

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4i
Date of Meeting July 14, 2015

DATE: July 7, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Joe McWilliams, Managing Director, Economic Development
Tim Leonard, Capital Project Manager, Capital Development
SUBJECT: Harbor Marina Corporate Center Roof and HVAC Units Replacement
(CIP #C800196)

Amount of This Request: \$402,000 **Source of Funds:** Tax Levy
Est. Total Project Cost: \$6,300,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to proceed with design and preparation of construction documents for the Terminal 102 Harbor Marina Corporate Center (HMCC) Roof and Heating, Ventilation, and Air Conditioning (HVAC) Units Replacement Project for an estimated cost of \$402,000, bringing the current authorization for this project to \$472,000 for a total estimated project cost of \$6,300,000.

SYNOPSIS

This memo requests authorization to proceed with the design of a new replacement roofing system as well as the replacement of the final 14 of 69 existing HVAC rooftop units and all existing rooftop gas piping on the four buildings (A, B, C, and D) that comprise the HMCC. The buildings, collectively, are approximately 80% occupied; primarily as general office and warehouse space for a variety of businesses.

The existing roofing system on the four HMCC buildings covers approximately 88,000 square feet and is nearing the end of its service life. The fourteen existing rooftop HVAC units, slated for replacement, utilize natural gas and have reached their typical service life of 15 years. Replacing the HVAC units at the same time as the roof will result in an installation cost savings and minimize impact to building tenants and operations. With the pre-design of the HVAC and roofing system investigations completed, staff is seeking Commission authorization to proceed with the design phase of the project.

BACKGROUND

Terminal 102 is a waterfront facility located at the south end of Harbor Island and was purchased by the Port in 1998. The four buildings comprising the HMCC contain a total of approximately

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

July 7, 2015

Page 2 of 6

138,000 square feet of flex office, warehouse, storage and retail space. The tenant base is mixed with a few large tenants, Virtuoso, Mountaineers Books and Puget Sound Institute of Pathology collectively occupying a third of the total leasable square footage. Other tenants include Department of Homeland Security and several businesses that support the maritime industry.

The four HMCC building roofs currently contain 69 gas-fired HVAC units. Two prior HVAC improvement projects replaced 48 and 7 of the rooftop units in 2006 and 2010 respectively. The remaining 14 HVAC units, as well as the gas piping system on the roofs that serves all of the HVAC units, are now at the end of their service life. The Port intends to install the new gas-fired HVAC units and associated piping per current City of Seattle building codes that will have a 15-year typical service life.

In 2014, the Port had a condition study performed for the HMCC building roofs by Cornerstone Architectural Group. The assessment determined that the roof systems were at the end of their service life and in poor condition due to observed cracking and open seams in the surface roof membrane, metal coping deficiencies, flashing failures, inadequate fall protection, and poor surface drainage resulting in large areas of ponding water. A follow-up investigation performed by Cornerstone in April 2015, involving thermal imaging, open roof cuts for sample removal, and moisture testing, revealed localized areas of moisture penetration into the roof substrate layers and degraded timber roof decking. Cornerstone rated the roof to be in “failing” condition with a maximum of two years of remaining viable life with average maintenance. While tenant space maintenance issues due to roof leakage have been routine to date, this will become a serious concern if the current moisture infiltration into the roof substrate and resultant increased rotting of timber materials is not addressed soon. A delay in replacement of the existing building roofs will also likely result in higher long-term costs, due to replacement of an increased amount of rotted timber substrate material and potential mold remediation. The proposed replacement roof will reuse the existing roof’s insulation material, and be installed per the City of Seattle building codes, with a 25-year minimum warranty life.

The current asset strategy for Harbor Marina Corporate Center is to maximize occupancy, aggressively manage costs, and to hold the property until the various major projects (e.g. the boring of the viaduct replacement tunnel and subsequent removal of the viaduct) that are negatively affecting access to the property are completed. Today, due to the very difficult access issues to the property caused by these projects, rental rates are depressed and occupancy is lower than desired and both would generate a significant discount in property value were we to decide to sell now. The payback period for this project is less than 8 years and seems to be a reasonable investment as the project is currently generating a positive operating cashflow and will likely become an attractive location in the post-viaduct environment. With the expected increases in property values, it might be prudent to consider disposition at that time.

Long-term planning assumes that the HMCC will continue to be a viable commercial office space property for the Port; therefore, this request does not affect any long-term development plans. This project is included in the 2016 Plan of Finance.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

July 7, 2015

Page 3 of 6

PROJECT JUSTIFICATION AND DETAILS

The proposed project would preserve revenues associated with the leased space at HMCC, extend the life of the building structures, and minimize Port liability. Deferring or foregoing this work will result in continued deterioration of the HVAC and roof system components. Eventually this could lead to additional leakage, energy loss, 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.
- Investigate environmentally sustainable practices during the design and incorporate into the project design and construction where practical.
- Minimize disruptions to facility operations, tenants and customers.

Scope of Work

The scope of work for the HMCC Roof and HVAC Units Replacement Project includes evaluation and design for the:

- Additional insulation and new energy-efficient roofing system;
- New energy-efficient HVAC units;
- Fall protection and attachments to the roof; and
- Environmentally sustainable components and construction methods.

Schedule

The project's design and construction schedule:

Commission Approval for Design	July 2015
Permit/Design Complete	December 2015
Commission Approval for Construction	December 2015
Advertise for Bids	January 2016
Construction	May 2016 through October 2016

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$0	\$0	\$0
Previous Authorizations	\$70,000	\$0	\$70,000
Current request for authorization	\$402,000	\$0	\$402,000
Total Authorizations, including this request	\$472,000	\$0	\$472,000

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

July 7, 2015

Page 4 of 6

Remaining budget to be authorized	\$5,828,000	\$0	\$5,828,000
Total Estimated Project Cost	\$6,300,000	\$0	\$6,300,000

Project Cost Breakdown

	This Request	Total Project
Construction	\$0	\$5,071,000
Construction Management	\$0	\$274,000
Design	\$227,000	\$265,000
Project Management	\$150,000	\$182,000
Permitting	\$25,000	\$25,000
State & Local Taxes (estimated)	\$0	\$483,000
Total	\$402,000	\$6,300,000

Budget Status and Source of Funds

This project was included in the 2015 capital plan and related Plan of Finance under CIP #C800196 T102 Roof Replacement in the amount \$3,368,000. Upon recent completion of the preliminary design phase, the scope has been further defined and the construction estimates increased to \$6,300,000. Amounts included in the Renewal and Replacement Contingency capital project will partially offset the funding variance.

The project will be funded by the tax levy.

Financial Analysis and Summary

CIP Category	Renewal/Enhancement
Project Type	Renewal & Replacement
Risk adjusted discount rate	N/A
Key risk factors	Costs could exceed the estimated amounts. Future revenues generated by these buildings could decrease.
Project cost for analysis	\$6,300,000
Business Unit (BU)	Economic Development – Commercial Properties
Effect on business performance	<ul style="list-style-type: none">• This project is a renewal and replacement project and, accordingly, preserves Net Operating Income (NOI), rather than creating new NOI.• Preserves HMCC NOI of approximately \$625K per year.• Depreciation expense will increase an average of approximately \$210K per year based on a 30-year service life for the roof and a 15-year service life for the HVAC system.
IRR/NPV	The NPV is the present value of the project cost (\$6.3M)

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

July 7, 2015

Page 5 of 6

Lifecycle Cost and Savings

During final design, continue to develop a lifecycle cost analysis to identify the lowest total cost of ownership for the HVAC replacement and the roofing system. Annual Operating and Maintenance costs for the HVAC and roof system expected to decrease for the HMCC buildings because of the replacement and installation of these new systems. The lifecycle cost analysis for the building preliminarily determined which of the HVAC and roof design options were appropriate for the facility. The design for the HMCC Roof and HVAC Replacement will use the desired analysis design option as the project replacement design is developed.

STRATEGIES AND OBJECTIVES

This project supports the Port's Century Agenda strategy to "position the Puget Sound region as a premier international logistics hub" by doubling the economic value of the maritime cluster and be the greenest and most energy efficient port in North America by:

- Investing in and preserving a valuable Port asset. Providing maritime businesses and moorage customers close proximity to businesses located in the HMCC buildings.
- Maintaining long-term revenue-generating capability of the T102 HMCC.
- Reducing overall energy consumption by replacing old, outdated equipment with energy-efficient equipment and controls.
- Fulfilling lease commitments and obligations to the Port's tenants.

TRIPLE BOTTOM LINE

Economic Development

Preserving existing assets defers high-impact and high-cost asset replacement, and, therefore, reduces environmental impacts while supporting economic vitality by reducing Port costs and generating construction-related jobs. The project team will work with the Office of Social Responsibility to maximize opportunities for participation by small business on this project.

Environmental Responsibility

A "green" vegetative roof option as well as the addition of rooftop photovoltaic systems were included in a predesign roofing options analysis, but both were determined to be infeasible due to inadequate existing structural capacity to support the resultant additional roof load. The roofing system and HVAC replacement designs will incorporate sustainable and environmentally friendly elements where possible. One example of potential environmental improvement under consideration is the introduction of water quality filtration appurtenances to treat the roof drainage prior to its release into the on-site stormwater collection system.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative #1: Increase the maintenance inspections and repair of the existing roofing system, subject HVAC units, and rooftop gas piping, and delay replacement of the same indefinitely.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

July 7, 2015

Page 6 of 6

Pros:

- Lower initial investment cost

Cons:

- Continued moisture infiltration into roof substrate layers
- Accelerated degradation of timber roof decking
- Increased risk of mold occurrence within roofing system and tenant space ceilings
- Increased risk of HVAC system failures
- Higher long-term replacement costs due to less existing roof materials being salvageable and escalating construction costs
- Increased likelihood and severity of tenant disruptions due to roof leaks, HVAC system failures, and potential mold issues
- Ongoing safety risk due to inadequate existing fall protection system
- Existing rooftop gas piping system will remain not up to current code standards

Alternative #2: Proceed with the design and replacement of the roofing system, remaining HVAC units, and rooftop gas piping system.

Pros:

- Preservation of existing asset and generated revenues
- Minimizing roof replacement cost by maximizing salvage percentage of existing roof insulation and decking materials
- Reduced maintenance costs
- Elimination of moisture infiltration into roofing system thereby greatly reducing risk of future tenant disruptions due to leak or mold issues
- HVAC system performance will remain reliable
- Decreased safety hazard due to improved fall protection system
- The rooftop gas piping will be up to current code

Cons:

- Higher initial investment cost

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None