

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6a
Date of Meeting July 14, 2015

DATE: July 7, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Michael Burke, Director Seaport Lease and Asset Management
Anne Porter, Capital Project Manager

SUBJECT: Terminal 5 Berth Modernization Design Funding

Amount of This Request: \$5,000,000 **Source of Funds:** General Fund
Est. Total Project Cost: \$230,000,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to continue design and permitting, prepare final construction documents, purchase test piles, advertise for construction bids for test pile installation, and conduct a test pile program as part of the Terminal 5 Berth Modernization for an estimated cost of \$5,000,000. The funding is in addition to the previously Commission-authorized amount of \$5,000,000 for a new total authorization of \$10,000,000 and was anticipated and accounted for in the 2015 budget.

SYNOPSIS

Modernization of the Terminal 5 infrastructure is critical to prepare the Port to handle larger container vessels and maintain competitive viability in the container business. This memo requests Commission authorization for \$5,000,000 to continue design, permitting, fund a test pile program, and keep the project on schedule for a 2018 completion. The funding is in addition to the previously Commission-authorized amount of \$5,000,000 for a new total authorization of \$10,000,000 and was anticipated and accounted for in the 2015 budget. This amount is expected to be the final design phase funding authorization for the project. Request for authorization to advertise the berth modernization project major construction bids is expected in early 2016. The requested design action has been endorsed by Northwest Seaport Alliance leadership.

BACKGROUND

Vessels calling at the Port of Seattle have grown in size to 10,000 TEUs today with 19,000+ TEUs currently operating globally. To maintain the Port's competitive position and preserve jobs, dock and infrastructure upgrades are needed to modernize the terminal to handle current and future classes of container vessels and larger cranes.

Terminal 5 began operating as a container terminal in 1964. The Port invested in improvements to create a 182-acre container terminal, which was completed in 1997. It was leased and

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operated by Eagle Marine Services, a subsidiary of American President Lines for 17 years. A portion of the site is currently under short-term lease to Foss Maritime Company. The Port is actively pursuing a new tenant to lease and operate the facility as a container terminal.

PROJECT JUSTIFICATION AND DETAILS

Project Objectives

Project objectives include ensuring the dock is capable of handling two EEE class vessels by mid-2018. The proposed capital improvements will maintain the economic and job benefits from the cargo business at Terminal 5.

Scope of Work

The scope of work for this authorization of funds includes continued development of construction and permitting documents. It will also fund a test pile program that has a potential estimated net savings of \$5,000,000 to \$7,000,000 in construction costs. The test pile program will provide additional geotechnical information that may result in shorter and fewer structural piles, improving habitat and fisheries and reducing noise from construction. Additionally, information gathered from the program reduces design and construction uncertainties and associated cost and schedule risks. Key elements of the overall T5 Modernization project include crane rail strengthening, berth deepening, slope stabilization, and electrical supply/distribution. Other terminal improvements, currently not included in either the scope or estimated cost of this project, will be evaluated for consideration based on prospective tenant needs. Examples include upland storm water treatment, paving, intermodal yard improvements, and lighting.

Schedule

Design and construction phases will vary for each element of the scope due to compliance requirements, operational constraints, or availability of the terminal area. The team will evaluate the scope of work to determine a cost-effective approach to efficiently implement the work.

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Public Expense	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$4,960,000	\$40,000	\$5,000,000
Current request for authorization	\$4,950,000	\$50,000	\$5,000,000
Total Authorizations, including this request	\$9,910,000	\$90,000	\$10,000,000
Remaining budget to be authorized	\$218,990,000	\$1,010,000	\$220,000,000
Total Estimated Project Cost	\$228,900,000	\$1,100,000	\$230,000,000

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Project Cost Breakdown

	This Request	Total Project
Construction	\$2,300,000	\$182,000,000
Construction Management	\$270,000	\$9,000,000
Design	\$1,000,000	\$11,000,000
Project Management	\$500,000	\$5,000,000
Permitting	\$700,000	\$5,000,000
State & Local Taxes (estimated)	\$230,000	\$18,000,000
Total	\$5,000,000	\$230,000,000

Budget Status and Source of Funds

This project, Terminal 5 Berth Modernization, was included in the capital budget and 2015 Plan of Finance. The funds requested in this memo encompass the second half of the design funds which were anticipated and accounted for in the 2015 budget. \$5,000,000 funding for the continued design and permitting portion of this project is available under CIP's C800132 – T5 Berth Modernization, and C800002 – Contingency Renewal & Replacement.

The design and permitting portion of this project will be funded by the General Fund.

Financial Analysis and Summary

CIP Category	Renewal and Replacement
Project Type	Infrastructure Upgrade
Risk adjusted discount rate	NA
Key risk factors	<ul style="list-style-type: none">• Future market and revenue potential for Terminal 5 is unknown.• Source of funding for overall project cost is not yet determined.• Amounts spent for design and permitting will be expensed if the overall project is not executed.• Unforeseen site conditions and permit requirements
Project cost for analysis	Current Request - \$5,000,000 for Design & Permitting Prospective Project Cost \$230,000,000
Business Unit (BU)	Containers

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Effect on business performance	<u>Current Request:</u> The \$5,000,000 for the continued design and permitting will be capitalized as incurred and ultimately rolled into the overall project costs and be depreciated. If the overall project is not executed, then the amount spent will be written off as an operating expense. <u>Prospective Project Cost</u> Based on estimated overall cost of the prospective project, annual depreciation would increase by \$7,666,667 per year based on a rough approximation of average service life of 30* years. Net Operating Income after Depreciation would decrease by the corresponding amount. Note*: Actual depreciable life will depend on actual assets created and relative cost of each.
IRR/NPV	The NPV is the present value of the project cost.

Lifecycle Cost and Savings

Modernizing our existing assets readies them for current and future changes, extends their useful service life, and preserves the economic vitality of our operations. The current T5 facility is unable to generate revenue as a container terminal due to obsolete dock infrastructure.

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.

TRIPLE BOTTOM LINE

Modernizing Terminal 5 for larger vessels is 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. Environmental sustainability principles will be employed consistent with Port policy. In addition, procedures set forth in the Port's Small Contractors and Suppliers Program and other small business participation opportunities in support of the Century Agenda goals or requirements will be established, accordingly.

Economic Development

Terminal 5 Modernization will allow the Port to keep pace with the evolution of vessel size in the container shipping market. The improvements are critical to remain relevant as the shipping industry changes. The project represents an investment in effectively stewarding competitiveness of the region for market share.

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Environmental Responsibility

This project will provide the opportunity to apply environmental sustainability principles associated with the new improvements, including practices to avoid and minimize potential negative environmental effects. Among anticipated benefits is the removal of the existing creosote-treated timber piling.

Community Benefits

This project benefits the local community by preserving existing jobs and adding new living wage jobs in construction and terminal operations.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) Suspend all design work and test pile program and resume at a later date.

Pros:

- Tenant solicitation and discussions can progress independent of the design providing scope clarity and schedule of when the terminal actually needs to become operational.
- Allows time for initial formation of the Northwest Seaport Alliance and consideration by Managing Members before making further commitments to invest.

Cons:

- Delay of scheduled design work will delay the completion date and reduce flexibility to provide speed to market if desired by prospective tenants.
- Small change in schedule can have disproportionate effect on facility opening date due to annual restrictions on in-water construction for fisheries.
- Adds design costs to restart the project at a later date creating inefficiencies.

Alternative 2) Provide up to 90% level design and do not conduct test pile program.

Pros:

- Would require funding authorization of approximately \$2,000,000.

Cons:

- Eliminates benefits of test pile program, which are in the \$5 to \$7 million range.
- Eliminates the potential benefits to fisheries due to fewer piles.
- Delay of scheduled design work will delay the completion date and reduce our flexibility to provide speed to market if desired by prospective tenant.
- Small change in schedule can have disproportionate effect on facility opening date due to annual restrictions on in-water construction for fisheries.

Alternative 3) Proceed with action request to continue design and permitting, prepare final construction documents, purchase test piles, advertise for construction bids for test pile installation, and conduct a test pile program.

Pros:

- Realizes benefits of test pile program (fewer and shorter piles, reduced noise, improved habitat and fisheries) and potential net savings in the \$5 to \$7 million range.

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- Allows for completion in mid-2018 or 2019 if desired by prospective tenant and most effectively supports Port strategy of speed to market.

Cons:

- Moving forward with design without a committed tenant may result in project delays or significant scope changes requested by future tenant that will result in additional design work and expense.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- PowerPoint Presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- On May 13, 2014, briefed Commission on the T5 Facility Modernization project.
- On June 3, 2014, Commission authorized request for \$5,000,000 to begin T-5 Facility Modernization design and permitting.