

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

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

**Item No.** 4f  
**Date of Meeting** April 14, 2015

**DATE:** April 6, 2015  
**TO:** Ted Fick, Chief Executive Officer  
**FROM:** James R. Schone, Director, Aviation Business Development  
Deanna Zachrisson, Business Leader, Airport Dining and Retail  
Wayne Grotheer, Director, Aviation Project Management Group  
**SUBJECT:** Airport Dining and Retail Infrastructure Modifications (CIP #C800638)

<b>Amount of This Request:</b>	\$6,217,000	<b>Source of Funds:</b>	Airport Development Fund, Future Revenue Bonds
<b>Est. Total Project Cost:</b>	\$13,953,000		
<b>Est. State and Local Taxes:</b>	\$821,000		

**ACTION REQUESTED**

Request Commission authorization for the Chief Executive Officer to (1) authorize award of a job order contract for construction of portions of the infrastructure modifications associated with the redevelopment of the Airport Dining and Retail (ADR) program and (2) authorize the use of Port labor to construct portions of the infrastructure work and space modifications. The total amount of this request is \$6,217,000 out of an estimated total budget of \$13,953,000.

**SYNOPSIS**

The Airport's offering of restaurants and shops will soon be in redevelopment as leases begin expiring this year for the vast majority of units airport-wide. In order to support growth in business opportunities, jobs and revenues, the ADR program redevelopment requires a number of changes to the current space configurations of dining and retail units and the infrastructure supporting these units.

Much of this work needs to occur between the time existing leases expire and new leases commence. The timely scheduling of this work will assure that the Port is able to minimize transition time and costs for new businesses coming into the Airport as well as facilitate the growth of new jobs. The upgrades for the ADR program will be a unique kind of construction activity because it must be closely synchronized with the leasing of new spaces. Leasing is a market-driven process often subject to unforeseen circumstances that may either accelerate or delay the signing of agreements with future tenants. In order to achieve "just in time" preparation of spaces for tenants to complete their build-outs, flexibility in the construction schedule will be critical to the overall success of the redevelopment effort. Staff recommends the use of an alternative form of contracting called the *job order contract* method of contracting for a

## **COMMISSION AGENDA**

Ted Fick, Chief Executive Officer

April 6, 2015

Page 2 of 10

significant portion of the modification work. It is the best contracting vehicle for assuring flexibility during construction, when many other variables may affect the scheduling of work.

### **BACKGROUND**

The overarching objective of this project is to ensure that appropriate utility points of connection (e.g. water, waste, communications and electrical) are present at lease lines and accessible for tenant build-outs in a timely fashion. In addition to the utility modifications, specific spaces will be reconfigured for different and/or improved operational efficiency. The first phase of the project is anticipated to begin in mid-2015 and continue based on leasing activity, likely through 2016. The scope includes modifications to thirteen dining and retail locations in the Main Terminal. Two current dining/retail spaces also will be converted to children's play areas in Concourses B and D. The aim of these changes is to realize a vision for a new ADR program that creates an extraordinary customer experience; offers diverse, quality restaurants and shops; provides new economic opportunity for businesses and people and grows non-aeronautical revenues for future investments in the airport.

#### **Contracting Considerations to Accomplish Unique ADR Work**

As detailed in the Alternatives section below, staff evaluated how contracting methods could accommodate the needs of the overall redevelopment of the ADR program. After careful consideration, staff recommends that the Port execute a job order contract for a significant portion of the unit infrastructure upgrades. In the Central Terminal, the overall project includes the re-configuration of food service spaces, replacement of an existing grease exhaust system and the installation of two elevators to serve new restaurant spaces on the mezzanine level. This scope of work is complex, entails more significant changes to the base building facility, and is therefore beyond the capabilities of the job order contracting method. Therefore, the work in the Central Terminal will be accomplished via a traditional public works contract.

The job order contract as a contracting tool is designed to accommodate very specific project conditions in which an overall project consists of a multitude of smaller repetitive projects that are similar in scope and anticipated to occur over an extended period of time. The redevelopment of the Airport Dining and Retail program is clearly consistent with these conditions. The scope of the infrastructure work affects every part of the main terminal, but it does so in a staggered and spread out manner throughout the facility. Also, construction is closely synchronized with leasing activity. A job order contract will allow the Port to complete the construction with the least amount of impact to customer service, sales and revenue streams and employment continuity. This 'just in time' approach to infrastructure construction also helps new businesses manage their unit design schedules more efficiently.

By statute, a job order contract is awarded for one year with two optional renewal years. The total contract length cannot exceed three years. Given the duration of the ADR program, staff will likely return to request authorization for a second job order contract in 2018 as this proposed contract expires. Also by statute, the job order contract has a not-to-exceed limit of \$4,000,000 per year. This limit does not roll over to the option years, but is instead renewed at each option

## **COMMISSION AGENDA**

Ted Fick, Chief Executive Officer

April 6, 2015

Page 3 of 10

year. This means that the theoretical total not-to-exceed value and duration available to a job order contract is \$12,000,000 over a three year period.

### **Utilizes Subcontractors for Multiple Small Projects**

A job order contract is competitively procured with a general contractor. The project is completed through a series of work orders. For each work order, a scope of work is negotiated as each location becomes available. Work orders on a job order contract may not exceed \$350,000, which makes this type of work suitable for small construction firms that will act as subcontractors to the general contractor. By statutory requirement, the general contractor on a job order contract may self-perform no more than 10% of the work. The general contractor will use several smaller subcontractors to complete the work with the ability to rotate subcontractors from work order to work order.

Traditionally, the Port would procure one or more public works contracts for a project of this size. However, a large public works contract offers less flexibility for schedule changes and expedited mobilization of contractors as potentially required by leasing activity, which in turn could lead to increased costs due to claims and change orders.

As part of the competitive procurement process, general contractors are required to submit a proposal, interview, and submit a line item multiplier. A line item multiplier is a percentage that the general contractor will apply to each line of an estimate for a scope of work for each location or group of locations submitted to the general contractor for pricing. Both the Port and the general contractor will develop line item estimates and will then negotiate the final price and material quantities. An example of this would be if the general contractor would be asked to build a wall. If the Port's construction estimating tool, RS Means, lists drywall at \$100.00 per square foot, the contractor would add the drywall line item to their estimate and multiply the \$100.00 by their multiplier. For this example, we assume a multiplier of 1.05%. The cost for one square foot of drywall would be \$105.00. When the contract is awarded, the Port will provide scopes of work to the contractor as spaces become available. The contractor will provide an estimate for each portion of the work and apply their multiplier to a line item estimate. Once the Port and the contractor have negotiated the estimate, the Port issues a work order against the contract to complete the work.

The specific characteristics of a job order contract as applicable to the dining and retail redevelopment are:

### **Flexibility/Efficiency**

A job order contract is awarded as a not-to-exceed contract limit. The pace and schedule of the leasing activity will be the driving force behind the construction work. The Port will coordinate the work as the spaces become available for tenancy. A traditional public works contract would require that all scope, phasing, and scheduling be identified prior to advertisement, however, with a job order contract, the Port will identify the types of scope that the contractor will

## **COMMISSION AGENDA**

Ted Fick, Chief Executive Officer

April 6, 2015

Page 4 of 10

encounter during the course of the project. With this form of contracting, the Port will be able to meet the needs of the redevelopment and new tenants in a much more efficient and fluid manner.

### **Port-Contractor Collaboration**

Similar to a design/build approach, the job order contract will allow the Port to work in close collaboration with the contractor during scope creation and scheduling. The Port and the contractor also can work closely to mitigate risks of disruption while working near on-going operations and existing utilities. The Port can familiarize the contractor with each space and its existing conditions in order to create a scope of work that accomplishes what the Port requires and also benefits from the upfront input by the contractor. Once the scope is created, the Port and the contractor will negotiate the final cost as described above. Port staff and the contractor will evaluate each space and be able to determine the scope based on a collaborative site examination. This approach means that the contractor will have first-hand knowledge of a project rather than preparing a bid based solely on drawings of a space as with a standard Public Works contract. This process also allows the Port to take advantage of the contractor's experience and value engineering ability. The estimate becomes a fixed price once the work order is issued.

### **Increased Small Business Participation**

The infrastructure modification work is a collection of smaller projects. In a job order contract, the prime contractor can only self-perform 10% of the work by statute. This creates an environment that fosters the use of small businesses. Job order contract firms typically rotate between several small sub-contractors, often times changing sub-contractors from work order to work order. Instead of one large sub-contractor being awarded large scopes of work, the job order contract firm can spread the work to multiple small businesses. From 2012-2014, the Airport's Noise Remedy Project, another program at the Port that is utilizing job order contracts, (1 closing and the other just starting), have subcontracted approximately 60% of its executed value with Small Business Enterprise (SBE) firms.

### **Construction Cost Risk**

There are inherent risks of cost increases in every construction project regardless of contracting method. This risk is managed in traditional construction contracting by completing design prior to advertising for a construction contract. This thereby ensures a better understanding of the project scope and resulting estimated cost. For this project, the specific risk with use of a job order contract is that the not-to-exceed contract will be awarded before the completion of infrastructure designs. After the award of the contract, construction costs could vary from original estimates based on design requirements that are unknown today. In order to manage this risk, staff has given careful consideration to developing project cost estimates that include a well thought out construction contingency.

## **PROJECT JUSTIFICATION AND DETAILS**

The redevelopment of the Airport Dining and Retail program over the next several years aims to maximize the economic and community benefit of a traveler offering that currently generates \$220 million in gross sales and supports 1,600 jobs. Based on forecasts of anticipated passenger

## **COMMISSION AGENDA**

Ted Fick, Chief Executive Officer

April 6, 2015

Page 5 of 10

demand for food service, retail and personal services over the next ten years, a redeveloped program with a fully maximized use of existing and future square footage will grow gross sales resulting in higher revenues to the Port and an increase in local employment opportunities.

In order to achieve this growth, the Airport must expand dining and retail capacity throughout the terminal and also change the uses of some existing units to meet specific demand. All identified changes in use as well as the development of new locations have been evaluated and have been projected to increase sales by meeting passenger demand for products and services.

### ***Project Objectives***

The objectives of this project include:

- Ensure that necessary utility points of connection and other required infrastructure are in place for each unit to support operations
- Develop new or currently unused space or repurposing existing dining and retail space to serve passenger demand and generate additional revenue
- Reconfigure existing space to operate more efficiently and assure the greatest capacity to serve passenger needs
- Maximize the overall use of space in order to achieve the optimal mix of offerings in every area of the Airport
- Carefully schedule work that could impact customer service, revenue generation and airline operations in the terminal

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

With the exception of the portions of work in the Central Terminal, this project can be characterized as a collection of smaller projects, mostly in or supporting tenant spaces, in the Airport's main terminal, such as provision of water, waste lines, electrical and communications. The more significant Central Terminal work, including space reconfiguration, new elevators and mezzanine level development, will be planned for a future public works contract request.

### ***Schedule***

<b>Activity</b>	<b>Start</b>	<b>End</b>
Design	Fourth Quarter 2014	Second Quarter 2016
Phase I Construction	Third Quarter 2015	Third Quarter 2017
Phases II Central Terminal	Third Quarter 2016	Third Quarter 2017
Phase III, Phase IV (Others as needed)	Third Quarter 2016	Second Quarter 2020

## **COMMISSION AGENDA**

Ted Fick, Chief Executive Officer

April 6, 2015

Page 6 of 10

### **FINANCIAL IMPLICATIONS**

<i>Budget/Authorization Summary</i>	Capital	Expense	Total Project
Original Budget	\$10,900,000	\$0	\$10,900,000
Previous Budget Adjustments	\$6,453,000	\$0	\$6,453,000
Budget transfer	-\$3,400,000		-\$3,400,000
Revised Budget	\$13,953,000	\$0	\$13,953,000
Previous Authorizations	\$2,991,000	\$0	\$2,991,000
Authorization Transfer to CIP #C800612	(\$375,000)	\$0	(\$375,000)
Current request for authorization	\$6,217,000	\$0	\$6,217,000
Total Authorizations, including this request	\$8,833,000	\$0	\$8,833,000
Remaining budget to be authorized	\$5,120,000	\$0	\$5,120,000
Total Estimated Project Cost	\$13,953,000	\$0	\$13,953,000

<i>Project Cost Breakdown</i>	This Request	Total Project
Design	\$0	\$2,616,000
Construction	\$5,808,000	\$10,516,000
State & Local Taxes (estimated)	\$409,000	\$821,000
Total	\$6,217,000	\$13,953,000

### *Financial Analysis and Summary*

<b>CIP Category</b>	Capacity/Revenue Growth
<b>Project Type</b>	Business Redevelopment and Expansion
<b>Risk adjusted discount rate</b>	7.5%
<b>Key risk factors</b>	<ul style="list-style-type: none"><li>• Coordination with other construction projects</li><li>• Delays in improved base building HVAC and electrical capacity to support expansion</li><li>• Delays in needed leasing activity</li></ul>
<b>Project cost for analysis</b>	\$17,353,000 (full cost of project)
<b>Business Unit (BU)</b>	Non-Aeronautical (Airport Dining and Retail)
<b>Effect on business performance</b>	NOI after depreciation will increase
<b>IRR/NPV</b>	15%/\$21 million
<b>CPE Impact</b>	No direct impact. However, potential reduction in CPE due to increased revenue sharing

### *Budget Status and Source of Funds*

This project, C800638, was included in the 2015 – 2019 capital budget with an estimated cost of \$10,900,000. On October 28, 2014, the commission authorized \$2.8 million for design on a revised cost estimate of \$17,353,000 and approved the transfer of \$3,400,000 to the Checked Baggage Optimization project, C800612, (for scope relating to the elevators that will be constructed as a part of that project). The sources of funds will include the Airport Development

## **COMMISSION AGENDA**

Ted Fick, Chief Executive Officer

April 6, 2015

Page 7 of 10

Fund and future revenue bonds. The Port plans to issue revenue bonds in 2015 to fund a number of projects.

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

Long-term capital and operating costs will be minimized by incorporating energy and water efficient equipment and components and sustainable materials with pre- and post-consumer recycled content, wherever possible. These choices will support environmentally sustainable development and conservation. They may also reduce initial acquisition cost and long-term operations and maintenance costs.

There will be incremental maintenance costs associated with the facility-owned mechanical, water, communication, and electrical utilities added to the lease line of each unit. However, every tenant is responsible for providing ongoing maintenance for the materials and equipment within their leased area in accordance with the Port's preventive maintenance program for dining and retail.

## **STRATEGIES AND OBJECTIVES**

This project supports the Port's Century Agenda goal to "advance the region as a leading tourism destination and business gateway" by providing an extraordinary customer experience at the Airport and also is an important contributor to the Port's goal to grow jobs by 100,000 by 2025. The project also supports the Aviation Division's strategies of operating a world-class international airport and maximizing non-aeronautical net operating income. The pursuit of this redevelopment is consistent with specific guidance principles articulated by the Commission for the Airport Dining and Retail program in a motion approved in February 2012 and reiterated in a motion approved in November 2014.

## **ENVIRONMENTAL RESPONSIBILITY AND COMMUNITY BENEFITS**

The ADR program generates enormous benefit for the Airport and the broader community. The program has been recognized by the Airports Council International North America (ACI-NA) for its role in developing environmentally friendly practices. This includes the construction of infrastructure to support sustainable operations, as well as tenant leasehold improvements that could minimize energy and water use. Airport staff will explore opportunities to enhance conservation opportunities, energy efficiencies, re-use and/or recycle materials, use sustainable building materials, and look for voluntary opportunities to integrate LEED or other green building practices

The construction for this infrastructure work, as well as tenant construction that will follow, will employ architects and engineers for the design as well as contractors for its construction, and skilled laborers for ongoing maintenance and repairs. In particular, the job order contract approach for construction work is tailor-made for the promotion of small business participation. Staff will work closely with the Office of Social Responsibility to maximize these opportunities.

## **COMMISSION AGENDA**

Ted Fick, Chief Executive Officer

April 6, 2015

Page 8 of 10

One of the most significant direct benefits of a prosperous and growing dining and retail program is the number of local (and non-local) jobs that the program makes possible. Currently, there are approximately 1,600 jobs in the dining and retail program. An analysis conducted as part of the Airport Dining and Retail master plan forecasts that the program can grow job opportunities by as much as 40% by 2025, presuming that investments are made in order to expand square footage where possible, and to make more efficient use of the square footage currently utilized by the program. Once operators are open for business, they continue to generate benefit for local suppliers by way of wholesale product procurement for their businesses.

### **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

Port staff evaluated different alternatives for project construction and delivery.

#### **Alternative 1) – Require incoming tenants to complete unit infrastructure work as part of their tenant improvements.**

The infrastructure work would be completed by each tenant's contractor.

Pros:

- Designs for the infrastructure would be completed by each tenants' designers as a part of the tenant improvements project.
- The cost for this work could be borne by the tenant.

Cons:

- This alternative would have multiple designers and contractors preparing designs and building similar infrastructure. It could require additional staff review time to ensure compliance with Port standards.
- Tenants could be required to complete work outside of unit lease lines. This type of investment by tenants in the past has been problematic from the standpoint of the ability to anticipate total construction costs. The Port's current practice is to provide needed infrastructure to the lease line. While this is not a uniform practice in airports, it is a standard practice for other commercial environments. It may be difficult for tenants to secure financing for supporting infrastructure outside of a unit lease line.

This is not the recommended alternative.



## **COMMISSION AGENDA**

Ted Fick, Chief Executive Officer

April 6, 2015

Page 9 of 10

### **Alternative 2) – Complete the work using multiple public works contracts.**

The infrastructure work can be completed by the award of multiple public works contracts for portions of work in defined phases.

Pros:

- Designs for every location would be completed and packaged for bidding. The estimates will be based on more solid information gleaned from the design process.
- The actual cost of the total project will be known at bid opening, prior to the commencement of construction.

Cons:

- This infrastructure project is unique because it is driven by the leasing efforts of Port staff. A public works contract does not have the flexibility to react to schedule changes - accelerations or delays in reaching leasing milestones. Due to the inability to quickly adapt to change, risks increase for delays that translate into increased costs/claims for the Port and new tenants, as well as extended closures of dining and retail locations.

This is not the recommended alternative.

### **Alternative 3) – Complete the work using a job order contract.**

Pros:

- The job order contract will allow the Port to synchronize construction with leasing activities. The work to secure tenants for new spaces is an unpredictable market-driven activity. For this reason, it is not realistic to try to force the timing of lease execution to coincide with the completion of construction work. Rather, spaces can be prepared in a 'just in time' fashion for incoming tenants, and also coordinated with tenant design. A contractor under a job order contract can be mobilized quickly as work becomes available.

Cons:

- Using the job order contract, design takes place as the work progresses under the contract, rather than prior to the execution of the contract. The risks associated with this approach are unforeseen conditions that may be identified in project design that could cause changes in costs from original estimates.

**This is the recommended alternative.**

## **ATTACHMENTS TO THIS REQUEST**

- Computer Slide Presentation

## **COMMISSION AGENDA**

Ted Fick, Chief Executive Officer

April 6, 2015

Page 10 of 10

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

- February 24, 2015 – (Briefing) Airport Dining and Retail Outreach and Leasing Plans
- December 9, 2014 – Phasing Proposal for Hudson Group Leased Units
- December 9, 2014 – Phasing Proposal for HMSHost Leased Units
- December 9, 2014 – Amendment to Lease and Concession Agreement Anton Airfoods
- November 25, 2014 – Airport Dining and Retail Quality Jobs Motion/Guidance
- November 11, 2014 – (Briefing) Airport Dining and Retail Quality Jobs
- October 28, 2014 – Authorization to Design Airport Dining and Retail Infrastructure Modifications
- September 30, 2014 – (Briefing) Drivers for Phasing Plan Decisions
- May 27, 2014 – (Briefing) Airport Dining and Retail Master Plan
- April 22, 2014 – Terminal Utility Upgrades Design Services Contract (CIP #C800638)
- September 11, 2012 – (Briefing) Airport Concessions Master Plan Update
- March 27, 2012 – Briefing about Interim Concessions Leasing
- February 14, 2012 – Commission Motion Concerning the Airport Concessions Program
- December 13, 2011 – Aviation Concessions Program Principles and Practices
- July 26, 2011 – Procurement for Concessions Planning and Leasing Services