

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 5i
Date of Meeting July 24, 2012

DATE: July 20, 2012
TO: Tay Yoshitani, Chief Executive Officer
FROM: Wayne Grotheer, Director, Aviation Project Management Group
SUBJECT: Construction of the South Satellite Concessions Project (CIP # C800412) and South Satellite Additional Gate Lobby Project (CIP # C800466)

Amount of This Request: \$378,200 **Source of Funds:** Airport Development Fund
Est. State and Local Taxes: \$210,700 **Est. Jobs Created:** 27
Est. Total Project Cost: \$4,257,900

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to (1) execute a contract with the low responsive and responsible bidder for the combined South Satellite Concessions Project (CIP #C800412) and South Satellite Additional Gate Lobby Project (CIP #C800466) in the amount of \$1,771,981, as required by Resolution No. 3605, as amended, Section 4.2.3.4., due to the bids being greater than 10 percent over the engineer's estimate; (2) increase the budget for the South Satellite Concessions Project (CIP #C800412) by \$207,200 to \$2,742,900 to cover additional costs related to the bid; and (3) increase the budget for the South Satellite Additional Gate Lobby Project (CIP #C800466) by \$171,000 to \$1,515,000 to correct design deficiency. The total amount requested for additional budget funding is \$378,200.

SYNOPSIS:

This project will relocate gate podiums, demolish underutilized restrooms, construct a new duty free shell space, demolish the existing duty free store, upgrade the finishes throughout the gate lobby areas, modify existing infrastructure to accommodate the change in use, and create a food and beverage shell for future build out by a tenant. It will create one large contiguous hold area for the wide-body gates S-10 – S16, adding nearly 1,500 square feet of seating capacity and allows for more efficient and comfortable use of the space by passengers.

On June 27, 2012, the Port of Seattle bid the South Satellite Concessions Project and South Satellite Additional Gate Lobby Project as a Major Public Works project. The engineer's estimate was \$1,569,249. On July 17, 2012, the Port of Seattle received 3 bids ranging from \$1,771,981 to \$1,837,000, see table below. Bids were greater than 10% over the engineer's

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estimate; therefore, in accordance with Resolution No. 3605, as amended, staff is seeking Commission approval to execute this contract.

Contactor	Bid
PCL Construction Services, Inc.	\$1,771,981.00
Pease construction, Inc.	\$1,791,822.00
Regency NW Construction, Inc.	\$1,837,000.00

Staff analyzed the engineer's estimate of \$1,569,249 and found the following items:

- Inadequate estimation of mobilization and demobilization costs related to the phasing requirements of the project to ensure continuity of operations;
- Additional badging costs for work in the international facility.

Based on the reasons stated above, and because the bidders were within 4% of each other, which appears representative of the marketplace, and because all three bids were above the engineer's estimate, Port staff believes the low bid represents a fair and reasonable price.

In addition, as preparatory investigations to complete gate podium moves have been undertaken, design deficiencies are requiring additional funds in the amount of \$171,000 to complete this project element. The design specified outdated communications infrastructure and needs to be improved to meet current standards.

BACKGROUND AND PROJECT SCOPE:

The west end of the South Satellite will be reconfigured to create a new, efficient space for both airline and retail operation. The projects will also relocate gate podiums, demolish underutilized restrooms and exterior stairs, remediate regulated materials, construct a new duty free shell space, demolish the existing duty free store, upgrade the finishes throughout the gate lobby areas, modify existing infrastructure to accommodate the change in use, and create a food and beverage shell for future build out by a tenant. The projects will create one large contiguous hold area for the wide-body gates S10 – S16, adding nearly 1,500 square feet of seating capacity and allowing for more efficient and comfortable use of the space by passengers.

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FINANCIAL IMPLICATIONS:

The total estimated cost of both projects is \$4,257,900, and is divided between CIP #s C800412, C800466, and expense as shown below:

<i>Budget/Authorization Summary: C800412</i>	Capital	Expense	Total Project
Original Budget	\$2,020,200	\$515,500	\$2,535,700
Budget Increase	\$207,200	\$0	\$207,200
Updated Budget	\$2,227,400	\$515,500	\$2,742,900
Previous Authorizations	\$2,020,200	\$515,500	\$2,535,700
Current request for authorization	\$207,200	\$0	\$207,200
Total Authorizations, including this request	\$2,227,400	\$515,500	\$2,742,900
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$2,227,400	\$515,500	\$2,742,900

<i>Project Cost Breakdown:</i>	This Request	Total Project
Construction	\$176,800	\$1,717,200
Construction Management	\$10,000	\$313,000
Design	\$0	\$262,000
Project Management	\$4,800	\$273,000
Permitting	\$500	\$17,000
State & Local Taxes (estimated)	\$15,100	\$160,700
Total	\$207,200	\$2,742,900

Budget Status and Source of Funds:

The capital budget for this scope of work was included in the 2012-2016 capital budget and plan of finance under CIP# C800412 in the amount of \$2,535,700. The capital budget increase of \$207,200 will be transferred from the Non-aeronautical New Projects Allowance CIP (C800152), a business plan prospective project, resulting in no net change to the Aviation capital budget. The funding source will be the Airport Development Fund.

Financial Analysis and Summary:

The financial analysis below is based *only* on the costs directly associated with the new concessions.

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CIP Category	Revenue/Capacity Growth		
Project Type	Business Expansion		
Risk adjusted discount rate	9%		
Key risk factors	Delay in realized revenues due to construction or other schedule delays. Achieving sales targets.		
Project cost for analysis	Duty free: \$1.47 million Food and beverage: \$1.07 million Total \$2.54 million		
Business Unit (BU)	Aviation Business Development/Concessions		
Effect on business performance	New duty free revenues (first full year): \$416,000/year New food and beverage revenues (first full year): \$340,000/year		
IRR/NPV	Duty Free: NPV \$800,000 Payback 5 years IRR 12%	Food/beverage: NPV \$1.1M Payback 5 years IRR 15%	Total: NPV \$1.9M Payback 5 years IRR 13%
CPE Impact	N/A		

This summary has not been updated to reflect the additional cost.

<i>Budget/Authorization Summary: C800466</i>	Capital	Expense	Total Project
Original Budget	\$1,344,000	\$0	\$1,344,000
Budget Increase	171,000	\$0	171,000
Updated Budget	\$1,515,000	\$0	\$1,515,000
Previous Authorizations	\$1,344,000	\$0	\$1,344,000
Current request for authorization	\$171,000	\$0	\$171,000
Total Authorizations, including this request	\$1,515,000	\$0	\$1,515,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$1,515,000	\$0	\$1,515,000

<i>Project Cost Breakdown:</i>	This Request	Total Project
Construction	\$171,000	\$991,000
Construction Management	\$0	\$145,000
Design	\$0	\$159,000
Project Management	\$0	\$162,000
Permitting	\$0	\$8,000
State & Local Taxes (estimated)	\$0	\$50,000
Total	\$171,000	\$1,515,000

Budget Status and Source of Funds:

The budgeted cost for this scope of work was included in the 2012-2016 capital budget and plan of finance under CIP# C800466. The budget increase of \$171,000 will be transferred from the Aeronautical New Project Allowance CIP (C102165), a business plan prospective project, resulting in no net change to the Aviation capital budget. The funding source will be the Airport Development Fund.

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Financial Analysis and Summary:

CIP Category	Revenue/Capacity Growth
Project Type	Business Expansion
Risk adjusted discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$1,344,000
Business Unit (BU)	Terminal
Effect on business performance	Increase NOI
IRR/NPV	N/A
CPE Impact	Less than \$.01, but no change to business plan forecast as this project was included.

This summary has not been updated to reflect the additional cost.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Award Contract: Based upon our technical analysis of the factors which affected the bid prices and the consistency of high bids across all the bidders, Port staff believes this bid price from PCL is fair and reasonable. Staff recommends the Commission authorize for contract award.

Do Not Award Contract: Staff evaluated re-scoping and then re-advertising the contract which would delay the project and cause delay to the tenant build out of the new duty free location, taking its opening beyond the high traffic summer season resulting in a loss of revenue. This is not a recommended alternative.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- November 2, 2010 – commission authorized the execution of an IDIQ professional services contract for design services in the amount of \$400,000 in support of anticipated capital improvement projects related to South Satellite concession and Gate Lobby Projects at Seattle-Tacoma International Airport. No funding was associated with this authorization.
- January 25, 2011 – commission authorized both design services and the use of Port crews in support of the Additional Gate Lobby Project at Seattle-Tacoma International Airport (CIP # C800466). This authorization was for \$414,000 of a total estimated project cost of \$1,257,000.
- March 8, 2011 – Commission authorized design services in support of the South Satellite concessions Project (CIP # C800412) at Seattle-Tacoma International Airport. This authorization was for \$350,000 of a total estimated project cost of \$2,199,000.
- March 27, 2012 – Staff briefing about plans for interim concessions leasing (2012 – 2014), including Requests for Proposal for a new duty free operator and new full-service restaurant.

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- June 5, 2012 – Commission authorized
 - A: For CIP # C800412, (1) advertise for construction bids and execute construction contracts and (2) execute contracts to purchase furnishings and casework for the South Satellite Concessions Project at Seattle-Tacoma International Airport (Airport). This authorization was for \$2, 185,700
 - B: For CIP # C800466, (1) advertise for construction bids and execute construction contracts and (2) execute contracts to purchase furnishings and casework for the South Satellite Additional Gate Lobby Project at the Airport. This authorization is for \$930,000 of a total estimated project cost of \$1,344,000.
- The total combined authorization request for both projects is for \$3,115,700 of a total combined estimated project cost of \$3,879,700.