

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6e

ACTION ITEM

Date of Meeting May 22, 2012

DATE: May 11, 2012

TO: Tay Yoshitani, Chief Executive Officer

FROM: James R. Schone, Director, Aviation Business Development
Jeff Wolf, Manager, Aviation Business Development and Analysis
George England, Program Leader, Aviation Project Management

SUBJECT: Doug Fox Parking Lot Service Upgrades Project (CIP #C800451)

Amount of This Request: \$768,000 **Source of Funds:** Airport Development Fund

Total Project Cost: \$6,123,000

ACTION REQUESTED:

Request Commission authorization: (1) to increase scope and budget for the Doug Fox Lot Service Upgrades project at the Seattle-Tacoma International Airport parking lot to include resurfacing, lighting, building, and road signage; and (2) for the Chief Executive Officer to execute utility agreements; and prepare full design documents for the project in an amount not to exceed \$768,000. An amount of \$5,095,000 will be added to an earlier authorization of \$1,028,000 for storm drainage work for a total new project budget of \$6,123,000.

SYNOPSIS:

The Port owns two public parking facilities at the Airport. One is the large on-site Airport garage adjacent to the main terminal building that provides immediate direct walking connection to the ticketing and bag claim areas. The second is an "off-site" surface parking lot operation on 170th Street that is approximately ¼ mile from the main terminal building and provides shuttle bus service to the main terminal garage to allow travelers a short walk into the terminal building. This off-site public parking facility is known as the Doug Fox Lot (see Exhibit 1). The Doug Fox name originated as a result of an earlier lease to an independent operator who also ran a former well-known local travel agency by the same name. The current operating contract is near the end of its lease period. In the near future, the Airport plans to publicly request competitive proposals for operation of the parking lot. In order to allow the future operator the greatest chance of success and the Airport to maximize its return on the lease, it is necessary to make significant physical improvements to the facility.

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This authorization will allow coordination with the City of SeaTac and move design forward to completion for surface pavement, lighting, roadway signage, and the potential replacement of the aging operations building that is at the entrance of the facility, either by the Port, or if determined appropriate, by the operator. Storm drainage improvements were approved by the Commission in February 2012, and that work will be incorporated into the overall facility improvement project.

With approval, Port staff will proceed with design, using in-house staff and external consultants, and will return to Commission for approval of construction funds in the fourth quarter of 2012. Construction of the facility improvements is currently scheduled for 2013. Design funds specific to replacement of the building are included in this request to provide the best possible opportunity to construct the replacement building or make improvements to the existing building in 2013. However, construction of the new building portion of the facility improvements may be delayed until 2014 depending on the ability of Port staff, and the future facility operator, to finalize a building design.

On February 14, 2012, Commission approved \$1,028,000 under CIP #C800451 for the design and construction of a new storm drainage system at the Doug Fox Lot to complete the drainage improvements by September 30, 2012, and was informed that additional improvements to the lot were being evaluated. As part of the evaluation of the improvements being requested, staff determined that consolidating the elements of both projects would obtain significant design and construction efficiencies. With approval of this requested action, the storm drainage work will be consolidated with the additional project elements, such as surface pavement, lighting, signage, and building construction described in this request within CIP #C800451. This requested action constitutes a Project Change per Resolution 3605, as amended by Resolution 3628, section 4.2.3.3, and thus requires Commission authorization. The total project budget for all work elements will be \$6,123,000 (\$1,028,000 plus \$5,095,000). This project was included in the 2012 – 2016 capital budget and plan of finance as a business plan prospective project with a budget of \$1,665,000. The budget increase will be transferred from the non-aeronautical allowance CIP (#C800152), a business plan prospective project, resulting in no net change to the Aviation capital budget.

BACKGROUND:

The Airport auto parking market is highly competitive with two key characteristics being distance from the Airport and available services. No other parking facility is as close to the main terminal building as the Airport garage, owned and operated by the Airport, where the customers do not have to ride a shuttle van to the Airport, but can simply walk across the skybridge into the terminal. All other parking lots and garages are “off-site” and utilize a shuttle van to carry their customers to the terminal. Regarding available services, recently built off-site facilities also offer covered parking, valet parking, auto detailing and amenities such as restaurants and retail shops.

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In addition to the Airport garage, the Port owns the Doug Fox Lot. This property is currently operated as a surface parking lot for Airport parking by a third party lessee, ATZ Inc. Doug Fox Parking is the current brand name affiliated with the facility. The lot has been utilized primarily for Airport parking since its development well over 20 years ago. It is an uncovered surface lot and like all other off-site parking facilities, the operator utilizes a shuttle van to bring customers to and from the Airport. However, it has an advantage of being relatively close to the Airport with a convenient approach from the North Airport Expressway. The lot provides the Airport with a facility that competes in the off-site market where prices are lower, while the Airport garage provides the opportunity to set rates higher based on the value of proximity to the terminal.

Prior to expiration of the Port's lease and concession agreement with ATZ Inc. on September 30, 2009, a two-year extension was negotiated with the possibility for a one-year option. In 2011, the one-year option was executed, extending the agreement termination date to September 30, 2012. The agreement includes a month-to-month holdover clause for a maximum of six months, thus allowing for the termination of the agreement to be extended to March 31, 2013.

In anticipation of the end of the lease with ATZ, Port staff commissioned a study by Heartland Consulting in 2009 to evaluate alternative uses of the Doug Fox property. This study was updated and validated in 2011 by HDR Engineering. The results showed that an office complex, hotel, or combination thereof would be viable. However, industrial use was not, primarily because of traffic and access issues. The main challenge identified with the viable alternative uses was the timing. The analysis showed that these opportunities would not be viable for at least another ten years. The hotel was viable in the shorter term but there are potentially better locations to serve the Airport that are currently being evaluated.

Finally, as the Doug Fox Lot serves the more price-conscious traveler, simply closing the lot would not attract those customers to the Airport garage but would more likely drive them to other off-site lots, depriving the Airport of substantial income. Based on these factors, Port staff made the determination that the best near-term use of this property is as an off-site parking facility.

Revenues generated at the Doug Fox Parking Lot peaked in 2006 at \$5.8 million with concession and lease revenue to the Port of \$3.2 million. Since then, revenues at the facility have dropped to \$4.6 million in 2011 with revenue to the Port dropping to \$2.2 million. Outside of recession-based causes, three main factors have been identified that Port staff believes have significantly contributed to this drop in revenues.

First, operations at the facility were significantly impacted beginning in 2006 with the construction of the North Airport Expressway Relocation project. A significant portion of the southwest corner of the facility was taken out of service to accommodate the new elevated roadway, resulting in the elimination of 154 parking stalls (approximately 9% of the then-total stalls). In addition, the new elevated roadway significantly reduced visibility of the lot by

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blocking the line of sight of the entrance and building located at the south end of the facility, primarily for customers travelling along South 170th Street. Moreover, prior to the construction of the new elevated roadway, an on-ramp allowing customers quick and easy access to the northbound lanes of the North Airport Expressway existed. However, this was eliminated to accommodate the new roadway.

Second, the overall Airport parking market has seen a significant enhancement in new and existing parking facilities over the last several years. The level of service provided by local and national parking operators in the Airport parking market has increased dramatically, including the construction of multi-level, structured parking facilities along International Boulevard that offer retail and food establishments.

Third, many physical components of the facility, including the pavement, the building located at the south end of the facility, the on-site lighting, and the stormwater collection system are at a point in their lifecycle that, in order to continue being functional and operational, now require investment.

A variety of improvements to the facility were evaluated and staff recommends proceeding with pavement repair and upgrade, a new and improved lighting system, new signage to improve visibility of the facility, and a new building. The current building at the facility was originally constructed to support a travel agency operation, branded Doug Fox Travel. However, since construction, the facility has evolved into an Airport parking operation with no travel agency functions. The current design and configuration of the building does not support parking operations in a manner consistent with other parking facilities in the Airport parking market. In addition, the current building is two to five years from the end of its useful life. Early in the design effort, staff will determine if replacement of the building is necessary and best accomplished via creating a Port-owned asset using the Port's public works design and contracting processes or via the operator selected during the upcoming competitive process.

All of the recommended improvements are expected to address the three factors listed above that have affected revenue performance. Port staff believes revenues generated from the facility will increase with the implementation of the recommended improvements, as outlined in the financial section below.

With the approval of this request, the additional scope and budget described in this memo will be added to previously authorized storm drainage work within CIP #C800451, resulting in a total project budget of \$6,123,000 (\$1,028,000 plus \$5,095,000). This is based on three factors expected to result in cost and time savings; including 1) design efficiency with the reduction in the number of required construction documents; 2) construction efficiency resulting from a contractor's ability to determine how to sequence the various work elements and the reduction in the number of mobilizations/demobilizations; and 3) construction management efficiency associated with the reduction in the number of contracts to be managed. In addition,

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consolidating all the project elements into the 2013 construction window – if possible – will eliminate any disruption to the operation at the facility through the end of the current contract. Staff expects to return to the Commission for approval of construction funds for the non-storm drainage project elements in November, 2012.

As mentioned above, the current agreement with ATZ Inc. expires on September 30, 2012. Port staff expects to release a request for proposals (RFP) for the operation of the facility in the second quarter of 2012, with selection of an operator, including finalization of a new lease and concession agreement, occurring in the fourth quarter of 2012. Staff expects the new agreement term to be five years, with two, five-year options and anticipates requesting Commission authorization for execution of the new agreement in the fourth quarter of 2012.

Staff expects the commencement date of a new agreement to be no later than February 1, 2013, to allow the selected operator sufficient time to prepare the facility for operation, including installation of a parking revenue control system. The transition between operators will be managed to ensure the facility remains open for business at all times. In addition, staff will work with the selected operator in determining a new branding campaign for the facility, which will be implemented upon the commencement of the new agreement. Also, if this design funding request is approved, staff will include in the RFP a description of the anticipated improvements to the facility.

PROJECT JUSTIFICATION:

With the current lease expiring September 30, 2012, the Airport has the opportunity to make needed repairs to increase parking revenues generated from the facility. The facility represents an important element of the Port's Airport parking business with annual Port revenues regularly surpassing \$2 million.

Project Statement:

Design and construct improvements, including new pavement, lighting, signage, and a new building at the facility by the end of 2013.

Project Objectives:

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

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PROJECT SCOPE OF WORK AND SCHEDULE:

Original Scope of Work:

- Stormwater drainage repair work

Additional Scope of Work:

- New lot asphalt surface
- Lighting system upgrade
- New and improved signage
- New building, if necessary

Schedule:

	Start	Finish
Design	May 2012	November 2012
Construction	April 2013	December 2013

FINANCIAL IMPLICATIONS:

Budget/Authorization Summary

	Capital	Expense (RMM)	Total
Original Budget	\$1,665,000	\$0	\$1,655,000
Budget reduction	-\$637,000		-\$637,000
Previous budget	\$1,028,000		\$1,028,000
Scope and budget increase	\$5,045,000	\$50,000	\$5,095,000
Revised budget	\$6,073,000	\$50,000	\$6,123,000
Previous Authorizations	\$1,028,000	\$0	\$1,028,000
Current request for authorization	\$768,000	\$0	\$768,000
Total Authorizations, including this request	\$1,796,000	\$0	\$1,796,000
Remaining budget to be authorized	\$4,277,000	\$50,000	\$4,327,000
Total Estimated Project Cost	\$6,073,000	\$50,000	\$6,123,000

Project Cost Breakdown

	This Request	Total Project
Construction	\$0	\$4,099,000
Sales Tax On Construction	\$0	\$389,000
Design and Other Soft Costs	\$768,000	\$1,016,000
Construction Management	\$0	\$598,000
Art Program	\$0	\$21,000
Total	\$768,000	\$6,123,000

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Budget Status and Source of Funds

This project, CIP #C800451, was included in the 2012 – 2016 capital budget and plan of finance as a business plan prospective project with a budget of \$1,665,000. The budget increase will be transferred from the non-aeronautical allowance CIP (#C800152), a business plan prospective project, resulting in no net change to the Aviation capital budget. The funding source for this project will be the Airport Development Fund.

Financial Analysis and Summary:

As part of the February 14, 2012, request for design and construction funding for the stormwater drainage repair work, the financial analysis assumed that by upgrading the drainage system, the current revenues generated at the facility would be maintained. However, no incremental revenues were anticipated. With approval and implementation of the additional improvements to the facility proposed in this request, new incremental revenues are anticipated.

The financial analysis and justification associated with this request 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.

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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.
Project cost for analysis	\$6.1 million
Business Unit (BU)	Business Development
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 \$1 million, totaling more than \$3.5 million. Within ten years, additional revenues are anticipated to surpass \$2 million, bringing the annual total to more than \$4.5 million.
IRR/NPV	NPV: \$7 million IRR: 14% Payback: 6 years

STRATEGIC OBJECTIVES:

This project aligns with the Port's objective of maintaining and enhancing customer service levels for the traveling public. In addition, a result of this project will be the ability of the Airport to increase a current non-aeronautical revenue stream.

ENVIRONMENTAL SUSTAINABILITY:

This project will provide the opportunity to apply environmental sustainability principles associated with the new improvements, including:

- Energy efficient light fixtures;
- Upgrading the drainage system to better manage stormwater;
- Utilizing, if practicable, recycled asphalt to pave the area; and

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- Coordinating with the future tenant to improve or replace the existing building using “green” design standards.

BUSINESS PLAN OBJECTIVES:

Approval of design of this project and subsequent approval for construction will contribute to achievement of the Airport’s business plan objective of “maximizing non-aeronautical net operating income” by generating increased non-aeronautical revenues.

TRIPLE BOTTOM LINE SUMMARY:

The project supports economic development by investing in an upgraded parking lot to serve the public’s parking needs at the Airport. Environmental sustainability principles will be employed consistent with Port policy. Also, procedures set forth in the Port’s new Small Contractors and Suppliers Program will be used when applicable in the project contracting process in coordination with the Office of Social Responsibility.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Alternative 1 – Do nothing. Do not implement any improvements to the facility, beyond the already approved stormwater drainage repair work. This alternative is not recommended because the current deficiencies at the facility would continue to exist, resulting in a poor customer experience and continued deterioration of various systems, including pavement and lighting, and eventual failure of the building at the facility. Without the recommended improvements, deterioration of the various systems would continue, eventually resulting in the facility not being able to offer a safe and reliable parking option to Airport customers. This is not the recommended alternative.
- Alternative 2 – Invest this budget into the Airport garage and develop a low-cost parking product on two floors of the garage recently vacated by the rental car companies. This alternative would cannibalize the ability of the garage to charge premium parking rates on floors just above the low-cost product. This is not the recommended alternative.
- Alternative 3 – Only invest in critical infrastructure needs, such as pavement and lighting, and do not invest in signage and a new building. This alternative would allow for improvement to critical facility systems, thus marginally enhancing the level of customer service. However, this alternative is not recommended as the facility will continue to be less competitive due to its poor visibility to customers, and lower level of customer service compared to other facilities in the Airport parking market. In addition, this alternative would only defer the required investment in the building as the current building has an estimated life of two-to-five years. Although there would be some new incremental revenues, implementing the full array of improvements as part of Alternative

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4 would generate much larger incremental revenues. Alternative 3 is not the recommended alternative.

- Alternative 4 – Invest in improvements to the facility, including new pavement, new lighting, new signage, and a new or improved building. This alternative will lead to a better customer experience and enhanced revenues due to an upgraded parking facility that is more competitive in the Airport parking market. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Exhibit 1 – Doug Fox Project Site Location

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- February 14, 2012 - Commission approved funding for design and construction in the amount of \$1,028,000 to install a new stormwater drainage system by September 30, 2012.