

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**  
**ACTION ITEM**

<b>Item No.</b>	<u>6b</u>
<b>Date of Meeting</b>	<u>October 8, 2013</u>

**DATE:** October 1, 2013  
**TO:** Tay Yoshitani, Chief Executive Officer  
**FROM:** James R. Schone, Director, Aviation Business Development  
George England, Program Leader, Aviation Project Management Group  
**SUBJECT:** Doug Fox Lot Service Upgrades Construction Contract (CIP #C800548)

<b>Amount of This Request:</b>	\$1,385,000	<b>Source of Funds:</b>	Airport Development Fund
<b>Est. Total Project Cost:</b>	\$6,503,000		
<b>Est. State and Local Taxes:</b>	\$423,000	<b>Est. Jobs Created:</b>	32

**ACTION REQUESTED**

Request Commission authorization for the Chief Executive Officer (1) to request An authorization increase of \$1,385,000 in addition to the \$5,118,000 previously authorized to construct the Doug Fox Lot Service Upgrades project at the Seattle-Tacoma International Airport for a total project authorization of \$6,503,000 due to bids exceeding the engineer's estimate by more than 10 percent and (2) to execute a major public works construction contract with the low responsive and responsible bidder to construct project.

**SYNOPSIS**

The Commission authorized the advertisement for bids on July 9, 2013, for the Doug Fox Lot Service Upgrades, but when contractor bids were opened on September 5, 2013, the lowest responsive bid was received from Pellco Construction and exceeded the engineer's estimate by 39.5%. This represents a bid irregularity requiring further Commission action in accordance with Section 4.2.3.4 of Resolution No. 3605, as amended by Resolution No. 3628. After review of Pellco Construction's bid, Port staff believes the bid price to be fair and reasonable. The additional authorization of \$1,385,000 is for the higher bid plus associated higher tax and construction contingency amounts. In July 2013, the capital budget was decreased by \$1,005,000, which was transferred to the Non-aeronautical Allowance and which would now be transferred to the project, resulting in a net increase in project cost of \$380,000.

After careful review by staff, even with the increased construction bid cost, the lease that this project supports generates a positive net present value of \$3.46 million. Moving forward with this project supports a current annual revenue stream of \$2 million that is expected, with this project, to grow to \$3 million in five years.

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

October 1, 2013

Page 2 of 6

### **BACKGROUND**

On May 22, 2012, the Port of Seattle Commission authorized design of the Doug Fox Lot Service Upgrades and a total project budget of \$6,123,000. On July 9, 2013, the Commission authorized construction and a revised total project budget of \$5,118,000. The budget change between these two Commission actions was based on design progression and cost estimates prepared during that period. On July 29, 2013, the project was advertised for construction bids. On August 7, 2013, a pre-bid meeting and site tour was held with several contractors in attendance. Construction bids were originally scheduled to be opened on August 28, but the opening was postponed via an addendum to September 5 to provide additional time for bidders to prepare their bids. Bids were received and opened, and Pellco Construction was identified as the lowest responsive bidder with a bid of \$3,992,357.50. The remaining six bids ranged from \$4,227,163 to \$5,300,000. The engineer's estimate was \$2,860,943.18. The difference between the engineer's estimate and the low bid is \$1,131,414.32, which exceeds the estimate by more than 10% and necessitates this Commission authorization request. Additional sales tax and construction contingency bring the total requested budget increase to \$1,385,000.

Staff has reviewed the engineer's estimate and bid results and identified several factors that may have contributed to the bid difference, including but not limited to: 1) Risks and inefficiencies specific to construction phasing and the requirement to keep the lot operational at all times during construction. Four separate and distinct phases were required to construct the new storm drainage and lot lighting systems, both systems having to be operational at the end of each phase. 2) Risks with performing work during the wet winter season, including weather sensitive activities such as paving and excavating. 3) Risks and associated costs for a vendor of the manufactured structures (modular building, drive lane canopy, and cashier booths) to prepare detailed design shop drawings based on architect drawings, obtain required reviews and permits, and to fabricate and deliver the structures to meet the construction phasing needs. 4) A reflection of the current overall subcontractor pricing levels and bidding climate. After review of Pellco Construction's bid, Port staff believes the bid price to be fair and reasonable. Staff also evaluated whether any scope could be deleted from the project or whether rejecting all bids and rebidding is a viable option. Due to specific project requirements within the lease including the time commitment for completing the improvements, staff recommends award to Pellco Construction.

### **PROJECT JUSTIFICATION AND DETAILS**

With the 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 Objectives***

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

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

October 1, 2013

Page 3 of 6

### ***Scope of Work***

- New storm drainage system
- Lot resurfacing
- Lighting system upgrade
- New and improved signage
- Construction of a new sanitary sewer pipeline
- Demolition of the existing building
- New building (including supporting infrastructure), cashier booths, and canopy over the entrance/exit lanes

### ***Schedule***

- Construction phase: November 2013 – December 2014

## **FINANCIAL IMPLICATIONS**

<b><i>Budget/Authorization Summary</i></b>	<b>Capital</b>	<b>Expense</b>	<b>Total Project</b>
Current Budget	\$5,068,000	\$50,000	\$5,118,000
Budget Increase	\$1,385,000	\$0	\$1,385,000
Revised Budget	\$6,453,000	\$50,000	\$6,503,000
Previous Authorizations	\$5,068,000	\$50,000	\$5,118,000
Current request for authorization	\$1,385,000	\$0	\$1,385,000
Total Authorizations, including this request	\$6,453,000	\$50,000	\$6,503,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$6,453,000	\$50,000	\$6,503,000

<b><i>Project Cost Breakdown</i></b>	<b>This Request</b>	<b>Total Project</b>
Construction	\$1,265,000	\$4,452,000
Sales Tax On Construction	\$120,000	\$423,000
Design and Other Soft Costs	\$0	\$1,135,000
Construction Mgt. and Related Costs	\$0	\$493,000
Total	\$1,385,000	\$6,503,000

### ***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 \$6,073,000. The capital budget was decreased by \$1,005,000 in July of 2013. The savings was transferred to the Non-aeronautical Allowance CIP (C800405). The current budget increase will be transferred from this same allowance CIP for a net increase in the project cost of \$380,000. There will be no change in the overall Airport capital budget. The funding source for this project is the Airport Development Fund.

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

October 1, 2013

Page 4 of 6

### ***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. Following the May 22, 2012, communication to Commission, staff was 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 consulting firm currently under contract with the Port of Seattle. The financial analysis presented to Commission on July 9, 2013, has now been updated using the higher project costs described above. The results of that updated analysis are below.

<b>CIP Category</b>	Revenue/Capacity Growth
<b>Project Type</b>	Business Expansion/New Business Development
<b>Risk adjusted Discount rate</b>	8%
<b>Key risk factors</b>	<ul style="list-style-type: none"><li>• 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.</li><li>• Financial risks: general economic conditions will impact the parking market and if general economic declines occur in the future, incremental revenues may fall short of forecasts.</li><li>• A timeframe of 15 years was included in the financial analysis, covering the initial five-year lease and two 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.</li></ul>
<b>Project cost for analysis</b>	\$6.5 million
<b>Business Unit (BU)</b>	Landside

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

October 1, 2013

Page 5 of 6

<b>Effect on business performance</b>	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. Within five years of implementation of the improvements, annual revenues are anticipated to increase by close to \$1 million. Within ten years, revenues are anticipated to increase by approximately \$2 million.
<b>IRR/NPV</b>	NPV: \$3.46 million IRR: 11% Payback: 8 years
<b>CPE Impact</b>	None

The financial analysis assumed two revenue scenarios including a base case, as if the lease and construction project were *not* approved, and a revenue projection associated with approval of the lease/project. The difference in revenue between the two scenarios was then calculated and evaluated against the overall construction cost of \$6.5 million. The base case revenue included a 2.2% annual growth rate over the 2012 actual revenue to the Port of \$2.2 million. However, revenue growth at the facility without infrastructure improvements is very unlikely, and revenues would most likely decline. Staff included a revenue growth rate in the base case to present a conservative financial analysis.

### ***Lifecycle Cost and Savings***

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

## **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1)** – Do not authorize the execution of a major public works contract in the amount requested and direct staff to revise the design of the project and/or change the project schedule and rebid. The outcome of redesign and rebidding the project is uncertain. This will result in a several month delay in construction and will not meet the provisions set forth in the new lease agreement with the lot tenant. This may result in litigation with the tenant. At a minimum, terms of the lease would need to be renegotiated. This is not the recommended alternative.

**Alternative 2)** – Do not authorize the execution of a major public works contract in the amount requested. This will result in a construction contract not being awarded and no project improvements will be constructed. The existing sub-standard facilities would remain in place and no customer benefits would be achieved. Revenues from the lot would likely decline. This alternative may also result in litigation with the tenant. At a minimum, the agreement would need to be renegotiated. This is not the recommended alternative.

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

October 1, 2013

Page 6 of 6

**Alternative 3)** – Authorize the execution of a major public works contract in the amount requested. This will result in the project construction moving forward with the completion date remaining approximately as planned. **This is the recommended alternative.**

### **ATTACHMENTS TO THIS REQUEST**

- None.

### **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- On July 9, 2013, the Port of Seattle Commission authorized the Chief Executive Officer to reduce the project budget of the Doug Fox Lot Service Upgrades project and to proceed with construction in the amount of \$3,322,000, in addition to the \$1,796,000 previously authorized, for a total authorization of \$5,118,000.
- On June 4, 2013, the Doug Fox Lot Service Upgrades project was presented to the Port Commission but no final action was taken.
- On March 5, 2013, the Port Commission postponed consideration of the Doug Fox Lot Service Upgrades project.
- On May 22, 2012, the Port Commission authorized the Chief Executive Officer to increase the scope and budget of the Doug Fox Lot Service Upgrades project to \$6,123,000 and proceed with design in the amount of \$768,000 in addition to the previous authorization of \$1,028,000, for a total authorization of \$1,796,000.
- On February 4, 2012, the Port Commission authorized the Chief Executive Officer to proceed with design and construction of a new stormwater drainage system on the Doug Fox Lot in the amount of \$1,028,000.