

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No.	6c
Date of Meeting	May 11, 2010

DATE: April 15, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Melinda Miller, Director, Portfolio Management
Kate Deaver, Capital Project Manager

SUBJECT: Fishermen's Terminal C15 HVAC Improvements
CIP: C800137

Amount of This Request: \$807,021

Source of Funds: Tax Levy

Estimated Total Cost Of The Project: \$4,000,000

ACTION REQUESTED:

Request authorization for the Chief Executive Officer to execute and award an outside professional services agreement for design services and to proceed with engineering and design analysis, preparation of construction documents (plans and specifications) permit acquisition, and project management for the replacement of the existing HVAC system on the C-15 Building at Fishermen's Terminal in the amount of \$807,021. The preliminary estimated cost of the project, prior to design work and completion of the engineer's estimate, is \$3,967,000.

SYNOPSIS:

This authorization is for the design phase of the project. Staff will return to Commission following completion of design to seek authorization for bid and award of the construction portion of the project. This project replaces the existing heating, ventilating, and cooling system (HVAC) and the digital controls systems.

The existing HVAC is original to the C-15 building which was built in 1987. The normal useful life for an HVAC system is approximately fifteen years. This system has been able to function well for twenty two 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, with the rapid advancements in energy efficient controls technology and the installation of energy efficient HVAC units, it was deemed necessary to replace the controls.

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The preliminary budget for this project is \$4,000,000. The project was included in the 2010 Plan of Finance as a committed project under CIP #C800137 with the bulk of the dollars to be spent in 2011. The C-15 building is 95% occupied and generates annual revenues of \$1,172,537. Net Operating Income for C-15 is approximately \$860,000, excluding major maintenance expenses and tenant improvements.

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

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, one tavern, and three 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. When the building was constructed in 1987, 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.

The selected engineer will be tasked with creating design options that will be analyzed to determine the most cost effective solution with attention to energy efficiency and sustainability. We anticipate that the design will be challenging as the engineers will need to determine how to install very large units (up to 7'x7'x4') into spaces with limited (42") access. The roof/mezzanine structural issues will also be addressed and a solution determined so that the units can easily be replaced as needed in the future. We hope to find creative and cost effective methods for construction that will reduce the costs but won't know until we start the design. The costs are estimated higher than typical HVAC projects because of the roof/mezzanine structural issues.

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. It must be replaced as required by the Port's lease with the tenants, whose use of the building is compromised if the HVAC System fails.

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PROJECT STATEMENT AND OBJECTIVES:

Project Statement:

This project will replace the existing HVAC and Mechanical Controls System with new energy efficient equipment and a fully integrated mechanical controls system.

Project Objectives:

- Replace the existing system with an energy efficient system.
- Replace the two existing HVAC Controls Systems (east building and west building) with one linked web based system.
- Minimize construction impacts to the existing tenants, including scheduling to meet least weather related impacts.
- Replace the existing HVAC system with the most cost effective solution taking into account full life cycle costs (initial cost of equipment, maintenance, longevity, etc.).
- Create a design for this replacement that allows for easy access for system replacement in the future.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

The FT C-15 HVAC Improvements project includes:

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

This requested action authorizes execution and award of an outside professional services agreement for design services, including engineering and design analysis; preparation of construction documents (plans and specifications); permit acquisition; and project management activities.

Schedule:

- Procurement for the engineer/designer will start in May 2010 with the actual design starting in late summer/early fall 2010. Construction is scheduled, due to the long lead time on the equipment and the weather, for spring of 2012 with an expected duration of less than three months.

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Tentative Schedule:

	<u>Start</u>	<u>Finish</u>
Pre –Design	May 2010	Sept 2010
Design	October/ November 2010	April/May 2011
Permits	September 2010	April 2011
Major Works Construction Bid	May 2011	July 2011
Construction NTP (Notice to Proceed)	September 2011	
Contractor Long Lead Items	October 2011	February 2012
Construction	April 2012	June 2012

Budget/Authorization Summary

Previous Authorizations (<i>prior RE Managing Director authorization</i>)	\$50,000
Current request for authorization	\$807,000
Total Authorizations, including this request	\$857,000
Remaining budget to be authorized	\$3,110,000
Total Estimated Project Cost	\$3,967,000

Project Cost Breakdown

Construction	\$2,860,000
Construction Management	\$172,000
Design	\$343,000
Project Management	\$286,000
Permitting	\$36,000
State & Local Taxes (estimated)	\$270,000
Total	\$3,967,000

Source of Funds

The Fishermen's Terminal C15 HVAC Improvement project was included in the 2010 Plan of Finance as a committed project in the amount of \$4,000,000 under CIP C800137.

The project will be funded from the Tax Levy.

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Financial Analysis Summary:

CIP Category	Renewal/Enhancement																								
Project Type	Renewal and Replacement																								
Risk adjusted Discount rate																									
Key risk factors	<ol style="list-style-type: none"> 1) Construction impacts on tenants, permitting and weather could negatively impact the timing of the project. 2) Construction costs are preliminary and could increase if required work is more extensive than currently known. The construction cost estimate will be refined during the design process. 3) The estimated Net Operating Income is based on contractual rents and an assumed 10% vacancy rate. Net Operating Income could be lower, if the vacancy rate exceeds 10%. The current tenant mix is a collection of relatively small tenants with a significant exposure to retail. 																								
Project cost for analysis	\$3,967,000																								
Business Unit (BU)	Portfolio Management – Fishermen’s Terminal Uplands																								
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 \$860,000 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>NOI (in \$000's)</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</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>\$0</td> <td>(\$188)</td> <td>(\$376)</td> <td>(\$376)</td> </tr> <tr> <td>NOI After Depreciation</td> <td>\$0</td> <td>\$0</td> <td>(\$188)</td> <td>(\$376)</td> <td>(\$376)</td> </tr> </tbody> </table>	NOI (in \$000's)	2010	2011	2012	2013	2014	NOI	\$0	\$0	\$0	\$0	\$0	Depreciation	\$0	\$0	(\$188)	(\$376)	(\$376)	NOI After Depreciation	\$0	\$0	(\$188)	(\$376)	(\$376)
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IRR/NPV	<p>Preliminary financial analysis – based on estimated construction costs and preservation of existing NOI, as stated above (proxy for cashflow):</p> <table border="1"> <thead> <tr> <th>NPV (in \$000's)</th> <th>IRR</th> <th>Payback (in years)</th> </tr> </thead> <tbody> <tr> <td>\$3,582</td> <td>NA</td> <td>7</td> </tr> </tbody> </table>	NPV (in \$000's)	IRR	Payback (in years)	\$3,582	NA	7																		
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ECONOMIC IMPACTS AND BUSINESS PLAN OBJECTIVES:

Proceeding with this project now, rather than later, allows the Port to replace a valuable asset in a planned and cost effective approach before it fails and minimizes the risk of negatively impacting our customer's and the Port's financial bottom line.

STRATEGIC OBJECTIVES:

This project supports the Port's strategies to "Ensure Airport and Seaport Vitality and to "Exhibit Environmental Stewardship through our Actions" by:

- Investing in, and renewal of a valuable Port asset
- Maintaining the long-term revenue generating capability of the Fishermen's Terminal C-15 Building.
- Fulfilling our lease commitments and obligations to our multiple tenants at the C-15 Building
- Reducing the Port's energy consumption by replacing old, outdated equipment with energy efficient equipment and controls.

ENVIRONMENTAL SUSTAINABILITY AND COMMUNITY BENEFITS:

This project will replace old inefficient equipment with new energy efficient equipment. The design scope of work will include providing options for replacing the equipment and life cycle cost analysis will be done as part of the option selection. As the design progresses, additional sustainability and community benefits will be pursued.

TRIPLE BOTTOM LINE:

This project maintains a valuable Port asset, allows Real Estate Portfolio Management to retain revenue from C-15 Building asset while reducing the cost of heating and cooling, and reduces the Port's overall energy use at Fisherman's Terminal.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative #1. Do nothing. As the existing system is well beyond its useful life, additional maintenance costs occur 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 their lease obligations, and the tenants are uncomfortable. This alternative is not recommended.

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

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place now may not be compatible with the new HVAC equipment. 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 System 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

November 3, 2009-Commission briefing on the C-15 building HVAC Project.

PREVIOUS COMMISSION ACTIONS

The Commission was briefed on this project on November 30, 2009.