

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

**COMMISSION AGENDA**  
**ACTION ITEM**

<b>Item No.</b>	<u>6d</u>
<b>Date of Meeting</b>	<u>June 23, 2015</u>

**DATE:** June 16, 2015  
**TO:** Ted Fick, Chief Executive Officer  
**FROM:** Mike Burke, Director, Seaport Lease & Asset Management  
Curtis Stahlecker, Seaport Project Management  
**SUBJECT:** Surplus Crane Removal and Disposal at Terminals 5 and 46

<b>Amount of This Request:</b>	\$4,665,000	<b>Source of Funds:</b>	General Fund
<b>Est. Total Project Cost:</b>	\$4,665,000		

**ACTION REQUESTED**

Request Commission authorization for the Chief Executive Officer to advertise, award, and execute a major public works contract for the removal and disposal of six Port-owned container cranes located on Terminal 5 and one located at Terminal 46. The total amount of this request is \$4,665,000.

**SYNOPSIS**

Subsequent to the final passage of Resolutions 3610 and 3695, declaring one crane at Terminal 46 and the six container cranes on Terminal 5 surplus, Port staff has been actively seeking buyers for the cranes. To date no offers have been received and the cranes must be removed from the terminals in order to facilitate the construction schedule for the Terminal 5 Berth Modernization project and the Container Dock Apron Upgrade project at Terminal 46.

**BACKGROUND**

Cranes No. 61, 62, 63, 64, 66, and 68 are located at Terminal 5. They were purchased from PACECO Corporation and are classified as post-panamax cranes having a gauge of 100 feet and a lifting capacity of 50 long tons. Crane 54 is located on Terminal 46 and is an IHI crane classified as a panamax having a capacity of 40 long tons and a gauge of 50 feet.

Port staff advertised the cranes in trade journals, contacted used equipment dealers, and reached out to other ports, but received limited interest and no offers. Unfortunately, there are a number of used cranes similar to the PACECOs on the market with very few buyers. There is no market for the IHI crane and it has been inactive since 2008. The result is the Port will have to issue a major public works contract to have the cranes removed from the terminals.

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### **PROJECT JUSTIFICATION AND DETAILS**

The surplus container cranes located at Terminal 5 and Terminal 46 will need to be removed before the upgrades to the facilities can occur.

Terminal 5 (T-5) Berth Modernization project is scheduled to begin demolition activities on the southern half of the dock in early 2016. To facilitate the T-5 Berth Modernization project, the cranes need to be removed in advance of the demolition activities. Construction of the Terminal 46 Container Dock Apron Upgrade project is scheduled to begin in the spring of 2016. The intent is to remove Crane 54 prior to construction activities.

#### ***Project Objectives***

Remove the six PACECO Port owned container cranes from Terminal 5 and the one IHI Port owned crane before spring 2016.

#### ***Scope of Work***

Advertise, award, and execute a major public works contract for the removal and disposal of seven Port-owned container cranes from Terminals 5 and 46.

#### ***Schedule***

Commission Authorization for Construction	June 2015
Advertise for Bids	July 2015
Award Contact	August 2015
Issue Notice to Proceed	September 2015
Removal Complete at Terminal 5	February 2016
Removal Complete at Terminal 46	April 2016

### **FINANCIAL IMPLICATIONS**

There is no remaining book value for any of these cranes or their related parts. The cranes at Terminal 5 were written off as impaired assets at the end of 2014. The crane at Terminal 46 was surplused and removed from the books in 2009.

#### ***Budget/Authorization Summary***

	Capital	Expense	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$0	\$4,665,000	\$4,665,000
Total Authorizations, including this request	\$0	\$0	\$0
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$0	\$4,665,000	\$4,665,000

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### ***Project Cost Breakdown***

	This Request	Total Project
Construction	\$3,814,000	\$3,814,0000
Construction Management	\$182,000	\$182,000
Design	\$62,000	\$62,000
Project Management	\$88,000	\$88,000
Permitting	\$153,000	\$153,000
State & Local Taxes (estimated)	\$366,000	\$366,000
Total	\$4,665,000	\$4,665,000

### ***Budget Status and Source of Funds***

The crane removal projects are undertaken at this time to facilitate projects C800132- Terminal 5 Berth Modernization and C102554-Terminal 46 Development projects. Both of these projects and related funds were included in the 2015 Capital Budget and Plan of Finance. However, the cost to remove the cranes will be recognized as an Operating Expense, which was not factored into the 2015 Operating Budget. It is anticipated that \$1,000,000 of the project will be expensed in 2015 with the balance in 2016. Therefore, proceeding with the project is expected to result in an unfavorable (\$1,000,000) operating expense variance and an associated unfavorable net operating income variance for 2015. The 2016 Operating Budget will reflect the balance of costs to complete the project.

The crane removal projects will be funded by the General Fund.

### ***Financial Analysis and Summary***

<b>CIP Category</b>	Renewal and Replacement (Terminal 5 Modernization and Terminal 46 Development)
<b>Project Type</b>	Infrastructure Upgrade
<b>Risk adjusted discount rate</b>	N/A
<b>Key risk factors</b>	Construction risks
<b>Project cost for analysis</b>	\$4,665,000
<b>Business Unit (BU)</b>	Container Operations
<b>Effect on business performance</b>	Net Operating Income before depreciation (NOI) for 2015 will be reduced by the estimated 2015 project costs of \$1,000,000 and 2016 NOI will be reduced by \$3,665,000. The 2015 expenses are expected to create an unfavorable operating expense variance in 2015. The 2016 amount will be included in the 2016 Operating Expense Budget
<b>IRR/NPV</b>	N/A

### ***Lifecycle Cost and Savings***

Removal of the cranes allows for the modernization of our existing assets and readies those assets for current and future changes, extends their useful service life, and preserves the economic vitality of our operations.

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## **STRATEGIES AND OBJECTIVES**

This project will support the Port's Century Agenda Strategic Objective to grow Seaport annual container volume to more than 3.5 million TEUs by removing older equipment that is not suitable for the anticipated class of vessel that will be calling on the terminal.

## **ENVIRONMENTAL AND COMMUNITY BENEFITS**

Removing the PACECO cranes from Terminal 5 and IHI Crane from Terminal 46 is the initial step in enhancing the terminals. Terminal 5 will be modernized by the installation of larger cranes to support larger vessels and Terminal 46 will have an additional 200 feet of dock apron upgrade to accommodate larger container ships. These terminal improvements are a key to the Port meeting its Century Agenda strategies of increasing container volume in Seattle to 3.5 million TEUs and doubling the value of exports from Seattle.

Employing environmental sustainability principles during the crane removal process will be consistent with Port policy, including sustainable construction practices and recycling of the crane materials.

In addition, the project team will collaborate with the Office of Social Responsibility (OSR) to maximize small business participation opportunities in support of the Century Agenda goals or requirements will be established, accordingly.

## **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

### **Alternative 1) –Maintain status quo, leave cranes in-place**

#### **Pros:**

- This alternative would save the removal cost of \$4,665,000.

#### **Cons:**

- Significantly impedes both the Terminal 5 Berth Modernization and the Terminal 46 Container Dock Apron upgrade projects and does not accomplish project objectives.

### **Alternative 2) – Include the removal of cranes in the respective construction packages.**

#### **Pros:**

- It is more efficient to administer one contract instead of two at each terminal.
- Reduces the risk of potential delay from the crane removal contractor to the Modernization/Upgrade contractor.

#### **Cons:**

- Increases the construction duration of the Terminal 5 Construction Phase 1 Package conflicting with the fish window and potentially adding another construction season to the Terminal 5 Modernization project.
- Terminal 5 Construction Phase 1 package bid documents cannot be completed sooner to allow for the additional duration needed to remove the cranes.

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- The Terminal 5 Phase 1 construction contractor would likely subcontract the crane removal work, adding costs. Therefore, any savings realized in administering one contract would be offset by additional contract overhead. This is similar for Terminal 46.
- For Terminal 46, any delay in removal of the crane would impact in-water related work, and potentially extend another year for completion of project.
- Estimated additional cost range \$300,000 to \$500,000.

### **Alternative 3) – Bid to dismantle cranes and transport steel to a scrap dealer and the Port receiving scrap value.**

#### **Pros:**

- Port would gain the value of the scrap steel.

#### **Cons:**

- Bids for the removal of the cranes would be increased to account for the loss of revenue that would be received by the contractor from the sale of the scrap.
- Eliminates the option for removing the cranes intact.
- Port assumes risk for any loss of revenue if the salvage value of the steel decreases.
- Estimated additional cost range for this alternative is \$750,000 to \$1,000,000.

### **Alternative 4) – Incorporate the removal of Terminal 46 crane in the existing T-18 IHI contract as a change order and Bid Terminal 5 cranes separately.**

#### **Pros:**

- The crane at Terminal 46 is a sister crane to the three IHI cranes currently under contract to be removed from Terminal 18.
- Reduced cost uncertainty in the bid process by negotiating a change order.

#### **Cons:**

- Lose possible economy of scale savings by having fewer cranes in bid package.
- Additional costs added to the existing contract for added scope and contract administration.

### **Alternative 5) – Incorporate the removal of Terminal 46 crane and the 6 Terminal 5 cranes in existing T-18 IHI crane removal contract as a change order.**

#### **Pros:**

- It is the fastest way to remove cranes.
- Reduced cost uncertainty in the bid process by negotiating a change order.

#### **Cons:**

- Likely considered a cardinal change to original public works contract and places the Port at risk for an audit finding that the Port did not comply with competitive bid laws.
- Potentially responsible contractors may be deprived of the opportunity to compete for the work and the Port cannot ensure that we obtained the best possible price.

### **Alternative 6) – Bid to remove and dispose of the cranes as one stand-alone contract.**

#### **Pros:**

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- Contractors have maximum flexibility to remove the cranes in the manner they think is most efficient.
- Project can be bid as soon as the documents are available.
- Contractor assumes risk for any loss of revenue if the salvage value of the steel decreases.
- Removing the cranes in advance of the construction contract would avoid delay of in-water works for both Terminals 5 and 46.

### **Cons:**

- Cranes are structurally and geographically different
- Need to coordinate between crane removal contract and two construction packages.

**Alternative 6 is the recommended alternative.**

## **ATTACHMENTS TO THIS REQUEST**

- None.

## **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- September 11, 2014 – Commission authorized the Second Reading of Resolution No. 3695, declaring certain personal property surplus (Port of Seattle Cranes 61, 62, 63, 64, 66, and 68) for Port of Seattle purposes and authorizing its sale or disposal.
- August 19, 2014 – Commission authorized the First Reading of Resolution No. 3695, declaring certain personal property surplus (Port of Seattle Cranes 61, 62, 63, 64, 66, and 68) for Port of Seattle purposes and authorizing its sale or disposal.
- February 24, 2009 – Commission authorized the Second Reading of Resolution No. 3610, declaring Port of Seattle Crane 54 surplus for Port of Seattle purposes and authorizing its sale or disposal.
- February 10, 2009 – Commission authorized the First Reading of Resolution No. 3610, declaring Port of Seattle Crane 54 surplus for Port of Seattle purposes and authorizing its sale or disposal.