

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5d

ACTION ITEM

Date of Meeting April 27, 2010

DATE: April 7, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Dakota Chamberlain, Director, Seaport Project Management
Mark Longridge, Capital Project Manager

SUBJECT: Project budget increase for barge layberth improvements at Terminal 25,
Pier 28 and Terminal 46

Amount of This Request: \$38,000 **Source of Funds:** Expense project

State and Local Taxes Paid: \$10,700 (Total Project)

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to increase the amount authorized for this project by \$38,000 to pay additional in-house and contractor costs to complete the barge layberth improvements at Terminal 25, Pier 28 and Terminal 46, for a total authorization of \$338,000.

SYNOPSIS:

The Commission previously authorized \$300,000 for construction based on average allocated overhead rates for each department involved. For this project the actual allocated overhead rates for the months of construction activity were significantly above average, resulting in the need for an additional budget request as detailed in the following table:

	Original Estimate	Current Estimate	\$ Variance	% Variance
Direct Costs	\$ 242,000.00	\$ 246,000.00	\$ 4,000.00	1.6%
Allocated Overhead	\$ 58,000.00	\$ 92,000.00	\$ 34,000.00	58.6%
Total	\$ 300,000.00	\$ 338,000.00	\$ 38,000.00	12.7%

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ADDITIONAL BACKGROUND:

Allocated overhead is calculated as a percentage of some or all of the direct costs incurred on work projects. While the specific calculation varies by department the principle is the same. All overhead costs such as vehicles, rent, office equipment and supplies, staff training and other costs of operation are spread throughout the direct charges to projects. Some departments spread these costs over all project costs (such as PCS), and others over only the salary and consultant costs (such as Project Management)

In planning and budgeting for this work staff had estimated an assumed allocated overhead rate for Port Construction Services (PCS) and Marine Maintenance staff based on a historical average for these departments. In reality, the overhead rates for the months of construction activity and billing were substantially higher than these assumed rates as shown in the following table:

Department	Estimate Rate	Jan 2010 Rate	Feb 2010 Rate
Seaport Project Management	125%	137%	136%
Port Construction Services	18%	27%	42%
Marine Maintenance	18%	19%	56%

The high variability of these rates from month to month can make accurate estimating and forecasting particularly difficult for smaller projects with limited construction duration such as the Barge Layberth projects.

Project expenditures to date are \$251,925. Actual construction costs for the work were also above budgeted amounts, and had the overhead rates remained at the predicted 18% the project is estimated to have been completed for \$306,230.

PROJECT JUSTIFICATION:

This project includes fender pile and site improvements at three Port facilities to restore barge layberth capacity displaced by the activation of cruise operations at Terminal 91. It provides an additional 1,100 linear feet of available barge moorage in the harbor.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

- The scope at Terminal 25 included fencing and site improvements to allow secure barge layberth for MTSA compliant barges.

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- The scope at Pier 28 included repair to eight fender piles originally identified in the condition survey, plus replacement of two additional broken piles identified since the survey, and associated chock, waler and walkway repairs to upgrade the condition of the berth, and to improve safety for line handling and vessel berthing operations.
- The scope at Terminal 46 included replacement of two fender piling at the NE corner of the terminal to provide protection of the pier structure and replacement of the ladder used by Puget Sound Pilots.

Schedule:

- All work for these projects has been completed and the berths have been returned to service as of February 2, 2010. Final billing and payment for all contracted work is pending receipt and review of contractor invoices and backup documentation.

FINANCIAL IMPLICATIONS:

Budget/Authorization Summary

Original Budget	\$300,000
Previous Authorizations	\$300,000
Current request for authorization	\$38,000
Total Authorizations, including this request	\$338,000
Remaining budget to be authorized	\$0
Total Estimated Project Cost	\$338,000

Project Cost Breakdown

Construction	\$265,300
Design & Project Management	\$46,000
Permitting	\$16,000
State & Local Taxes (estimated)	\$10,700
Total	\$338,000

Source of Funds

This project was included in the 2009 Operating Budget in the amount of \$250,000. Due to changes in the construction schedule, this project was not completed in 2009. The actual 2008/2009 project costs were \$129,000, and the actual 2010 project costs are expected to be \$209,000. The 2010 portion of this project will create an unfavorable operating expense variance. Seaport Division will strive to offset this incremental operating expense with savings in other operating expenses.

This project will be funded from the general fund.

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Financial Analysis Summary:

CIP Category	Renewal/Enhancement																									
Project Type	Renewal and Replacement																									
Risk adjusted Discount rate	N/A																									
Key risk factors	Project is complete, no remaining risk factors																									
Project cost for analysis	\$338,000																									
Business Unit (BU)	Dock Operations																									
Effect on business performance	<p>The estimated project costs will have the following effect on NOI. Depreciation Expense will not be impacted by this project as this repair is an operating expense.</p> <table border="1"><thead><tr><th></th><th>2008</th><th>2009</th><th>2010</th><th>TOTAL</th></tr></thead><tbody><tr><td>Incremental Expense</td><td>(17,000)</td><td>(112,000)</td><td>(209,000)</td><td>(338,000)</td></tr><tr><td>NOI</td><td>(\$17,000)</td><td>(\$112,000)</td><td>(\$209,000)</td><td>(\$338,000)</td></tr><tr><td>Depreciation</td><td>-</td><td>-</td><td>-</td><td>-</td></tr><tr><td>NOI After Depreciation</td><td>(17,000)</td><td>(112,000)</td><td>(209,000)</td><td>(338,000)</td></tr></tbody></table>		2008	2009	2010	TOTAL	Incremental Expense	(17,000)	(112,000)	(209,000)	(338,000)	NOI	(\$17,000)	(\$112,000)	(\$209,000)	(\$338,000)	Depreciation	-	-	-	-	NOI After Depreciation	(17,000)	(112,000)	(209,000)	(338,000)
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IRR/NPV	N/A																									

STRATEGIC OBJECTIVES:

- This work is aligned with the Industrial Moorage Initiative as it is intended to preserve and expand berth facilities in the harbor to provide for a vibrant Seaport that adequately serves the requirements of all essential sectors of the maritime community.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

1. Do nothing. This alternative could result in the non-payment of invoices and reimbursement of in-house costs. This action would not be consistent with Port project accounting procedures and policies. This is not the recommended alternative.
2. Increase the authorized amount to \$338,000 for the projected costs to complete the project. The requested increased authorization addresses actual expenditures and projected costs through project closeout. **This is the recommended alternative.**

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PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- Modification of scope for barge layberth improvements at Terminal 25, Pier 28 and Terminal 46, November 10, 2009
- Authorization for construction of barge layberth improvements at Terminal 25, Pier 28 and Terminal 46, March 10, 2009
- Authorization for design and permitting of barge layberth improvements at Terminal 25, Pier 28 and Terminal 46, October 14, 2008
- Policy and Staff Briefing – Industrial Moorage Initiative, June 3, 2008