PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 5a

Date of Meeting August 24, 2010

DATE: August 18, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Lindsay Pulsifer, General Manager, Marine Maintenance

SUBJECT: T-102 Harbor Marina Corporate Center HVAC Replacements (CIP C-800070)

Amount of This Request: $125,000 **Source of Funds:** Tax Levy

State and Local Taxes Paid: $11,630.85 **Est. Workers Employed:** Eleven (11) Worker Weeks

Total Project Budget (including previous authorization): $ 1,425,000

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to modify the T-102 Harbor Marina Corporate Center HVAC Replacement project to: 1) add $125,000 to budget to cover increases in costs for equipment, project management, procurement, labor and contracting, and 2) reduce the scope of the project from 65 units to 55 units to facilitate work completion and closing of projects. The total cost of this project is $1,425,000. (CIP# C-800070)

SYNOPSIS:

The Commission authorized capital replacement of HVAC systems at T-102 Harbor Marina Corporate Center on August 9, 2005. This project was to replace 65 of 76 roof top units. It is a lease obligation to provide HVAC, but replacement of only 55 units is actually required at this point, so it is necessary to reduce the scope of the project. In the past five years, Marine Maintenance has worked with designers, engineers, tenants, permitting agencies and contractors to complete installation of 48 of the units. Since the original authorization, there have been changes to the project plan required by City of Seattle Department of Planning and Development, HVAC design modifications and code changes. These factors have led to cost increases of $125,000 for equipment, project management, procurement, labor and contracting. This adjustment in the project leaves ten well-maintained units to be replaced in 2016, which are among those scheduled for replacement and already included in the Capital Plan.

PROJECT JUSTIFICATION:

The original project justification still pertains. Lease obligations require appropriate heating and cooling, and the units themselves require high level of maintenance to perform after expected useful life.

PROJECT SCOPE OF WORK AND SCHEDULE:

To close the projects, the scope of work in previous authorization needs to be reduced from 65 units to 55 units and $125,000 needs to be added to the project's authorized budget to cover remaining costs for replacement of seven selected units (for a total of 55).

This adjustment leaves ten (10) well-maintained units to be replaced in 2016, which are already included among those in the Capital Plan.

FINANCIAL IMPLICATIONS:

Previous Authorizations	$1,300,000
Current request for authorization	$125,000
Total Authorizations, including this request	$1,425,000
Remaining budget to be authorized	$0
Total Estimated Project Cost	$1,425,000

The average total cost per unit has increased from $20,000 to $26,000, since the original estimate was done in 2005 and the project was authorized. This increase is not out of line with the market. Funding for this increase will be harvested from authorized projects that are cancelled or delayed for other reasons. No other projects will be delayed to provide this funding.

Source of Funds:

The funds for the original $1,300,000 HVAC Replacement project have been included in Plan of Finance, since authorization in 2005. The additional $125,000 required to complete this project was not anticipated in the 2010 Plan of Finance, but is available due to timing delays in other 2010 projects such as a small capital project to fund a new security gate at the Marine Maintenance Shop. This additional project cost will be funded from the tax levy.

Financial Analysis Summary

CIP Category	Renewal/Enhancement
Project Type	Renewal and Replacement
Risk adjusted Discount rate	NA
Key risk factors	• The remaining HVAC units that are scheduled for replacement in 2016 could fail prior to that time. • Material costs could increase before purchase.
Project cost for analysis	$1,425,000
Business Unit (BU)	Portfolio Management Group, Real Estate Division
Effect on business performance	This is a renewal and replacement project and, accordingly, this project preserves Net Operating Income (NOI). Net Operating Income budgeted at Terminal 102 in 2010 is approximately $1.3 million, excluding major maintenance expenses. As a result of this project, depreciation expense will increase annually by $142,500 resulting in a corresponding reduction in Net Operating Income After Depreciation.
IRR/NPV	NA

ECONOMIC IMPACTS AND BUSINESS PLAN OBJECTIVES:

This project maintains the market-worthiness of valuable Real Estate assets and is consistent with our sustainability goals.

ENVIRONMENTAL SUSTAINABILITY AND COMMUNITY BENEFITS:

Units installed will be energy efficient and consume lower levels of natural gas and electricity than the units that were removed.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative #1: Cease activities on projects and attempt to maintain existing units. This alternative is not recommended because these units are old and beginning to fail. The Port is bound by lease to provide heating and cooling.

Alternative #2: Add significantly more to the CIP to allow replacement of all 65 units. This alternative is not recommended. The other ten (10) units have been well-maintained and are slightly newer than those covered by this request. Their replacement is included among those in the Capital Plan for 2016.

Alternative #3: As proposed here – fund replacement of the seven (7) selected units and reduce total count on original authorization from 65 units to 55 units. **This is the recommended action.**

PREVIOUS COMMISSION ACTION

Commission authorized $1,300,000 for CIP# C-800070, T 102 HVAC Renewal/Replacement, on August 9, 2005 (Item 7b, Memo dated July 7, 2005).