

Redwood Marine Terminal Business Plan

Review of Public Comments



Submitted to:

The Humboldt Bay Harbor, Recreation,
and Conservation District



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SN Consulting Engineers
& Geologists, Inc.

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1. Introduction

TranSystems conducted a review of the public's oral and written comments on the draft Redwood Marine Terminal Business Plan. The comments were submitted to the District during the period ending on August 28th, 2008. Oral comments were made at five separate District meetings – 6th June, 9th July, 24th July, 14th August, and 28th August. The project team also reviewed comments received from the Board of Commissioners. Review and analysis of the comments are provided as follows:

- Section 2 – a summary of the public comments.
- Section 3 – specific issues and concerns, and how those are addressed in the revised business plan.

Scanned images of the public's written comments are available on the District's web site.

2. Summary of Public Comments

The summary of public comments is divided between oral and written comments (Section 2.1) and signed cards (Section 2.2).

2.1 Oral and Written Comments

A summary of the number of oral and written comments is provided in Table 2-1. The summary shows the total number of comments, the adjusted total number of comments and the allocation by category of opinion on the Business Plan. In order to provide a clearer summary of the public's response to the business plan, the total number of comments was adjusted to reflect:

- Commissioners – comments by the commissioners were excluded from the adjusted total so that TranSystems could provide a summary of public views on the Business Plan. TranSystems performed a separate review of the Commissioners comments.
- Duplication – some individuals and organizations spoke at public meetings and also submitted written comments, or submitted multiple copies of written comments. Duplicate submissions were removed to arrive at the adjusted total. This adjustment was made to ensure each individual and organization was counted only once in summarizing public interest.
- Multiple Signatures – a number of written comments were signed by more than one individual. Multiple signatures were included in the adjusted total. This adjustment was made so each individual and organization was counted once.

The adjusted total was allocated between individuals and organizations. Organizations include businesses, industry associations, public bodies, non-profits and similar. Individuals and organizations were further allocated amongst the following categories:

- Positive
- Negative
- Other – did not specify a positive or negative opinion; instead identified issues that should be addressed or areas for clarification.

Table 2-1: Summary of Public Comments on the Redwood Marine Terminal Business Plan

	Public Oral Comments	Public Written Comments	Total	
Total Comments	137	230	367	
Less:				
Duplication	70	40	110	
Plus:				
Multiple Signatures	-	18	18	
Adjusted Total Comments	67	208	275	
Individuals	65	174	239	
Organizations	2	34	36	
Individual Comments	Public Oral Comments	Public Written Comments	Total	Distribution
Negative	35	133	168	70%
Positive	22	26	48	20%
Other	8	15	23	10%
Total Individuals	65	174	239	100%
Organization Comments	Public Oral Comments	Public Written Comments	Total	Distribution
Negative	1	8	9	25%
Positive	1	22	23	64%
Other	0	4	4	11%
Total Organizations	2	34	36	100%

Source: TranSystems summary of public comments submitted to the District

Individuals

- 20% had a positive response to the business plan
- 70% had a negative response to the business plan. Topics included:
 - Objections to large scale port development and environmental impacts of port development. Additional information on environmental processes related to small and large scale port development has been provided in the revised business plan.
 - Objections to large scale development but interest in small scale development.
 - A need for additional information on proposed markets. Further information on target markets has been added to the business plan.
 - Concern about underlying financial assumptions. Additional information on financial assumptions and extra sensitivity tests has been added to the business plan.
 - Concern about a revenue bond issue. Extra explanation of revenue bonds has been added to the business plan.
 - Role of Goldman Sachs in port development (Goldman Sachs was mentioned 43 times in the negative written comments). The District’s negotiations with Goldman Sachs are a separate issue for the District and do not fall within TranSystem’s scope of work. General information on the role of a financial advisor has been added to the business plan.
- 10% fell into the other category

Organizations

- 64% had a positive response to the business plan.
- 25% had a negative response to the business plan.
- 11% fell into the other category.

2.2 Cards

The District received signed cards stating support for or opposition to port development. The cards did not provide comments on specific items contained in the business plan. The cards are summarized in Table 2-2 as part of the public comments review process.

Table 2-2: Summary of Cards Submitted to the District

Card Type	Statement on Card	Number
"Green" Card	I support the revitalization of Humboldt Bay and development of the Marine Terminal! We need more living wage jobs with benefits. I support the use of private dollars to modernize the port and restore the rail system. I support environmentally responsible development. Let's make ours the first "green" port and railroad in America.	482
"White" Card	I am writing to state that I am against development of Humboldt Bay as an industrial container shipping port and please accept this notice as my public comment against moving forward with the Redwood Marine Terminal Project. Developing Humboldt Bay as an industrial port will have negative impacts to the ecology of the Bay and health of the community.	510

Source: TranSystems summary of public comments submitted to the District

3. Comment Topics

TranSystems reviewed comments submitted by the Board of Commissioners, individuals and organizations. In the review, TranSystems identified topics requiring further clarification and areas of concern related to the business plan.

3.1 Environment

3.1.1 Environmental Impacts and CEQA

The public raised concern about the environmental impacts of terminal development, notably the impacts from development of a large terminal as described in the long term concept. Similar concerns were raised in the public comments phase of the Feasibility Study. As stated in Section 3.1 of “Redwood Marine Terminal Feasibility Study - Review of Public Comments”, any terminal project, small or large, will be subject to CEQA and will require the completion of a number of special studies (for example, geotechnical investigation and geologic hazards evaluation, ecological/biological resources assessment, cultural resources study, hydrology and water quality study, noise assessment, etc.) to complete the environmental impact analysis.

An outline of the CEQA process has been provided in Section 3.8 of the Business Plan.

3.1.2 Impacts on Manila Community

Submissions from the community of Manila raised concern about the environmental, health and safety impacts on the community of future truck and rail traffic. Such impacts would have to be analyzed and addressed during environmental reviews of proposed terminal development.

3.1.3 Health Impact Assessment

The Humboldt-Del Norte County Medical Society suggested that the environmental review of any terminal development should incorporate a Health Impact Assessment (HIA). The HIA involves identification of indicators potentially affected by a project, formal quantitative analysis of the potential health impact of the project based on scientific literature and qualitative analysis based on community input, and suggestion of mitigations to offset any potential negative health impacts. This suggestion has been included as Section 3.8.10 of the business plan.

3.2 Cruise Shipping

3.2.1 Cruise Market

Additional information on cruise shipping opportunities has been added to Sections 3.4.1 and 3.8.2 of the business plan.

3.2.2 Number of Cruise Ships and Port Calls

Clarification has been provided on the difference between the number of cruise ships and the number of port calls. Additional information is provided in Section 3.4.1 of the business plan.

3.2.3 Cruise Ships and Eureka Dock B

In the project team’s view, the Redwood Marine Terminal provides a more flexible location for cruise ship berthing for several reasons:

- The District can concentrate investment resources at a single location (the Redwood Marine Terminal) where cruise ships can be handled alongside cargo ships and other uses; rather than dividing resources amongst different sites.
- The District can concentrate operational resources (for example, security staff) at a single location (the Redwood Marine Terminal) rather than allocating resources to multiple sites.

- The Redwood Marine Terminal provides greater flexibility to accommodate small, medium and large cruise ships at a single location, and to accommodate any increases in cruise ship size in the future.
- The Redwood Marine Terminal is located on the 38-foot draft Samoa channel with direct access to the Samoa turning basin, allowing for more efficient handling and movement of large cruise ships.
- The District has an approved security plan in place for cruise ships that call at the Redwood Marine Terminal, but does not have one for Eureka Dock B.
- Frequent cruise ship calls at Eureka Dock B would impose greater disruptions on neighboring water and landside activities, due to the security and safety zone that must be imposed around cruise ships when they are underway, at anchor or moored. A port's security and safety zone for cruise ships is developed in cooperation with the U.S. Coast Guard under the following guidelines:
 - The large passenger vessel security and safety zone is a regulated area of water surrounding large passenger vessels at all times. It is normally a 500-yard radius to provide for the security and safety of these vessels. When within a large passenger vessel security and safety zone, all other vessels must operate at the minimum speed necessary to maintain a safe course and must proceed as directed by the on-scene official patrol or large passenger vessel master.
 - Within the passenger vessel security and safety zone, there are normally further restrictions:
 - No vessel or person is allowed within 100 yards of a large passenger vessel that is underway or at anchor, unless authorized by the on-scene official patrol or large passenger vessel master. The U.S. Coast Guard established the 100-yard security zone for cruise ships calling at Humboldt Bay under a ruling published in the Federal Register of April 11, 2005.¹
 - No vessel or person is allowed within 25 yards of a large passenger vessel that is moored.

3.2.4 Cruise Ships and Long Term Expansion

A discussion of how to integrate cruise shipping with long term expansion is provided in Section 5.2.3 of the business plan.

3.3 Rail

3.3.1 Number of Trains

A discussion of the number of trains generated by long term expansion is provided in Section 6.4 of the business plan.

3.3.2 Rail Capacity

A restored rail corridor would have to provide sufficient capacity for the projected number of unit trains. A capacity constrained rail corridor would reduce the attractiveness of the long term expansion concepts.

3.3.3 Relationship with North Coast Railroad Authority

A discussion of the relationship with the North Coast Railroad Authority is provided in Section 5.2.4 of the business plan.

¹ Federal Register / Vol. 70, No. 68 / Monday, April 11, 2005 / Rules and Regulations

3.4 Channel Dredging, Navigation and Ship Sizes

A number of comments focused on dredging, navigation and ship sizes:

- Several of the public comments objected to dredging the channel to a 50-foot draft.
- Additional information was requested on the estimated ship size limits of the turning basin and how that will impact the market potential of the terminal project.
- Concern was raised about the shoaling problem at the entrance to Humboldt Bay, the requirement for multi-month draft restrictions, and its impact on terminal development.

The subject of channel dredging and ship sizes was addressed during the public comments phase of the feasibility study and in preparation of the final feasibility study report. Specifically, there is no recommendation contained in the feasibility study or business plan for dredging the channel to 50 feet. The current channel draft is sufficient to accommodate the ship types/market sectors targeted in the business plan – barge, short sea ship, multipurpose cargo ship, ro-ro vessel, cruise ship, and small to medium sized container ships. Additional data on ship sizes and the channel draft were provided in:

- Section 3.2, Redwood Marine Terminal Feasibility Study - Review of Public Comments.
- Section 3, Redwood Marine Terminal Feasibility Study - Task 1 – Assessment Phase, Final Draft Report.

In order to be a regular port of call, the District must maintain a reliable and navigable channel. In particular, this is important for ships engaged in regular and/or scheduled service (for example, a weekly short sea shipping service). Multi-month draft restrictions due to shoaling would place a constraint on the size of ship that could enter the Bay. At a more general level, a reliable channel and the absence of shoaling also provides a safer environment for all types of maritime activity – recreational boating, commercial fishing, cargo shipping, etc.

3.5 Multipurpose Berth – Funding Sources

The discussion of funding sources has been expanded to provide additional information on:

- Revenue bonds
- Other debt sources
- Grant assistance

The information is provided in Sections 3.6 and 3.7 of the revised business plan.

3.6 Multipurpose Berth – Cash Flow Analysis

3.6.1 Assumptions

The cash flow analysis is contained in Section 4 of the business plan. The following main changes were made:

- Revision of assumptions on cruise shipping.
- Addition of two new scenarios that incorporate short sea shipping.
- Modification of the interest rate on the revenue bond from 4 percent to 5 percent.
- Inclusion of a 1.5 percent fee into the revenue bond. This covers the expenses for the bond issue.
- The salary and overhead for administrative staff were reviewed and adjusted upwards.
- Updated pilot assumptions.
- Inflation factor adjusted upwards from 3 percent to 4 percent.

In order to reduce confusion when reviewing the cash flow tables, the years have been renumbered as follows:

- “Years -5 to -1” are the 5-year project development period.
- “Year 1” – first year of terminal operation.
- “Year 2” – second year of terminal operations, and so forth.

3.6.2 Sensitivity Tests

Additional sensitivity tests are provided in Section 4.5. They are:

- Grant assistance
- Lower or higher interest rates
- Lower or higher shipping activity
- Lower tariffs

3.6.3 Tariff

The tariff assumptions are based on a review of charges at other West Coast ports; the West Coast examples are provided in Section 3.10 of the revised business plan. In practice, tariffs are determined by a ports cost structure (capital and operating), provision of any discounts to users, as well as any competition. A sensitivity test has been added to the cash flow analysis (Section 4 of the business plan) to illustrate the impact of a 10 percent reduction in major tariffs.

Wharfage is a charge paid by the cargo owner (and not the shipping line) to the district for use of the terminal berth.

The private docks around Humboldt Bay negotiate confidential agreements with individual customers. TranSystems is not a party to these contracts and therefore cannot provide information on pricing and terms.

3.6.4 Harbor Improvement Surcharge

Sections 3.10.2 and 4.4 provide additional information on the harbor improvement surcharge.

3.7 Non-Cargo Uses

3.7.1 Aquaculture

A number of respondents observed that the lease rate used in the cash flow model was too high, given the current lease rates paid for tidelands and other real estate leased by the District. TranSystems has amended the lease rate based on a review of historical land appraisal values. The lease rates used in the business plan are not binding on the District or prospective tenants; they are included for cash flow modeling purposes. The actual lease rate paid by tenants, as well as other lease terms, will be the subject of negotiations between the District and companies seeking to lease property from the District. The District should also consider a new appraisal of its property for use in lease negotiations.

3.7.2 Timber Heritage Association

As a non-profit with limited resources, the Timber Heritage Association may not be in a position to pay commercial market rates for the Roundhouse and surrounding land. The project team has included examples of alternative approaches in Section 3.5.2 of the business plan.

3.7.3 Other Uses

Several submissions requested that other uses be incorporated in the business plan. As stated in the document “Redwood Marine Terminal Feasibility Study - Review of Public Comments”, TranSystems has been working under a terms of reference centered on cruise shipping and cargo market opportunities. Given this scope, TranSystems focused its research effort on cruise and cargo market analysis. In addition, the business plan was prepared under the Board of Commissioners decision to receive and file the Redwood Marine Terminal

Feasibility Study and to authorize TranSystems to proceed with the Redwood Marine Terminal Business Plan for Development Option B – Multipurpose Berth Integrated with Long Term Expansion.

However, as also stated in the report “Redwood Marine Terminal Feasibility Study - Review of Public Comments”, the District will have the flexibility to look at and incorporate other uses. As stated in Section 3.4 of “Redwood Marine Terminal Feasibility Study - Review of Public Comments”:

“In reviewing the public comments and the suggestions for other uses, TranSystems finds many of them consistent with the conceptual layouts presented in the feasibility study, which incorporate different activities (cargo storage, warehousing and land allocated for other uses). The conceptual layouts are flexible and intended to provide guidance to the District. Given that site development will be an iterative process, the District will be able to adjust land allocations based on market needs or other uses that may be found to be economically viable. A number of examples illustrate the flexibility of the conceptual layouts presented in the feasibility study and the ability of the District to incorporate other uses:

- Calls by research ships could be accommodated at the multipurpose dock.
- The conceptual layout shows land allocated for other uses with aquaculture identified in the feasibility study as an important potential use to be located on this land. Development of an aquaculture cluster could also incorporate aquaculture related business and a teaching marine lab.
- The historic attraction complex, which currently is identified as a location for the THA museum, could also incorporate a maritime museum as a further attraction for cruise shipping passengers.
- Tour cruises around the bay could be provided from the newly constructed multipurpose berth or facilitated elsewhere along the waterfront, and could be integrated with cruise shipping calls.
- Tall ship events are irregular by nature but tall ship berthing could be provided at the multipurpose berth, as well as at other locations in Humboldt Bay.”
- There is sufficient water frontage to consider developing a marina if desired by the District.

It is beyond the scope and resources of this study to evaluate the variety of other uses, including industries such as ship, boat and/or barge building, servicing and repair. As stated above, the conceptual terminal layouts allocate land for non-cargo uses where such activities could take place. Several such uses may benefit from access to a multipurpose berth – for example, a ship/boat/barge builder may require access to a berth to transport components or finished vessels in and out of Humboldt Bay.

3.8 Long Term Expansion and Private Investment

3.8.1 Change in Strategy

The recommendation to use private sector investment and a private terminal operator for long term expansion is not a substantial change in strategy from the Feasibility Plan. The Feasibility Study did not state the District would be the owner and operator of a large scale terminal. In the Feasibility Study and in previous presentations, the TranSystems team raised and encouraged the use of private sector investment/operation for long term expansion. The proposed funding structure is based on practices used throughout the port industry.

The statement “Option B incorporates initial construction of a multipurpose berth to allow the District to capitalize on short to medium term opportunities, and generate revenues to support long term development” merely

proposes that revenues from a successfully operating multipurpose berth would provide funds for the District to pursue activities in support of long term expansion. Such activities may include, but are not limited to:

- Future environmental studies
- Future engineering studies
- Future expansion of port navigational services – additional pilots, etc.
- Security needs
- Funding of a concession process
- Marketing
- Additional administrative staff

Depending on the future success of the multipurpose berth and given the lengthy time horizon for long term expansion, the District will have an opportunity to reevaluate funding structures. At such time, the District should take into consideration other demands on its resources; for example, the need to rehabilitate other District property, repay other debt or fund other investments.

3.8.2 Landlord Port Authority and Ownership of Land

The District retains ownership of the terminal site and tidelands. As stated in the District’s enabling legislation (California Harbors and Navigation Code, Appendix II, Chapter 6, Section 78, 7 (b)):

“The district or its successors shall not, at any time, grant, convey, give or alienate said lands, or any part thereof, to any individual, firm or corporation for any purposes whatsoever; provided, that said district, or its successors, may grant franchises thereon for limited periods, not exceeding 66 years, for wharves and other public uses and purposes, and may lease said lands, or any part thereof, for limited periods, not exceeding 66 years, for purposes consistent with the trusts upon which said lands are held by the State of California, and with the requirements of commerce and navigation, and collect and retain rents and other revenues from such leases, franchises and privileges. Such lease or leases, franchises and privileges may be for any and all purposes which shall not interfere with commerce, navigation, fisheries, and ecological protection.”

The above text and additional explanation of the business model has been added to Sections 3.2 and 5.2 of the business plan.

3.8.3 Lease/ Concession Agreement

The District controls site development and site activities through the lease or concession agreement. The agreement has many different components that govern what can and cannot take place on the site, as well as performance measures for the private operator. Additional information on agreements and components has been added to Section 5.4.2 of the business plan.

3.8.4 Financial Advisor

A review of the written public comments showed that 65 responses (individuals and organizations, both positive and negative) made reference to the role of Goldman Sachs in port development. TranSystems is not involved the District’s negotiations with Goldman Sachs. Our understanding is that Goldman Sachs would act as a financial advisor to the District and assist the District in identifying private sector investment for large scale port development. This is a normal function for a financial advisor in the port industry. In order to provide some direction to the District, TranSystems has added guidelines on the role of a financial advisor in Section 5.4.3 of the business plan.

3.8.5 Internal Rate of Return

The internal rate of return (IRR) is the discount rate at which the net present value of a project's cash flow is equal to zero. The IRR is one of the metrics used by private terminal operators to determine if an investment should be pursued or not. If the IRR is greater than a company's cost of capital (or internal hurdle rate) then the project is looked on favorably. For example, if a company's hurdle rate is 10 percent, it would seek projects that provide an IRR greater than 10 percent. From the perspective of a private terminal operator, the 14.4 percent IRR generated by the long term container terminal concept would be considered reasonable for a small to medium sized terminal project in the North American market.

3.8.6 Container Market Trends

Additional information on long term container market trends has been added to Section 5.3 of the Business Plan.

3.9 Project Timeline

Revised project schedules and details on each step are provided in:

- Section 3.8 – multipurpose berth
- Section 5.5 – long term expansion