

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6b
Date of Meeting June 25, 2013

DATE: June 17, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: Melinda Miller, Director Real Estate Portfolio and Asset Management
Mark Longridge, Capital Project Manager
SUBJECT: Design and Construction funding for Pier 66 Steam Replacement CIP# C800625

Amount of This Request:	\$1,350,000	Source of Funds:	Tax Levy
Est. Total Project Cost:	\$1,400,000		
Est. State and Local Taxes:	\$100,000	Est. Jobs Created:	17

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to complete design, to purchase construction materials and equipment, to utilize Port crews, to award contracts as allowed by Washington law, and to construct the work necessary to install a stand-alone heat source for building heat and domestic hot water at the Pier 66 Cruise Terminal and Bell Harbor Conference Center for an estimated cost of \$1,350,000 bringing the total authorized amount of this project to \$1,400,000.

SYNOPSIS

As of September 2, 2013, the Seattle Steam Company, which provides steam heat and hot water to Pier 66 facilities, has informed the Port that it will no longer be able to provide service to Pier 66 because the steam line serving the facility will be removed as part of the work being conducted on the City of Seattle's seawall replacement project. This steam line is the only source of heat and hot water to the Port's tenants at Pier 66. Without heat and hot water, events would have to be cancelled and cruise ship operations would also be affected. The Port was notified by Seattle Steam of this change on May 10, 2013, and has moved as quickly as possible to develop a timely solution. This project was not anticipated in the 2013 Real Estate capital budget. It will be funded by the tax levy.

BACKGROUND

Seattle Steam Company will cease service to the Port's properties at Pier 66 effective September 2, 2013. According to Seattle Steam's May 10 notice, the steam line that serves Pier 66 is suspended under the sidewalk on the west side of Alaskan Way, and the City of Seattle's seawall replacement project will remove that sidewalk and the steam line with it.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

June 17, 2013

Page 2 of 5

According to Seattle Steam, the company had been working with the City of Seattle to devise a solution to continue to provide thermal energy to Pier 66, but was not offered a new location for the steam line. Therefore, Seattle Steam is permanently terminating the service. This steam service is currently the sole source of building heat and domestic hot water for Pier 66. Anthony's Restaurant was informed via a similar letter on May 10 of the cessation of service to their facility effective September 2, 2013. It is our understanding that the Aquarium, Anthony's, and the Port are the only customers of Seattle Steam that are affected by the impending removal of the steam line on the west side of Alaskan Way.

PROJECT JUSTIFICATION AND DETAILS

The current steam supply must be permanently replaced, and there cannot be a significant interruption to the heat and water service to maintain the function of the building and tenant occupancy. Bell Harbor International Conference Center (BHICC) contracts months in advance with customers for events held at this venue. Should hot water not be available, the events would need to be cancelled during the period the facility is without hot water. The cancelled events would result in a loss of revenue to the Port. For the two months of September and October, the gross revenue loss to the BHICC would be \$575,000 and affect 26,500 attendees. Event cancellation may also expose the BHICC to claims from customers for cancelled events. Cancellation of events would result in a loss of wages to BHICC employees and income to vendors providing services to events. Additionally, the cancellation of events would result in damage to the Port's reputation as the owner of the BHICC.

Bell Street Cruise Terminal at Pier 66 is current homeport to both Norwegian Cruise Lines and Oceania Cruises. The terminal also serves other cruise lines. The 2013 cruise season runs through September, and an estimated 250,000 passengers and crew are expected to transit the terminal this year. Pier 66 also serves yachts, military and research vessels and fishing vessels. This terminal is not only an important source of revenue to the Port but also a major contributor to the economy of the region.

Project Objectives

Install stand-alone heat and domestic hot water supply to the building to replace the current steam service by September 2, 2013.

Scope of Work

Design and install natural gas fired hot water boilers and associated equipment, piping and venting to adequately supply the building with heat and domestic hot water at or above the current level.

The current favored location for this equipment is in the building's mechanical penthouse, along with the existing mechanical equipment to process the incoming steam supply. This location, while optimal for the long-term impact to the facility, poses some problems for access and carries the potential issue of structural modifications to the building. These aspects are currently being investigated, but this project scope, schedule and budget assume they can be overcome.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

June 17, 2013

Page 3 of 5

without significant structural modifications to the building. The current cost estimate does not include any assumption for this work if it is found to be needed. The design of the mechanical system will be performed by in-house engineering staff, supplemented by existing indefinite delivery, indefinite quantity (IDIQ) design contracts as necessary.

Immediate selection of equipment is required in order to perform required structural analysis, assess space requirements, and determine requirements for lift. From initial market surveys, the lead-time for the boilers is approximately eight weeks (order-to-delivery).

The equipment and materials necessary for this system will be procured directly by the Port. Due to the exceedingly tight schedule of this work, a policy waiver to limit competition of the boiler and other related equipment is needed. The Port will obtain competitive quotes wherever possible.

The installation of this equipment will be performed by a combination of Port crews and existing open order small works contracts. Using this hybrid approach will allow the needed flexibility to complete the work quickly and maintain the flexibility to work around the active conference and cruise schedules at the facility.

Schedule

The current deadline for completing this work is September 2, 2013. The Port is working with Seattle Steam, the City of Seattle and other partners to see if there is any way to continue this service beyond this date and allow more time to construct the necessary improvements, but no later date has been agreed to at this time.

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$1,400,000	\$0	\$1,400,000
Previous Authorizations	\$50,000	\$0	\$50,000
Current request for authorization	\$1,350,000	\$0	\$1,350,000
Total Authorizations, including this request	\$1,400,000	\$0	\$1,400,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$1,400,000	\$0	\$1,400,000

Project Cost Breakdown

	This Request	Total Project
Construction	\$963,000	\$963,000
Construction Management	\$77,000	\$87,000
Design	\$111,000	\$131,000
Project Management	\$67,000	\$87,000
Permitting	\$32,000	\$32,000
State & Local Taxes (estimated)	\$100,000	\$100,000
Total	\$1,350,000	\$1,400,000

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

June 17, 2013

Page 4 of 5

Budget Status and Source of Funds

This project for \$1,400,000 was not anticipated in the 2013 Real Estate capital budget and related plan of finance because the Port was just recently notified that Seattle Steam would be discontinuing service due to construction of the Elliot Bay Seawall replacement project. The source of funds will be the tax levy.

Financial Analysis and Summary

CIP Category	Renewal/Enhancement
Project Type	Renewal & Replacement
Risk adjusted discount rate	N/A
Key risk factors	<ul style="list-style-type: none">• Actual construction costs could exceed estimate, especially if any structural work is required.• Incremental maintenance costs could exceed estimate
Project cost for analysis	\$1,400,000
Business Unit (BU)	Portfolio Management
Effect on business performance	Depreciation expense will increase \$70,000 per year based on a 20-year useful life. No incremental revenue will be generated but maintenance expense is expected to increase by about \$10,000 per year.
IRR/NPV	The NPV is the present value of the project cost (\$1,400,000).

STRATEGIES AND OBJECTIVES

This project provides a functioning facility to Port tenants in support of business plan strategies that call for marketing Seattle as a homeport and port of call for cruise lines and maintaining real estate assets. These strategies bolster the Port's Century Agenda strategy to advance the region as a leading tourism destination and business gateway.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do not make any changes to the building and instead pursue the continuation of Seattle Steam Service. This alternative runs the significant risk of leaving the facility without heat or hot water, disrupting and negatively impacting the Port's existing and future conference and cruise commitments. This is not the recommended alternative.

Alternative 2) – Design and construct the necessary improvements using a traditional design, bid, build approach. This would not meet the required schedule and would cause significant interruption of service to the buildings heat and hot water. This is not the recommended alternative.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

June 17, 2013

Page 5 of 5

Alternative 3) – Design and construct only the necessary improvements to temporarily supply the building with service on the expectation that Seattle Steam could restore service at the end of the seawall construction (currently estimated in 2016). The cost of this temporary equipment would likely approach that of a permanent installation, and there is no guarantee that Seattle Steam will be able or willing to restore service once the seawall is complete. Given that the alignment of the seawall project will demolish the majority of the existing steam line, it is unlikely to be replaced. This is not the recommended alternative.

Alternative 4) – Design and replace the current heat and domestic hot water supplied by Seattle Steam with a stand-alone system. Design the new system with Port staff and existing professional IDIQ contracts. Procure and install this equipment using a combination of Port direct purchases, existing open order contracts, and Port crews to attain the required schedule and minimize facility disruptions. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Seattle Steam letter dated May 10, 2013.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None.