

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
STAFF BRIEFING

Item No. 4A
Date of Meeting February 5, 2019

DATE: January 28, 2019
TO: Managing Members, The Northwest Seaport Alliance (NWSA)
FROM: John Wolfe, CEO
Sponsor: Tong Zhu, Chief Commercial Officer, NWSA
Project Manager: Anne Porter, POS Capital Program Leader
SUBJECT: Terminal 5 Modernization Program Briefing

A. SYNOPSIS

The Terminal 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 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 any other improvements obligated by final lease terms and permit conditions.

The project team has completed construction documents for the Berth Modernization Project and is preparing to advertise 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 understood.

B. BACKGROUND

Terminal 5 began operating 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 182-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 stay relevant in the shipping industry and maintain the Alliance's competitive position 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 is likely to include stormwater treatment system, marine buildings, and any other improvements obligated by final lease terms and permit conditions. Constructing these improvements will meet lease conditions for phased terminal operations over the next 20 years.

Staff intends to bring work forward as a Program Authorization. The current master policy resolution allows for CEO authorization of certain project actions and describes the requirements for when to seek Managing Member authorization for projects. The master policy resolution does not speak to the authorization of programs, however the master policy resolution clearly reserves to the Managing Members any actions or authorizations that are not described by the master policy resolution or delegated to the CEO.

Programs are best described as a collection of projects with interrelated goals and outcomes or interdependencies. Programs are common on larger facilities and less common when projects are confined to an area or timeframe that will not have interdependencies with other projects.

Staff intends to seek authorization of the Terminal 5 work as a program versus a project to provide comprehensive transparency to the work and our actions, and to provide flexibility for future grant opportunities.

Components of the \$340 Million Terminal 5 Modernization Program will include:

- The Berth Modernization Project, which includes reconstruction of the crane rails, berth deepening, and electrical system upgrades to support ultra large container ship operations.
- The Uplands Improvement Project, which includes stormwater treatment system, marine buildings, and any other improvements obligated by final lease terms and permit conditions. The scope of this work will include design, permitting, and construction of a treatment system that will allow the Alliance and the tenant to meet the requirements for the Industrial Stormwater General Permit on Terminal 5. The tenant will design and construct the stormwater treatment system; and the Alliance will reimburse the tenant for actual costs of construction.

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 modernization program is divided into the following projects:

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 Uplands Improvement Project includes the stormwater treatment system, marine buildings, and any other work obligated by final lease terms and permit conditions.

The upcoming program authorization request will cover construction of the Berth Modernization Project and design and permitting of Uplands Improvement Project elements.

Schedule

The Berth Modernization Project construction documents are ready to advertise allowing work to begin as early as July 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
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
Berth Modernization Project				
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
Uplands Improvement Project				
Permit Conditions	\$8,350,000	\$14,000,000	\$70,000	\$13,930,000
Stormwater Treatment	\$30,000,000	\$30,000,000	\$0	\$30,000,000
Lease Obligations	\$0			
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			

Terminal 5 Program 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 used in order to cover the 85% likely not to exceed program estimate. 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 Improvement Plan Budget allocates \$304,000,000 (\$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 expense. Each Port has capacity to secure funding for its share of the costs.

It is anticipated that the Port of Seattle will likely contribute more than 50% of the remaining program funding as resolution to the one-time membership interest affirmation review (revaluation review due by March 31, 2019).

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 the mutually agreement upon rates of return for each of the homeports.

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 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 Terminal 5 Berth Modernization project was completed in October 2016. Environmental permits for the project are approved by the appropriate regulatory agencies. Construction permit was issued by Seattle Department of Construction and Inspections on January 28, 2019.

G. PREVIOUS ACTIONS OR BRIEFINGS

Date	Action	Amount
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