

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6d
Date of Meeting March 12, 2013

DATE: February 26, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
George England, Program Leader, Aviation Project Management
SUBJECT: Doug Fox Parking Lot Services Upgrades Project (CIP #C800451)

Amount of This Request: \$3,322,000 **Source of Funds:** Airport Devel. Fund
Est. State and Local Taxes: \$283,000 **Est. Jobs Created:** 32
Est. Total Project Cost: \$5,118,000

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to advertise for, award, and execute a major public works contract for the construction of the Doug Fox Parking Lot Service Upgrades Project in the amount of \$3,322,000 for construction, construction management, project management, and other soft costs. This amount is in addition to \$1,796,000 previously authorized for a total project budget of \$5,118,000.

SYNOPSIS:

The Doug Fox Parking Lot is located ¼ mile from the Airport and has served as an off-site parking lot for the Airport for over 20 years. The lot competes with several private off-site lots, but needs substantial upgrades to better attract customers and increase its revenue generating capability. This construction authorization request for infrastructure upgrades and a new building at the lot is submitted to Commission in conjunction with a separate, but directly related, Commission authorization request regarding the execution of a lease and concession agreement with ATZ Inc. (ATZ) to operate the lot. The agreement with ATZ calls for the Port to construct storm drainage, lot resurfacing, lighting, building, and signage upgrades, to improve the customer experience and revenue-generating capability of the lot. Construction of the upgrades as proposed and requested will meet the provisions of the agreement with ATZ. The total project budget is estimated to be \$5,118,000, and annual revenue resulting from the upgrades is estimated at \$2 million annually.

This project was included in the 2013 - 2017 capital budget and plan of finance.

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BACKGROUND:

On February 14, 2012, the Commission approved \$1,028,000 under CIP #C800451 for the design and construction of a new storm drainage system at the Doug Fox Lot and to complete the drainage improvements by September 30, 2012. The Commission was also informed that additional improvements to the lot were being evaluated, including lot resurfacing, lighting, a new building, and signage. The result of that evaluation was that staff proposed to move forward with the additional improvements, and that these additional improvements be combined with the original storm drainage work to obtain significant design and construction efficiencies.

Subsequently, on May 22, 2012, Commission authorized the consolidation of the additional improvements with the original storm drainage improvement, and authorized \$768,000 for the design of the additional improvements. All project work was consolidated into CIP #C800451 with a total budget of \$6,123,000. That action constituted a Project Change per Resolution No. 3605, as amended by Resolution 3628, section 4.2.3.3, and thus required Commission authorization. Based on cost estimating work performed during the design phase, the project budget is now being reduced by \$1,005,000 from \$6,123,000 to \$5,118,000.

Additional background information related to the operation of the Doug Fox Parking Lot and the agreement with ATZ is provided in the separate Commission agenda memo regarding the agreement.

PROJECT JUSTIFICATION:

With the proposed new lease with ATZ and construction of the upgrades proposed in this request, the Airport has the opportunity to increase parking revenues generated from an improved facility. The facility represents an important element of the Port's Airport parking business with annual Port revenues regularly surpassing \$2 million.

Project Statement:

Design and construct improvements, including new storm drainage, lot resurfacing, lighting, signage, and a new building at the facility by early 2014.

Project Objectives:

The Port's objective is to increase revenues generated from the facility. An enhanced customer experience will result from new storm drainage, pavement, lighting, signage and a new building, allowing the facility to offer a more competitive parking product in the Airport parking market.

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PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

- New stormwater drainage system
- Lot resurfacing
- Lighting system upgrade
- New and improved signage
- New building, cashier booths, and canopy over entrance/exit lanes

Schedule:

Design Phase: May 2012 – March 2013

Construction Phase: April 2013 – May 2014

FINANCIAL IMPLICATIONS:

Budget/Authorization Summary:

| | Capital | Expense (RMM) | Total |
|--|--------------------|-----------------|--------------------|
| Original Budget | \$1,665,000 | \$0 | \$1,655,000 |
| Previous scope and budget changes | \$4,408,000 | \$50,000 | \$4,458,000 |
| Current budget | \$6,073,000 | \$50,000 | \$6,123,000 |
| Current budget reduction | -\$1,005,000 | \$0 | -\$1,005,000 |
| Revised budget | \$5,068,000 | \$50,000 | \$5,118,000 |
| Previous Authorization | \$1,796,000 | \$0 | \$1,796,000 |
| Current request for authorization | \$3,272,000 | \$50,000 | \$3,322,000 |
| Total Authorizations, including this request | \$5,068,000 | \$50,000 | \$5,118,000 |
| Remaining budget to be authorized | \$0 | \$0 | \$0 |
| Total Estimated Project Cost | \$5,068,000 | \$50,000 | \$5,118,000 |

Project Cost Breakdown:

| | This Request | Total Project |
|-------------------------------------|--------------|---------------|
| Construction | \$2,696,000 | \$3,309,000 |
| Sales Tax On Construction | \$225,000 | \$283,000 |
| Design and Other Soft Costs | \$87,000 | \$955,000 |
| Construction Mgt. and Related Costs | \$314,000 | \$571,000 |
| Total | \$3,322,000 | \$5,118,000 |

Budget Status and Source of Funds:

This project, CIP #C800451, was included in the 2013 – 2017 capital budget and plan of finance with a budget of \$6,173,000. The budget decrease will be transferred to the non-aeronautical allowance CIP (#C800405), a business plan prospective project, resulting in no net change to the Aviation capital budget. The funding source for this project will be the Airport Development Fund.

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Financial Analysis and Summary:

As part of the February 14, 2012, request for design and construction funding for the stormwater drainage repair work, the associated financial analysis assumed that by upgrading the drainage system, the current revenues generated at the facility would be maintained. However, no new, incremental revenues were anticipated as part of that analysis.

The financial analysis associated with the additional design funds requested on May 22, 2012, assumed new, incremental revenues associated with the construction of the additional project elements based on staff's expectation that with new, enhanced pavement, lighting, signage and a new building, revenues would be enhanced.

The financial analysis and justification associated with this request again includes only the new, incremental revenue generated from the facility with implementation of all the project elements, including the cost of the previously approved drainage work. This was done to create a conservative financial analysis showing all costs associated with the project, both previously approved by Commission and those related to this request, as well as new revenues anticipated from an enhanced surface parking facility. In addition, since the May 22, 2012, communication to Commission, staff has been able to better refine the parking activity assumptions throughout the lease term and extensions associated with the facility improvements. The updated assumptions included significant input and review from ATZ as well as review by Leigh Fisher Associates, a parking consulting firm currently under contract with the Port of Seattle.

| | |
|------------------------------------|---|
| CIP Category | Revenue/Capacity Growth |
| Project Type | Business Expansion/New Business Development |
| Risk adjusted Discount rate | 8% |
| Key risk factors | <ul style="list-style-type: none">• Construction risks: the project may encounter unexpected delays due to unforeseen issues, such as contaminated soils, which may increase the cost of the project and/or cause schedule delays.• Financial risks: general economic conditions will impact the parking market and if general economic declines occur in the future, future incremental revenues may fall short of forecasts.• A timeframe of 15 years was included in the financial analysis, covering the initial five-year lease and two (2) five-year extensions. There is risk associated with a potential future conversion of the property to non-parking use, and lease terms associated with future extensions. |
| Project cost for analysis | \$5.1 million |
| Business Unit (BU) | Landside |

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|---------------------------------------|--|
| Effect on business performance | The financial analysis assumes that with construction of the project improvements at the facility, annual revenues to the Port will increase. Current revenues to the Port are approximately \$2 million to \$2.5 million per year. Within five years of implementation of the improvements, annual revenues are anticipated to increase by close to \$1 million, totaling \$3.5 million. Within ten years, additional revenues are anticipated at \$2 million, bringing the annual total to around \$4.5 million. |
| IRR/NPV | NPV: \$5.7 million IRR: 13% Payback: 6 years |
| CPE Impact | None |

Lifecycle costs and Savings:

Responsibilities for future operations and maintenance costs of the lot facilities are set forth in the lease agreement between the Port and the lot operator.

STRATEGIC OBJECTIVES:

This project aligns with the Port's Century Agenda strategy of advancing the region as a leading tourism destination and business gateway. Upgrading the Doug Fox Parking Lot for Airport travelers helps meet the objective of meeting the region's air transportation needs at SeaTac Airport for the next 25 years and encourage the cost-effective expansion of domestic and international passenger and cargo service. In addition, a result of this project will be the ability of the Airport to increase a current non-aeronautical revenue stream.

ENVIRONMENTAL SUSTAINABILITY:

This project will provide the opportunity to apply environmental sustainability principles associated with the new improvements, including:

- Energy efficient light fixtures;
- Upgrading the drainage system to better manage stormwater;
- Utilizing, if practicable, recycled asphalt to pave the area; and
- Coordinating with the future tenant to improve or replace the existing building using "green" design standards.

BUSINESS PLAN OBJECTIVES:

Approval of the proposed upgrades and the related lease authorization request will contribute to achievement of the Airport's business plan objective of "maximizing non-aeronautical net operating income" by generating increased non-aeronautical revenues.

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TRIPLE BOTTOM LINE SUMMARY:

The project supports economic development by investing in an upgraded parking lot to serve the public's parking needs at the Airport. Environmental sustainability principles will be employed consistent with Port policy. Also, procedures set forth in the Port's Small Contractors and Suppliers Program and other small business participation opportunities in support of the Century Agenda goals will be used when applicable in the project contracting process in coordination with the Office of Social Responsibility.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Alternative 1 – Do nothing. Do not approve this construction funding request and do not authorize execution of the new lease with ATZ. The current lease, with holdovers, will expire March 31, 2013. Port staff would negotiate an amendment to the current lease with ATZ in order to prepare a revised RFP for a new lease for operation of the facility. Staff would not implement any improvements to the facility. Without required repairs to the facility, continued wear and tear would eventually cause the facility to shut down. It would be uncertain how long the facility could continue to operate under the current conditions. This is not the recommended alternative.
- Alternative 2 – Similar to Alternative 1 above, do not approve this construction funding request and do not authorize execution of a new lease with ATZ. The current lease with ATZ would expire March 31, 2013. Staff would negotiate an amendment to the current lease and prepare an RFP for a new lease for operation of the facility. Staff would not implement any improvements to the facility. Instead, invest this budget into the Airport garage and develop a low-cost parking product on two floors of the garage recently vacated by the rental car companies. This alternative would cannibalize the ability of the garage to charge premium parking rates on floors just above the low-cost product. This is not the recommended alternative.
- Alternative 3 – Proceed with a reduced scope of upgrade work and invest only in critical infrastructure needs with a lower project cost, such as pavement and lighting, and do not invest in signage and a new building. The new lease with ATZ would need to be renegotiated to reflect the reduced investment in facility upgrades. This alternative would allow for improvement to critical facility systems, thus marginally enhancing the level of customer service. However, this alternative is not recommended as the facility will continue to be less competitive due to its poor visibility to customers, and lower level of customer service compared to other facilities in the Airport parking market. In addition, this alternative would only defer the required investment in the building as the current building has an estimated life of two-to-five years. Although there would be some new incremental revenues, implementing the full array of improvements as part of Alternative 4 would generate much larger incremental revenues. Implementing partial improvements under Alternative 3 would probably result in lost construction and cost efficiencies compared to Alternative 4. Alternative 3 is not the recommended alternative.

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- Alternative 4 – Authorize construction of the proposed improvements to the facility, including new pavement, new lighting, new signage, and a new building. This alternative will satisfy provisions in the proposed new lease with ATZ and will lead to a better customer experience and enhanced revenues due to an upgraded parking facility that is more competitive in the Airport parking market. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Exhibit 1 – Doug Fox Lot Service Upgrades

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- May 22, 2012 – Commission approved 1) increasing the project scope by adding lot resurfacing, lighting, building, and road signage work elements; and 2) proceeding with project design.
- February 14, 2012 - Commission approved funding for design and construction in the amount of \$1,028,000 to install a new Stormwater drainage system by September 30, 2012.