

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4d
Date of Meeting July 14, 2015

DATE: July 14, 2015
TO: Ted Fick, Chief Executive Officer
FROM: David Amble, Seaport Asset Manager
Catherine Chu, Capital Project Manager
SUBJECT: Terminal 18 Maintenance Dredging (Expense Project U00033)

Amount of This Request:	\$2,071,000	Source of Funds:	General Fund (as part of the Alliance budget)
Est. Total Project Cost:	\$3,216,000		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to proceed with contracting and construction of Terminal 18 Maintenance Dredging for an estimated cost of \$2,071,000, bringing the total authorization to \$3,216,000.

SYNOPSIS

This project will restore the depths of vessel berths at T-18 to their designed depths to ensure that T-18 remains accessible to deep-draft cargo vessels currently in service. Maintenance dredging at T-18 has been an on-going need due to natural sedimentation and prop wash. On February 10, 2015, the Commission approved funding for the design and permitting phase of this project. This request is for authorization to proceed with the construction phase of the project. Northwest Seaport Alliance leadership has endorsed the requested action.

BACKGROUND

This project will be occurring at a significant point in the history of the Port of Seattle (Port); the responsibility of property and operational management overseeing the T-18 complex, along with other marine cargo terminals in Elliott Bay, is shifting from the Port to The Northwest Seaport Alliance (Alliance), consisting of the Port of Seattle and the Port of Tacoma. Like marine ports throughout the world, maintenance dredging is a routine, regularly occurring activity to ensure sufficient under-keel clearance for cargo ships when at berth at marine terminals. Alliance asset management projects of this nature have been captured as separate line items in the Port's Capital Investment Plan.

PROJECT JUSTIFICATION AND DETAILS

The proposed project would restore berths at T-18 to their designed depths to preserve the Port's capability in handling containership business. This project was part of the Alliance's financial

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evaluation and Alliance leadership is aware that the Port is planning to proceed with the dredging.

Project Objectives:

- Maintain designed depth of -50 feet MLLW (Mean Lower Low Water) at T-18;
- Acquire all necessary and required permits from appropriate agencies prior to start of construction including request for additional one foot advance maintenance dredging;
- Comply with all conditions stipulated by permit authorizations; and
- Minimize cost to the Port.

Scope of Work

This project includes dredging approximately 7,000 cubic yards of material for berths 1-5 (station 0+00 to 49+50) at T-18 to their designed depths. The designed depth is -50' MLLW, with allowance for an additional 1' of advance maintenance to -51' MLLW. The dredged material will be disposed of at approved locations based on consultations with the regulatory agencies comprising the Dredged Materials Management Program (DMMP). If required by the permit agencies, post-dredged surfaces will be covered with clean sand. The Port is in the process of advertising for and awarding an on-call major construction contract for dredging. We expect that when we have final design and permits for the T-18 Maintenance Dredging project later in the year, the on-call contract will be ready in time for this project. In the event that the on-call contract is not ready, we will advertise this as a separate major construction contract.

Schedule

Design and permitting efforts are already underway. We expect to receive permits and finalize design by this fall. Construction is planned to take place from December 2015 to February 2016.

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Previous Authorizations	\$0	\$1,145,000	\$1,145,000
Current request for authorization	\$0	\$2,071,000	\$2,071,000
Total Authorizations, including this request	\$0	\$3,216,000	\$3,216,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$0	\$3,216,000	\$3,216,000

Project Cost Breakdown

	This Request	Total Project
Construction	\$1,844,000	\$2,094,000
Construction Management	\$50,000	\$100,000
Design/Sediment Testing and Analysis	\$0	\$500,000

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Project Management	\$0	\$100,000
Permitting	\$0	\$245,000
State & Local Taxes (estimated)	\$177,000	\$177,000
Total	\$2,071,000	\$3,216,000

Budget Status and Source of Funds

Actual spending/expense in 2015 related to the Terminal 18 Maintenance Dredging project is expected to be approximately \$2,019,000 with an additional \$1,065,000 to be included in the 2016 Operating Budget. The balance of the project costs were incurred in 2013-2014.

The 2015 Operating Budget included \$1,200,000 for 2015 spending/expense related to this project. Accordingly, an unfavorable expense variance of (\$819,000) will be created. The variance is attributable to an increase in dredging volume and related contaminated sediment disposal costs, resulting in an increase in Operating Environmental Remediation costs from \$190,000 to \$1,000,000.

This project will be funded by the Seaport General Fund (as part of the Alliance budget).

Financial Analysis and Summary

CIP Category	Expense Project
Project Type	Renewal and Replacement
Risk adjusted discount rate	N/A
Key risk factors	Key risk factors include potential cost overruns due to project time constraints or expansion of project scope due to higher than anticipated volumes of sediment and/or levels of sediment contamination.
Project cost for analysis	\$3,216,000
Business Unit (BU)	Containers

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Effect on business performance	The estimated total project costs will have the following effect on NOI in future years. Depreciation expense will not be impacted by this project, as this dredging project is an operating expense.					
	NOI (in \$000's)	2013	2014	2015	2016	TOTAL
	Incremental Revenue	\$0	\$0	\$0	\$0	\$0
	Incremental Op Exp.	(82)	(50)	(1,019)	(1,065)	(2,216)
	Incremental ERL Exp.	0	0	(1,000)	0	(1,000)
	NOI	(\$82)	(\$50)	(\$2,019)	(\$1,065)	(\$3,216)
	Depreciation	\$0	\$0	\$0	\$0	\$0
	NOI After Depreciation	(\$82)	(\$50)	(\$2,019)	(\$1,065)	(\$3,216)
IRR/NPV	N/A					

Lifecycle Cost and Savings

Maintenance dredging may occur every three to five years to maintain T-18 at the current design depths.

STRATEGIES AND OBJECTIVES

This project supports the asset preservation objective, which ensures that the Port has the terminal facilities needed to facilitate international trade through the Pacific Northwest.

TRIPLE BOTTOM LINE

Economic Development

Maintaining container terminal vessel berths at adequate depths to assure adequate underkeel clearance, preserves existing berth capability, and allows the container business to continue to be safely serviced while at berth, thus preserving the jobs and economic benefit this activity contributes to the region.

Environmental Responsibility

The proposed project is subject to rigorous environmental reviews. Design and project implementation will include practices to avoid and minimize potential negative environmental effects during dredging. Dredged materials will be disposed of at approved locations based on consultations with and decisions of the regulatory agencies comprising the Dredge Materials Management Program (DMMP).

Community Benefits

The permit process requires notification of neighboring communities, agencies of interest and appropriate environmental groups. Waters near Harbor Island are Treaty-protected "usual and accustomed" fishing areas. During the permitting process, staff will consult with the

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Muckleshoot and Suquamish Tribes with the objective of avoiding potential disruption of Treaty fishing access.

The project manager will collaborate with the Office of Social Responsibility to maximize the opportunities for small business participation.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do not proceed with maintenance dredging at T-18

Pros:

- Defers costs to the future.

Cons:

- Increases risk of vessel keels hitting bottom while at berth during low tide cycles, which compromises vessel operations and stability
- Increases risk of restricting vessel access into and out of T-18 during low tide cycles – delaying vessel operations at the terminal and/or reducing cargo loading capacity of vessels
- Increases vessel operating costs and consequently compromise customer service to carriers and shippers due to restricted berth depths
- Increases shipping costs for cargo owners using Alliance and Port facilities due to restricted berth depths
- Possible loss of existing and future customers to other port regions

Alternative 2) – Proceed with construction of maintenance dredging at T-18

Pros:

- Provides adequate depth underkeel for containerships berthing at T-18
- Provides reliable conditions to operate Post-Panamax containerships at T-18
- Minimizes impact to operations due to short period of time for construction phase of maintenance dredge work
- Improves efficiency by using on-call construction contract for smaller maintenance dredging projects.

Cons:

- Requires investment on the part of the Port.

This is the recommended alternative.

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ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

February 10, 2015 –Terminal 18 Berth Maintenance Dredging; Major Construction On-call Contract for Dredging and Piling Repairs and Removal