

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6d
Date of Meeting January 24, 2012

DATE: January 12, 2012

TO: Tay Yoshitani, Chief Executive Officer

FROM: Mike McLaughlin, Director, Cruise and Maritime Operations
Rod Jackson, Capital Project Manager, Seaport

SUBJECT: Terminal 91 Waterline Replacement
CIP #800298

Amount of This Request: \$320,000

Source of Funds: General Operating Funds &
Tax Levy

Total Project Cost: \$4,575,000

ACTION REQUESTED:

Authorization for additional funding to complete construction of the Terminal 91 Waterline Replacement project at an additional cost of \$320,000 for a total project cost of \$4,575,000. This funding exceeds the original budget amount of \$4,255,000.

SYNOPSIS:

Portions of the underground waterlines at Terminal 91 (T-91) in the vicinity of the Magnolia Bridge and upland area were installed over 60 years ago (when facility was under US Naval use). These old, deteriorated systems are unreliable and have exceeded their useful design/service life.

These pipelines distribute the domestic water throughout the terminal and supply water to the fire protection systems—critical to terminal/tenant operations and safety. Replacement of these aged pipelines is necessary to prevent continued failures which create costly repairs and interruption of operations for both the Port and our customers. Multiple water main failures during the past few years have resulted in repair costs of over \$150,000 plus the additional costs including negative impacts absorbed by our tenants when waterlines fail.

The Commission approved the construction funds for this project on October 12, 2010, and construction commenced November 2010. The site construction work is near 80% complete. Current projections for cost to complete this project exceed original budget authorization.

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ADDITIONAL BACKGROUND:

- During construction the project team discovered the need to replace a 1200 foot long segment of pipe and valves which were not in the original work scope. At the time of discovery, the team felt that the project would have adequate contingency to absorb the costs of additional pipeline installation and the decision was made to proceed with the additional work and to closely monitor expenditures as construction continued.
- The pipe supplied for the project including the additional work area was found to be defective. This was discovered during pressure testing of the system. The supplier agreed to replace the defective materials and reimburse the Port for the labor cost to redo the work; however, per accounting policies, the funds recovered do not go back to the project budget. The recovered funds will be placed in the Port's general fund.
- Additional complications were experienced during construction such as, buried concrete obstructions (not shown on the plan) and underground utility obstructions.

These challenges were unforeseen during the design phase, and as a result, depleted the project's contingency fund. Moving forward, based on current projections, the project will need an additional \$320,000 to complete the construction work.

PROJECT STATEMENT AND OBJECTIVES:

Project Statement:

This project replaces deteriorated waterlines, valves, and hydrants, separates domestic and fire system lines, installs back-flow preventers, dry pipe valves, and above-ground hot boxes at several existing T-91 facilities including buildings M-19, M-28, W-39, W-40, W-50, W-390 and W-391

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

- The project was designed in-house, the construction portion utilized Port Construction Services and Marine Maintenance crews to demolish and replace deteriorated waterlines, valves, and hydrants; prepare base materials; provide new future utility stub connections for additional future Upland capacity; separate domestic and fire system water service at several of the existing facilities while installing back flow preventers per City of Seattle and National Fire Protection Codes; and restore surface pavement as required.

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Schedule:

| | <u>Start</u> | <u>Finish</u> |
|--------------|---------------------|-----------------------------------|
| Pre –Design | January 2010 | March 2010 (COMPLETED) |
| Design | March 2010 | September 2010 (COMPLETED) |
| Permits | September 2010 | October 2010 (COMPLETED) |
| Construction | November 2010 | April 2012 (IN PROGRESS) |
| Close Out | May 2012 | September 2012 |

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

| | |
|--|-------------|
| Original Budget | \$ 0 |
| Previous Authorizations | \$4,255,000 |
| Current request for authorization | \$ 320,000 |
| Total Authorizations, including this request | \$4,575,000 |
| Remaining budget to be authorized | \$ 0 |
| Total Project Cost | \$4,575,000 |

Project Cost Breakdown

| | |
|--|-------------|
| Construction | \$3,792,000 |
| Sales Tax | \$ 150,000 |
| Soft Costs | \$ 547,000 |
| REMEDICATION Environmental Remediation Liability | \$ 86,000 |
| Total Project Costs | \$4,575,000 |

Source of Funds

This project was included in the 2012 Plan of Finance under Committed CIP# C800298, T-91 Water Main Replacement N. of Bridge, in the amount of \$4,255,000. The additional \$320,000 required to fund the balance is available due to deferred projects such as the Terminal 25 South Redevelopment Phase 2 project.

The Environmental Remediation Liability (ERL) portion will be charged to expense in accordance with Port Policy AC-9. The cash funded by ERL, which pays for the environmental cleanup project, is funded by the Port's Tax Levy. Previous ERL costs have been decreased for the project by \$59,000 because the potential of encountering contaminated soils is reduced as construction moves away from the previous Tank Farm footprint area.

The remainder of the project will be funded from the General Fund.

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Financial Analysis Summary:

| CIP Category | Renewal/Enhancement | | | | | | | | | | | | | | | | | | | | | | | | |
|---------------------------------------|---|-------------------------|---------------------|-------------|-------------|-------------|-------------|-----|-----|-----|-----|-----|-----|--------------|--------|--------|--------|--------|--------|------------------------|--------|--------|--------|--------|--------|
| Project Type | Renewal & Replacement | | | | | | | | | | | | | | | | | | | | | | | | |
| Risk adjusted Discount rate | NA | | | | | | | | | | | | | | | | | | | | | | | | |
| Key risk factors | <ul style="list-style-type: none"> • Project schedule and costs could increase if there are continued unforeseen complexities such as underground obstructions. These risks are mitigated as the project continues through the construction phase. • The environmental component of the project may be more extensive as site specific information becomes available. This risk is also mitigated as the project continues through the construction phase. | | | | | | | | | | | | | | | | | | | | | | | | |
| Project cost for analysis | \$4,575,000 | | | | | | | | | | | | | | | | | | | | | | | | |
| Business Unit (BU) | Seaport Industrial Properties | | | | | | | | | | | | | | | | | | | | | | | | |
| Effect on business performance | <p>This project will not generate any incremental revenue.</p> <p>Total depreciation expense from this project is estimated to be approximately \$90,000 per year based on a fifty year life. The allocation of actual project costs to specific assets will be finalized near the end of the project, estimated to be the end of the third quarter 2012. Net Operating Income after Depreciation for this facility will decrease by the associated depreciation expense of this project.</p> <table border="1"> <thead> <tr> <th><u>NOI (in \$000's)</u></th> <th><u>2012</u></th> <th><u>2013</u></th> <th><u>2014</u></th> <th><u>2015</u></th> <th><u>2016</u></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>(\$22)</td> <td>(\$90)</td> <td>(\$90)</td> <td>(\$90)</td> <td>(\$90)</td> </tr> <tr> <td>NOI After Depreciation</td> <td>(\$22)</td> <td>(\$90)</td> <td>(\$90)</td> <td>(\$90)</td> <td>(\$90)</td> </tr> </tbody> </table> | <u>NOI (in \$000's)</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | NOI | \$0 | \$0 | \$0 | \$0 | \$0 | Depreciation | (\$22) | (\$90) | (\$90) | (\$90) | (\$90) | NOI After Depreciation | (\$22) | (\$90) | (\$90) | (\$90) | (\$90) |
| <u>NOI (in \$000's)</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | | | | | | | | | | | | | | | | | | | | |
| NOI | \$0 | \$0 | \$0 | \$0 | \$0 | | | | | | | | | | | | | | | | | | | | |
| Depreciation | (\$22) | (\$90) | (\$90) | (\$90) | (\$90) | | | | | | | | | | | | | | | | | | | | |
| NOI After Depreciation | (\$22) | (\$90) | (\$90) | (\$90) | (\$90) | | | | | | | | | | | | | | | | | | | | |
| IRR/NPV | <table border="1"> <tr> <td>NPV</td> </tr> <tr> <td>(in \$000's)</td> </tr> <tr> <td>(\$4,575)</td> </tr> </table> | NPV | (in \$000's) | (\$4,575) | | | | | | | | | | | | | | | | | | | | | |
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| (in \$000's) | | | | | | | | | | | | | | | | | | | | | | | | | |
| (\$4,575) | | | | | | | | | | | | | | | | | | | | | | | | | |

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Alternative 1: Shut down the project without completing the work. This is not the recommended alternative.
- Alternative 2: Complete replacement of the failing underground water distribution systems serving the existing facilities and tenants at T-91 to maintain water service throughout the facility and provide required fire protection systems. This alternative will restore the waterlines to full beneficial use and will minimize the possibility of future failures. This

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upgrade will also provide needed capacity and additional connection points for future development of the terminal. **This is the recommended alternative.**

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

On October 12, 2010, Commission authorized \$3,555,000 to proceed with the Construction phase of the T-91 Waterline replacement project.

On March 9, 2010, Commission authorized \$700,000 to proceed with the Design and the Permitting phase of the project including construction document preparation.