

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**  
**ACTION ITEM**

<b>Item No.</b>	<u>6d</u>
<b>Date of Meeting</b>	<u>May 14, 2013</u>

**DATE:** May 6, 2013  
**TO:** Tay Yoshitani, Chief Executive Officer  
**FROM:** Fred Chou, Capital Project Manager, Capital Development  
Rebecca Schwan, Real Estate Manager, Portfolio & Asset Management  
**SUBJECT:** Authorization for Construction Funding - Fishermen's Terminal Building C-15  
HVAC Improvements (CIP No. C800137)

<b>Amount of This Request:</b>	\$3,130,000	<b>Source of Funds:</b>	Tax Levy
<b>Est. State and Local Taxes:</b>	\$251,000	<b>Est. Jobs Created:</b>	27
<b>Est. Total Project Cost:</b>	\$3,987,000		

**ACTION REQUESTED:**

Request Commission authorization for the Chief Executive Officer to advertise for construction, execute a construction contract, and fund the construction phase to complete the Fishermen's Terminal C-15 Building HVAC Improvements Project in an amount not to exceed \$3,130,000 for a total estimated project cost of \$3,987,000.

**SYNOPSIS:**

This project replaces the existing heating, ventilating, and air conditioning (HVAC) and the digital controls systems in the Fishermen's Terminal C-15 Building (Fishermen's Center Building). The existing HVAC system is original to the C-15 Building, which was built in 1987. The normal useful life of the existing HVAC system is approximately 15-20 years. This system has been able to function for 25 years due to proper maintenance and repairs, but it is well past its useful life. The digital control systems were upgraded in 2005/2006 but there have been rapid advancements in energy efficient controls technology since then.

With the final design of the replacement system complete, staff is seeking Commission authorization to proceed with the construction phase of the project, inclusive of advertisement, bid, award, execution and the subsequent close out of the construction contract/project.

**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. Restaurants, retail shops, a

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fresh seafood market and the Seattle Fishermen's Memorial offer a front-row seat to the historic fishing industry and harbor.

Building C-15 at Fishermen's Terminal was constructed in 1987. Building occupants include the Port of Seattle operations staff and 18 mixed-use tenants, including leased offices, various retail businesses, and four restaurants.

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 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 created significant challenges for future equipment replacement work.

The design engineering team has analyzed design options and determined the most cost effective solution with attention to energy efficiency and sustainability. The design has evolved to address challenges such as installing large units (up to 7'x7'x4') into spaces with limited (42") opening/access and the team has found ways to significantly reduce construction disruptions to tenant spaces.

### **PROJECT JUSTIFICATION:**

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 controls 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, longevity, etc.).
- Create a design for this replacement that allows for easy access for system maintenance and replacement in the future.

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### **PROJECT SCOPE OF WORK AND SCHEDULE:**

#### ***Scope of Work:***

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

- 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.

This requested action authorizes the work required during the construction phase, including project closeout, project management, and other activities necessary for the completion of the project.

#### ***Remaining Project Milestones:***

	<b><u>Start</u></b>	<b><u>Finish</u></b>
Major Works Construction Bid	May 2013	June 2013
Construction Notice to Proceed	August 2013	
Contractor Long Lead Items	August 2013	November 2013
Construction	August 2013	March 2014

### **FINANCIAL IMPLICATIONS:**

#### ***Budget/Authorization Summary:***

	Total Project
Original Budget	\$0
Previous Authorizations	\$857,000
Current request for authorization	\$3,130,000
Total Authorizations, including this request	\$3,987,000
Remaining budget to be authorized	\$0
Total Estimated Project Cost	\$3,987,000

#### ***Project Cost Breakdown:***

	This Request	Total Project
Construction	\$2,658,000	\$2,658,000
Construction Management	\$201,000	\$287,000
Design	\$0	\$553,000
Project Management	\$20,000	\$139,000
Permitting	\$0	\$99,000
State & Local Taxes (estimated)	\$251,000	\$251,000
Total	\$3,130,000	\$3,987,000

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### ***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 project will be funded from the Tax Levy.

### ***Financial Analysis and Summary:***

<b>CIP Category</b>	Renewal/Enhancement																								
<b>Project Type</b>	Renewal and Replacement																								
<b>Risk adjusted discount rate</b>	N/A																								
<b>Key risk factors</b>	<ul style="list-style-type: none"> <li>• Actual costs could exceed current estimates. This risk is deemed low since the project’s design phase is complete.</li> <li>• Project schedule could be delayed due to weather or the need to minimize the impacts of construction to existing tenants.</li> <li>• Future revenues could be less than currently expected.</li> </ul>																								
<b>Project cost for analysis</b>	\$3,987,000																								
<b>Business Unit (BU)</b>	Real Estate – Commercial Properties																								
<b>Effect on business performance</b>	<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 <b>excluding major maintenance expenses and tenant improvements.</b></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><b>NOI (in \$000's)</b></th> <th><b>2013</b></th> <th><b>2014</b></th> <th><b>2015</b></th> <th><b>2016</b></th> <th><b>2017</b></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>(\$156)</td> <td>(\$209)</td> <td>(\$209)</td> <td>(\$209)</td> </tr> <tr> <td>NOI After Depreciation</td> <td>\$0</td> <td>(\$156)</td> <td>(\$209)</td> <td>(\$209)</td> <td>(\$209)</td> </tr> </tbody> </table>	<b>NOI (in \$000's)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	NOI	\$0	\$0	\$0	\$0	\$0	Depreciation	\$0	(\$156)	(\$209)	(\$209)	(\$209)	NOI After Depreciation	\$0	(\$156)	(\$209)	(\$209)	(\$209)
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<b>IRR/NPV</b>	N/A																								

### ***Lifecycle Cost and Savings:***

A lifecycle cost analysis (LCCA) has been developed to identify the lowest total cost of ownership for the replacement HVAC system and was used in the final HVAC system selection.

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Annual operating and maintenance costs for the HVAC system are expected to decrease for the C-15 Building.

### **STRATEGIC OBJECTIVES:**

This project supports the Port's Century Agenda to position the Puget Sound region as a premier international logistics hub to double 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.
- Maintaining the long-term revenue generating capability of the Fishermen's Terminal C-15 Building.
- Reducing the overall energy consumption at the facility by replacing old, outdated equipment with energy efficient equipment and controls.

### **ENVIRONMENTAL SUSTAINABILITY:**

This project will replace the old inefficient HVAC system with a new energy efficient system. The design team evaluated options and lifecycle cost analysis for the replacement systems. The current design offers the most cost effective and sustainable solution. The construction contract will also require the contractor to clean the ducts to remove dust, particles and debris accumulated over time. During the construction phase, staff will continue to explore additional sustainability opportunities where possible.

### **BUSINESS PLAN OBJECTIVES:**

Replacement of the HVAC system would help preserve target occupancy and maintain market rates for the C-15 Building at Fishermen's Terminal, 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 impact while supporting economic vitality by reducing Port costs and generating construction related jobs. The Office of Social Responsibility will review small business goals and Small Contractors and Suppliers requirements, accordingly.

### **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, the costs increase, the Port risks not being able to meet our lease obligations, and the tenants are uncomfortable. This alternative is not recommended.

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**Alternative #2.** Replace just the HVAC system and not the digital control system. This option would not allow for the maximum energy savings that replacing both the HVAC and control system would allow. In addition, the existing control systems that are in place are not fully compatible with the new HVAC equipment and would be costly to retrofit. Less energy efficient or more costly new equipment may need to be specified in order to make the new HVAC and controls compatible. This alternative is not recommended.

**Alternative #3.** Replace the existing HVAC and digital control systems with a new energy efficient system. This option assures that the controls and HVAC equipment will be compatible and will perform as required to keep our tenants and customers comfortable. **This is the recommended option.**

### **OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:**

None.

### **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:**

- May 11, 2010 – Commission authorized the design funding of \$807,000, bringing total project authorization to \$857,000.
- November 30, 2009 – Commission was briefed on the project status.