

9/19/13
8



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: SEPTEMBER 11, 2013

FROM: EXECUTIVE OFFICE

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF SECOND AMENDMENT TO PERMIT NO. 881 AND APPROVAL OF REVISED BUDGET FOR THE TRAPAC TERMINAL PROGRAM

SUMMARY:

Permit No. 881 (Permit) with TraPac, Inc. (TraPac) was approved by the Board of Harbor Commissioners (Board) on August 13, 2009 for a 30-year term. The Permit authorizes TraPac to undertake cargo handling operations at Berths 136-147 and requires the City of Los Angeles Harbor Department (Harbor Department) to redevelop the wharf and backland area of the terminal.

The Harbor Department requests approval of a Second Amendment to Permit No. 881. This proposed Second Amendment modifies the scope of terminal redevelopment as requested by TraPac to incorporate terminal automation into the design and construction and addresses minor corrections, clarifications, and technical changes to the overall scope of the redevelopment project.

In support of the Second Amendment, the Harbor Department also requests that the Board approve a revised baseline budget. On April 19, 2012, the Board approved the baseline budget of \$364,495,525 for the TraPac Terminal Program (Program). Staff is requesting the Board to approve the revised budget at \$510,412,338, an increase of 40.0%, or \$145,916,813. The spending on the TraPac Terminal Program through the end of Fiscal Year (FY) 12/13 stands at \$154,263,637.

Development of the TraPac Terminal Program has proceeded on an expedited basis in recognition of the strategic importance of these terminal improvements in meeting the competitive challenges facing the Port of Los Angeles. The Program is currently on schedule for delivery in the first quarter of 2018.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Consider the Addendum to the Certified Environmental Impact Report prepared for the Berths 136-147 [TraPac] Container Terminal Project;

DATE: SEPTEMBER 11, 2013

PAGE 2 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

2. Find that, in accordance with the provisions of the California Environmental Quality Act Guidelines Section 15164, the proposed Second Amendment to Permit No. 881 will not result in any new significant environmental effects or any substantially more severe effects than previously analyzed in the certified Environmental Impact Report;
3. Approve, in substantial form, the Second Amendment to Permit No. 881 with TraPac, Inc.;
4. Direct the Board Secretary to transmit the Second Amendment to the Permit to the City Council for approval pursuant to Sections 606 and 654(a)(1) of the City Charter;
5. Authorize the Executive Director to execute and the Board Secretary to attest to the Second Amendment upon approval by City Council;
6. Ratify all previous Executive Director and Board actions undertaken in connection with the improvements Permit No. 881 obligates the City to construct and deliver (including, but not limited to, appropriations and expenditures of funds, contract solicitation and award, and grant funding), so that such actions shall be deemed to have been made pursuant to Permit No. 881 as amended by this Second Amendment;
7. Approve the revised budget of \$510,412,338 for the ten projects comprising the TraPac Terminal Program; and
8. Adopt Resolution No. _____.

DISCUSSION:

General Background/Context - Permit No. 881 with TraPac, Inc. was approved by the Board of Harbor Commissioners on August 13, 2009 for a 30-year term. The Permit authorizes TraPac to undertake cargo handling operations at Berths 136-147 and requires the Harbor Department to redevelop the wharf and backland area of the terminal.

In April 2010, TraPac requested that the Harbor Department modify the scope of the Berths 136-147 redevelopment project, or the TraPac Terminal Program (Program), to allow for terminal automation using Automated Rail Mounted Gantry Cranes (also known as Automated Stacking Cranes (ASC)) rather than the originally planned Rubber Tire Gantry (RTG) Cranes.

DATE: SEPTEMBER 11, 2013

PAGE 3 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

The modified scope of work was incorporated in project designs, and construction proceeded on that basis. The Second Amendment was not processed or approved at that time to incorporate a revised scope of work into terms of the Permit. This oversight must now be corrected. The Executive Director and the Board have subsequently approved numerous budgets, grant funding agreements, and contracts as part of the TraPac Terminal Program. It is necessary to ratify the previous Executive Director and Board actions undertaken in connection with the improvements that this Permit obligates the Harbor Department to construct and deliver so that such actions shall be deemed to have been made pursuant to the Permit as modified by this Second Amendment. This includes, but is not limited to, appropriations and expenditures of funds, contract solicitation and award, and grant funding.

At the time the Permit was approved by the Board, redevelopment project costs were estimated at \$245.2 million based on concept-level designs (not including approximately \$5.2 million in environmental review costs). The cost estimate escalated as designs progressed for reasons discussed in this Board report. In February 2011, just prior to the acceptance of scope changes that included ASCs, the TraPac Terminal Program estimate stood at \$312,043,651. Inclusion of the ASCs into the Program scope raised the estimate to \$344,475,526, a difference of approximately \$32 million. By spring 2012, subsequent design development changes had increased the Program estimate to nearly \$365 million. The Board had requested establishment of formal baseline budgets for all major Harbor Department projects. Subsequently, a formal baseline budget for the ten projects comprising the TraPac Terminal Program was approved by the Board on April 19, 2012, at \$364,495,525. Staff is requesting the Board to approve a revised budget at \$510,412,338, an increase of 40%, or \$145,916,813 over the previous baseline. The spending on the TraPac Terminal Program through the end of FY 12/13 stands at \$154,263,637. Grant Funding for the TraPac Terminal Program is currently \$60,081,000. Transmittal 5 provides a summary of cost estimate increases throughout the history of the Program, to date.

The proposed Second Amendment to the Permit (Transmittal 1) modifies the scope of terminal redevelopment as requested by TraPac to incorporate terminal automation into the design and construction and addresses minor corrections, clarifications, and technical changes to the overall scope of the redevelopment project. The modifications were studied in an Addendum pursuant to the requirements of the California Environmental Quality Act (CEQA) which demonstrated no new environmental impacts or increase in severity of previously identified impacts as analyzed in Berth 136-147 [TraPac] Container Terminal Environmental impact Report (EIR) certified by the Board

DATE: SEPTEMBER 11, 2013

PAGE 4 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

on December 6, 2007. The Addendum is included here for consideration as Transmittal 2.

Development of the TraPac Terminal Program has proceeded on an expedited basis in recognition of the strategic importance of these terminal improvements in meeting the competitive challenges facing the Port of Los Angeles. TraPac will be the first automated terminal in operation on the West Coast. The Harbor Department development team has been working very closely with TraPac and its equipment provider to coordinate design and construction activities to minimize costs, expedite delivery, and optimize the operational efficiency of the new terminal. The Program is currently on schedule for delivery in the first quarter of 2018 with substantial completion of key terminal elements in 2017.

A. TRAPAC PERMIT

Background/Context - On August 13, 2009, the Board approved the TraPac Permit which was subsequently executed on September 29, 2009. The First Amendment to the Permit, approved by the Board on May 6, 2010 and executed on June 15, 2010, provided an empty container discount, a transshipment discount, and a one-time container terminal tenant discount.

Following execution of the Permit in August 2009, the Engineering Division conducted a series of terminal planning meetings with TraPac. As a result of those meetings, details of the redevelopment project scope were clarified. During that process, TraPac requested modifications to accommodate ASC operations in order to enhance operational efficiencies which allow for greater utilization of current and future Harbor Department land and investments.

Based on the existing compensation structure in the Permit, maximum capacity in throughput would result in additional revenue to the Harbor Department. The Harbor Department will be sharing in the risk to improve terminal operations and enhance efficiency in order to reach maximum capacity.

Below is a description of the two components of the Second Amendment.

1. ASC Improvements – ASC operations require improvements and equipment which are distinctly different and more costly from those required for RTG operations. However, TraPac estimates that the use of ASC cranes will increase efficiency in order to meet throughput volumes as forecasted and analyzed in the certified EIR

DATE: SEPTEMBER 11, 2013

PAGE 5 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

for the Berths 136-147 [TraPac] Container Terminal Project. TraPac believed these volumes would be difficult to attain using RTG operations.

Therefore, although ASC-related improvements increased Harbor Department terminal redevelopment costs by approximately \$32 million at the time that decision was made (Transmittal 5), such improvements were considered beneficial for the following reasons: 1) ASCs are electric, and thus, an environmentally preferred technology that would result in reductions in air emissions and health risk by eliminating originally planned diesel-fueled RTGs; and 2) ASC operations can improve terminal velocity, throughput, and efficiency up to the maximum capacity that was contemplated in the certified EIR. Additionally, the switch from RTG to ASC would be a shared investment, as TraPac has indicated that it plans to make an investment of over \$170 million toward cranes and other equipment to undertake ASC operations.

2. Corrections and Clarifications to Project Scope – During the terminal planning meetings with TraPac, in addition to the ASC changes, other minor project changes that result in no increase in overall project costs, have been identified. These types of changes are common as terminal planning progresses and as details are discussed with the tenant. However, since the Permit is being amended, it is recommended that the changes agreed to date be codified in the proposed Second Amendment.

B. TRAPAC PROGRAM BUDGET

1. Background/Context – The improvements contained in the TraPac lease included wharves, conventional container terminal backland improvements, an on-dock intermodal rail facility, buildings, and gates. Concept-level cost estimates for the Program at the time of the lease were \$245.2 million, not including the cost of the EIR (approximately \$5.2 million). No grant funding for the TraPac Terminal Program had been secured at the time of the lease approval.

The ten project elements that comprise the TraPac Terminal Program are detailed in Transmittal 5 as to their status and costs and are summarized as follows. Transmittal 6 references the map depicting these Program element locations:

- EIR/Environmental Impact Statement (EIS) and Small Misc. Improvements
- Berth 147 Backland Improvements (Phase 1A – now includes Automation)
- Berths 145-147 Wharf Improvements (including Alternate Marine Power or AMP)

DATE: SEPTEMBER 11, 2013

PAGE 6 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

- Rear Berths 136-139 Terminal Buildings and Main Gate
- Berths 145-147 Backland Improvements (Phase 1B – now includes Automation)
- Berths 144-145 Backland Improvements (Phase 1C – now includes Automation)
- Berths 142-143 Backland Improvements (Phases 2-4 – now includes Automation)
- Berths 142-147 TraPac ICTF (now includes Automation)
- Berth 142 Crane Maintenance Building
- Berths 134-135 Backland Expansion (5-acre expansion of conventional terminal)

Wharf design, which had been ongoing during the EIR process, was completed, and wharf construction began in January 2009, even before the final lease execution. In February 2011, during wharf construction, TraPac requested modifications to the Program scope to include terminal automation, specifically involving the Berths 142-147 backland portion of the terminal, and to semi-automate the TraPac Intermodal Container Transfer Facility (ICTF) intermodal rail yard. TraPac's stated need to automate was in large part driven by their desire to increase efficiency and meet the terminal throughput projections anticipated in the EIR which would maximize the revenue to the City of Los Angeles Harbor Department (Harbor Department). After review of the revised scope (Transmittal 3), which included the added terminal automation and also selective offsetting scope reductions, staff estimated the cost differential to be approximately \$32 million higher. In March 2011, based on this conceptual cost delta and the contingencies applied to the scope changes, staff agreed to include automation in the project scope and moved forward with project design.

In June 2011, staff directed CH2M Hill Engineers, Inc. (CH2M Hill) to develop the concept design for the automated backland at Berths 142-147 according to the approved plan (Transmittal 3, Alternate K Site Plan). CH2M Hill was hired as the designer for the automated backlands in part due to their experience as designers of the only constructed automated terminal in the United States, the APM Terminals Virginia. Staff toured the APM terminal to develop a better understanding of automated terminal facilities. Harbor Department staff and CH2M Hill prepared a concept-level cost estimate for the automated terminal.

By late 2011, Program cost estimates were escalating due primarily to the automated terminal elements. Staff moved forward with establishing a new baseline budget of \$365 million using these higher estimates (Transmittal 5,

DATE: SEPTEMBER 11, 2013

PAGE 7 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

Exhibit 2) and obtained Board approval of that budget on April 19, 2012 (Transmittal 4).

In retrospect, the development team significantly underestimated Program costs as part of the baseline budgeting process. The Program baseline budget, based on this estimate and approved by the Board, has therefore proven to be inadequate. In early 2013, as designs were progressing and bids were being received, it became apparent that cost saving measures and grant funding pursuits, while they continued to be relatively successful, were not keeping pace with the escalating estimates. In spring of 2013, staff elevated this issue within the Harbor Department and alerted the Audit Committee through regular "radar reports,"¹ and is now formalizing this request in this Board report.

2. TraPac Terminal Program Phasing - The automated backland portion of the TraPac Terminal Program was separated into four individual projects to facilitate TraPac's ongoing terminal operations, to coordinate terminal automation with TraPac's equipment manufacturers, and to lessen the impacts of the other projects within and adjacent to TraPac. See Transmittal 6 for an illustration of these phases. In November 2011, design began on the first phase of the backland improvements with automation, known as Phase 1A. Phase 1A allowed for the advanced delivery, commissioning, and testing of TraPac's automated shuttle carriers.

In January 2012, design began on Phase 1B to deliver the automated shuttle carrier buffer area. Engineering on Phase 1C began in February 2012, for the design of the first four automated stacking blocks. Lastly, in June 2012, design began for Phases 2-4, the final 19 automated stacking blocks. Design of the TraPac ICTF, the automated intermodal rail yard, began in August 2012.

3. Baseline Budget - On April 19, 2012, the Board approved the revised baseline budget for the TraPac Terminal Program. Cost estimate escalations, along with elevated contingencies, were included in the Program baseline estimates raising them to \$364,495,525. No grant funding was secured at the time the baseline budget was submitted and approved.

In the April 19, 2012 Board report, the following was noted:

¹ Radar Report - tracks how project baseline estimate, schedule, and adapted fiscal year budget compares to the latest projections for a project.

DATE: SEPTEMBER 11, 2013

PAGE 8 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

“Given the complexity of these projects, it is impossible to predict all the variables that may be encountered during the project life cycle. In order to mitigate this variability, a contingency of between 10 and 25 percent is included in the initial project cost estimate. The percentage applied is a function of the project risk and the clarity of the project scope. Even with these contingencies, it is unrealistic to expect baseline budgets will not change during the life of the project. If a project is projected to exceed the approved baseline budget, staff will bring the project back to the Audit Committee and the Board for re-approval [of the budget].” (Transmittal 4, Page 3 of 4).

Board approval of project baseline budgets is a new process at the Harbor Department that grew out of an effort to better control the growth of project scopes and budgets through the development process and provide greater transparency to the Board and to the public. Baseline budget establishment was also in response to the Industrial, Economic, and Administrative Survey dated June 2011 (as noted in Transmittal 4, Page 2 of 4). The current proposed Board action is in recognition of the staff commitment of disclosure and transparency in monitoring and reporting these baseline budgets.

4. Causes of Cost Estimate Increases (\$145.9 million) – as detailed in Transmittal 5) - The original baseline budget was prepared when a significant portion of the TraPac Terminal Program was at the conceptual design level. As designs progressed for the automated backland and TraPac ICTF from conceptual to preliminary to final, refinements and changes in project elements began to impact the design, and consequently the budget, as detailed in Transmittal 5. Throughout 2012 and early 2013, construction bids were received for various Program projects including terminal automation Phases 1A, 1B, and 1C, and bid prices confirmed the higher cost estimates. Most notably among the causes of cost estimate increases were the following:
 - The electrical system required much more extensive and expensive infrastructure than was originally estimated. Port of Los Angeles facilities typically operate at 4,160 volts. As design progressed it was suggested that a 12.47 kV power supply would be needed to run the automated cranes. This voltage is not typically supplied by the Los Angeles Department of Water and Power (DWP), so the Harbor Department was faced with having to provide additional infrastructure to step DWP's power down from their available 34.5 kV to the 12.47kV requested. Harbor Department engineers resisted this change and attempted to devise alternative designs; however, it eventually became apparent that the automated equipment would not function properly

DATE: SEPTEMBER 11, 2013

PAGE 9 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

at the lower voltage, so expensive design changes were required. (\$52.07M cost increase).

- Construction phasing and additional resources were required to a greater extent than anticipated to facilitate the multiple projects in the vicinity that would be under construction at the same time along with larger than expected volumes of container traffic that will need to be accommodated during terminal construction. (\$43.59M cost increase).
 - TraPac took on new business during construction that was not anticipated at baseline budget preparation (Oceania). This led to some displacement of existing business, but also required more complicated and expensive phasing in order to provide the flexibility and capacity to allow TraPac to handle this new cargo. TraPac plans on bringing back the displaced business upon completion of the project which will result in an immediate net increase in cargo.
 - Estimates increased due to added specialty design for automated infrastructure related to reefer racks and access.
 - Accelerated schedules due to grant funding deadlines drove added labor costs.
 - Additional utility relocations added to project estimates. The number and complexity of utilities that needed relocation was greater than anticipated at the time of the original estimates.
- Concrete pavement and foundations were required to be thicker and stronger due to poor soil conditions discovered during geotechnical studies. (\$20.80M cost increase).
- The storm drain system required an unanticipated and expensive design to comply with the City of Los Angeles Watershed Protection Program, the Standard Urban Stormwater Mitigation Plan (SUSMP), and the Harbor Department's environmental standards. Typically, storm water is required to percolate into the ground to avoid unnecessary runoff. However, due to the existing ground and groundwater contamination encountered during site investigations this could not be done. An intricate design was developed to meet these requirements and received regulatory approval, all at a much higher cost. (\$12.90M cost increase).

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

- Construction inflation is currently much higher than anticipated, as indicated in recent bids, increasing the estimate labor and material costs. (\$8.6M cost increase).
- The fire protection system was modified in compliance with the Los Angeles Fire Department (LAFD). Original designs copied those of other terminals but were found to be unacceptable to LAFD. Negotiations with LAFD yielded relief from some of these requirements; nevertheless, final designs resulted in added costs. (\$4.79M cost increase).
- Safety fencing and specialty gates were added to provide enhanced secured access and safety to the automated areas. (\$3.13M cost increase).

During this same period the development team identified scope reductions and design changes that reduced the estimated cost of some project elements. This value engineering activity saved approximately \$49.7 million. Details of these savings are provided in Transmittal 5.

5. Grant Funding - Staff aggressively sought additional grant funding to help offset escalating Program cost estimates. Staff was able to secure \$60,081,000 in grant funding in late 2012, in part due to the TraPac ICTF and the automated backland justification for cargo transportation improvements and emission reductions. The total grant funding amount currently secured for the TraPac Terminal Program is \$60,081,000. Following is a summary of the growth in grant funding through the development of the Program to date.

	Sept. 2009 (at Lease Execution)	April 2012 (at Baseline Budget establishment)	Aug. 2013 (Currently)
Grant Funding	\$ 0	\$0	\$60,081,000
Program Cost	<u>[\$245,200,000]</u>	<u>\$364,495,525</u>	<u>\$510,412,338</u>
POLA Share	<u>[\$245,200,000]</u>	<u>\$364,495,525</u>	<u>\$450,331,338</u>

6. Schedule and Contract Status - The TraPac Terminal Program has been largely schedule-driven since its approval in December 2007. Staff has devoted significant effort and resources to moving the Program forward and meeting schedule commitments with TraPac to take advantage of competitive opportunities with the shipping lines. Further, the TraPac terminal is the only container terminal in the Port of Los Angeles without direct access to its own on-

DATE: SEPTEMBER 11, 2013

PAGE 11 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

dock rail yard. Delivery of TraPac's ICTF is critical to their growth and that of the Port. The TraPac Terminal Program is presently on schedule with three projects completed, three projects under construction, and four projects in design. The design of the final phase of automation for the backland and the semi-automated Trapac ICTF is nearing completion.

All TraPac Terminal Program construction contracts were awarded by the Board and all of these projects whether complete or not are within their respective Board-approved contractual limits.

7. Contingencies - Undoubtedly, additional changes and unforeseen conditions will be encountered as this Program moves forward. The proposed project budgets include contingencies averaging 10%. Given the advanced state of design and the effort put forward among the designers, equipment providers, and TraPac personnel, staff believes this level of contingency is adequate. Staff will monitor the progress of these projects very closely and quickly elevate any and all indications of further cost escalations.
8. Lessons Learned and Next Steps - Staff has learned valuable lessons through the design of the TraPac Terminal Program. While the vast majority of conventional terminal, marine, and transportation infrastructure development at the Port of Los Angeles are delivered well within budget, this is obviously not the case with this Program. Initial estimates were far too low. Lessons learned fall into three categories: a) technical, b) procedural, and c) organizational. The Executive Director will appoint a Task Force to review these "lessons learned," establish action items, and report back to the Audit Committee and Board on changes made. Staff will also produce an After Action Report (AAR) to be circulated among senior management and forwarded to the Board.
 - a. Technical lessons learned include the following:
 - All future Harbor Department development projects involving terminal automation and electrification will consider and incorporate the design standards developed on the TraPac Terminal Program on electrical systems, paving, drainage, utilities, and security, as applicable.
 - b. Procedural lessons learned include the following:
 - Where possible, baseline budgets, particularly technology-implementing infrastructure projects, should not be set until designs reach a

DATE: SEPTEMBER 11, 2013

PAGE 12 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

“preliminary” level, i.e. 40% (as opposed to “conceptual” level as was done with the TraPac Terminal Program).

- In the event baseline budgets are needed at the conceptual level stage, a much higher contingency may be warranted. The task force will review this issue specifically.

c. Organizational lessons learned include the following:

- Structure commercial agreements to better allocate the cost of project scope changes to the benefiting party (this has already been done, e.g. the APL project).
- Cost estimate increases should be better vetted throughout the organization as early as possible in order to maximize opportunity for cost recovery. Establish a Senior-level Program Sponsor with more direct accountability for communication of project issues through all divisions within the Harbor Department, particularly during the formative stages of large programs and projects (this Program Sponsor model is currently being implemented with all major Harbor Department projects).

Staff continues to monitor other projects throughout the world. Our development team has benchmarked terminals in Germany and Virginia and will continue to do so at these and other locations. Staff will also closely watch other West Coast and local San Pedro Bay terminals for trends and lessons learned.

ENVIRONMENTAL ASSESSMENT:

The proposed action includes a Permit amendment between the Harbor Department and TraPac. The 30-year Permit and redevelopment of the wharf and backland improvements was assessed under the Berth 136-147 [TraPac] Container Terminal EIR (ADP: 030127-020/SCH No. 2003104005) certified by the Board on December 6, 2007. Since Board certification and Permit execution, TraPac has requested to allow for terminal automation using electric-powered ASCs rather than the originally planned diesel-powered RTGs. There have also been some minor corrections and technical changes related to the overall project scope from final design. All project changes were documented in the EIR Addendum completed on June 6, 2012 and posted on the Port of Los Angeles website and attached hereto as Transmittal 2 for your consideration. According to Section 15164(a) of the State CEQA Guidelines, the lead agency will prepare an addendum to a previously certified EIR if changes or additions are necessary, but none of the conditions described in Section 15162 calling for the preparation of a subsequent or supplemental EIR have occurred. An addendum does

DATE: SEPTEMBER 11, 2013

PAGE 13 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

not need to be circulated for public review but can be included in or attached to the EIR. The findings of the EIR Addendum concluded the proposed action will not result in any new significant environmental effects or any substantially more severe effects than previously analyzed in the certified EIR and therefore, does not trigger any of the conditions described in CEQA Guidelines Section 15162 calling for the preparation of a subsequent or supplemental EIR. The proposed action is also for the approval of a revised budget for the TraPac Terminal Program. As an activity for which the underlying project has been previously assessed under the requirements of CEQA, the Director of Environmental Management has determined that the proposed Permit amendment and approval of a revised budget are exempt from the requirements of CEQA in accordance with Article II Section 2(i) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

The \$510 million in TraPac Terminal Program construction spending will support 7,442 one-year full-time-equivalent jobs in the five-county region. This is an increase of 2,142 jobs over the 5,300 one-year full-time-equivalent indirect and induced construction-related jobs calculated at the start of construction of the TraPac Terminal Program.

FINANCIAL IMPACT:

The Permit with TraPac was executed in September 2009. At that time, it committed existing Harbor Department assets consisting of land and facilities valued at \$257 million, plus additional capital expenditures of \$245.2 million, to a 30-year lease with TraPac. In addition, the Harbor Department spent a total of \$5.5 million on TraPac-related EIR documentation in order to make the execution of this Permit possible. Prior to the delivery of major terminal improvements (i.e., wharf, on-dock rail, gate complex, and grade separation), annual revenues are estimated to be \$24-\$37 million, whereas subsequent to the delivery of major terminal improvements, annual revenues are expected to be \$41 million. With the proposed expansion, as embodied in the Permit, it was projected that the Harbor Department would achieve a 10.02% internal rate of return (ROR), based on the value of land and improvements. Note that this proposed project ROR was below the blended 10% return on land and 12% return on facility improvements set by Board policy.

The TraPac Terminal Program is expected to be completed in FY 17/18. Through FY 12/13, \$154,263,637 has been expended on this Program. Funds in the amount of \$99,344,073 have been included in the FY 13/14 Capital Budget for the TraPac Terminal Program costs. The revised TraPac Terminal Program costs have already

DATE: SEPTEMBER 11, 2013

PAGE 14 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

been incorporated into the Harbor Department's ten-year Capital Improvement Program as follows:

FY	Through 12/13	13/14 (estimated)	14/15 (estimated)	15/16 (estimated)	16/17 (estimated)	17/18 (estimated)
Amount	\$154,263,637	\$84,426,874	\$114,725,075	\$92,587,482	\$52,122,062	\$12,287,208
FY 12-18 TOTAL	\$510,412,338					

Each of these fiscal year capital expenditures will be budgeted as part of the annual budget adoption process before the Board.

The approximate value of the lease is \$2.3 billion over its term. The original rate of return (ROR) at Board approval of the baseline budget was approximately 10.02%. The revised ROR, based on the current cost estimate, is 8.75%. The 8.75% ROR is a deviation from the Harbor Department Leasing Policy, which sets an expectation of a blended rate of 10% on the land value and 12% on the value of the improvements. The 10% ROR originally approved by the Board, as well as the 8.75% ROR based on the current budget, would be deviations from the Harbor Department Leasing Policy. Given this is the first automated terminal being constructed in the Port of Los Angeles, which is a benefit to the Port and TraPac, staff believes that the 8.75% ROR is acceptable. In the event that staff is able to negotiate terms with TraPac to positively impact the ROR if volumes, CPI, or five year resets exceed the estimates in the financial analysis, the actual ROR will be higher.

DATE: SEPTEMBER 11, 2013

PAGE 15 OF 15

SUBJECT: APPROVAL OF SECOND AMENDMENT TO TRAPAC PERMIT AND REVISED BUDGET FOR TRAPAC TERMINAL PROGRAM

CITY ATTORNEY:

The Office of the City Attorney has approved as to form and legality the Second Amendment in the form as attached to this Board report.

TRANSMITTALS:

1. Second Amendment to Permit No. 881 TraPac, Inc., including Revised Exhibit B
2. June 6, 2012 EIR Addendum Berth 136-147 [TraPac] Container Terminal Project
3. March 2011 TraPac Terminal Program – Scope Changes, Alternate K Site Plan
4. April 19, 2012 Board Report (dated April 11, 2012) – Resolution No. 12-7291 – Approval of Baseline Project Budgets
5. TraPac Terminal Program – Cost Summary & Status Update, including Cost History
6. TraPac Terminal Program Phasing Map

FIS Approval: ecf (initials)
CA Approval: grd (initials)




KATHRYN MCDERMOTT
Deputy Executive Director



MICHAEL R. CHRISTENSEN
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

Author: M. Christensen/K. McDermott