

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

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

**Item No.** 5b  
**Date of Meeting** January 7, 2014

**DATE:** December 20, 2013  
**TO:** Tay Yoshitani, Chief Executive Officer  
**FROM:** Rod Jackson, Capital Project Manager  
Kenneth R. Lyles, Sr. Manager, Fishing and Commercial Vessels, Real Estate  
Rebecca Schwan, Real Estate Manager, Portfolio & Asset Management  
**SUBJECT:** Fishermen's Terminal Net Shed #9 Roof Overlay (CIP #C800527) and  
Fishermen's Terminal C-2 Nordby HVAC and Roof Replacement (CIP #C800344)

	<b>Fishermen's Terminal Net Shed #9 Roof Overlay</b>	<b>Fishermen's Terminal C-2 Nordby HVAC and Roof Replacement</b>
<b>Amount of This Request:</b>	\$171,400	\$2,140,600
<b>Source of Funds</b>	Tax Levy	Tax Levy
<b>Estimated Total Project Cost</b>	\$301,400	\$2,438,600
<b>Estimated State and Local Taxes</b>	\$21,120	\$170,880
<b>Estimated Jobs Created</b>	3	30

**ACTION REQUESTED**

Request Commission authorization for the Chief Executive Officer to advertise for construction bids, execute construction contract, and fund the construction phase to complete: (1) the Fishermen's Terminal Net Shed #9 Roof Overlay in an amount not to exceed \$171,400 of a total estimated project cost of \$301,400; and (2) the Fishermen's Terminal C-2 Nordby HVAC and Roof Replacement Project in an amount not to exceed \$2,140,600 for a total estimated project cost of \$2,438,000. The total amount requested for both projects is \$2,312,000 and the total cost of both projects is \$2,740,000.

**SYNOPSIS**

Earlier this year, the Port Commission authorized funding for design and permitting of \$80,000 for the Fishermen's Terminal Net Shed #9 Project and \$223,000 for the Fishermen's Terminal C-2 Nordby HVAC and Roof Replacement (C-2 Nordby) Project in separate actions. As a result of work conducted during the design phases for these projects, staff proposes to combine the construction efforts of the two projects into a single construction contract to achieve cost savings to the Port of approximately \$125,000. .

With the final designs complete and permits in hand, Commission approval is requested to proceed with the construction phase of the projects. This includes advertising for construction bids, execution of a major construction contract, and all other work necessary to complete the

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projects. The funds requested reflect the information gathered during the final design phase of these projects.

### **BACKGROUND**

Fishermen's Terminal, located on Salmon Bay, is a regional center for maritime activity. It is the homeport of the North Pacific Fishing Fleet and is one of the few working terminals in the United States with public access. Current long term planning assumes that Net Shed #9 and C-2 Nordby will continue to be essential at Fishermen's Terminal. In 2008, the Port initiated a comprehensive Condition Assessment study of all assets at Fishermen's Terminal including the Net Shed #9 and the C-2 Nordby Buildings. The assessment determined that the corrugated roofing system at Net Shed #9 and the built-up roofing system and HVAC at C-2 Nordby were at the end of their service lives.

Net Shed #9 was constructed in 1987. This 12,000 square foot Roof Overlay project involves the membrane overlay installation of roofing PVC to protect the existing steel corrugated roof. This new roofing overlay system will provide a 20-year warranty life. The building is currently 84% occupied. Recent inspections of Net Shed #9 revealed the protective coating on the roofing system had reached the end of its service life. Rusting of varying degrees is clearly visible at gutters and other areas. If left alone, continued corrosion and rust will distress the roofing system, resulting in more costly structural repairs or replacements in the future.

The C-2 Nordby building was built in 1954 and covers approximately 23,000 square feet. It has HVAC and roofing that have exceeded design life. Recent inspections of C-2 Nordby revealed the built-up roofing system has failed, allowing major leaks into tenant spaces below. The building is currently 96% occupied. It is being used primarily by businesses associated with the maritime industry. The building houses one of Fishermen's Terminals 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 Crane & Mitchell CPAs accounting firm, all of whom support the commercial fishing fleet. Current long-term planning assumes that C-2 Nordby will continue to be a core function at Fishermen's Terminal.

Inspections also verified the HVAC system is not operating efficiently and must be replaced. It would be less costly to the Port to replace both the HVAC and the roof at the same time. If left alone, leaks will continue and become more costly to repair in the future. This new roofing system will provide a 25-year life and the HVAC system will provide a 20-year warranty life.

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 construction-funding request is not expected to

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affect any long-term development plans for the terminal. These projects were included in the 2014 plan of finance.

### **PROJECT JUSTIFICATION AND DETAILS**

The proposed project would preserve revenues associated with the leased space in these important building assets at Fishermen's Terminal, extend the life of the building structures, and minimize Port liability. Deferring or foregoing this work will result in continued deterioration of Roofing and HVAC system components. Eventually this could also lead to additional failures, 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 Objectives***

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

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

The scope of work for the Net Shed #9 Project will include:

- Installation of PVC membrane to overlay to the existing steel corrugated roof.
- A new fall protection system.
- A new security ladder for access by Port personnel.
- The project will also use environmentally sustainable components and construction methods.

The scope of work for the C-2 Nordby Building HVAC and Roof Replacement Project will include the replacement and installation of:

- A new energy efficient HVAC system.
- A new energy-efficient built-up roofing system with additional insulation.
- New fall protection system and attachments in required areas.
- A new security ladder for access to the roof by Port personnel.
- The project will also use environmentally sustainable components and construction methods.

#### ***Schedule***

The two projects will be closely coordinated and bid out as one major construction contract. Construction schedule below:

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Commission Approval for Design	Net Shed #9 - May 2013 C-2 Nordby - July 2013
Permit/Design Complete	December 2013 / January 2014
Commission Approval for Construction	January 2014
Advertise for Bids	February 2014
Construction	May 2014 through October 2014

## **FINANCIAL IMPLICATIONS**

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

	Net Shed #9 Capital	C2 Nordby Capital	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$130,000	\$298,000	\$428,000
Current request for authorization	\$171,400	\$2,140,600	\$2,312,000
Total Authorizations, including this request	\$301,400	\$2,438,600	\$2,740,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$301,400	\$2,438,600	\$2,740,000

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

	Net Shed #9 <u>This Request</u>	Net Shed #9 <u>Total Request</u>
Construction	\$126,235	\$221,980
Construction Management	\$12,323	\$21,670
Design	\$4,778	\$24,420
Project Management	\$5,067	\$8,910
Permitting	\$1,877	\$3,300
State & Local Taxes (estimated)	\$21,120	\$21,120
Total	\$171,400	\$301,400

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

	C-2 Nordby <u>This Request</u>	C-2 Nordby <u>Total Request</u>
Construction	\$1,573,474	\$1,796,020
Construction Management	\$155,706	\$175,330
Design	\$177,360	\$197,580
Project Management	\$50,996	\$72,090
Permitting	\$12,184	\$26,700
State & Local Taxes (estimated)	\$170,880	\$170,880
Total	\$2,140,600	\$2,438,600

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### ***Budget Status and Source of Funds***

#### **FT Net Shed #9 Roof Overlay Project**

This project was included in the 2014 Plan of Finance under CIP #C800527, FT Net Shed 9 Roof Replacement for a total cost of \$498,000 (including actual spending in 2012 and forecasted spending in 2013).

#### **FT C-2 Nordby HVAC and Roof Replacement**

This project was included in the 2014 Plan of Finance under CIP #C800344, FT C-2 Nordby Roof & HVAC for a total cost of \$2,001,000 (including forecasted spending in 2013). The additional \$438,000 required to fund this project will come from below budgeted spending on the Net Shed 9 Roof and less spending on CIP C800243 Preliminary Planning.

Both projects will be funded by the tax levy.

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

<b>CIP Category</b>	Renewal/Enhancement
<b>Project Type</b>	Renewal & Replacement
<b>Risk adjusted discount rate</b>	NA
<b>Key risk factors</b>	Actual costs could exceed the current estimates. Future revenues from the buildings could be less than currently expected.

#### **Net Shed #9 Roof**

<b>Project cost for analysis</b>	Net Shed #9 Roof \$301,400
<b>Business Unit (BU)</b>	Harbor Services Group – Fishing & Commercial
<b>Effect on business performance</b>	This project is a renewal and replacement project and, accordingly, this project preserves Net Operating Income (NOI) rather than creates new NOI.  Preserves Net Shed 9 Net Operating Income of approximately \$92,000 per year excluding major maintenance/compliance expenses.**  Increases depreciation expense by approximately \$15,070 per year based on a 20-year useful life for the roof.
<b>IRR/NPV</b>	The NPV is the present value of the project cost.

Note\*\*: Net Shed 9, including this roof replacement, expected future electrical upgrades and the code compliance project is expected to generate approximately an 8.1% return over the next 25 years.

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### **C-2 Nordby Building Roof and HVAC**

<b>Project cost for analysis</b>	C-2 Nordby Building Roof and HVAC \$2,438,600
<b>Business Unit (BU)</b>	Real Estate – Commercial Properties
<b>Effect on business performance</b>	<p>This project is a renewal and replacement project and, accordingly, this project preserves Net Operating Income (NOI) rather than creates new NOI.</p> <p>Preserves Fishermen’s Terminal Building C-2 Net Operating Income of about \$117,000 per year excluding major maintenance and tenant improvement expenses.</p> <p>Increases Depreciation Expense approximately \$54,000 per year based on a 25-year useful life for the roof and a 20-year useful life for the HVAC system.</p>
<b>IRR/NPV</b>	The NPV is the present value of the project cost.

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

Annual Operating and Maintenance costs for the Net Shed #9 and the C-2 Nordby HVAC and roof are forecasted to decrease because of the installation of the new roofs and the HVAC system. The lifecycle cost analysis for the two systems determined which of the roof overlay and HVAC/roof-replacement system design options were appropriate for the facility.

### **STRATEGIES AND OBJECTIVES**

This project supports the Port’s Century Agenda strategies by aligning with the Port’s commitment to be the nation’s leading green and energy-efficient port. Upon completion, these Roofing projects will, help 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 valuable Port assets.
- Maintaining the long-term revenue-generating capabilities of the Net Shed #9 and C-2 Nordby Buildings.
- Providing fishermen and other moorage customers close proximity to maritime-supported businesses within Net Shed #9 and the C-2 Nordby Buildings.
- Maintaining the long-term revenue-generating capability of the Net Shed #9 and C-2 Nordby Buildings.
- Reducing overall energy consumption at the facility by replacing old, outdated equipment with energy-efficient equipment and controls at the C-2 Nordby Building.
- Fulfilling lease commitments and obligations to the Port’s tenants.

The mission of Fishermen’s Terminal is to operate and maintain facilities and services such as Net Shed #9, which support the North Pacific Fishing Fleet and other maritime industries, while working toward break-even financial performance for the properties as a whole. Dry locker or net shed storage is an important service Fishermen’s Terminal provides to our commercial

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fishing customers. These customers rely on covered, enclosed storage facilities for storing weather-sensitive mechanical equipment, gear or other types of property used in the fishing industry and in the sustainability of their respective fishing vessel operations. The majority of the customers who lease space in Net Shed #9 are small, independent fishers. Having their equipment, gear, and commodities close to their vessel is important.

### **TRIPLE BOTTOM LINE**

#### ***Economic Development***

Preserving existing assets defers high-impact and high-cost asset replacement and reduces environmental impacts while supporting economic vitality by reducing Port costs and generating construction-related jobs. The proposed construction methods will have minimal noise and traffic impact to the surrounding communities.

#### ***Environmental Responsibility***

This project will include energy efficient HVAC equipment and roofing materials, recycling of demolished and other sustainable materials, and products relative to indoor environmental quality. 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 roof overlay including 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 infrastructures, as an alternative for avoiding more environmentally disruptive and resource/materials consumptive large-scale structure replacement actions.

#### ***Community Benefits***

The project team worked with the Office of Social Responsibility (OSR) in determining opportunities for participation by small businesses on this project as described in small business Resolution No. 3618. Preserving existing assets defers high-impact and high-cost asset replacement and therefore reduces environmental impacts. The proposed construction methods will have minimal noise and traffic impact to the surrounding communities.

### **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1)** – Doing nothing increases the maintenance inspections and repair of Net Shed #9 and the C-2 Nordby Built-Up Roofing Systems as they continue to deteriorate and leaks appear on the roofs. Costs are increased for the C-2 Nordby HVAC system as cooling and heating is continually degenerating. This is not the recommended alternative since the roof and HVAC systems are at the end of their service lives.

**Alternative 2)** – Proceed with the construction of the Net Shed #9 Overlay and the construction and replacement of the C-2 Nordby Roof and HVAC systems. This will reduce future risks and consequences to the two buildings and internal appurtenances, including tenant and staff disruptions caused by roof and HVAC system failure. **This is the recommended alternative.**

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## **ATTACHMENTS TO THIS REQUEST**

- None.

## **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- February 5, 2013 – Staff presented and requested design funds for both the Maritime Industrial Center (MIC) Building A-1 Roof replacement project (CIP #800571) and the Fishermen’s Terminal Net Shed #9 (CIP #800527). Commission approved the MIC roofing project but postponed the Fishermen’s Terminal Net Shed #9 item.
- May 14, 2013 – Commission approved design funding for the Fishermen’s Terminal Net Shed Building #9 Roof Overlay (CIP #800527).
- July 9, 2013 – Commission approved design funding for the Fishermen’s Terminal C-2 Nordby HVAC and Roof Replacement (CIP #800344).