

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	6e
Date of Meeting	June 23, 2015

DATE: June 16, 2015

TO: Ted Fick, Chief Executive Officer

FROM: Mike Burke, Director, Seaport Lease & Asset Management
Janice Zahn, Assistant Director Engineering, Construction
Curtis Stahlecker, Capital Project Manager

SUBJECT: Change Order #001 Terminal 18 Crane Removal (Expense WP U00099)

Amount of This Request: \$335,000 **Source of Funds:** Seaport General Fund

Est. Total Project Cost: \$1,835,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to (1) increase the project budget by \$335,000 for the removal of Cranes No. 51, 52, and 53 at Terminal 18 and (2) issue a change order on contract MC-0317968 to add 365 calendar days to the contract duration and \$173,400. The total amount of this request is \$335,000 for a total project cost \$1,835,000.

SYNOPSIS

SSA Marine (SSA), the tenant at Terminal 18 (T-18), has requested that the 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 Ishikawajima-Harima Heavy Industries, Ltd. (IHI) cranes are not desirable to either SSA or the Port for container handling needs and the tenant requested they be removed to make room on the terminal for future operations.

On September 11, 2012, the Commission authorized the surplus and disposal of these cranes. The Port made two unsuccessful attempts to sell the cranes and subsequently construction documents were prepared to demolish and remove the cranes. The project was advertised, bids were received for the removal of the cranes, and the contract was awarded to the lowest responsible bidder.

The contractor had completed all required preconstruction activities and was ready to mobilize for physical work on-site by December 2014, pending Port issuance of the notice to proceed. However, due to the deteriorating contract negotiations between the terminal operators (PMA) and International Longshore and Warehouse Union (ILWU) along with the heavy congestion on the terminal, proceeding with the crane removal contract would have further impeded the movement of cargo on the terminal and in the harbor. As a result, the notice to proceed was not

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issued to the contractor. The Port evaluated various options and ultimately decided to suspend the contract work on January 23, 2015 to allow the contractor to utilize its equipment for other projects while the labor issues were being resolved. The contract between PMA and ILWU was tentatively accepted in late February and ratified in May 2015.

Once the PMA/ILWU contract was ratified in May 2015 and terminal congestion was reduced, Port staff worked with the contractor to develop an approach for removing the cranes and maintaining ongoing commercial operations at the terminal.

BACKGROUND

Following the September 2012 authorization declaring the cranes surplus, Port staff made two unsuccessful attempts to market the cranes for sale. The decision was then reached to prepare construction documents to demolish and remove the cranes from T-18. The project was initially scheduled to bid in May 2014. However, these cranes were included in other lease negotiations (potential relocation of a tenant from T-5 to T-18), and the crane removal project was temporarily placed on hold. After the negotiations concluded, the project was restarted and bid in mid-August 2014.

The contract to remove the cranes was awarded to the low bidder, Axis Crane, at the end of September 2014 for the low bid sum of \$1,083,200 (note that Axis Crane is the same contractor that performed the demolition of Crane 36 in 2009). The contractor's proposed demolition method is similar to the 2009 project. Potential ILWU unrest subsequent to contract execution, and increased congestion on the terminal caused the Port to delay issuing notice to proceed with crane demolition. As a result, the Port and Axis Crane agreed in January 2015 to a plan that was structured to extend the contract duration and suspend work until such time that the labor issues were settled between all parties and the impacts could be evaluated. The Port retained the right to terminate for convenience if unfavorable circumstances beyond either the Port's or the Contractor's control arose.

With contract in place between PMA and ILWU and reduced cargo congestion, staff can finalize and execute the agreed upon plan. In addition to the 365 calendar days of extension to the contract duration, the Change Order includes \$173,400 to compensate the Contractor for the costs related to this delay.

PROJECT JUSTIFICATION AND DETAILS

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 are no longer needed by our tenant and we have been requested to remove them 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 like to move forward with plans for removal.

Project Objectives

- Remove Cranes No. 51, 52, and 53 from T-18.

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- Allow for continued operations at T-18 with minimal disruption.

Scope of Work

The Change Order provides full and final compensation to the Contractor for additional costs related to the impacts caused by the Port of Seattle for both equipment standby costs and costs for the extended period of performance and, if necessary, to terminate the contract for convenience if the work is unable to be performed. The additional project funding is required to pay for the cost of the change order and sales tax, increased soft costs, and additional contingency.

Schedule

Reactivation of the project is a function of the contractors work load and the time extension of change order. The project is anticipated to restart in September 2015. The following schedule identifies the key project milestones based upon a September mobilization. With the added contract days in the change order the new project completion date incomplection date is March 16, 2016.

Mobilize	September 2015
Begin Cranes Demolition	Beginning of October 2015
Complete Demolition	End of December 2015
Demobilize	January 2016

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$0	\$1,500,000	\$1,500,000
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$0	\$335,000	\$335,000
Total Authorizations, including this request	\$0	\$1,835,000	\$1,835,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$0	\$1,835,000	\$1,835,000

Project Cost Breakdown

	This Request	Total Project
Construction	\$240,000	\$1,402,000
Construction Management	\$35,000	\$156,000
Design	\$4,000	\$30,000
Project Management	\$33,000	\$77,000
Permitting	\$0	\$37,000
State & Local Taxes (estimated)	\$23,000	\$133,000
Total	\$335,000	\$1,835,000

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Budget Status and Source of Funds

The 2014 Operating Budget included \$1,200,000 for the removal of IHI Cranes at T-18. Due to project delays discussed above, only \$113,500 was spent in 2014. When the 2015 Operating Budget was prepared, it was still anticipated that the project would be largely completed in 2014, so only \$75,000 was included in the 2015 expense budget for removal of these cranes. Of the total project cost of \$1,835,000, approximately \$1,521,500 is expected to be expensed in 2015. Therefore, proceeding with the project is expected to result in an unfavorable (\$1,446,500) operating expense variance and an associated unfavorable net operating income variance for 2015. The 2016 Operating Budget will reflect the balance of the costs to complete the project.

This project will be funded from the General Fund.

Financial Analysis and Summary

CIP Category	N/A
Project Type	N/A
Risk adjusted discount rate	N/A
Key risk factors	Construction risks; container movement requirements that do not allow for crane demolition/loading operations to proceed.
Project cost for analysis	N/A
Business Unit (BU)	Container Operations
Effect on business performance	Net Operating Income before depreciation (NOI) for 2015 will be reduced by project costs of \$1,521,500. As the 2015 Operating Budget only included \$75,000 for completion of the project, an unfavorable NOI variance of approximately (\$1,446,500) is anticipated.
IRR/NPV	N/A

Lifecycle Cost and Savings

As of October 2012 the terminal operator has purchased and installed six new Super Post-Panamax cranes. The new cranes have the ability to accommodate the larger ships calling on the Port of Seattle and to handle cargo more efficiently than the IHI cranes. The efficiency gained by the new cranes combined with the lease obligation the Port has to remove the IHI cranes maintains the economic strength of the Port of Seattle operations.

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. Currently the IHI cranes are at the southern end of the dock; with their removal, the terminal's larger cranes will have access to the full length of the dock improving terminal efficiency and cargo operations.

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) Terminate Contract for convenience and rebid project at a later date

Pros:

- Minimizes the contract cost exposure to the Port of Seattle by liquidating the cost liabilities with the current contractor.
- Allows for the addition of more specific requirements in the new bid documents.

Cons

- Cranes are still in place (which does not meet the lease obligations) and the Port incurred approximately \$250,000 including the termination costs to the Contractor.
- Additional cost will be incurred for re-advertising the project.
- Future bids may exceed current contract costs.

Alternative 2) Issue a change order to increase the project budget and schedule to remove the cranes

Pros:

- Cranes would be removed and lease obligations met.
- Costs to perform the work are known and cost exposure has been capped.
- Contractor has completed most of the engineering and preconstruction submittals expediting the restart.

Cons:

- The costs associated with this alternative are \$335,000.
- Additional labor harmony issues and/or unknown future conditions may still prevent the completion of the work.

Alternative 2 is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- September 11, 2012, Commission authorized 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.
- 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.
- September 26, 1995, Commission authorized raising the legs and extending the booms on the IHI cranes.
- June 14, 1983, Commission authorized the procurement of two additional cranes.
- January 12, 1982, Commission authorized the procurement of two cranes.