

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>6e</u>
Date of Meeting	<u>October 8, 2013</u>

DATE: October 1, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: Fred Chou, Capital Project Manager, Capital Development Division
Rebecca Schwan, Real Estate Manager, Portfolio & Asset Management
SUBJECT: Fishermen's Terminal Building C-15 HVAC Improvements (CIP No. C800137)

Amount of This Request: \$900,000 **Source of Funds:** Tax Levy
Est. State and Local Taxes (This Request): \$77,970 **Est. Jobs Created (This Request):** 10
Est. Total Project Cost: \$4,887,000

ACTION REQUESTED

Request authorization for the Chief Executive Officer (1) to request an authorization increase of \$900,000 to replace the HVAC equipment at the Fishermen's Terminal C-15 Building for a total project authorization of \$4,887,000 due to bids exceeding the engineer's estimate by more than 10 percent, and (2) to execute a construction contract with the lowest responsive and responsible bidder to construct project.

SYNOPSIS

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. Restaurants, retail shops, a fresh seafood market and the Seattle Fishermen's Memorial offer a front-row seat to the historic fishing industry and harbor. It is a location where the public can authentically experience the fishing industry. Building C-15 at Fishermen's Terminal is a magnet for those wishing to eat fresh seafood or visit a working fishing terminal. The building is fully occupied by 18 mixed-use tenants and Port staff offices. The C-15 HVAC Improvement project will maintain the long-term revenue generating capability of the building and reduce overall energy consumption by replacing outdated and worn out equipment with energy-efficient equipment and controls.

The Commission authorized the execution of the C-15 HVAC Improvements project on May 14, 2013. On August 6, 2013, the Port advertised a major public works contract for the project. On August 29, 2013, the Port received five bids ranging from \$2,967,000 to \$3,444,600 (see table, next page). The lowest responsive and responsible bid is \$633,400 or 27% over the engineer's estimate of \$2,333,600. This represents a bid irregularity requiring Commission approval to execute this contract in accordance with Section 4.2.3.4 of Resolution No. 3605, as amended by Resolution No. 3628.

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<u>Contractor</u>	<u>Bid</u>
Kassel & Associates, Inc.	\$2,967,000.00
Express Construction	\$3,047,288.00
Hermanson Company	\$3,379,800.00
Western Ventures Construction	\$3,394,000.00
Design Air, Ltd	\$3,444,600.00

Staff analyzed the engineer's estimate and believes the major contributing factor for the higher bid price is primarily due to the use of a single HVAC equipment supplier by the contractors. Several manufacturers were specified in the contract documents, and a third supplier attended the pre-bid meeting but did not provide quotes to the contractors. Another contributing factor for the higher bid is the perceived risks in the execution of the construction through the limited openings above the roof wells. It is also possible that a more competitive bidding climate in the construction sector in Seattle and fewer suppliers still in business after the economic downturn affected the bid.

For these reasons, the fact that the two lower bidders were within 3% of each other, which appears to be representative of the marketplace; and because all five were above the engineer's estimate, staff believes the low bid represents a fair and reasonable price. Staff recommends proceeding with the construction contract and requests an additional project authorization in the amount of \$900,000.

BACKGROUND

Building C-15 at Fishermen's Terminal was constructed in 1987. Building occupants include four restaurants – Little Chinooks and Chinooks (Anthony's Home Port), the Bay Café and the Highliner Pub and Grill – leased offices, and various retail businesses.

The HVAC system for the C-15 Building currently consists of 19 "rooftop" units ranging in size from 2.5 tons to 25 tons cooling capacity. When the building was first constructed, the units were installed on two roof wells on the mezzanine levels, (one for the west side of the building and one for the east side of the building) that were integrated into an open truss roof structure; basically the floor of the mezzanine and the roof for the building are tied together structurally. This design created significant challenges for future equipment replacement work.

The design engineering team analyzed design options and selected the most cost-effective solution that addresses both installation challenges and energy efficiency/sustainability. The team found ways to significantly reduce construction disruptions to tenant spaces while installing large units (up to 7'x7'x4') into spaces with limited (42") access.

On August 6, 2013, the major construction contract for this project was advertised for bid. A pre-bid meeting and site tour was held on August 14, 2013. Bids were opened on August 29, and five bids were received. Bid prices ranged from the low bid of \$2,967,000 to the highest bid of \$3,444,600. The bids were clustered in two groups, with the two lower bids \$80,288 apart.

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However, the apparent low bid is approximately 27% higher than the engineer's estimate of \$2,333,600.

With the lump sum price that the contractors submitted, it is difficult to determine the exact reasons for the higher bids. With the help of the design engineering consultant firm that prepared the engineer's estimate and internal reviews, the higher costs are most likely due to a single equipment manufacturer that ended up supplying contractors with the major HVAC equipment quotes, and the perceived risks/challenges in the execution of the construction through the small space and limited openings above the roof wells.

Other potential contributing factors are a more current competitive bid climate and fewer suppliers. In addition, the two lower bids were within 3% of each other, which appears to be representative of the marketplace. Because all five bids were above the engineer's estimate, staff believes the low bid represents a fair and reasonable price. Given these factors, staff does not believe rebidding the project would result in decreased construction costs. Staff recommends additional funding of \$900,000 (including construction contingency and sales tax) be authorized to allow the Port to proceed with the execution of the major construction contract with the lowest responsive and responsible bidder.

PROJECT JUSTIFICATION AND DETAILS

This project will install a new energy efficient HVAC System at the C-15 Building at Fishermen's Terminal to replace an aging system that has outlived its useful life. With the exception of the units that serve the restaurants, the Port is responsible for the maintenance and repair of the HVAC system. Replacing the system will serve to protect and maintain the long-term revenue stream of the building.

Project Statement

This project will replace the existing HVAC and controls system with new energy efficient equipment and a fully integrated digital controls system.

Project Objectives

- Replace the existing HVAC system with an energy efficient system.
- Replace the two existing HVAC control systems.
- Maximize tenant comfort and flexibility in future tenant space adjustments.
- Minimize construction impacts to existing tenants.
- Replace the existing HVAC system with the most cost-effective solution taking into account full lifecycle costs (initial cost of equipment, maintenance, energy efficiency, longevity, etc.).
- Create a design for this replacement that allows for easy access for system maintenance and replacement in the future.

Scope of Work

The Fishermen's Terminal C-15 Building HVAC Improvements Project includes:

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- Design and construction of a new energy efficient HVAC system to replace the existing system and make it easily accessible for future replacements.
- Design and installation of a new integrated HVAC digital control system to replace the two systems currently in use.
- Full commissioning of the system to ensure functionality and to maximize energy efficiency.

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Total Project
Original Budget	\$0
Previous Authorizations	\$3,987,000
Current request for authorization	\$900,000
Total Authorizations, including this request	\$4,887,000
Remaining budget to be authorized	\$0
Total Estimated Project Cost	\$4,887,000

Project Cost Breakdown

	This Request	Total Project
Construction	\$822,030	\$3,480,030
Construction Management	\$0	\$287,000
Design	\$0	\$553,000
Project Management	\$0	\$139,000
Permitting	\$0	\$99,000
State & Local Taxes (estimated)	\$77,970	\$328,970
Total	\$900,000	\$4,887,000

Budget Status and Source of Funds

The Fishermen's Terminal C-15 Building HVAC Improvement Project was included in the 2013 Plan of Finance as a committed project in the amount of \$4,000,000, inclusive of amounts spent prior to 2013, under CIP C800137. The additional \$887,000 will be available due to delays/deferrals of other projects.

The project will be funded from the tax levy.

Financial Analysis and Summary

CIP Category	Renewal/Enhancement
Project Type	Renewal and Replacement
Risk adjusted discount rate	N/A
Key risk factors	<ul style="list-style-type: none">• Project schedule could be delayed due to weather or the need to minimize the impacts of construction to existing tenants.

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	<ul style="list-style-type: none">• Future revenues could be less than currently expected.																								
Project cost for analysis	\$4,887,000																								
Business Unit (BU)	Real Estate – Commercial Properties																								
Effect on business performance	<p>This is a renewal and replacement project and accordingly, this project preserves Net Operating Income (NOI) rather than creates new NOI.</p> <p>NOI generated by the C-15 building is approximately \$560,000 per year excluding major maintenance expenses and tenant improvements.</p> <p>As a result of this project, depreciation expense will increase when the assets are put in service. The incremental impact to NOI and NOI After Depreciation is noted below.</p> <table border="1"><thead><tr><th><u>NOI (in \$000's)</u></th><th><u>2013</u></th><th><u>2014</u></th><th><u>2015</u></th><th><u>2016</u></th><th><u>2017</u></th></tr></thead><tbody><tr><td>NOI</td><td>\$0</td><td>\$0</td><td>\$0</td><td>\$0</td><td>\$0</td></tr><tr><td>Depreciation</td><td>\$0</td><td>(\$188)</td><td>(\$250)</td><td>(\$250)</td><td>(\$250)</td></tr><tr><td>NOI After Depreciation</td><td>\$0</td><td>(\$188)</td><td>(\$250)</td><td>(\$250)</td><td>(\$250)</td></tr></tbody></table>	<u>NOI (in \$000's)</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	NOI	\$0	\$0	\$0	\$0	\$0	Depreciation	\$0	(\$188)	(\$250)	(\$250)	(\$250)	NOI After Depreciation	\$0	(\$188)	(\$250)	(\$250)	(\$250)
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IRR/NPV	N/A																								

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

Alternative #1. Do nothing. As the existing system is well beyond its useful life, additional maintenance costs will be incurred and the risk of system failure increases. The existing HVAC units are old and parts are becoming progressively more, if not impossible, to obtain. Given the structural issues associated with replacement, rapidly replacing the system in the event of failure becomes very challenging. If the system fails, replacement costs increase, the Port risks not being able to meet our lease obligations, and the tenants would have neither heating nor cooling, depending on the season. This alternative is not recommended.

Alternative #2. Repackage the construction contract and rebid. This would require additional soft costs and delay the construction. The design team explored this option and feels, given the site conditions and constraints, options to repackage the contract are limited and may not result in decreased construction costs. This alternative is not recommended.

Alternative #3. Increase project authorization, award/execute the contract with the apparent low bidder and proceed with the construction. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

Slide presentation.

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PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- September 10, 2013 – Presented additional funding request in the amount of \$900,000 to the Commission to bring the total project authorization to \$4,887,000.
- May 14, 2013 – The Commission authorized advertisement for construction, execution of a construction contract, and funding of the construction phase in the amount of \$3,130,000 to complete the project, bringing total project authorization to \$3,987,000.
- May 11, 2010 – The Commission authorized the design funding of \$807,000, bringing total project authorization to \$857,000.
- November 30, 2009 – The Commission was briefed on the project status.