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COMMISSION

AGENDA MEMORANDUM Item No. 10b

ACTION ITEM Date of Meeting September 13, 2022

DATE: September 6, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Laurel Dunphy, Director, Airport Operations

Eileen Francisco, Director, AV Project Management Group

SUBJECT: Building 161E Renovation and Systems Retrofit (CIP C801179)

Amount of this request: \$2,900,000

Total estimated project cost: \$13,989,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) execute a professional services contract for design services, and (2) complete design of the Building 161E Renovation and Systems Retrofit project at the Seattle-Tacoma International Airport. This requested authorization amount is \$2,900,000 for a total authorization of \$3,098,000.

EXECUTIVE SUMMARY

Building 161E (formerly known as Cargo 4E) is an Air Cargo/Multiple-use Port-owned facility built in 1981. This 25,600 square-foot facility serves multiple tenants, including Southwest Airlines Cargo, Unifi/DGS, AVOPS Airport Wildlife, Western Extermination Services, Menzies Aviation and Aerotek Aviation. This facility consists of approximately 10,000 square feet of warehouse space, 5,000 square feet of Ground Service Equipment (GSE) mechanical repair space, and 10,600 square feet of office space. In 2015, Building 161E reverted to Port ownership upon expiration of a thirty (30) year ground lease.

This project will renovate and retro-fit Building 161E with updated building mechanical systems, lighting systems, and fire protection, to improve operational efficiency and facility maintainability, and to continue receipt of lease revenue (approximately \$507,000 per year currently) for many years to come. This project will utilize project-specific design and construction contracts and will be a model for three (3) other Port owned Air Cargo Facilities currently requiring similar renovation.

JUSTIFICATION

The building is becoming more difficult (and costly) to maintain and repair as most systems have long exceeded their life cycle. On hot or cold days, the heating and air conditioning (HVAC) are

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COMMISSION AGENDA – Action Item No. _10b_ Page 2 of 5

Meeting Date: September 13, 2022

failing. Daily inspections and two studies on the facility were conducted (2019 Preliminary Engineering Analysis Report and 2021 Air Cargo Fire Protection Study) which identified numerous building system and building fire code deficiencies. As a result, Port staff proposed this project to improve the building's efficiency and life safety by implementing a series of improvements outlined in the Details section below.

In the absence of or delay of this project, there will be a need for continued high volume of Aviation Maintenance repair calls and expenditures, or in the worst case the building may be partially or completely closed due to code compliance failure. Additionally, the risk of HVAC failures will increase, and high energy use will continue with resulting elevated carbon emissions and costs to the Port and its tenants.

Diversity in Contracting

Project team is working with the Diversity in Contracting Department to establish WMBE aspirational goal for the design contract for this project.

DETAILS

This building is currently occupied by multiple tenants and is serving multiple needs in an airport environment with limited land use options. The anchor airline cargo tenant transported over 4,900 metric tons through the facility in 2021 (10.2% increase over 2019); a testament to the resilience of the air cargo supply chain during the COVID-19 global health emergency. Another tenant provides maintenance and repair to airfield vehicles from a specialized auto shop. Moving tenants to other facilities is infeasible as such facilities either do not exist or are at full capacity. Therefore, this building will need to remain open and operational during construction.

Construction will need to be phased and will take longer. Thorough communication between

project stakeholders, building tenants, and contractors will be required.

Scope of Work

(1) Building upgrades include:

- a. Installing modernized heating/cooling and life-safety system with Direct Digital Control (DDC) controls; LED lighting.
- b. Decommissioning unused sauna and showers, replacing water fountains, restroom fixtures and unhygienic surfaces.
- c. Replacing inefficient windows and doors
- d. Installing and establishing demarcation of gas and electrical utilities

(2) Fire protection upgrades include:

- a. Upgrading fire alarm
- b. Improving sprinkler and water supply
- c. Improving emergency lighting and exit signage

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COMMISSION AGENDA – Action Item No. _10b_ Page 3 of 5

Meeting Date: September 13, 2022

This project will be a model for three (3) other currently Port-owned Air Cargo Facilities requiring renovation and retrofit based on the Preliminary Engineering Analysis Report of December 2019 and the Air Cargo Facilities Fire Protection Study 2021, along with one other building scheduled to return to the Port in 2024. To maximize efficiency, the Port will solicit, with this authorization, a procurement for design services scoped and sized for up to five of these projects. Separate requests for design authorization would be forthcoming in the future to fund that work.

Schedule

Activity

Design start 2023 Q2

Commission construction authorization 2024 Q3

Construction start 2024 Q4

In-use date 2025 Q3

Cost Breakdown This Request Total Project

Design \$2,900,000 \$3,098,000

Construction 0 \$10,891,000

Total \$2,900,000 \$13,989,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not proceed with capital improvements to the building. Continue repairs and maintenance as necessary to keep the building functional and occupiable.

Cost Implications: \$0 capital, with ongoing annual repair costs.

Pros:

- (1) No capital investment.
- (2) Capital resources could be devoted to other projects.

Cons:

- (1) Expenses would continue to be incurred on emergency repairs and maintenance.
- (2) The building will continue in a code deficient state.
- (3) The risk that the building will eventually fall into disuse, or be shuttered due to code deficiencies, will increase. This would result in tenants being dislocated off the airfield. Lease revenue stream from this building would diminish or cease.
- (4) The risk to occupant safety due to failing HVAC systems and non-compliant fire protection could increase.

This is not the recommended alternative.

Alternative 2 – Proceed with the project but include additional features.

Cost Implications: \$16,700,000

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COMMISSION AGENDA – Action Item No. _10b_ Page 4 of 5

Meeting Date: September 13, 2022

Pros:

- (1) Includes all scope items necessary to renovate the building and ensure its future code compliance.
- (2) Includes additional scope items recommended by a consultant-performed Energy Efficiency Study (Air Cargo Buildings Preliminary Engineering Analysis Report, 12/20/2019) including installation of photovoltaic (PV) solar panels and up to 5 electric vehicle (EV) charging

stations.

Cons:

(1) Most expensive alternative.

(2) Financial analysis indicates a less than desirable effect on business performance, that is, a negative net present value, along with an extended period of negative cash-flow after debt service, based on the project capital cost noted in this alternative.

This is not the recommended alternative.

Alternative 3 – Upgrade Building 161E to meet code requirements and ensure its viability.

Cost Implications: \$13,989,000

Pros:

(1) Includes scope items necessary to ensure future code compliance.

(2) Less expensive than Alternative 2.

(3) Balances the building improvements with fiscal responsibility and the need for a reasonable return on investment.

Cons:

(1) Does not include scope items intended to achieve energy efficiency gains detailed in the 2019 Energy Efficiency Study including PV solar panels and EV charging stations

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary Capital Expense Total

COST ESTIMATE

Original estimate \$10,556,000 \$0 \$10,556,000

Current change \$3,433,000 0 \$3,433,000

Revised estimate \$13,989,000 0 \$13,989,000

AUTHORIZATION

Previous authorizations \$198,000 0 \$198,000

Current request for authorization \$2,900,000 0 \$2,900,000

Total authorizations, including this request \$3,098,000 0 \$3,098,000

Remaining amount to be authorized \$10,891,000 \$0 \$10,891,000

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COMMISSION AGENDA – Action Item No. _10b_ Page 5 of 5

Meeting Date: September 13, 2022

Annual Budget Status and Source of Funds

This project, CIP C801179, was included in the 2022-2026 capital budget and plan of finance with a budget of \$10,556,000. A budget increase of \$3,433,000 was transferred from the Aeronautical Reserve CIP (C800753) resulting in zero net change to the Aviation capital budget. The funding source will be revenue bonds and Airport Development Fund (ADF).

Financial Analysis and Summary

Project cost for analysis \$13,989,000

Business Unit (BU) Airfield Commercial Cargo

Effect on business performance NOI after depreciation will decrease

(NOI after depreciation)

IRR/NPV (if relevant) NPV \$805,000

NOI after debt service will be negative between (\$787K and \$25K) during 2026-2041.

NOI after debt service becomes positive in year 18 (2042).

CPE Impact N/A

Future Revenues and Expenses (Total cost of ownership)

As a result of this project, Aviation Maintenance may see a small increase in preventative maintenance support, and a significant reduction in repairs due the renovation of new equipment.

ATTACHMENTS TO THIS REQUEST

(1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None.

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