authorization received to execute a conditional consent to assignment of the lease.
- On January 22, 2009, Commission authorization received to execute a second amendment to the lease and for design and permitting of fender system improvements at T-18 south.
- On October 12, 1999, Commission authorization received to execute a first amendment to the lease to clarify language pertaining to preferential and secondary preferential rights to berth barges and tankers at T-18.
- On June 24, 1996, Commission authorization received to execute a new term lease to accommodate the tenant's molasses tank farm that was relocated to the southeast corner of T-18, as required by the T-18 container terminal expansion.