PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 5g

Date of Meeting July 9, 2013

DATE: July 1, 2013

TO: Tay Yoshitani, Chief Executive Officer

FROM: Rod Jackson, Capital Project Manager, Capital Development
Rebecca Schwan, Real Estate Manager, Portfolio & Asset Management

SUBJECT: Fishermen's Terminal C-2 Nordby HVAC and Roof Replacement (CIP #C800344)

Amount of This Request: $223,000 **Source of Funds:** Tax Levy

Est. Total Project Cost: $2,001,000

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to proceed with design and preparation of construction documents for the Fishermen's Terminal C-2 Nordby Building HVAC and Roof Replacement Project for an estimated cost of $223,000, bringing the current authorization for this project to $298,000 for a total estimated project cost of $2,001,000.

SYNOPSIS:

This memo requests authorization to proceed with the design of a new heating, ventilation and air conditioning (HVAC) and roofing system on the Fishermen's Terminal C-2 Nordby Building (C-2 Nordby). The building is 96% occupied, primarily as general office space leased by businesses associated with the maritime industry.

The existing HVAC system consists of various electrical, boiler fired, and natural gas systems that are approximately 30 years old. The normal service life of the existing HVAC system is approximately 15-20 years. This system has been able to function for 25 years or more due to proper maintenance and repairs, but is well past its useful life. The existing roofing system is 25 years old, is at the end of its service life, and has been failing with multiple leaks occurring throughout the years. With the pre-design of the HVAC and roofing system investigations completed, staff is seeking Commission authorization to proceed with the design phase of the project.

This project was included in the 2013 plan of finance based on estimates from the Fishermen's Terminal Asset Condition Assessment completed in 2010, but the current estimated cost is higher than budgeted due to unanticipated and new regulatory requirements including code upgrades and a "fall restraint" system that must be added to comply with new OSHA regulations.

The additional funds will be available since other projects have come in at a lower cost than assumed in the 2013 plan of finance.

BACKGROUND:

Fishermen's Terminal, located on Salmon Bay, is a regional center for maritime activity and one of the few working terminals in the United States with public access. Fishermen's Terminal is the home port of the North Pacific Fishing Fleet and various maritime-related tenants. The C-2 Nordby Building was constructed in 1954 and covers approximately 23,000 square feet. The building is currently 96% occupied. It is being used primarily as by businesses associated with the maritime industry. The building houses one of Fishermen's Terminal's largest multi-use tenants, Inner Sea Discoveries LLC. They currently lease over 6,000 square feet of office space in the C-2 Nordby Building, over 4,000 square feet of warehouse and net shed space in other buildings and have moored between seven to eight cruise vessels at Fishermen's Terminal over the past few years. Another tenant in the building is Inland boatmen's Union of the Pacific, who lease 5,000 square feet of office space and have been in the building for fourteen years. Other tenants include marine insurance, maritime law, and an accounting firm, all of whom support the commercial fishing fleet.

In 2008, the Port initiated a comprehensive Condition Assessment study of all assets at Fishermen's Terminal including the C-2 Nordby Building. The assessment determined that both the HVAC and the roof systems were at the end of their service life. Current long-term planning assumes that C-2 Nordby will continue to be a core function at Fishermen's Terminal. Maritime office and tenant space is one of the terminal's assets that helps retain maritime and commercial-fishing-related businesses as tenants and is part of the infrastructure that will be required to double the economic value of the fishing and maritime sectors, as envisioned by the Century Agenda. Therefore, approval of this design-funding request is not expected to affect any long-term development plans for the terminal. This project is included in the 2013 plan of finance. The Port intends to install this new HVAC system per current City of Seattle building codes that will provide a 20-year life and a new roofing system that will provide a 25-year warranty life.

PROJECT JUSTIFICATION AND DETAILS:

The proposed project would preserve revenues associated with the leased space in this important building asset at Fishermen's Terminal, extend the life of the building structure, and minimize Port liability. Deferring or foregoing this work will result in continued deterioration of the HVAC and roof system components. Eventually this could lead to additional leakage, energy loss, detrimental impacts to operations, and the need for more costly replacements. In addition, it could lead to loss of rent and revenues. Proactive asset stewardship is the key to reducing the total cost of ownership to the Port over time.

Project Statement:

This project will replace the existing HVAC and roofing systems with new energy-efficient equipment and materials.

Project Objectives:

- Preserve the structural integrity of the building structure.
- Preserve future revenues from the building.
- Complete project on time and within budget.
- Investigate environmentally sustainable practices during the design and incorporate into the project design and construction where practical.
- Minimize disruptions to facility operations, tenants and customers.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

The scope of work for the C-2 Nordby Building HVAC and Roof Replacement Project includes evaluation and design for:

- A new energy-efficient HVAC system.
- Additional insulation and new energy-efficient roofing system.
- The installation of access ladders to the roof.
- Fall protection and attachments to the roof.
- Environmentally sustainable components and construction methods.

Schedule:

Construction of the project is scheduled as follows:

Commission Approval for Design	July 2013
Permit/Design Complete	Nov/Dec 2013
Commission Approval for Construction	December 2013
Advertise for Bids	Jan/Feb 2014
Construction	May 2014 through Sept 2014

FINANCIAL IMPLICATIONS:

Budget/Authorization Summary:	Capital	Expense	Total Project
Original Budget	$0	$0	$0
Previous Authorizations	$75,000	$0	$75,000
Current request for authorization	$223,000	$0	$223,000
Total Authorizations, including this request	$298,000	$0	$298,000
Remaining budget to be authorized	$1,703,000	$0	$1,703,000
Total Estimated Project Cost	$2,001,000	$0	$2,001,000

Project Cost Breakdown:	This Request	Total Project
Construction	$0	$1,329,000
Construction Management	$15,000	$245,000

Design	$143,000	$187,000
Project Management	$50,000	$94,000
Permitting	$15,000	$20,000
State & Local Taxes (estimated)	$0	$126,000
Total	$223,000	$2,001,000*

**The current C-2 Nordby Building's total estimated project cost of $2,001,000 is an increase from the $1,150,000 total estimated project costs shown in the 2013 plan of finance. The increase is because the existing HVAC systems, according to the 2006 City of Seattle Building Code, must be brought up to code if any HVAC upgrade work is to be performed. This is the basis for revising the scope to also include a new fall restraint system that must be added to the south roof perimeter per OSHA rules (No Fall Restraint was ever installed on the C-2 Nordby building). Various physical challenges exist with the removal and replacement of the HVAC and Roofing systems, which have dramatically increased in labor and material costs.*

Budget Status and Source of Funds:

This project was included in the 2013 plan of finance under CIP #C800344, Fishermen's Terminal C-2 Nordby Building HVAC and Roof Replacement in the amount $1,150,000. Current estimates show a higher total cost of approximately $2,001,000. The additional funds required for this project will be available due to other projects, such as the Pier 69 North Apron Corrosion Control project, coming in at a lower cost than assumed in the 2013 plan of finance. This project will be funded by the tax levy.

Financial Analysis and Summary:

CIP Category	Renewal/Enhancement
Project Type	Renewal & Replacement
Risk adjusted discount rate	N/A
Key risk factors	• Costs could exceed the estimated amounts. • Future revenues generated by this building could decrease.
Project cost for analysis	$2,001,000
Business Unit (BU)	Real Estate – Commercial Properties
Effect on business performance	• Preserves Building C-2 Net Operating Income of about $117,000 per year. • Depreciation expense will increase approximately $50,000 per year based on a 25-year useful life for the roof and a 15-year useful life for the HVAC system.
IRR/NPV	The NPV is the present value of the project cost.

Lifecycle Cost and Savings:

During final design, a lifecycle cost analysis will continue to be developed to identify the lowest total cost of ownership for the HVAC replacement and the roofing system. Annual Operating and Maintenance costs for the HVAC and roof system are forecasted to decrease for the C-2

Nordby Building HVAC and Roof because of the replacement and installation of these new systems. The lifecycle cost analysis for the building preliminarily determined which of the HVAC and roof design options were appropriate for the facility. The design for Fishermen's Terminal C-2 Nordby Building HVAC and Roof Replacement will use the desired analysis design option as the project replacement design is developed.

STRATEGIES AND OBJECTIVES:

This project supports the Port's Century Agenda strategy to "position the Puget Sound region as a premier international logistics hub" by doubling the economic value of the fishing and maritime cluster and be the greenest and most energy efficient port in North America by:

- Investing in and preserving a valuable Port asset.
- Providing fishermen and other moorage customers close proximity to maritime-supported businesses within the C-2 Nordby Building.
- Maintaining the long-term revenue-generating capability of the C-2 Nordby Building.
- Reducing overall energy consumption at the facility by replacing old, outdated equipment with energy-efficient equipment and controls.
- Fulfilling lease commitments and obligations to the Port's tenants.

ENVIRONMENTAL SUSTAINABILITY:

Construction implementation will include practices to avoid and minimize potential negative environmental effects. The project has identified construction and maintenance methods, materials, and practices for effective HVAC and roof replacement work while avoiding release of deleterious materials to the environment. Timely asset preservation will extend the service life of the existing infrastructure, as an alternative for avoiding more environmentally disruptive and resource/materials consumptive large-scale structure replacement actions.

BUSINESS PLAN OBJECTIVES:

Replacement of the HVAC system and roofing system would help preserve target occupancy and maintain market rates for the C-2 Building, thereby helping the Real Estate Division to meet ongoing financial targets.

TRIPLE BOTTOM LINE SUMMARY:

Preserving existing assets defers high-impact and high-cost asset replacement, and, therefore, reduces environmental impacts while supporting economic vitality by reducing Port costs and generating construction-related jobs. The project team will work with the Office of Social Responsibility in determining opportunities for participation by small business on this project.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative #1: Increase the maintenance inspections and repair of the HVAC and built-up roofing system as cooling and heating is degenerating and as continued blistering, peeling, flaking, layer delamination, and leaks appear in the roof. While postponing the replacement

costs, this alternative allows the continuation of retrogressive deterioration of the HVAC and roofing systems by increasing maintenance and emergency repair costs for the HVAC system and roof. This is not the recommended alternative since the roof is at the end of its service life.

Alternative #2: Proceed with the design and replacement of the HVAC and built-up roofing system. This will reduce future risks and consequences to the building and internal appurtenances, including tenant and staff disruptions, should a failure of the HVAC system or a leak in the roofing system occur. **This alternative is recommended.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

None.