

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	<u>4D</u>
Date of Meeting	<u>April 2, 2019</u>

DATE: March 1, 2019

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial & Strategy Officer, NWSA
Project Manager: Anne Porter, POS Capital Program Leader

SUBJECT: TERMINAL 5 MODERNIZATION PROGRAM

A. ACTION REQUESTED

As referenced in NWSA Resolution No. 2018-01, Exhibit A, Delegation of Authority Master Policy, Paragraph 8.c.iii., states project costs exceeding \$300,000 require approval from Managing Members.

DUAL VOTE: NWSA/POS/POT: Request funding for program authorization in the amount \$314,150,000 for a total authorized amount of \$340,000,000 to complete work associated with the Terminal 5 (T-5) Modernization Program, Capital Improvement Project (CIP) No. C800132 and C800726.

NWSA ONLY VOTE: Request program authorization to complete work associated with T-5 Modernization Program CIP No. C800132 and C800726. This request has four distinct authorizations as follows:

- 1) Terminal 5 Modernization Program Authorization
- 2) Berth Modernization Project Construction Authorization
- 3) Uplands Improvement Project Design & Permitting Authorization
- 4) HOMEPORT VOTE: POS/POT: Authorize funding the program spending beyond 2019

SYNOPSIS

The T-5 Modernization Program provides improvements necessary to serve newer, larger vessels that will help maintain the NWSA's competitive position, preserve and grow jobs and support a healthy economy of the region and state. The Modernization Program includes two main projects. The Berth Modernization Project includes crane rail strengthening, berth deepening, and electrical upgrades. The Uplands Improvement Project includes the stormwater treatment system, marine buildings, and other improvements obligated by final lease terms and permit conditions.

Per authorization by the Managing Members on February 26, 2019, the project team has advertised the Berth Modernization Project for construction bids. In addition, the team is ready to begin planning and design of the Uplands Improvement Project as soon as lease obligations are confirmed.

B. BACKGROUND

Terminal 5 became operational as a container terminal in 1964. Since that time, the Port of Seattle invested in significant environmental cleanup and facility improvements to consolidate properties and create a 185-acre international container terminal, which was completed in 1997. Until July 2014, the site was leased and operated by Eagle Marine Services, a subsidiary of American President Lines.

Vessels calling at the Northwest Seaport Alliance and the Port of Seattle have grown in size from 4,800 TEUs in 1997 to 14,000 TEUs today with 21,000+ TEUs currently operating globally, and 23,000 TEUs on order. To maintain the Alliance's competitive position, support our region's economy and export capability and preserve jobs, dock and infrastructure upgrades are needed to modernize the terminal for handling current classes of container vessels.

The Berth Modernization Project provides improvements necessary to serve newer, larger vessels. The improvements include crane rail strengthening, berth deepening, and electrical upgrades. The Uplands Improvement Project will include stormwater treatment system, marine buildings, and other improvements obligated by final lease terms and permit conditions. Constructing these improvements will meet lease conditions for phased terminal operations over the next 32 years.

C. PROGRAM DESCRIPTION AND DETAILS

Program Objectives

Program objectives include a terminal that is capable of handling two ultra large class vessels, by early-2023. The improved wharf will support up to 12 cranes and provide ship-to-shore power for vessels berthed at the facility. The proposed capital improvements will maintain the economic and job benefits from the cargo business at Terminal 5.

Scope of Work

The Berth Modernization Project includes reconstruction of the waterside and landside crane rails, slope stabilization, berth deepening, and electrical supply/distribution upgrades, new fender system, and structural rehabilitation of the dock.

The program authorization request covers construction of the Berth Modernization Project, tenant reimbursable stormwater treatment construction, and design and permitting of the remaining Uplands Improvement Project elements.

Schedule

The Berth Modernization Project construction documents were advertised in February and bid opening is scheduled for April, allowing work to begin as early as June 2019. Completion of the project would be phased to allow operations to begin in the north berth (Phase 1) while construction of the south berth is underway (Phase 2).

Advertise Bids	February 27, 2019
Bids Due	April 10, 2019
Begin Construction	June 18, 2019
Phase 1 Completion	December 31, 2020
Phase 2 and Final Completion	December 31, 2022

As Uplands Improvement Project elements are defined, the project planning, design and permitting would occur according to the following schedule.

Planning/Design/Permit	2019
Advertise for Bids	varies
Phase 1 Completion	December 31, 2020
Phase 2 and Final Completion	December 31, 2022

D. FINANCIAL IMPLICATIONS

Program Cost Details

Program Element Description	This Request	Total Project Cost	Cost to Date	Remaining Cost
Construction	\$251,000,000	\$251,000,000	\$0	\$251,000,000
Design and Project Management	\$4,800,000	\$25,000,000	\$14,100,000	\$10,900,000
Permit Conditions	\$8,350,000	\$14,000,000	\$70,000	\$13,930,000
Stormwater Reserve	\$30,000,000	\$30,000,000	\$0	\$30,000,000
Management Reserve	\$20,000,000	\$20,000,000	\$0	\$20,000,000
Total	\$314,150,000	\$340,000,000	\$14,170,000	\$325,830,000
Previously Authorized	\$25,850,000			
Revised Total Authorization	\$340,000,000			

Costs to date of \$14.2 million have covered design, permitting, environmental review, and a test pile program. Additional authorizations of \$11.6 million remain unspent but were required to execute agreements with Seattle City Light, Seattle Department of Transportation, and Tribes.

Management Reserve funds were developed through risk analysis and cost estimate modeling by an outside expert. The stochastic model results recommended a management

reserve be established to cover program risks and ensure the program estimate is not exceeded; this plays a key role within the overall financial analysis of the commercial agreement. The proposed management reserve would be used to cover potential costs beyond the direct construction activities including major scope changes and significant changes in site conditions or schedule pertaining to either project (Berth Modernization and Uplands Improvement.)

Source of Funds

The 2019-2023 Capital Investment Plan allocates \$319,000,000 (\$14.2 million of previously authorized spending occurred prior to 2019) for construction of this program, of which \$0 has been spent. Both homeports' staff identified funding mechanisms for the additional investment. Each Port has capacity to secure funding for its share of the T-5 Modernization Program costs.

Investments in upland improvements such as shore power and stormwater treatment are still being considered for potential grant funding opportunities.

Financial Impact

This project supports the larger North Harbor strategy for the future marine cargo activities. The overall financial impact of these lease negotiations and capital reinvestment meet mutually agreed upon rates of return for each of the homeports.

The approximate payback period for this program is 18 - 24 years depending on the execution of the phase II lease for Terminal 5.

Project costs associated with the design and construction will be capitalized and depreciated over an estimated 30-year life, resulting in annual depreciation of \$10,700,000. Project costs of approximately \$18,000,000 associated with public expense will be expensed as incurred. The Port of Seattle previously addressed any asset impairments associated with Terminal 5 assets prior to the formation of the NWSA.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

Alternative 1) Do Nothing. Reduce the investment in Terminal 5 to maintenance levels and lease the terminal as-is to an operator. Operations would be restricted to domestic containers, non-containerized cargo, or other industrial, water-dependent activity. This would not likely increase the utilization of the terminal nor would it increase volume of containerized cargo, making it more difficult to reach NWSA strategic goals of 70% terminal utilization and 6M TEU's.

Alternative 2) Defer. Delay project until tenant is ready to commit to full occupancy of Terminal 5. This would delay partial revenues from Phase 1 lease and increase construction costs due to escalation and expiration of permits.

Alternative 3) This request. Invest funds in full build out of two berths with intention of expanding lease area for primary tenant upon completion of second berth, while preserving option to lease out second berth to secondary tenant.

F. ENVIRONMENTAL IMPACTS / REVIEW

A Final Environmental Impact Statement (FEIS) for the T-5 Berth Modernization project was completed in October 2016. Environmental permits for the project are approved by the appropriate regulatory agencies. The final construction permit was issued by Seattle Department of Construction and Inspections in January 2019.

G. PREVIOUS ACTIONS OR BRIEFINGS

Date	Action	Amount
February 26, 2019	Authorization to advertise for construction	\$0
February 5, 2019	Pre-authorization program briefing	\$0
November 13, 2018	Motion to prepare construction documents for authorization to advertise	\$0
August 1, 2017	Railroad quiet zone funding, tribal payments, and Agreements	\$5,650,000
October 4, 2016	Additional Funding, Seattle City Light Agreement, and Project Labor Agreement	\$8,200,000
June 7, 2016	DEIS Briefing	\$0
November 4, 2015	Additional SEPA and Design Funding	\$2,000,000
October 13, 2015	Test Pile Bids Exceeded Engineer's Estimate	\$0
July 14, 2015	Additional Design Authorization	\$5,000,000
June 3, 2014	Initial Design Authorization	\$4,700,000
May 13, 2014	T5 Berth Modernization Briefing	\$0
March 12, 2014	Additional Pre-Design Authorization	\$150,000
November 27, 2013	Initial Pre-Design Authorization	\$150,000

H. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.