

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6c

Date of Meeting March 23, 2010

DATE: March 5, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Wayne Grotheer, Director, Aviation Project Management Group
Michael Smith, Mechanical Manager, Aviation Facilities and Infrastructure

SUBJECT: Project Budget Increase for 2nd Floor Heating, Ventilation, and Air-Conditioning Upgrades Project at Seattle-Tacoma International Airport (CIP # C800249).

Amount of This Request: \$203,000

Source of Funds: Airport Development Fund

Amount of Sales Tax: \$79,381 (Total Project)

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to increase the amount authorized for this project by \$203,000 to pay additional in-house and consultant costs to complete the 2nd Floor Heating, Ventilation, and Air-Conditioning (HVAC) Upgrades project at Seattle-Tacoma International Airport (Airport), for a total authorization of \$1,700,000. \$1,497,000 was previously authorized by the Commission.

SYNOPSIS:

This memorandum requests authorization to increase the project budget \$203,000 to address increased costs for design and in-house project management, contract administration, construction management, document control, and other in-house costs. The subject project provides a new air supply for the HVAC system to the north side of the second floor Main Terminal Central Administration Building and the concessions located directly below on the ticketing level. The provision of the new air supply will allow HMS Host (Host) to proceed with the construction of its new offices on the second floor. The Commission previously authorized \$1,497,000 for construction based on a budget estimating template for a typical project. For this capital project, the standard estimating template did not adequately budget for the in-house scope of services required to manage the project. This authorization is not within the Current Revised Budget. The project will be funded by the Airport Development Fund.

BACKGROUND:

The second floor of the Main Terminal Central Administration Building and the concession spaces located immediately below in the central Main Terminal have an insufficient air supply to their HVAC systems to support existing and planned occupancies and uses. The insufficient air

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supply directly impacts the existing Host offices on the north side of the second floor as well as the new space that Host plans to occupy on the second floor (see Exhibit No. 1). Host's decision to move was to have more suitable office space regarding overall condition and utilization, and this project will provide adequate air supply. Likewise, the existing and future occupancy of concessions space located directly below on the ticketing level will receive improved air supply (see Exhibit No. 2).

Following completion of the Central Terminal Expansion project, various improvements were planned to the second floor of the 1949-vintage Administration Building including extending utilities for the build-out by Host of its new offices. The original intent was to provide HVAC to the space from excess capacity in the Central Terminal HVAC system. During the review process for Host's new office space improvements, it became apparent that the Central Terminal HVAC did not have the extra capacity and that a new source of air supply would be needed to adequately serve the second floor of the Administration Building as well as the concession spaces located directly below on the ticketing level. An existing air handler located atop the Main Terminal that has the capacity to accommodate the subject areas will supply the air for the new system.

The Commission authorized \$1,282,350 on February 24, 2009, for construction and approval to advertise for construction bids for the new HVAC air supply. The Commission had previously authorized \$214,650 to complete design on March 25, 2008. The construction is now near completion and updated projected costs have been developed. The Commission is being requested to increase the project authorized amount to complete the project in-house close-out work for a total authorization of \$1,700,000 inclusive of the previously approved amount.

PROJECT DESCRIPTION/SCOPE OF WORK:

Scope of Work:

The project consists of the following components:

- Construct a new HVAC air supply duct system from an existing air handler located on the roof of the Main Terminal to the north side of the second floor.
- Install new ductwork to serve the new Host office space, existing Host cash room and meeting rooms, and existing janitorial office space. Also provide ductwork for future extension to other areas on the north side to be vacated by Host when they move into their new office space.
- Connect new ductwork from the second floor to the ticketing level to supply the concession spaces located immediately below.
- Asbestos abatement in the vicinity of the rooftop air handler and at selected roof penetrations for the duct supports on the roof.

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STRATEGIC OBJECTIVES:

This project supports the Port strategy to “Ensure Airport and Seaport Vitality” through upgrading spaces to leasable condition which will support the creation of new business opportunities, enhance product and service offerings for the traveling public, and increase non-aeronautical revenue.

FINANCIAL IMPLICATIONS:

Budget/Authorization Summary

Original Budget	\$1,360,000
Previous Budget Increase	\$137,000
Current Budget Increase	\$203,000
Revised Budget	\$1,700,000
Previous Authorizations	\$1,497,000
Current request for Authorization	\$203,000
Total Authorizations, including this request	\$1,700,000
Remaining Budget to be Authorized	0

Project Cost Breakdown

Construction Costs	\$920,636
Sales Tax	\$79,381
Outside Professional Services	\$177,283
Port Costs	\$522,700
Total	\$1,700,000

The requested additional budget authorization represents the projected costs to complete the project. The primary reason for this request is the underestimate of the in-house costs. The estimates used did not accurately represent the higher proportional level of in-house costs associated with managing, procuring and administering a small capital project. The specific areas exceeding the previously approved budget are:

1. Engineering in-house costs associated with construction management and document control functions being underestimated in the standard budget estimating template, and extended staff time for the two month schedule extension caused primarily by a Port-requested design change and duct support modifications during construction - \$94,800.

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2. Contract procurement/administration in-house costs associated with the pre- and post-award levels of effort being underestimated in the standard budget estimating template - \$65,700.
3. Project management in-house costs due primarily to schedule delays (90% redesign and the extended construction contract duration) and higher than anticipated overhead costs - \$56,100.
4. Consultant design costs due to Port-requested redesign at 90% for rerouting of ducts on roof to avoid obstructions and extended construction contract duration - \$47,300.
5. Other in-house cost increases for Safety, Airport Administration, and Airport Building Department - \$28,700.

The construction contract bid was approximately 13% below the Engineer's Estimate, resulting in a savings of \$127,000. Use of the bid savings and other associated savings (contingency, sales tax) has been factored into the requested increase of the project authorized amount.

Source of Funds

This project is included in the 2010-2014 capital budget and plan of finance as a committed project with a budget of \$1,497,000 under CIP C800249. Upon approval by the Commission, there will be a budget transfer from the Aeronautical New Projects Allowance CIP (C102166) to cover the budget increase. Thus, there will be no net change in the overall Aviation capital program. The funding source will be the Airport Development Fund.

Financial Analysis Summary

CIP Category	Revenue/Enhancement
Project Type	Terminal Infrastructure
Risk adjusted Discount rate	Not Applicable
Key risk factors	Estimate of in-house costs to complete project.
Project cost for analysis	\$1,700,000
Business Unit (BU)	Aviation Business Development and Terminal Infrastructure
Effect on business performance	NOI after depreciation will increase as 80% of capital costs will be recovered through terminal rents. In addition, the existing and potential future lease of the concession spaces will generate non-airline revenue.
IRR/NPV	Not Applicable
CPE Impact	CPE will increase by \$0.01 in 2010; however, no change compared to business plan forecast since this project was included and the budget increase will result in a decrease in the Aeronautical New Projects Allowance CIP, so there is no net change in the Aviation capital program.

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ECONOMIC IMPACTS:

This project will support the use of limited terminal building space and allow for the lease of additional concession spaces not currently in a condition for occupancy.

ENVIRONMENTAL SUSTAINABILITY/COMMUNITY BENEFITS:

No impact to the environment is anticipated as a result of this project. The new HVAC system will utilize existing capacity of a current air handler unit and will improve the indoor air quality to existing and future office space and concessions.

TRIPLE BOTTOM LINE SUMMARY:

The new HVAC system will improve the indoor air quality to existing and future office space and concessions. This project will also upgrade spaces to leasable condition which will support the creation of new business opportunities, enhance product and service offerings for the traveling public, and increase non-aeronautical revenue.

PROJECT SCHEDULE:

Construction Contract Awarded

May 28, 2009

Construction Complete

March 25, 2010

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:

1. Request authorization of an increase in the project authorized amount of \$203,000 for the projected costs to complete the project. The requested increased authorization addresses actual expenditures and projected costs through project closeout. This is the recommended alternative.
2. Do nothing. This alternative could result in the non-payment of invoices and reimbursement of in-house costs. This action would not be consistent with Port project accounting procedures and policies. This is not the recommended alternative.

PREVIOUS COMMISSION ACTION:

On March 25, 2008, the Commission authorized \$214,650 to complete design. On February 24, 2009, the Commission authorized \$1,282,350 for construction and approval to advertise for construction bids, for a total authorization to date of \$1,497,000.

ATTACHMENTS:

1. 2nd Floor, Main Terminal Central Administration Building (Exhibit No. 1)
2. Ticketing Level, Central Main Terminal (Exhibit No. 2)