

THE CITY OF PROVIDENCE
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RESOLUTION OF THE CITY COUNCIL

No. 560

Approved September 25, 1981

WHEREAS, The City of Providence proposes to enhance the Port of Providence as an economically successful port; and

WHEREAS, The City of Providence proposes to establish a container operation at the Port of Providence as one of its means to enhance its economic viability; and

WHEREAS, The City of Providence deems it necessary and in the public interest (1) to increase the City's employment base, (2) to increase the City's tax base, and (3) to diversify industrial activity through increased export and import activity at the Port of Providence; and

WHEREAS, The City proposes to lease and/or purchase three used gantry cranes to support the container program at the Port of Providence,

NOW, THEREFORE, BE IT RESOLVED, by the CITY COUNCIL OF THE CITY OF PROVIDENCE as follows:

1. That the Chief Executive of the City of Providence be authorized to enter into a lease/purchase agreement with Industrial National Bank for the use of three used gantry cranes for a term of fifteen (15) years.

2. That the lease/purchase agreement also includes the cost of relocating the cranes from Weehawken, New Jersey, to the Port of Providence.

3. That the lease agreement also include the refurbishing and replacement of tracks at Berth 6, Port of Providence, and all pertinent engineering and architectural costs to support the placement of the cranes at the Port of Providence.

4. Authorizing the Chief Executive Officer of the City of Providence to enter into an agreement with Port Providence Warehousing, Inc., to perform all necessary functions for the operation of the container program for a term of fifteen (15) years. For this service and if the use of the cranes for container operations does not generate sufficient revenue for the City of Providence to pay for the fee of the lease with Industrial National Bank, Port Providence Warehousing, Inc., will guarantee subject fee to Industrial National Bank for the fifteen (15) year term.

5. That Port Providence Warehousing, Inc., will insure that sufficient land is provided to accommodate the storage of subject containers for a fifteen (15) year term.

IN CITY COUNCIL

SEP 17 1981
READ AND PASSED

Ralph T. Liguori
Rose M. Mendonca

APPROVED

Vincent A. Liguori
Cipriani
SEP 25 1981

AGREEMENT

THIS AGREEMENT made this day of 1981,
between the City of Providence, a municipal corporation created by
the General Assembly of the State of Rhode Island (hereinafter
"Providence"), and Port Providence Warehousing, Inc., a Rhode Island
corporation existing under the laws of the State of Rhode Island, and
having its principal office at 150 Harborside Boulevard, Providence,
Rhode Island (hereinafter "PPW");

W I T N E S S E T H

WHEREAS, Providence wishes to expand its operation at the Port
of Providence regarding three gantry cranes capable of handling cargo
in containers, and

WHEREAS, PPW wishes to expand its operations at the Port of
Providence and to make use of the said three cranes in the handling
of cargo in containers; and

WHEREAS, Providence and PPW wish to set forth in this instrument
their agreement concerning the acquisition and use of said cranes,

NOW, THEREFORE, in consideration of the premises and the
mutual covenants herein contained, the parties hereto have agreed
and do hereby agree as follows:

SECTION 1: Purchase of Crane

Providence shall, on terms and conditions agreeable to PPW,
negotiate with Industrial National Bank of Rhode Island or a
subsidiary or division thereof, a lease/purchase agreement for
three cranes manufactured by the Morris Crane Company, used by
Sea Train Company, of Weehawken, New Jersey. Said cranes being
suitable for container operations and other port related activities
shall be purchased from General Electric, Inc., a New York
corporation. Said lease/purchase agreement shall provide for
amortization payments over a period of fifteen (15) years in terms
acceptable to Providence. Said lease/purchase agreement shall also
contain such related ancillary and supplemental equipment as may
be necessary in order that said cranes can perform in the manner

designed for their use. Said lease/purchase agreement may require that PPW be a guarantor thereof. In the event an agreement cannot be reached between Providence and Industrial National Bank of Rhode Island, this agreement between the City of Providence and PPW shall be null and void and both parties agree that neither party shall have any cause of action against each other, or their successors or assigns.

SECTION 2: Use of Crane

The primary purpose of said cranes is to be for the handling of cargo in containers. PPW shall at all times during the term of this agreement have for such periods of time or dates required, priority use of said cranes for handling of cargo in containers providing the City of Providence is notified twenty-four (24) hours in advance.

SECTION 3: Charges for Use of Crane

During the term of this agreement, it is further agreed that PPW shall be entitled to a fixed rental charge of Three Hundred (\$300.00) Dollars per hour ("fixed rental charge") for a certain number of hours per annum ("minimum annual hours") on a schedule as follows:

Year #1:	2,000 hours @ \$300.00
Year #2:	2,000 hours @ \$300.00
Year #3:	1,650 hours @ \$300.00
Year #4-15:	1,650 hours @ \$300.00

Irrespective of the number of hours actually used by PPW, PPW shall pay to the City of Providence on the first day of each month during the term hereof a sum equal to one-twelfth (1/12) of the amortization payment based on the amortization payment schedule listed in Section 4A. If PPW shall use less than the minimum annual hours during any calendar year, such unused hours may be carried forward from year to year thereafter during the term of this agreement.

Providence and PPW have mutually agreed as to the hourly charge (which shall not be less than Three Hundred /\$300.00/ Dollars

per hour) for the use of the crane by PPW for hours as to which PPW is not entitled at the fixed rental charge. Such charge shall be determined by assessing fifty per cent (50%) of that amount charged by Providence to other operators over the Three Hundred (\$300.00) Dollars minimum hourly charge. Said fifty per cent (50%) assessment shall be in addition to the Three Hundred (\$300.00) Dollars minimum hourly charge. All provisions under this Section shall be null and void at the end of the fifteenth year of this agreement.

SECTION 4: Amortization Fund

During the term of this agreement, all payments made by PPW for the use of said cranes and all receipts received by Providence from PPW for the use of said cranes shall be deposited in an interest bearing account with the Industrial National Bank of Rhode Island in the name of the City of Providence, which fund shall be utilized in the following manner:

A. There shall be withdrawn from such fund amounts sufficient to pay the amortization payments under the lease/purchase agreement between Providence and Industrial National Bank of Rhode Island relating to said cranes in the following schedule:

Year #1:

Year #2:

Year #3:

Year #4:

Year #5:

Year #6-15:

B. There shall be withdrawn from such fund amounts for the payment required under any maintenance and service contract with respect to said crane as provided for in Section 9 hereof.

C. All other amounts in such fund are available for and may be transferred to the General Fund of the City of Providence.

SECTION 5: Guarantee of Lease/Purchase Contract

If required by the Industrial National Bank of Rhode Island as a pre-requisite to the execution of the lease/purchase contract,

PPW agrees to furnish the guarantee of the amortization payments due on said lease/purchase contract. It is further understood and agreed that PPW shall unconditionally guarantee all obligations of Providence under the lease/purchase contract.

SECTION 6: Installation of Trackage

Providence shall install a proper track system to accommodate said cranes of Berths 4, 5, and 6, at the Port of Providence on or before _____, providing, however, Providence shall install proper tracks on Berth 6 at such time as may be necessary to allow the installation, erection and operation of said crane on or before _____.

SECTION 7: Container Storage Operation

PPW further agrees that sufficient land will be made available for storage and operation of the containers handled by PPW at the Port of Providence.

SECTION 8: Use of Additional Crane

If Providence should install additional cranes at the Port of Providence capable of handling containers of cargo, such cranes may, at the option of Providence, be used by PPW in lieu of or in addition to the cranes which are the subject of this agreement under the same terms and conditions contained herein.

SECTION 9: Maintenance and Service

The City of Providence agrees to enter into a maintenance and service contract, which contract(s) shall continue so long as this agreement shall be in effect; such contract(s) to be with organizations capable of providing adequate service of maintenance to maintain the cranes in full operating condition. If the fund provided for in Section 4 of this agreement shall for any reason be insufficient to cover the cost of such maintenance and service contract(s), the City of Providence will, from the receipts received by it for wharfage and dockage at the Port of Providence, provide funds sufficient to make payments due under such contract(s).

Any cessation of service due to a malfunction of said cranes shall not effect the obligation of PPW to make monthly payments

under Section 3 hereof; provided however, Providence agrees to use its best efforts to cause the crane to be repaired expeditiously and to use its best efforts in providing a suitable crane during any period in which the crane is inoperative.

SECTION 10: Term of Agreement

This agreement shall expire at the end of the fifteenth year after the delivery, installation and acceptance by Providence and PPW of the crane and the necessary ancillary and supplemental equipment; or on the date of final amortization payment to Industrial National Bank, except as subject to the terms and conditions of unused minimum annual hours in Section 3 hereof which shall expire at the end of the fifteenth year.

NOT FOR DISTRIBUTIONProposed Providence Container Port Development

September 1, 1981

The report submitted herewith on the proposed Providence container port development attempts to respond to the items listed below. Because of its preliminary nature, and more importantly the amount of the bank lease has not been completed, the figures presented herewith are not to be construed as final. It is anticipated that the City will enter into a lease/purchase agreement with Industrial National Bank for the purchase of three (3) gantry cranes and appurtenant costs such as relocation and engineering fees ranging from \$2.2 million to \$2.7 million.

The report does, however, attempt to respond to those important items such as term of the lease, guarantee of the payback, and also the amount of projected dollars the City could release over the term of the lease/purchase agreement.

- I. Viability of the project
- II. Financial Data
- III. Equipment selection and basis
- IV. Revenue Sources/Projections
- V. Economic impact and other considerations

I. Viability of the ProjectGeneral

- a) By the installation of two container cranes at the Port of Providence we consider a rate of 25,000 annual "In-Outbound" container moves (picks) to be attainable within 1-2 years.

It is also reasonable to project within a 5 year period, an annual rate of 50,000 container moves can be achieved through our Port.

- b) Our approach shall be presented in increments of annual container units moves (picks) at rates of:

- 1) 25,000/yr.
- 2) 20,000/yr.
- 3) 15,000/yr.
- 4) 10,000/most conservative example-given present conditions.

Considerations

- 1) McAllister Feeder Service, under an incentive arrangement would be inclined to increase volume to approximately 15,000 containers a year.
- 2) Hapag-Lloyd a direct call shipping line, is after one month service, handling at a rate of 3,000 per year and will reach a rate of 5,000 to 7,000 annually.

- 3) Over-The-Road (Trans Shipments/Port of N.Y.) Activity interest indicates an immediate potential of 40-100 box moves weekly.
- 4) Direct Shipping Line Calls The availability of equipment in place for container vessels has created active interest from large shipping lines, desirous of an alternative port in New England.

Summary

- 1) From the point of view of "Container Volume" handling a rate of 20,000 to 25,000 units from almost immediately.
- 2) Figures in this presentation do not include revenue generated from other ancillary sources including the following:

- Demurrage Charges
- Chassis Rentals
- Mounting and dismounting charges
- Refrigeration receptacle charges
- Various overtime charges
- Inspection charges
- Additional security charges
- Reports
- Facilities Income: for repair station
- Facilities Income: for refrigerated storage
- Stuffing & Stripping
- Port Side Office Space
- Gate Charges

- 3) Revenue generated at lowest volume level would be adequate to support this project.
- 4) Harborside Park would commit the volume required land support required at the highest level.

II. Finance and III - Equipment Selection Basis

General

- a) Our original intent was to acquire, deliver and install 2 Morris Cranes, for the price of one new, less desirable "Leibherr" Crane. Many other items of consideration are taken into account, i.e., delivery times, capacity, outreach etc.
- b) Due to the nature of the crane package at Weehauken, NJ we have determined it to be more advantageous to acquire all three cranes, spare parts and track. The advantage exists to both Seller (General Electric) and Buyer (City of Providence).

c) Although the acquisition cost may be slightly higher, our method will address itself to:

- . Banks Original Commitment
- . The Project's Payback Ability
- . To our payback ability and commitment
- . Financing of additional cost

d) Original Package Figures: (2 Cranes N.J.)

2 Cranes @ 650,000	=	\$1,300,000
2 Cranes moved @	=	300,000
Rail System (1 Berth)		<u>600,000</u>
Preliminary Estimate:		<u>\$2,200,000</u>

e) Revised Package Figures: (2 Cranes N.J.)

2 Cranes	1,300,000
Engineering and Checking	65,000
Repair and Paint	300,000
Relocation to Providence	800,000
Rail System	400,000
Parts	100,000
Extras-Miscellaneous	<u>50,000</u>
UPDATED COST:	<u>\$3,015,000</u>

f) 3 CRANE PROPOSAL

We are estimating that if we can negotiate a 3 crane deal with General Electric Credit Corporation we will be in a better position for many reasons:

If we purchase one basic crane, new from Leibherr Cranes, with the optional extras needed it will cost us approximately \$2.2 Million.

1 Leibherr Crane	\$2,200,000
Rail System	400,000
Power-Land Supply	50,000
Engineering	25,000
Duty & Transportation	250,000
Miscellaneous	<u>50,000</u>
1 CRANE PACKAGE:	<u>\$2,975,000</u>

With one crane we will never get a direct line shipping company. We have learned that cranes do breakdown and ships cannot be unloaded with crawler cranes; large shipping companies need a minimum of 2 cranes. Cost of operating ships is in the vicinity of \$35,000 per day, so vessel "turn-around time" is more important than operational handling/land time.

Therefore Providence should not buy one new crane without government subsidy for an additional crane. This is least likely to happen. A single crane operation is not a viable, productive container port.

3 CRANE PROPOSAL: It is our intention to negotiate three cranes under the following:

3 Cranes @\$500,000	=	\$1,500,000	
Track	=	50,000	
Parts	=	100,000	
Moving	=	800,000	(1)
Engineering & Checking	=	65,000	
Repairs & Painting	=	300,000	
Rail System (Less Track)	=	350,000	
Miscellaneous	=	50,000	

3 CRANE TOTAL PACKAGE: \$3,215,000

I believe we can finance these 3 Cranes for an amount equal to 2 Cranes, this way:

A) <u>Original Package</u>		\$2,200,000
Pay General Electric	1,200,000	
Pay Campanella		
w/o Track	350,000	
Pay Moving	600,000	
Engineering &		
Inspection	50,000	\$2,200,000

(1) because we are moving 3 units, with the aid of Lee Pare, Engineer, I feel certain we negotiate relocation of the 3 units for roughly the same price as the original 2.

B) Defer Payment

Owe General Electric	300,000	Crane
Owe General Electric	100,000	Parts
	50,000	Tracks
Owe McAllister (Tugging)	100,000	Transportation
Owe Rigger	200,000	Inspection & Moving
Work & Paint (put off and recaptured in maintenance)	265,000	

ORIGINAL PACKAGE TOTAL: 2,200,000

DEFER PAYMENT: 1,015,000

TOTAL \$ 3,215,000

- 1) This would mean we would only borrow the same \$2,200,000 from the bank.
- 2) We would include \$265,000 estimated budget for repairs into maintenance repairs for the first 2 to 3 years.
- 3) General Electric would get \$1,200,000 in cash, and would finance \$450,000 for a total of \$1,650,000.
- 4) McAllister would be owed \$100,000 and would work out repayment (workout) with Harborside Park and the City of Providence.
- 5) Riggers would be owed \$200,000 and be paid over a 2 year period from overages in volume.

C. PAYBACK PLAN TO:

#1 - Bank : \$2,200,000

We propose a 15 year guaranteed payback schedule
as follows:

Year #1

Year #2

Year #3

Year #4

Year #5

Year #6 thru 15

PROVISIONS

- A. Proceeds generated from 100% of crane revenue will be used to pay each annual payment.
- B. In event of deficient amount of crane-use revenue, such "shortfall" will be made up by:
 - 1st - P.P.W. Funds accrued for land use and facilities
 - 2nd - City of Providence - Wharfage funds available after allocation for maintenance fund.
- C. Guarantees to Bank
 - A. Port Providence Warehousing
 - B. City of Providence
- D. An account will be set forth with the bank to accept all crane revenues; all payments will be made from subject account.

B. The following Schedule "A" reflects volume levels of 10-15-20 and 25 thousand container moves annually generating basic revenues reflecting these prices.

SCHEDULE "A" - INCREMENTAL VOLUME/INCOME PROJECTION

ANNUAL CONTAINERS

INCOME TO:

	<u>RATE</u>	<u>10,000</u>	<u>15,000</u>	<u>20,000</u>	<u>25,000</u>
City of Providence					
1) Crane Rental (20 picks hr)	\$15.00	\$150,000	\$225,000	\$300,000	\$375,000
2) Wharfage	16.00	160,000	240,000	320,000	400,000
3) Dockage	17.00	170,000	255,000	340,000	425,000
	\$48.00	\$480,000	\$720,000	\$960,000	\$1,200,000

C. In addition to crane rental for containers, the City, with 3 cranes available, will be able to lease these cranes to the Stevedores @\$320. to \$450. an hour during the first year for:

Scrap Metal

Steel Coils

Lumber

Paper

Etc.

D. At a possible 1,000 hrs. a year, of crane use income from the above commodities (not previously figured) could generate approximately \$400,000. Maintenance of the cranes is paid by the City out of its income at approximately \$8.00 per container.

D. In order to get McAllister to guarantee 15,000 picks annually, and because they were instrumental in putting this deal together, the City will reduce the stevedoring charge to McAllister by \$10.00 per container until 30,000 containers have been handled. At this point, the City will reduce the rate by \$5.00 per container for the remaining period within the first 5 years.

E. The following Schedule "B" reflects comparative volume levels adding a provision for extra income to the City and deducting for maintenance and McAllister incentive.

SCHEDULE "B"

	<u>CITY</u>
10,000 Containers	\$480,000
Extras	400,000
	<u>\$880,000</u>
15,000 Containers	720,000
Extras	400,000
	<u>1,120,000</u>
20,000 Containers	960,000
Extras	400,000
	<u>1,360,000</u>
25,000 Containers	1,200,000
Extras	400,000
	<u>1,600,000</u>

<u>VOLUME</u>	<u>CITY INCOME</u>	<u>EXTRA</u>	<u>\$8.00-MAINT.</u>	<u>\$10.00 MCALLISTER</u>
10,000	\$480,000	\$400,000	(\$80,000)	-----
15,000	\$720,000	\$400,000	(\$120,000)	-----
20,000	\$960,000	\$400,000	(\$160,000)	(\$150,000)
25,000	\$1,200,000	\$400,000	(\$200,000)	(\$150,000)

F. Projected further to reflect volume increasing to a level of 50,000 units annually, the City of Providence could effect a much faster disposition of outstanding debt.

1) Projection: 50,000 units annually

2) Incomes: (Based on '81 prices)

a. Crane Rental Net \$600,000

b. Extra Use 400,000

c. Wharfage \$16./ea. 800,000

d. Dockage \$17./ea. 850,000

\$2,650,000

3) The same projection adjusted to reflect 5% annual inflationary index indicates revenue of:

\$3,382,000

V ECONOMIC IMPACT AND OTHER CONSIDERATIONS

1) General

- A) The Port of Providence is ideally located to support international cargo, in competition with other New England port. It has many advantages to offer over it's primary competition, the Port of Boston. Primarily it's labor, climate and accessibility.
- B) The development of a container port would assure the City of Providence a future role for the utilization of one of it's greatest assets - The Port of Providence.
- C) The container mode of shipping is accepted universally, as the only way future shipments of cargo will be conducted

D. Concurrently, Harborside Park property would be enhanced to a much higher and better use.

E. The economic impact to the City and State would be affected in a most positioned

2. ECONOMICS

As a matter of reference to the above, we would like to reflect some statistics produced by Harvard University from a study done in behalf of Massport as follows:

The tonnage and rates per container creates an economic spinoff to both primary (port oriented) and secondary dollar effects to the economy at an average of:

a. \$283.00 per box primary (Port)

b. \$510.00 per box force

Equated to 50,000 untis annually

a. \$14,150,000

b. \$25,500,000

RECAP:

\$2,200,000	Bank
450,000	General Electric Credit
100,000	McAllister
200,000	Riggers
<u>265,000</u>	* (Not necessary because of 3rd crane)
\$3,215,000	

* It is my belief confirmed by Robert Bell of Rigging International and Lee Pare, that because we would have 3 cranes in operation, any major repair could be done within the cost of maintenance during the first 3 years.

This feature would be a critical element to the annual maintenance contract that would be entered with Riggers International.