

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	6e
Date of Meeting	December 2, 2014

DATE: November 24, 2014
TO: Ted Fick, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Wayne Grotheer, Director, Aviation Project Management
Janice Zahn, Assistant Director, Engineering
SUBJECT: Doug Fox Site Improvements (CIP #C800451)

Amount of This Request:	\$427,000	Source of Funds:	Airport Development Fund
Est. Total Project Cost:	\$6,930,000		
Est. State and Local Taxes:	\$424,800		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to: (1) authorize an additional \$427,000 to complete the construction of the Doug Fox Site Improvements project at Seattle-Tacoma International Airport, and (2) issue change orders to extend the construction contract duration by up to 180 days to complete changed work associated with the operations building. The total amount of this request is \$427,000 for a total project cost of \$6,930,000.

SYNOPSIS

The Doug Fox Site Improvements project has encountered a number of issues during construction that have delayed the completion of the project by up to six months and has nearly consumed the entire construction contingency budget. The delays are attributed to a value engineering effort, delayed cover inspections by the Washington State Department of Labor and Industries, and anticipated delays with the remaining work. The \$427,000 requested increases the project soft costs to complete and closeout the project, covering the cost impacts resulting from the six month schedule delay, and provides additional construction contingency to cover risks associated with the remaining project work. The construction contract time extension of up to 180 calendar days is needed to reconcile the impacts to the contractor's construction schedule. Staff is currently evaluating entitlement for cost impacts associated with the schedule delays that have already been completed and will issue separate change order(s) as appropriate. The six month delay has also impacted the tenant and has resulted in a request for rent relief. Staff is requesting Commission authorization for rent relief under a separate action.

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BACKGROUND

The Doug Fox parking lot (see Attachment A) is currently operated by a third party operator (ATZ, Inc.) as an off-site surface parking lot at Seattle-Tacoma International Airport (Airport). The lot has been utilized primarily for automobile parking since its development well over twenty years ago.

In February 2012, the Port of Seattle Commission authorized the design and construction of the Doug Fox Site Improvements project that included stormwater and pavement improvements. In May 2012, the Port of Seattle Commission authorized the design of the Doug Fox Parking Lot Service Upgrades project that included pavement restoration, lot lighting, improved signage, and potentially operations and customer service facilities. At that time the two projects were consolidated into one combined project for a total project budget of \$6,123,000.

Following Commission approval of design funds, staff initiated a public request for proposals (RFP) process for a new operator in anticipation of the expiration of the then-current lease agreement in September 2012. As a result of that RFP process, ATZ was selected and Port staff initiated negotiations that were concluded in early 2013. The Commission approved the new lease with ATZ in July 2013 and ATZ's new agreement commenced on October 1, 2013. The agreement is for five years with two, five-year options based on mutual consent..

In July 2013, the Port of Seattle Commission also authorized the construction of the Doug Fox Site Improvements project that included stormwater management facilities, pavement restoration, lot lighting, improved signage, a new operations building, a new covered entrance and exiting facility, demolition of the existing building, and supporting utilities for a total project budget of \$5,118,000. In September 2013, the bids were opened for the project, and since the lowest responsive bid exceeded the engineer's estimate by more than ten percent, additional authorization by the Port of Seattle Commission was required. In October 2013, the Port of Seattle Commission authorized the additional budget to support the bid, for a total project budget of \$6,503,000, and the contract was executed with the successful bidder later that month.

The critical path for completing the project includes the construction of a new operations building, the demolition of the existing building, and the construction of a new covered entrance and exiting facility. At the time the construction contract was executed the project was anticipated to be complete by the end of September 2014. A number of issues have delayed the construction and there is anticipated or potential risk in completing the remaining work that results in a forecasted completion date of March 2015 (six months of delay). The issues causing the delay include the following:

- Delayed procurement of the operations building in order to conduct a value engineering exercise given the high bid cost for this portion of the work. Several options were evaluated over a two-month period resulting in the change of the design for the operations building.

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- Delayed cover inspections of the operations building required by Washington State Department of Labor and Industries, due to their staffing constraints, which extended the manufacturing and shipping dates of the modular building.
- Staff is anticipating additional delays in obtaining beneficial occupancy of the operations building due to additional work required to correct a design omission (connection for building fire alarm system) and in delayed tenant occupancy of the building once it is available for use.
- Staff is anticipating additional delays with the demolition of the existing building and construction of the new covered entrance and exiting facility. These include risks for unknown conditions during the demolition of the existing building, completion of the utility work for the new covered entrance and exiting facility, completion of the power and communication systems for the ATZ security camera system, weather delays for the remaining pavement work as the construction work extends into the wet weather months, and beneficial occupancy/tenant occupancy of the new covered entrance and exiting facility.

Staff is requesting authority to execute multiple change orders to extend the construction contract duration by up to 180 days due to changed work associated with the operations building. Staff is currently evaluating entitlement for cost impacts associated with the schedule delays that have already been completed and will issue separate change order(s) as appropriate.

The project has nearly consumed the original construction contingency budget of \$400,000 based on the costs already incurred and those projected to be spent. The major issues that have occurred to date include an unknown non-uniform existing pavement section, unknown utility conflicts with the utility improvements in South 170th Street, errors and omissions with the power and communication systems for the new covered entrance and exiting facility, and resultant contractor extended overhead costs for the extended construction duration.

The requested increase includes additional soft costs (design, project management, construction management, testing/inspection, construction safety, survey, central procurement office, administration, and environmental) to cover the six month delay to complete construction. The additional construction contingency is to cover potential risks anticipated to complete the remaining contract work. These funds are necessary in order to complete and close out the project. The current project costs, including the remaining contract commitments, are anticipated to exceed existing authorized funds by year-end 2014.

PROJECT JUSTIFICATION AND DETAILS

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

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Project Objectives

The Port's objective is to increase revenues generated from the facility. An enhanced customer experience will result from the improvements enabling the facility to offer a more competitive parking product in the Airport parking market.

Scope of Work

The scope of work for the project includes stormwater management facilities, pavement restoration, lot lighting, improved signage, a new operations building, new customer service facilities (cashier booths, canopy over entrance/exit lanes), demolition of the existing building, and supporting utilities.

Schedule

Construction Notice to Proceed: January 2014

Construction Complete: February/March 2015

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$6,073,000	\$50,000	\$6,123,000
Budget Changes	\$857,000	(\$50,000)	\$807,000
Current Revised Budget	\$6,930,000	\$0	\$6,930,000
Previous Authorizations	\$6,453,000	\$50,000	\$6,503,000
Current request for authorization	\$477,000	(\$50,000)	\$427,000
Total Authorizations, including this request	\$6,930,000	\$0	\$6,930,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$6,930,000	\$0	\$6,930,000

Project Cost Breakdown

	This Request	Total Project
Design Phase	\$87,000	\$1,234,000
Construction Phase	\$337,842	\$5,271,200
Sales Tax	\$2,158	\$424,800
Total	\$427,000	\$6,930,000

Budget Status and Source of Funds

The Doug Fox Site Improvements (#C800451) project is included in the 2015-2019 capital budget and plan of finance with a total capital budget of \$6,453,000. Additional budget of \$477,000 was transferred from the Non-Aeronautical Allowance (#C800405) to provide a total budget of \$6,930,000. As a result of this transfer, there is no change to the total Airport capital budget. The funding source for this project is the Airport Development Fund.

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Financial Analysis and Summary

This financial analysis is more fully explained in the accompanying request for Commission authorization related to an amendment to the lease with ATZ, Inc. The information shown below matches the accompanying memo.

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 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	\$6.93 million
Business Unit (BU)	Landside
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. Within ten years, annual revenues are anticipated to total around \$5 million.
IRR/NPV	NPV: \$1.24 million IRR: 9% Payback: 10 years
CPE Impact	None

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Lifecycle Cost and Savings

The tenant is responsible for the ongoing maintenance and operations costs for the facility per the terms of the lease.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Reduce the project scope. Under this alternative staff would take the steps necessary to execute change orders to the project to reduce the scope in order to keep the total project costs under the existing authorized amount. This would result in a partially completed facility that would have a negative impact on the incremental revenues and the overall financial performance. In addition, the Port of Seattle would not meet its commitments per the terms of the lease. This is not the recommended alternative.

Alternative 2) – Authorize additional funds. Under this alternative the Commission authorizes the additional funds necessary to complete the project. This would result in a completed facility that would support achievement of the forecasted financial performance. In addition, the Port of Seattle would meet its commitments per the terms of the lease. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Attachment A – PowerPoint

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- On October 8, 2013, the Port of Seattle Commission authorized the Chief Executive Officer to execute a major public works construction contract with the low responsive and responsible bidder for an additional \$1,385,000 for a total authorization of \$6,503,000.
- On July 9, 2013, the Port of Seattle Commission authorized the Chief Executive Officer to: (1) advertise, award, and execute a major public works contract for the Doug Fox Site Improvements project; and (2) execute a Developer Extension Agreement with the Valley View Sewer District for an additional \$3,322,000, for a total authorization of \$5,118,000.
- On June 4, 2013, the Doug Fox Site Improvements 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 Site Improvements project.
- On May 22, 2012, the Port Commission authorized the Chief Executive Officer to: (1) increase the scope of the Doug Fox Site Improvements project to include resurfacing, lighting, building, and road signage; (2) to execute utility agreements; and (3) to complete the design of the project for an additional \$768,000, for a total authorization of \$1,796,000.
- On February 4, 2012, the Port Commission authorized the Chief Executive Officer to complete the design and to utilize Port Construction Services crews for the construction of the Doug Fox Site Improvements project in the amount of \$1,028,000.