

R-12

February 11, 2020

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute all documents necessary to amend Contract No. 34964 with Swinerton Builders, of Los Angeles, CA, for the construction of the Phase II Terminal Area Improvements at the Long Beach Airport, to increase the contract amount by \$21,295,013, for a revised contract amount of \$80,104,503, and increase the contingency amount by \$5,565,675, for a revised contingency amount of \$12,015,675, for a revised total contract amount not to exceed \$92,120,178;

Authorize the City Manager, or designee, to execute all documents necessary to amend Contract No. 34964 with Swinerton Builders, of Los Angeles, CA, to allow for the execution of Construction Site Use Agreements with Swinerton Builders, in conjunction with the Phase II Terminal Area Improvements at the Long Beach Airport;

Express intent to issue airport revenue bonds in an amount of up to \$21,000,000 in principal to finance a portion of the construction costs for Phase II Terminal Area Improvements at the Long Beach Airport and the costs associated with issuing a bond; authorize the City Manager, or designee, to execute all necessary documents to bring forth a bond for City Council consideration; and,

Increase appropriations in the Airport Fund Group in the Airport Department by \$26,087,385, offset by a combination of funds available and airport revenue bond proceeds. (District 5)

DISCUSSION

On May 8, 2018, the City Council awarded a design-build contract to Swinerton Builders (Swinerton) for the design and construction of the Phase II Terminal Area Improvements (Phase II), in the amount of \$58,809,490 and authorized a contingency in the amount of \$6,450,000, for a total contract not to exceed \$65,259,490.

City Council approval is requested to amend Contract No. 34964 with Swinerton, to increase the contract amount by \$21,295,013 for a revised contract amount of \$80,104,503 and increase the contingency by \$5,565,675 for a revised contingency amount of \$12,015,675. The combined increase is \$26,860,688 for a revised total contract amount not to exceed

\$92,120,178. This contract is for capital improvements primarily to enhance the pre-security passenger experience at the Long Beach Airport (Airport).

The design-build contract is divided into phases and includes design, pre-construction (site investigations, procurement, etc.) and construction. Procuring and awarding a design-build contract allows the City to have greater flexibility and control over design throughout the project. At contract award, the initial program was based on preliminary concept drawings and cost estimates for nine projects, which are now updated and reflect multiple design improvements, market changes, and a subsequent increase in program costs.

Design Improvements and Market Conditions

Since contract award, Airport staff worked collaboratively with stakeholders including the airlines, rental car companies, Transportation Security Administration (TSA), the Federal Aviation Administration (FAA), concessionaires, and Swinerton's design team, Corgan, to complete the final design of Phase II. Staff held multiple design meetings aimed to provide modern, efficient, customer-friendly new facilities that would dramatically improve the layout of the Airport, creating bold new architecture and opening accessible spaces that would also showcase the City's historical landmark terminal, while renovating and seismically upgrading its structure.

The final design incorporates several added strategic enhancements to the proposed public areas, makes significant modifications to the orientation of the ticketing building, and expands the meeter-greeter courtyard area. The landscape, hardscape, and lighting plans have been greatly enhanced and are dramatically improved over the initial concept planning document. The new consolidated baggage claim area embraces an open and comfortable clear span design, in lieu of interior columns and cross bracing. Other strategic enhancements include obtaining Leadership in Energy and Environmental Design (LEED) Silver certification for the ticketing building, and upgrading finishes throughout the program that will ensure the Airport competes with other first-class travel experiences.

Several stakeholder desires were refined since the Phase II program was initially conceived. Since the Airport's carriers and travel destinations change over time, more flexible ticketing counter space, additional self-service kiosks, and a larger baggage carousel were incorporated. Airline operators also demonstrated the need to modify the airline ticket office space, baggage service offices, and operational areas to accommodate and support the Phase II facilities. These additions to the program are consistent with the development limitations established in the adjusted space allocation approved by City Council in April 2007.

Upon design completion, Swinerton solicited bids from the subcontracting community and has submitted the Guaranteed Maximum Price (GMP) per project component for City approval. The GMP's reflect the enhanced design improvements as well as an increase in costs due to market conditions.

Current market conditions have exhibited an extremely volatile materials and subcontracting labor market that have negatively affected the overall program cost. Multiple public and private projects and demand for contractor and subcontractor labor services in the country, specifically in the region, are competing for similar resources. Staff notes that large aviation, surface transportation, and other infrastructure related projects underway in the Southern California region have resulted in a less competitive bidding environment and a reduction in the overall number of bids received for Phase II. Two bids per trade on average have been received in contrast to six or seven bids as initially modeled in the preliminary cost estimates.

GMP and Revised Schedule

The Airport recommends executing the GMPs for the following six projects:

1. Checked Baggage Inspection System (CBIS);
2. Baggage Claim Area Improvements;
3. Ticketing Facilities;
4. Terminal Renovation Improvements;
5. Rental Car Customer Service Improvements; and,
6. Meeter and Greeter Plaza.

On December 12, 2019, the project received a Finding of No Significant Impact pursuant to Federal Aviation Administration Order 1050.1F, and in accordance with the National Environmental Policy Act. Construction could not proceed without this environmental clearance. The projects will be constructed and commissioned using a phased approach. The CBIS, Ticketing Building, and the Consolidated Baggage Claim are anticipated to open by the second quarter of 2021 and the remaining three projects will be completed by the third quarter of 2022.

These projects were selected as they provide the most immediate operational and customer enhancement benefit to the Airport. The projects that will be deferred include the terminal roadway improvements, rental car ready-return lot, and ground transportation center, which also require a significant amount of planning and preparation to relocate existing tenants and facilities. These three projects will be deferred until planning and preparation, including securing funding, is completed.

Airport Bond Issue to Finance Phase II Terminal Area Improvements

The City plans to issue a bond to finance the project components associated with the Phase II Terminal Area Improvements at the Airport. The principal amount of the bond will not exceed \$21 million and will mature in 10 years. In order to save on the cost of issuance, the bonds will be issued simultaneously with the refunding of the Airport's existing 2009 and 2010 bonds. Staff expects to return to the City Council for approval of the bond issuance by March 2020. The contract allows the City to proceed incrementally based upon project component priority and available funding. The latter project components will only be initiated upon availability of full funding.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on January 27, 2020, Purchasing Agent Tara Yeats on January 21, 2020, and by Budget Analysis Officer Julissa José-Murray on January 27, 2020.

TIMING CONSIDERATIONS

City Council action to amend Contract No. 34964 and increase contract authority concurrently is requested on February 11, 2020, to expedite commencement of this work. Construction is anticipated to begin immediately and should take approximately 26 months to complete. The construction Plans and Specifications contain phasing requirements to maintain sufficient access for all Airport passengers and operators including commercial airlines and general aviation tenants.

FISCAL IMPACT

The revised program cost is estimated at \$110,241,974, inclusive of the contract amount and a 15 percent contingency for a total not to exceed contract amount of \$92,120,178. The total program cost includes design, preconstruction, construction, allowances, project labor agreement, labor compliance, construction management, project oversight, overhead, and contingency. The total project will be funded by several sources including: (1) \$7.0 million from Customer Facility Charges (CFC); (2) \$10.9 million in grant funding from the Transportation Security Administration (TSA); (3) \$37.1 million from Passenger Facility Charges (PFC); (4) funds available in the Airport Fund Group and future operating revenues funding residual estimated costs of up to \$39.7 million; and (5) up to \$21.0 million from airport revenue bond proceeds. Debt service will be paid by Airport operating revenues in the Airport Fund Group. It is expected that the bonds will be issued in May 2020. If for any reason the City is not able to issue the bonds, the remaining components of the Phase II Terminal Area Improvements will be deferred until such time as funding becomes available and/or Airport Fund reserves will be used to pay for the projects already in construction.

The Airport worked with its financial advisor, Frasca & Associates, to prepare a funding plan and pro forma financial projections showing the financial implications of the Phase II Terminal Area Improvements on the Airport's financial metrics. Under conservative assumptions provided by Airport management, the Airport was shown to meet its internal financial targets that are consistent with its current A3 (Moody's)/A- (Fitch) credit rating. In summary, these assumptions included (1) essentially flat passenger enplanements forecasted at approximately 12 percent below the Airport's all-time peak in FY18, as available slots are allocated to qualified air carriers; (2) revenue growth in proportion to an assumed inflation rate and changes in enplaned passenger activity; and (3) a 2-3 percent annual increase in operating expenses. The Airport will mitigate financial risk by managing project cost contingencies and reserving its ability to defer later projects.

In the event of a recession, or if significant obstacles are found, the contract provides a termination for convenience clause that allows the Airport to suspend future project components at any time. Should the Airport elect to exercise this option, the Airport would be contractually liable only for the cost of work physically performed and a 1.5 percent deductive change order on the balance of remaining authorized work.

In the unlikelihood of a cash shortage in the years subsequent to the completion of the Phase II Terminal Area Improvements at the Long Beach Airport due to an economic downturn or other unforeseeable event, specific remediation plans may be implemented to ensure debt service and operating requirements are met. These remediation plans include increasing rates to generate additional operating revenues, cutting operating expenses to the extent practically possible, and/or using Airport Fund reserves. The implementation of these plans may adversely impact the Airport's credit rating and potentially impact future financing activities.

An increase in appropriation of \$26,087,385 for the construction of the first three project components is requested in the Airport Fund Group in the Airport Department and will be offset by funds available and airport revenue bond proceeds. Subsequent project components will not proceed until such time as funding is secured and additional appropriation necessary to complete subsequent project components are requested of the City Council. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. It is anticipated that this contract will have a positive impact on the local job market and sustain approximately 440 direct jobs.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CYNTHIA GUIDRY
DIRECTOR, LONG BEACH AIRPORT

APPROVED:



THOMAS B. MODICA
ACTING CITY MANAGER