

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

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

**Item No.** 4g  
**Date of Meeting** April 12, 2016

**DATE:** April 4, 2016  
**TO:** Ted Fick, Chief Executive Officer  
**FROM:** Michael Ehl, Director, Airport Operations  
Wayne Grotheer, Director, Aviation Project Management Group  
**SUBJECT:** 2016 Fuel System Modifications (CIP #C800692)

<b>Amount of This Request:</b>	\$0	<b>Source of Funds:</b>	Airport Development Fund
<b>Est. Total Project Cost:</b>	\$4,680,000		

**ACTION REQUESTED**

Request Commission authorization for the Chief Executive Officer to award and execute a major public works construction contract for the 2016 Fuel System Modifications project with the lowest responsible bidder, notwithstanding the low bid exceeding the engineers estimate by more than 10 percent.

**SYNOPSIS**

The Commission authorized advertisement for bids for the 2016 Fuel System Modifications project on November 10, 2015. Three contractor bids were received and opened on March 1, 2016. The lowest responsible bid exceeded the engineer's estimate by 18%. This represents a bid irregularity requiring further Commission action prior to contract award in accordance with the Port's General Delegation of Authority, Section 4.2.3.4. Port staff has reviewed the bids and the engineer's estimate and recommends award of the construction contract to the lowest responsible bidder. The authorized funds are sufficient for the project and no additional funds are required.

**BACKGROUND**

On November 11, 2014, the Commission authorized the design for the 2015 Fuel System Modifications project with a total budget of \$2,069,000. On November 10, 2015, the Commission authorized construction for the 2016 Fuel System Modifications project and a revised total budget of \$4,680,000. Budget changes between these two actions were the result of scope revisions and updated estimates based on design progression.

Three construction bids were received and opened on March 1, 2016, with Gary Merlino Construction Company, Inc., as the apparent lowest responsive and responsible bidder with a bid of \$2,772,090. The Port's engineer's estimate for the project was \$2,348,030. The difference

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between the engineer's estimate and the low bid is 18%. The remaining two bids received were in the amounts of \$3,097,750 (32% above estimate) and \$3,530,480 (50% above estimate). Commission action is required to award the contract since the low bid is more than 10% over the engineer's estimate.

Port staff has reviewed the engineer's estimate and bids and identified some factors that may have contributed to the bid difference, including but not limited to, underestimated costs for: 1) lump sum cost items (e.g. safety provisions, mobilization/demobilization, etc.), 2) airfield pavement reconstruction, and 3) fuel system construction. One key factor to the higher bids may be associated with the project phasing constraints that generally do not allow more than one gate to be closed at a time. Phasing makes the costs associated with mobilization and demobilization difficult to determine. This project is also utilizing a new construction method known as "hot tapping" to reduce the time needed for fuel system construction. This is the first time the Port is utilizing this construction method and the contractor may have added additional costs to cover perceived risks associated with this work. Based upon the review of all the bids and the engineer's estimate, Port staff believes the bid price received from Gary Merlino Construction Company, Inc., to be fair and reasonable and that the bids received accurately reflect the cost of the work.

This project remains critical to support airport operational needs to maximize gate utilization. Completion of the project in 2016 will avoid construction conflicts and operational impacts that could otherwise result from other projects that are scheduled to occur in the vicinity in 2017.

## **PROJECT JUSTIFICATION AND DETAILS**

This project is necessary to meet the Aviation Division's goals of ensuring safe and secure operations, avoiding increased air pollutant emissions from fuel trucks, and anticipating and meeting the needs of airlines in support of activity growth. The Port of Seattle and airlines made a decision in the past to install a hydrant fueling system and discontinue truck fueling whenever possible in order to improve safety and reduce emissions on the airfield. Hydrant fueling also reduces the fueling time as well as the amount of traffic on the ramp area. Delaying this project would have negative impacts on airport operations and would restrict flexibility to maximize gate utilization.

### ***Project Objectives***

Project objectives are as follows:

- Installation of fuel system modifications to improve gate operations

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

This scope of work is associated with fuel system modifications to support aircraft gate operations. The work includes installation of a new fuel pits at approximately 9 gate locations to accommodate aircraft parking and improve gate flexibility.

### ***Schedule***

Execute Construction Contract	2 <sup>nd</sup> Quarter	2016
Construction Completion	4 <sup>th</sup> Quarter	2016

## **FINANCIAL IMPLICATIONS**

### ***Budget/Authorization Summary***

	Capital	Expense	Total Project
Original budget	\$1,100,000	\$0	\$1,100,000
Previous budget increase	\$3,580,000	\$0	\$3,580,000
Current budget increase	\$0	\$0	\$0
Revised budget	\$4,680,000	\$0	\$4,680,000
Previous authorizations	\$4,680,000	\$0	\$4,680,000
Current request for authorization	\$0	\$0	\$0
Total authorizations, including this request	\$4,680,000	\$0	\$4,680,000
Remaining budget to be authorized	\$0	\$0	\$0
Total estimated project cost	\$4,170,000	\$0	\$4,170,000

### ***Project Cost Breakdown***

	This Request	Total Project
Construction	\$0	\$3,918,000
Design	\$0	\$471,000
State & Local Taxes (estimated)	\$0	\$291,000
Total	\$0	\$4,680,000

### ***Budget Status and Source of Funds***

This project, C800692, is included in the 2016 – 2020 capital budget and plan of finance with a budget of \$4,680,000. The funding sources will be the Airport Development Fund.

When the budget was established the project was still being defined with several high risk design and construction items to be determined. The project budget provided for a contingency to absorb project risk.

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### ***Financial Analysis and Summary***

<b>CIP Category</b>	New/Enhancement
<b>Project Type</b>	Renewal/Replacement
<b>Risk adjusted discount rate</b>	N/A
<b>Key risk factors</b>	N/A
<b>Project cost for analysis</b>	\$4,680,000
<b>Business Unit (BU)</b>	Apron Area Cost Center
<b>Effect on business performance</b>	NOI after depreciation will increase
<b>IRR/NPV</b>	N/A
<b>CPE Impact</b>	There is no CPE impact as the capital costs will be recovered directly from the airline fuel consortium.

The fuel system at Seattle-Tacoma International Airport is leased to and operated by SEATAC Fuels, LLC, an airline consortium. The Port will negotiate an amendment to the lease to add these new fuel pits to the lease as it has with other fuel pits added in the past. If successful, the consortium would pay for the operating and maintenance costs of these new pits and would pay additional rent to the Port equivalent to the annual amortization of the capital costs. Thus, under such a lease amendment, there would be no impact to passenger airline CPE.

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

The fuel pits will be leased to and operated by SEATAC Fuels, LLC, an airline consortium.

## **STRATEGIES AND OBJECTIVES**

The 2016 Fuel System Modifications project supports the Century Agenda goal to advance this region as a leading tourism destination and business gateway by meeting the region's air transportation needs and encouraging the cost-effective expansion of domestic and international passenger service. This project also supports the Aviation Division's strategic goals of operating a world-class international airport, providing extraordinary customer service, and being a model of environmental innovation for the region and industry.

One of the Century Agenda goals is to use the Port's influence as an institution to promote small business growth and workforce development. Although some of this work may be specialized, Port staff will coordinate with the Office of Social Responsibility to identify and maximize the opportunities within the scope of work for small business utilization.

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### **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** – Do not award the project or proceed with the installation of additional fuel hydrants.

Cost Implications: Cost from Planned Budget deferred: ~\$4,440,000 for return of remaining budget

Pros:

- (1) Under this option there is no near-term capital investment for the Airport

Cons:

- (1) The airlines and fuel service providers would need to purchase additional fuel tanker trucks.
- (2) Aircraft turn times (time between landing, servicing and then departing) would be impacted by slower fueling rates and impacts of fuel tankers on other vehicles and equipment servicing aircraft.
- (3) Traffic on the ramp would increase, especially between the South Satellite and the current fuel rack which is north of the North Satellite.
- (4) The airport would need to identify ramp storage areas (already in high demand) for fuel trucks and maintenance facilities.
- (5) Increase in air emissions as a result of fuel trucks deliveries.
- (6) Cost-to-date would be expensed

This is not the recommended alternative.

**Alternative 2** – Re-bid the project as currently scoped.

Cost Implications: Estimated \$150,000 minimum of additional costs from escalation and administrative time.

Pros:

- (1) None the cost of adding new fuel hydrant pits is fully recovered through the fuel consortium lease.

Cons:

- (1) Delays the project to 2017
- (2) Potential conflicts with other construction projects on the airfield
- (3) Impacts airport operations ability to maximize gate utilization
- (4) Re-advertisement could result in higher bids since current bids are now public information
- (5) Additional costs due to escalation and re-advertisement

This is not the recommended alternative.

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**Alternative 3** – Award the major works construction contract to the lowest responsive and responsible bidder. This alternative delivers the project when needed.

Cost Implications: None, accomplished within existing budget.

Pros:

- (1) No additional costs or delays for re-bid
- (2) Scope of the project has already been justified and approved by airlines, airport management and the Commission
- (3) Minimizes conflicts with other construction projects on the airfield
- (4) The cost of adding new fuel hydrant pits is fully recovered through the fuel consortium lease.

Cons:

- (1) None

**This is the recommended alternative.**

### **ATTACHMENTS TO THIS REQUEST**

- (1) None

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

- November 10, 2015 – Commission authorized construction funds to construct fuel system modifications. Total estimated cost was \$4,680,000.
- November 11, 2014 – Commission authorized the Chief Executive Officer to design and prepare construction documents for the 2015 fuel system modifications in the amount of \$188,000. At that time, the total estimated project cost was \$2,069,000.