

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>6e</u>
Date of Meeting	<u>March 12, 2013</u>

DATE: March 7, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: Ralph Graves, Managing Director, Capital Development
Dwight Rives, Director, Port Construction Services
SUBJECT: Additional Regulated Materials Management (RMM) for United and Delta Ticketing Projects

Amount of This Request: \$1,049,930, which includes:
\$ 950,000 Abatement Contract Change Orders and
\$ 99,903 Construction Management and Abatement Monitoring
To be distributed as follows:
\$ 565,520 Project Budget Increase – United Project
\$ 484,410 Project Budget Increase – Delta Project

Source of Funds: Airport Development Fund

Est. State and Local Taxes: \$212,557 (9.5% sales tax on abatement contract)

Est. Jobs Created: 11

Est. Total Project Cost: \$ 2,450,000 Abatement Contract
\$16,612,910 Project Budget – United Project
\$13,609,410 Project Budget – Delta Project

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to: (1) increase the project budget by \$565,520 for the United Airlines Tenant Improvements Project; (2) increase the project budget by \$484,410 for the Delta Ticketing and ATO Modifications Project; (3) issue two change orders totaling \$950,000 for Contract MC-0317304, Delta Lobby/Airline Ticket Office (ATO) United TKT/ATO RMM Abatement On Call 2012 for additional asbestos abatement required to complete both the Delta Air Lines (Delta) and United Airlines (United) projects; and (4) extend the contract end date through November 15, 2014. The total amount of this request is \$1,049,930.

SYNOPSIS:

United and Delta are both doing major projects at the Airport and the Port executed the referenced construction contract to provide asbestos abatement for both projects. Construction phasing has changed significantly during the course of the abatement work to accommodate the project construction schedules and the move out schedules of the airlines. As a result, additional

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abatement costs of \$950,000 have been identified that were unforeseen at bid time. Change Order 001 totals \$410,000, and Change Order 002 totals \$540,000.

The change orders are required to cover the additional costs and to keep the construction schedules for both projects intact. The increased abatement costs and additional construction management costs necessary to support the abatement require increasing the budgets for regulated materials management (RMM) on both the United and Delta Projects.

BACKGROUND:

This RMM contract was established in September 2012 to support two specific projects at the Airport; 1) the conversion of the existing Delta ticket counters to a flow through design and 2) the relocation of the United ticket counter and offices which is taking place as part of the Airport-wide airline realignment effort.

Work began on the Delta ticketing project in November 2012 and is scheduled to be complete at the end of October 2013. Work began on the United ticketing project in February 2013 and is scheduled to be complete at the end of May 2013.

In order to start abatement well in advance of the construction projects, the abatement bid documents and cost estimates were developed using concept and 30% construction design documents. Once construction design was completed, additional abatement areas were identified. In addition, a construction schedule had not been established at the time of the abatement bidding. An accelerated construction schedule and changes to the phasing on the Delta project added further RMM costs.

The regulated materials abatement work in these locations must be finished before construction can be completed and therefore is a critical schedule element for each of these projects.

CHANGE ORDER DESCRIPTION:

A \$410,000 portion of the projected \$950,000 abatement cost is for Critical Work where Commission authorization could not be obtained (even on an expedited basis) before the work needed to occur. If this Critical Work had been delayed, it would have resulted in significant cost increases and adverse schedule impacts. This Critical Work was authorized by Tay Yoshitani on February 28, 2013, in accordance with Port Resolution No. 3605, as amended, Section 4.2.3.7. Change Order #001 in the amount of \$410,000 was executed on March 1, 2013, to allow the contractor to perform the Critical Work without interruption. Change Order #002 in the amount of \$540,000 will cover the remainder of the additional abatement work. The scope and cost of the referenced change orders are discussed below.

Change Order No. 001 - Critical Work

Scope of Work: The abatement contractor shall provide the following Critical Work:

United (Zone 2)

- Abatement and demolition on the bridge level and bagwell

Delta (Zone 3)

- Abatement and demolition of the Delta Sky Priority area

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- Abatement and demolition of the old Delta ATO space
- Saw cut and dispose of floor slab sections for the new conveyors
- Abate the bridge level beams behind the wall at gridline “H”
- Saw cut and abate for seismic bracing relocation

Change Order No. 002 – Work to Complete Construction

Scope of Work: The abatement contractor shall perform the following work:

United (Zone 2)

- Abatement of the ANA ticket counter area
- Saw cut and dispose of floor slab sections for the new conveyors
- Abatement of HVAC equipment at the north end
- Miscellaneous and “spot” abatement to support the United Project

Delta (Zone 3)

- Saw cuts and core drills to facilitate hoisting of structural steel
- Removal of terrazzo flooring at the work area perimeter for floor refinishing
- Abatement of the Virgin America ATO space
- Miscellaneous and “spot” abatement to support the Delta Project

JUSTIFICATION:

Subsequent to the execution of the abatement contract, it was discovered that the construction design did not include enough information for the contractor to properly bid all of the work required to complete the United and Delta Projects. In addition, abatement phasing was changed significantly to accommodate the construction schedule of the United and Delta tenant project general contractors and the move out schedule of the airlines. The additional work and project coordination are necessary to complete abatement in the United and Delta work areas. As previously discussed, abatement work is a critical schedule element for both the United and Delta Projects.

CONTRACT INFORMATION:

The following information relates to the contract and competitive award:

Contract Award Date	November 15, 2012
Original Period of Performance	November 15, 2012 – November 15, 2013
Previous Contract Extensions	0 Working Days
Contract Extension on this Change Order	260 Working Days
Current Contract Completion Date	November 15, 2014

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FINANCIAL INFORMATION:

United Project (Zone 2)

<i>Budget/Authorization Summary</i>	Capital	Expense	Total Project
Original Budget	\$3,982,540	\$12,064,850	\$16,047,390
Budget (Decrease)/Increase	\$0	\$565,520	\$565,520
Revised Budget	\$3,982,540	\$12,630,370	\$16,612,910
Previous Authorizations	\$3,982,540	\$12,064,850	\$16,047,390
Current request for authorization	\$0	\$565,520	\$565,520
Total Authorizations, including this request	\$3,982,540	\$12,630,370	\$16,612,910
Remaining Budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$3,982,540	\$12,630,370	\$16,612,910

Budget Status and Source of Funds:

This project was included in the 2013 – 2017 capital budget and plan of finance within CIP C800491. The funding source will be the Airport Development Fund. The total RMM abatement costs for the Project will be spread over 2011 through 2013. The Airport included costs for RMM in the respective expense budgets for each year. All of the costs will be incorporated into airline rates and charges and recovered through terminal rents. The current request was not anticipated in the 2013 operating budget. The funding source will be the Airport Development Fund.

Financial Analysis and Summary:

As there is no change to the capital budget, what follows is the financial impact of the operating budget increase.

CIP Category	Ticketing Strategy
Project Type	Capacity
Risk adjusted discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$565,520 expense
Business Unit (BU)	Terminal
Effect on business performance	NOI after depreciation will not change as costs will be incorporated into terminal rents.
IRR/NPV	N/A
CPE Impact	\$0.033 CPE increase in 2013.

Delta Project

<i>Budget/Authorization Summary</i>	Capital	Expense	Total Project
Original Budget	\$11,507,000	\$1,347,000	\$12,854,000
Budget (Decrease)/Increase	\$0	\$484,410	\$484,410
Revised Budget	\$11,507,000	\$1,831,410	\$13,338,410
Previous Authorizations	\$11,778,000	\$1,347,000	\$13,125,000

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Current request for authorization	\$0	\$484,410	\$484,410
Total Authorizations, including this request	\$11,778,000	\$1,831,410	\$13,609,410
Remaining Budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$11,778,000	\$1,831,410	\$13,609,410

Budget Status and Source of Funds:

The Conversion of Zone 3 Ticket Lobby to Flow-Through Concept Project was included in the 2013-2017 capital budget and plan of finance within (CIP #C800492). The Airport included costs for RMM in the expense budgets for 2012 and 2013. All of the costs will be incorporated into airline rates and charges and recovered through terminal rents. The current request was not anticipated in the 2013 operating budget. The funding source will be the Airport Development Fund.

Financial Analysis and Summary:

As there is no change to the capital budget, what follows is the financial impact of the operating budget increase.

CIP Category	Ticketing Strategy
Project Type	Capacity
Risk adjusted discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$484,410 expense
Business Unit (BU)	Terminal
Effect on business performance	NOI after depreciation will not change as costs will be incorporated into terminal rents.
IRR/NPV	N/A
CPE Impact	\$0.028 CPE increase in 2013.

Contract MC-0317304

Original Contract Amount	\$1,500,000
Previous Change Orders Executed	\$0
Current Contract Amount	\$1,500,000
This Request, Change Order 001 (Critical Work)	\$374,429
Anticipated Sales Tax @ 9.5%	\$35,571
Subtotal	\$410,000
This Request, Change Order 002	\$493,151
Anticipated Sales Tax @ 9.5%	\$46,849
Subtotal	\$540,000
Total Change Orders	\$950,000
Revised Contract Amount	\$2,450,000

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OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- PowerPoint presentation titled: Regulated Material Management (RMM) for United and Delta Airlines (Zone 2 and Zone 3)

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- September 11, 2012 – Port Commission authorized the Chief Executive Officer to: (1) advertise and execute a construction contract for regulated materials management (RMM) abatement for the Zone 2 Ticket Counter and Offices; (2) use Port crews for construction to support RMM abatement; and (3) execute a contract for moving services to relocate airline tenants, all associated with the Airline Realignment Tenant Improvements Project at Seattle-Tacoma International Airport. The cost of the RMM and moving services is \$730,000 (expense).
- August 14, 2012 – Port Commission authorized the Chief Executive Officer to: (1) authorize \$10,145,200 of tenant reimbursement budget associated with the design and construction of a new flow-through ticketing area for Delta Air Lines and Virgin America Airlines at Seattle-Tacoma International Airport; (2) execute a tenant reimbursement agreement with Delta for this purpose under the Airport's AV-2 Policy; (3) authorize \$2,663,800 of non-tenant reimbursement budget for regulated materials abatement; and (4) authorize the use of Port crews to construct a new Virgin America airline ticket office and remodel spaces for two other offices that must be relocated to accommodate this project. This request seeks a single Commission authorization to proceed with design, abatement, and construction. The total estimated cost of this project is \$13,125,000. The Port's portion of the total project is \$10,145,200.
- February 26, 2013 – Briefing to Commission of the Critical Work authorized and underway and the anticipated cost overrun and need for additional funding and change orders.