



Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: November 27, 2012

To: Council Member Lisa Goodman, Chair, Community Development Committee

Subject: Terminating operations at the Upper Harbor Terminal to eliminate the City of Minneapolis' use of the Upper St. Anthony Falls Lock and Dam thereby reducing the number of lock openings for the passage of barges. Closure of the lock and dam is being considered by the United States Congress to address the northward spread of Asian Carp.

Recommendation: The CPED recommendation is to follow the current plan to close the terminal in December 2014 when the operating agreement expires. We believe that this is a realistic path toward the best possible redevelopment at the least cost to the City (this is Option 3 in this report discussed on page 9).

Previous Directives:

- On October 23, 2012, the Community Development Committee directed CPED staff to develop a new version of "Option 1: issue an official notice to terminate the Upper Harbor Terminal operating agreement with River Services Inc. within 180 days (April 2013)," and report back to CD in two cycles. The new version of Option 1 shall be refined with the following goals: 1. The UHT would be closed to barging at the start of a new contract; 2. The UHT would continue to operate as a storage facility/transfer site indefinitely; 3. All options should be developed to minimize one time and ongoing costs and maximize revenues of a non-barging facility; 4. This should include the City minimizing dredging and the cost thereof; 5. CPED staff should pursue DEED or other grants that could be used for soil remediation and/or structure demolition and removal (this is Option 1 in this report discussed on page 9-10).
- On August 20, 2012, the Regulatory Energy and Environment Committee submitted comments to the US Army Corps of Engineers in support of their proposal to reduce operating hours at all three locks located in Minneapolis due to reduced commercial and recreational usage. Also directed staff from the Department of Community Planning & Economic Development, Finance and City Coordinator to report to the Community Development Committee in two cycles on the process of closing the upper harbor terminal; the report to the Committee shall include a review of the Metropolitan Council's report of the economic impact related to the closure of the lock and dam.
- On December 9, 2011, the City Council recommended approval of the following statement of support for the Asian Carp Action Plan prepared by the State Ad Hoc Asian Carp Task Force plan: The City of Minneapolis supports the Asian Carp Action Plan as drafted on November 2, 2011, and that [sic] the City strongly supports all preventive measures downstream, and funding, that keep Asian Carp out of all Minnesota waterways. Minneapolis also supports federal legislation granting the authority to the US Army Corps to temporarily close the St. Anthony Falls Lock and

Dam and/or Lock and Dam #1 if certain Minnesota DNR established, and continually measured, criteria for the detection of Asian Carp are met (consistent with criteria within the federal legislation granting the closure authority). Minneapolis will only support a permanent closure or a permanent fish barrier at the St. Anthony Falls and/or Lock and Dam #1 after the conclusion of a federally authorized and funded feasibility study of the impacts of such a closure on the City of Minneapolis and the rest of the State of Minnesota (as partially outlined in section 2.1 of the report). This study must include an opportunity for local input and review. That [sic] any permanent closure of the St. Anthony Falls and/or Lock and Dam #1 must only be authorized when state and federal resources have been identified and funded to assist the City with any relocation, redevelopment and restoration costs made necessary by the ending or limiting of navigation above Lock and Dam #1.

Council Member Hofstede moved a staff direction to express to the Governor and other State and Federal officials the City's support of the Immediate Short-Term Priorities set forth by the Ad Hoc Asian Carp Task Force and support of all preventive measures downstream to keep Asian Carp out of all Minnesota waterways, and to reiterate the City's position that any lock closure should not become permanent unless and until: A full and complete authorized and funded study of the consequences of such a closure is conducted measuring the impacts on the commercial, recreational and development future of the upper river in Minneapolis; and Federal and State resources are secured to help the City and other upper river jurisdictions deal with the many issues caused by such a closure. This could include but not be limited to funds for redevelopment, relocation, land acquisition, pollution clean-up and river restoration.

- On April 15, 2011, addressing the northward advance of Asian Carp, the City Council urged the U.S. Congress to direct and allocate necessary funding to the appropriate federal agencies, and Minnesota Governor Dayton to direct the Department of Natural Resources to make absolutely every effort to protect the upper Mississippi River at and downstream of Minneapolis from the spread of Asian Carp species. And further, that the City's 2011 State Legislative Agenda and FY 2012 Federal Agenda be amended to include such direction. Specifically, the City Council requested that appropriate federal and state agencies take immediate action to: 1) Implement an ongoing monitoring and detection program to determine the extent of Asian Carp breeding populations within the Mississippi, St. Croix and Minnesota Rivers; 2) Prevent movements of Asian Carp populations into the upper Mississippi River by implementing strategies outlined in the Minnesota and National plans to control Asian Carp species and to develop additional effective behavioral or other methods to stop the spread of Asian Carp. The City Council requested that the State of Minnesota establish an Asian Carp Task Force for the Mississippi River and its watersheds and with the U.S. Fish and Wildlife Service formalize a plan for mitigating the impacts of potential Asian Carp infestation of the Mississippi River in Minnesota.
- On July 23, 2004, the City Council authorized an Operating Agreement with River Services Inc. to manage and operate the City's Upper Harbor River Terminal from 2005 through 2014. Article VI of the agreement requires annual approval of the Terminal's Operating Budget for the ensuing year. The City Council has approved the budget annually, with the most recent approval on January 27, 2012, for the 2012 budget.

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Approved by: Jeremy Hanson Willis, Director CPED
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Presenter in Committee: Carrie Flack

Financial Impact

An initial assessment of the costs of closing the Upper Harbor Terminal is the topic of this report. The first year closing and maintenance cost is estimated at as much as \$2.3 million, with annual holding costs estimated at between \$1 and \$2 million (depending on dredge handling costs) and demolition costs estimated at \$2.8 million. Two leases have termination penalties prior to December 2014 to compensate amortized capital investments by lessees, with an estimated cost to the City of up to \$409,000 depending on the time of termination. The current operating agreement for the property is net neutral to the City, covering all maintenance costs and compensating for any operating losses.

Community Impact

Neighborhood Notification: This report will be provided to the Above the Falls Citizen Advisory Committee and the Minneapolis Riverfront Partnership when the committee agenda is published. The Above the Falls land use policy is in the process of being re-evaluated. At an appropriate time after the new policy is approved (expected in early 2013), a request for proposal process will engage the community regarding future land use development consistent with adopted City policies.

City Goals: A City that Works; Jobs and Economic Vitality; Eco-Focused

Sustainability Targets: Healthy Lakes, Streams and Rivers: Prevent the spread and introduction of aquatic invasive species in water bodies.

Comprehensive Plan: The Above the Falls land use policy is in the process of being re-evaluated. Future land uses will be consistent with adopted City policies.

Zoning Code: The terminal use and future land uses will be consistent with the zoning code.

Living Wage/Business Subsidy: Not applicable

Background Information

NOTE: The Metropolitan Council completed a study in June 2012 that analyzes the economic impacts to businesses associated with barging. The study identifies specific direct and indirect impacts that will be incurred by the business supply chain from the closure of the Upper Harbor Terminal locally and regionally across the State of Minnesota.

<http://www.metrocouncil.org/metroarea/pubcat/AssessmentofEconomicImpactJuly2012.pdf>

The City has owned and operated the 48 acre Upper Harbor River Terminal (UHT), an inter-modal bulk commodity freight facility in North Minneapolis, since the early 1960's. In 2005, the City entered into a ten year operating agreement with River Services Inc. (RSI) for operation of the UHT. This agreement expires in December 2014 and operations are generally expected to terminate at that time. The agreement requires the operator to be responsible for all net losses incurred from the operation of the terminal including the operator fee. Thus, the City has not incurred any costs in operating the terminal since 2005. This contract may be terminated with 180 days notice to the operator and tenants (see Attachment 1 for tenants and commodities).

Due to the impending threat of the northward movement of Asian Carp, the Mayor and City Council have expressed strong support for any preventive measures that may be taken to avoid the invasion of this destructive species into Minnesota waterways. Several City Council Members have expressed a desire to lead the effort to reduce barge and other traffic through the locks by prospectively taking action to close the City-owned barge terminal prior to the closure of the Upper St. Anthony Falls Lock and Dam. This report outlines the steps that would need to be taken to close the Upper Harbor Terminal and the costs associated with closure, and invites Council direction to staff. This is consistent with recent actions taken by the Minneapolis Park and Recreation Board to eliminate excursion boat traffic through the lock and dam. This action is also consistent with national efforts to address the Asian Carp issue, including the introduction of a Congressional Bill to close the Upper St. Anthony Falls Lock and Dam.

Option 1 discussed on page 9 and 10 of this report would allow the City to demonstrate its efforts to address the Asian Carp issue by ceasing barging activity to the Upper Harbor Terminal. This option does not solve the Asian Carp issue, as the locks would still be opened for other barge traffic as well as for recreational uses, nor would this option speed up or guarantee the closure of the lock and dam. Closure of the lock and dam requires the approval of the United States Congress. The cost to the City for Option 1 would be approximately \$2.1 million to \$4.8 million by the end of 2015 to secure and manage the site absent the operator. Two other options and their respective cost estimates are outlined on pages 9-14.

Background Information for Lock and Dam

The US Army Corps of Engineers does not have the authority to close any locks in order to control invasive species. It may recommend reducing hours and/or closure of the locks due to reduced activity. They will continue to allow both commercial and recreational traffic through the lock and dam until a declaration to cease operations is made by the United States Congress.

In 2011, there were 1,487 commercial lockages through the Upper St. Anthony Falls Lock and Dam and 846 recreational lockages. The UHT ran 135 barges through 130 of those 1,487 commercial lockages (9%). Of the 1,487 commercial lockages in 2011, 961 were for the Paradise Cruise tour boats; these lockages were significantly limited in 2012. Recreational lockages are also expected to decline in 2012, as the National Park Service, Friends of the Mississippi River and Wilderness Inquiry have discontinued using the locks in their programming. In addition, the number of barges associated with the UHT has decreased to 61 barges through the locks in 2012.

The US Army Corps of Engineers (USACE) dredges the Mississippi River typically every other year to maintain the navigational channel for barging and recreational traffic. The City, as a sponsor of the lock construction in 1945, is federally mandated to maintain two adequate dredge storage locations: one within Lower St. Anthony Pool and a second in the Upper St. Anthony Pool. These sites have typically been approximately 3-5 acres in size for the storage of up to 70,000-80,000 cubic yards of material. The locations where dredge material is stored currently are under the 35W Bridge and at the UHT. The terminal operator currently manages the disbursement of material at both locations as part of their barging operation. Although the UHT will no longer be generating barge traffic after closure, the City of Minneapolis is expected to continue maintaining dredge storage locations until the lock and dam closes.

The cost and responsibility for managing dredge material is a requirement for the City of Minneapolis so long as the lock and dam is open and operating. The value of the dredge material is less than the cost of managing it due to the slick nature and limited uses for the material. Currently, approximately \$50,000-\$90,000 in revenue is generated from the sale of this material, not covering the approximately \$200,000 in on-site handling costs.

A great deal of uncertainty remains regarding the dredge material handling costs. An initial estimate by CPED Engineering staff to simply dispose of the material was \$14/yard³. However, Public Works staff have indicated that this estimate may be quite low. Due to recent changes in the Minnesota Pollution Control Agency's (MPCA) guidelines for the disposal and reuse of 'unregulated fill', Public Works estimates that the cost to dispose of the dredge material could be as much as \$38/ yard³ (more information at:

<http://www.pca.state.mn.us/index.php/view-document.html?gid=13503>).

Public Works has experienced costs in the range of \$35 to \$38/yard³ to contract for disposal of fill related materials from their construction sites. Therefore, they have suggested at this time that the range of costs would be \$14 to \$38/yard³ (\$1.1 million to \$3 million for the UHT location only). CPED may be able to identify, and would seek, business partners willing to remove the material at a lesser cost to the City but this cost is unknown at this time. Public Works maintains the 35W Bridge location and will analyze maintenance costs and issues for that location.

Upper Harbor Terminal Operation

There are no partial terminal barging operations that can remain without the ability to barge products to the UHT. Therefore, eliminating barging traffic to the UHT would permanently close the UHT operations as a freight terminal. With the exception of a few leases for the use of the property not associated with barging (GAF, OTI, Metro Wood, Xcel Energy), the current outdoor storage of materials on-site is associated with the barging operation. With the termination of the operating agreement, the contracts for those materials will be terminated and the materials will be removed from the site.

There are five sub-leases that are ancillary to the terminal's operations that could continue beyond cessation of barge traffic to the terminal (see Attachment 1 for tenant sub-leases). These leases are currently managed by the terminal operator. If the Council and Mayor decide to cease terminal operations prior to the December 2014 expiration of the operating agreement with River Services Inc., staff recommends honoring the existing leases until December 2014 with Xcel Energy, GAF Materials Corp., and Organic Technologies Inc. (OTI) and renegotiating a lease with Metro Wood not to extend beyond December 2014. None of these operations use barges. All leases and subleases currently have a termination clause with a 180 day notice. Maintaining these leases through 2014 would reduce, though not eliminate, the City's holding costs for the property and would reduce the City's contractual obligations to reimburse capital expenditures made by the lessees. Several of these leases could likely be extended beyond December 2014 until the property is ready for redevelopment.

Upper Harbor Terminal Redevelopment – Above the Falls Plan

The current Above the Falls Plan adopted in 2001 recommended residential land uses for the Upper Harbor Terminal. In 2004, a Redevelopment Study was prepared for this site consistent with that plan recommendation during a time when the market for residential construction was strong. The infrastructure improvements associated with that plan ranged

from \$18 million to \$20 million. No resources were identified for those investments in the 2004 study or in subsequent years, and the City Council has not directed staff to pursue that redevelopment.

The Above the Falls land use study is in the process of being re-evaluated with recommendations expected to City Council in early 2013. The outcome of this process will guide future redevelopment of the Upper Harbor Terminal property. Riverfront trails, open space and continuation of the riverfront parkway are envisioned as part of this redevelopment project, regardless of whether the upland uses are jobs-intensive businesses in the manner of Coloplast or residential as is currently envisioned in the Above the Falls Plan adopted in 2001.

Research conducted in 2011 and 2012 for the Above the Falls Plan re-evaluation has indicated that a market exists for a more jobs-intensive redevelopment of the site and CPED staff plans to begin site preparation activities (identified below) to allow redevelopment activity to potentially begin in 2015 should the policy direction be revised for this site.

Given the significant site planning and preparation work required for any new use, the site will not be ready for redevelopment construction until 2015 at the earliest. Significant site planning and infrastructure work could occur whether the terminal is operating through December 2014 or not. Issues to be addressed in preparation for redevelopment include:

- o Site Planning including phasing analysis – Completion of the Above the Falls Master Plan land use study (early 2013); site master planning public process (2013/2014).
- o Pre-development – Negotiations and closing on land transaction for parkland/parkway (2013/2014); construct parkway (2015); demolition; negotiations for handling dredge material and locations.
- o Public offering process – Request for proposal process; redevelopment contract term negotiations; project approvals, financing and closing on land transactions.
- o Site Clean-up and infrastructure – Environmental clean-up (expected to be minimal, Phase I investigations indicate a relatively clean site); plan, finance and construct public infrastructure improvements.

Should the land use policy guidance for the Upper Harbor Terminal location remain residential, the market research has indicated that this type of redevelopment is projected to still be decades out. If the land use policy for the property is for long-term residential use, CPED staff would seek appropriate interim users of the property.

Costs Associated with Closing and Securing the Upper Harbor Terminal

In order to terminate the barging operations of the UHT, staff is preliminarily identifying and analyzing the costs that will be associated with securing and managing the property absent the terminal operator. Costs include: a one time cost to secure the site, annual security maintenance costs, annual storm water fees, CPED property maintenance and administrative costs, and management of the dredge material. In addition, the current OTI sub-lease requires the use of the truck scale which would cost \$50,000 annually to fully staff (see costs on page 8). Demolishing all structures on the site could potentially reduce some security and property management costs but not eliminate them. A 2011 demolition estimate was \$2.8 million. Two leases have contractual termination penalties prior to December 2014 to compensate amortized capital investments by lessees, with an estimated

cost to the City of up to \$409,000 depending on the period of termination prior to December 2014.

To off-set these costs, staff is also analyzing the revenue generated from sub-leases currently utilizing the UHT property, estimated at \$275,000 annually. They are: GAF Materials Corp., OTI, Xcel Energy, Metro Wood, and Thomas and Sons (see revenues on page 8).

Generating additional revenues with new interim users in the short term would be a challenge on this site. As mentioned above, most of the current outdoor storage of materials on-site is associated with the barging operation (see attached site use map). With the termination of the operating agreement, the contracts for those materials would be terminated and the materials would be removed from the site.

While there may be some demand for additional non-barging open storage uses, much depends on the timeframe for redevelopment. The City is currently on a path to potentially begin redevelopment activities on this site in 2015. The resources and time invested in pursuing short term interim uses could represent significant opportunity costs for preparing to redevelop the site and could potentially delay development. New users would need to be sought through listings, RFP's or hiring a broker, contract terms would need to be negotiated and approved by City Council, site improvements would likely be necessary to accommodate the user's needs, and the term would likely need to be such that the user could amortize their investment achieving a return over time. The estimated timeframe to secure such a user is approximately 1-2 years and contracts sought by users to achieve a return on investment are typically a minimum of 5 years (this timeframe is 2019-2020).

If a decision is made to close the terminal with a 180 day notice prior to the December 2014 termination of the operating agreement, staff recommends negotiating a new short term operating agreement with RSI to allow for up to an additional 12 months of operation without barging beyond the 180 day termination date. This short term operating agreement would:

- Delay incurring full security and maintenance costs to the City;
- Allow for an orderly full closure of the terminal; and
- Reduce impacts to businesses that currently rely upon the terminal for goods.

As a short-term operating agreement providing the operator additional time to vacate the site would not involve any barge traffic, this should not be at odds with the objective of preventing the spread of Asian Carp.

The UHT operator, River Services Inc., continues to analyze their operations. At the time this report was submitted, RSI did not have a budget estimate for a short term operating agreement winding down their operations.

The estimated costs are identified on page 8. These costs are aggregated further into the three options discussed on pages 12-14.

COSTS

| Cost | Year 1 Cost | Annual Costs | Total Year 1 Cost |
|-----------------------------------|------------------|-------------------------------------|-------------------------------------|
| One time security capital cost | \$246,000 | | |
| Annual property management cost | | \$41,000 | |
| Annual utilities/storm water fees | | \$222,000 | |
| Annual security monitoring | | \$600 | |
| Truck scale operator | | \$50,000 | |
| Dredge material management* | | \$560,000- \$1,520,000 | |
| Contract management | | \$100,000 | |
| Contingency 10% | | \$153,360 | |
| Total Costs | \$246,000 | \$1,126,960- \$2,086,960 | |
| Total Year 1 Cost | | | \$1,372,960- \$2,332,960 |

* Note: These estimates have been revised since the last report to reflect input from Public Works. Dredge material must be handled, on average, every two years when the USACE dredges the channel. Currently, River Services manages the dredge material for the city at the UHT as well as at the site under the 35W bridge. If the city had to manage the dredge materials, costs could vary widely depending on the market for the material, which is limited because it is unsuitable for most engineering applications (i.e. it is not good roadbed material). CPED or PW may be able to identify, and would seek, business partners willing to remove the material at little or no cost to the City but the viability and financial impact of this option is unknown at this time.

If a business partner could not be secured to take the material within required timeframes, Public Works has indicated that the cost for disposal could range from approximately \$14.00/yard³ to \$38.00/yard³, depending upon the regulatory classification of the material (which is being investigated). This equates to a total every other year of \$1,540,000 to \$4,180,000 for approximately 110,000 yard³ (approximate average quantities for both UHT and the site under the 35W bridge). This amounts to \$770,000-\$2,090,000 annually.

REVENUES

| Sub-Lease Revenue | Monthly | Annually |
|---|--------------------|-----------------------------------|
| GAF | \$13,773.85 | \$165,286.20 |
| OTI | \$2,995.81 | \$35,949.72 |
| Metro Wood | \$4,227.00 | \$50,724.00 |
| Thomas and Sons | \$1,815.00 | \$21,780.00 |
| Xcel Energy (thermometer) | \$83.33 | \$999.96 |
| Total Revenue | \$22,894.99 | \$274,739.88 |
| NET ANNUAL COST TO CITY (revenues-costs) | | \$852,220- \$1,812,220 |

Options for Closing the Upper Harbor Terminal

1. Issue an official notice to terminate the UHT operating agreement with River Services Inc. within 180 days (June 2013). This would cease barging activity to the terminal. If this is the case, staff recommends negotiating a separate agreement with RSI to allow the terminal operator to distribute any remaining product within an additional 12 months (June 2014) to delay some costs incurred by the City for securing and managing the site. An appropriation of funds to secure and maintain the site will be necessary for 2014, and may be necessary for 2013. Additionally, staff recommends honoring leases until December 2014 with users that do not require barge traffic, Xcel Energy, GAF and OTI, and renegotiate a lease with Metro Wood (currently a sub-lease with RSI). This option costs \$2.1 million to \$4.8 million, through 2015.
2. Issue an official notice to terminate the UHT operating agreement with River Services Inc., cease barging, close the terminal operations and vacate the terminal property within 180 days (June 2013) per the operating agreement without allowing for up to an additional 12 months to complete the wind down of the operations. An appropriation in 2013 to secure and manage the site would be necessary. Staff would finalize the analysis of costs and return to City Council with recommendations for site preparation and holding and an appropriation expected between \$3.8 million and \$9.5 million through 2015, depending on the level of demolition pursued. This option is the most expensive and CPED staff does not recommend this course.
3. Current Plan - Allow the existing operating agreement to expire in December 2014. An appropriation would be required at that time to secure and hold the property, though some outside development sources for demolition and site preparation may be secured in that timeframe. This option would cost the City approximately \$1.3 million to \$2.3 million through 2015 and is the recommendation of CPED, as a realistic path toward the best possible redevelopment at the least cost to the City.

At the October 23, 2012 Community Development Committee Meeting, the Committee passed the following directive: Directing CPED staff to develop a new version of "Option 1: issue an official notice to terminate the Upper Harbor Terminal operating agreement with River Services Inc. within 180 days (April 2013)," including the following five considerations and report back to CD in two cycles.

- 1) The UHT would be closed to barging at the start of a new contract.

Staff subsequently clarified this language with Council Member Gordon, who introduced the motion. As the contract with River Services Inc. runs through December 2014, there would not be a 'new contract' triggered by the 180 day notice. Council Member Gordon clarified that his intent for this language was to indicate that the City would issue the 180 day notice to the operator (in order to cease barging), then negotiate a new contract to wind down the operations and any subsequent site management.

- 2) The UHT would continue to operate as a storage facility/transfer site indefinitely.

While there may be some market demand for additional non-barging open storage uses, much depends on the timeframe for redevelopment. The City is currently on a path to potentially begin redevelopment activities on this site in 2015. The resources and time invested in pursuing short term interim uses could represent significant opportunity costs for preparing to redevelop the site and could potentially delay development. New users

would need to be sought through listings, RFP's or hiring a broker, contract terms would need to be negotiated and approved by City Council, site improvements would likely be necessary to accommodate the user's needs, and the term would likely need to be such that the user could amortize their investment such that they achieve a return on their investment. The estimated timeframe to secure such a user is approximately 1-2 years and contracts sought by users to achieve a return on investment are typically a minimum of 5 years (this timeframe is 2019-2020).

If the Above the Falls policy is modified (expected in early 2013) to allow jobs-intensive business redevelopment on the site, staff does not recommend pursuing additional interim uses. If the policy directs residential redevelopment on the site, staff recommends pursuing interim uses to offset costs for a significantly longer expected holding period.

- 3) All options should be developed to minimize one time and ongoing costs and maximize revenues of a non-barging facility.

All efforts will be made by CPED to reduce costs to the City and maximize revenues.

- 4) This should include the City minimizing dredging and the cost thereof.

The cost and responsibility for managing dredge material is a requirement for the City of Minneapolis so long as the lock and dam is open and operating. The value of the dredge material is less than the cost of managing it due to the slick nature and limited uses for the material. Currently, approximately \$50,000-\$90,000 in revenue is generated from the sale of this material, not covering the approximately \$200,000 in on-site handling costs.

A great deal of uncertainty remains regarding the dredge material handling costs. An initial estimate by CPED Engineering staff to simply dispose of the material was \$14/yard³. However, Public Works staff have indicated that this estimate may be quite low. Due to recent changes in the Minnesota Pollution Control Agency's (MPCA) guidelines for the disposal and reuse of "unregulated fill", Public Works estimates that the cost to dispose of the dredge material could be as much as \$38/ yard³ (more information at

<http://www.pca.state.mn.us/index.php/view-document.html?gid=13503>).

Public Works has experienced costs in the range of \$35 to \$38/yard³ to contract for disposal of fill related materials from their construction sites. Therefore, they have suggested at this time that the range of costs would be \$14/yard³ to \$38/yard³ (\$1.1 million to \$3 million for the UHT location only). CPED may be able to identify, and would seek, business partners willing to remove the material at a lesser cost to the City but this cost is unknown at this time. Public Works maintains the 35W Bridge location and will analyze maintenance costs and issues for that location.

- 5) CPED staff should pursue DEED or other grants that could be used for soil remediation and/or structure demolition and removal.

When redevelopment plans for the site are more fully defined, CPED staff will pursue all manner of redevelopment grant sources. While Phase I environmental investigations indicate that the site is not particularly contaminated, some soil remediation will likely be necessary and clean-up grants sought. Redevelopment funds and grants are typically linked to a specific development project and budget and are awarded when a development project is imminent.

Redevelopment grants do not reduce the security and property management costs necessary for the property during the interim when planning and preparation of the site will occur. Funds appropriated to securing and maintaining the property are funds that cannot be applied to a redevelopment budget, infrastructure or site preparation costs which represent potentially significant opportunity costs in moving redevelopment of the site forward.

Estimated Costs for each Option to close UHT Operations

Costs presented below are calculated using a base cost for 2013 and increased by an annual inflationary factor of 2%. The following options assume that the UHT property is sold by year-end 2015 and ongoing costs related to the UHT cease, although the management of dredge material is assumed to be an ongoing cost issue for the City.

Summary of Total Costs

| Summary of Total Costs | Total Estimated Costs (2013 – 2015) | Cost Increment over Option 3 Current Plan |
|---|--|--|
| Option 1 – Close in 180 days with wind down | 2,149,296–4,810,925* | 836,353 – 2,499,198 |
| Option 2 – Close in 180 days | 3,788,844-6,726,828 | 2,475,901-4,415,101 |
| Option 3 Current Plan – Close December 2014 | 1,312,943-2,311,727 | |

*includes potential costs not defrayed by RSI in a new agreement for the wind down period after barging is ceased

Option 1 – Close in 180 days with wind down

| | Year 1 (2013) | Year 2 (2014) | Year 3 (2015) | Total |
|--------------------------------|---|-------------------------|-------------------------|--------------------------------------|
| One-time Security Capital Cost | * | 250,920 | 0 | 250,920 |
| Property Management & Security | * | 42,432 | 43,281 | 85,713 |
| Utilities/Stormwater Fees | * | 226,440 | 230,969 | 457,409 |
| Truck Scale Operator | * | 50,000 | 0 | 50,000 |
| Contract Management | * | 102,000 | 104,040 | 206,040 |
| Dredge Material Management** | * | 571,200- 1,550,400 | 582,624- 1,581,408 | 1,153,824- 3,131,808 |
| Contingency (10%) | * | 124,299 | 96,091 | 220,390 |
| Total Cost | * | 1,367,291- 2,346,491 | 1,057,005- 2,055,789 | 2,424,296- 4,402,280 |
| | | | | |
| Sub-Lease Revenues | 225,000 ⁺ | 275,000 | 0 | 275,000 |
| | | | | |
| Net Cost to City | * depends on renegotiated contract with RSI | 1,092,291- 2,071,491 | 1,057,005- 2,055,789 | 2,149,296- 4,810,925 ⁻ |

+ excluding Metro Wood lease with RSI year 1 assuming direct contract with similar terms negotiated for year 2

* Year 1 costs are uncertain, depending on the terms negotiated with River Services Inc.

~ This range includes a potential 6 months of 2013 that may not be covered in full by River Services Inc. depending on the terms negotiated with River Services Inc. during the wind down period.

** Note: These estimates have been revised since the last report to reflect input from Public Works. Dredge material must be handled, on average, every two years when the USACE dredges the channel. Currently, River Services manages the dredge material for the city at the UHT as well as at the site under the 35W bridge. If the city had to manage the dredge materials, costs could vary widely depending on the market for the material, which is limited because it is unsuitable for most engineering applications (i.e. it is not good roadbed material). CPED or PW may be able to identify, and would seek, business partners willing to remove the material at little or no cost to the City but the viability and financial impact of this option is unknown at this time.

If a business partner could not be secured to take the material within required timeframes, Public Works has indicated that the cost for disposal could range from approximately \$14.00/yard³ to \$38.00/yard³, depending upon the regulatory classification of the material (which is being investigated). This equates to a total every other year of \$1,540,000 to \$4,180,000 for approximately 110,000 yard³ (approximate average quantities for both UHT and the site under the 35W bridge). This amounts to \$770,000-\$2,090,000 annually.

Option 2 – Close in 180 days

| | Year 1 (2013) | Year 2 (2014) | Year 3 (2015) | Total |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| One-time Security Capital Cost | 246,000 | 0 | 0 | 246,000 |
| Property Management & Security | 41,600 | 42,432 | 43,281 | 127,313 |
| Utilities/Stormwater Fees | 222,000 | 226,440 | 230,969 | 679,409 |
| Truck Scale Operator | 0 | 0 | 0 | 0 |
| Contract Management | 100,000 | 102,000 | 104,040 | 306,040 |
| Dredge Material Management** | 560,000- 1,520,000 | 571,200- 1,550,400 | 582,624- 1,581,408 | 1,713,824- 4,651,808 |
| Early Termination of Leases | 409,000 | 0 | 0 | 409,000 |
| Contingency (10%) excluding early lease termination costs | 116,960 | 94,207 | 96,091 | 307,258 |
| Total Cost | 1,695,560- 2,655,560 | 1,036,279- 2,015,479 | 1,057,005- 2,055,789 | 3,788,844- 6,726,828 |
| | | | | |
| Sub-Lease Revenues | 0 | 0 | 0 | 0 |
| | | | | |
| Net Cost to City | 1,695,560- 2,655,560 | 1,036,279- 2,015,479 | 1,057,005- 2,055,789 | 3,788,844- 6,726,828 |

** Note: These estimates have been revised since the last report to reflect input from Public Works. Dredge material must be handled, on average, every two years when the USACE dredges the channel. Currently, River Services manages the dredge material for the city at the UHT as well as at the site under the 35W bridge. If the city had to manage the dredge materials, costs could vary widely depending on the market for the material, which is limited because it is unsuitable for most engineering applications (i.e. it is not good roadbed material). CPED or PW may be able to identify, and would seek, business partners willing to remove the material at little or no cost to the City but the viability and financial impact of this option is unknown at this time.

If a business partner could not be secured to take the material within required timeframes, Public Works has indicated that the cost for disposal could range from approximately \$14.00/yard³ to \$38.00/yard³, depending upon the regulatory classification of the material (which is being investigated). This equates to a total every other year of \$1,540,000 to \$4,180,000 for approximately 110,000 yard³ (approximate average quantities for both UHT and the site under the 35W bridge). This amounts to \$770,000-\$2,090,000 annually.

Option 3 Current Plan – Close December 2014

| | Year 1 (2013) | Year 2 (2014) | Year 3 (2015) | Total |
|--------------------------------|------------------|------------------|-------------------------|-------------------------|
| One-time Security Capital Cost | | | 255,938 | 255,938 |
| Property Management & Security | | | 43,281 | 43,281 |
| Utilities/Stormwater Fees | | | 230,969 | 230,969 |
| Truck Scale Operator | | | 0 | 0 |
| Contract Management | | | 104,040 | 104,040 |
| Dredge Material Management** | | | 582,624- 1,581,408 | 582,624- 1,581,408 |
| Contingency (10%) | | | 96,091 | 96,091 |
| Total Cost | 0 | 0 | 1,312,943- 2,311,727 | 1,312,943- 2,311,727 |
| | | | | |
| Sub-Lease Revenues | | | 0 | 0 |
| | | | | |
| Net Cost to City | 0 | 0 | 1,312,943- 2,311,727 | 1,312,943- 2,311,727 |

** Note: These estimates have been revised since the last report to reflect input from Public Works. Dredge material must be handled, on average, every two years when the USACE dredges the channel. Currently, River Services manages the dredge material for the city at the UHT as well as at the site under the 35W bridge. If the city had to manage the dredge materials, costs could vary widely depending on the market for the material, which is limited because it is unsuitable for most engineering applications (i.e. it is not good roadbed material). CPED or PW may be able to identify, and would seek, business partners willing to remove the material at little or no cost to the City but the viability and financial impact of this option is unknown at this time.

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Attachment 1

Tenants, Commodities, and Customers of Upper Harbor River Terminal (UHT)

Tenant Sub-Lease Agreements

1. GAF Materials Corp – GAF does not rely on barging and could continue their lease. Early termination of their contract (prior to December 31, 2014) would cost \$582.29/day. One year equals \$212,535.85 penalty. Revenue generated is \$13,773.85 monthly.
 - Lease is with City.
2. Organic Technologies Inc. (OTI) – OTI does not rely on barging and could continue their lease. This contract requires continued use of the truck scale currently managed by the terminal operator. A certified scale master must be retained at a cost of approximately \$50,000 annually. Early termination of their contract (prior to December 31, 2014) would cost the City any unamortized costs for the removal of two asphalt tanks (approximately \$120,000). Revenue generated is \$2,393.81 rent monthly plus \$602.00 monthly toward storm water fees.
 - Lease is with City.
3. Xcel Energy – Xcel Energy utilizes a pier at the terminal dock for the placement of a thermometer to monitor the temperature of the Mississippi River and could continue their lease. Revenue generated is \$1,000.00 annually.
 - Lease is with City.
4. Metro Wood – Metro Wood is a wood chipping operation that does not rely on barging and could continue their lease. Revenue generated is \$3,600.00 rent monthly plus \$627.00 monthly toward storm water fees.
 - Lease is with terminal operator.
5. Thomas & Sons – Thomas & Sons has a lease with the terminal operator to store road deconstruction materials (i.e. the Lowry Avenue Bridge) and does not rely on barging. They could continue their contract until the material on site is removed. Revenue generated is \$1,500.00 rent monthly plus \$315.00 monthly toward storm water fees.
 - Lease is with terminal operator.

Commodities and Customers

1 barge = 1,500 tons

1 barge = 60 semi trailer truck loads

1. Fertilizer – 3 main contracts (Nationwide, Canada). Fertilizer is the largest contract for the UHT. The domes allow for 30,000 tons of storage. This product is distributed by a nationwide contractor to the north, northwest and west in the US and also north to Canada. Approximately 45,000 tons/yr. associated with 30-35 barges/yr.
2. Coal – 2 main contracts (Metro Area, Northern Minnesota). Coal is a large contract for the terminal. At the UHT, the operator can appropriately store the material to avoid contamination of the product that occurs at other locations (such as with sodium or metal particulates). Approximately 30,000 tons/yr. associated with 20-25 barges/yr.
3. Pig Iron – 3 contracts (largest contract with a St. Cloud foundry). Approximately 25,000 tons/yr. associated with 15-20 barges/yr.
4. Lightweight Aggregate – 1 main contract distributed mostly in metro area. This product comes from Arkansas and is used in cinder blocks and for sewer bedding. Approximately 8,000 tons/yr. associated with 5-6 barges/yr.
5. Cold Rolled Steel for manufacturing – 3 main contracts (Metro Area). This product is imported from China and/or Japan and is distributed to Chicago and Detroit Lakes. Approximately 4,500 tons/yr. associated with 3-4 barges/yr.
6. Twine – 2 contracts distributed throughout Minnesota and adjacent states to agricultural industry for baling. This product is very expensive to truck due to the inefficiency of how many spools fit in a truck trailer versus on a barge. Approximately 3,000 tons/yr. associated with 1-2 barges/yr.
7. Bunker Sand – 1-2 barges/yr. distributed state wide for golf courses.
8. Dredge Material – dredge material is sold throughout metro area for sub base in construction projects. Per a 1985 agreement with the US Army Corps of Engineers, the City of Minneapolis is responsible for storing and disposing dredge material as long as the lock and dam are operating. Currently, the UHT operator manages this dredge material, but handling costs could exceed \$1 million annually absent the terminal operator.