



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** John Aitken, AAE  
Jon Cicirelli

**SUBJECT:** SEE BELOW

**DATE:** March 29, 2018

Approved

*D. D. S. L.*

Date

*4/20/18*

**SUBJECT: APPROVE DESIGN-BUILD PROCUREMENT TO CONSTRUCT AN INTERIM FACILITY AT THE NORMAN Y. MINETA SAN JOSE INTERNATIONAL AIRPORT TO ADD FOUR (4) AIRCRAFT GATES TO TERMINAL B**

## RECOMMENDATION

- A. Adopt a resolution in accordance with San José Municipal Code Section 14.07.310:
1. Finding that the cost of the proposed design-build contract for the Terminal B Interim Facility Project (the "Project") at the Norman Y. Mineta San Jose International Airport will exceed \$5,000,000, and that the use of the design-build delivery method process is likely to save money and/or result in faster Project completion than if the City used the traditional design-bid-build method of project delivery;
  2. Approving the Request for Proposals ("RFP") and the evaluation criteria and process by which the City shall select a design-build entity for the Interim Facility Project; and
  3. Authorizing the Acting Director of Public Works to issue addenda to the RFP to add any additional requirements or to make such other revisions to the RFP that are consistent with the scope and selection criteria as approved by Council.
- B. Adopt a resolution finding that the Airport traffic and transit improvement conditions set forth in Part 4 of Chapter 25 of the San José Municipal Code have been met and that the City may therefore expand the number of air carrier gates at the Airport beyond the existing thirty (30) gates, as provided in the Airport Master Plan.

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## **OUTCOME**

Approval will authorize staff to advertise a Request for Proposals (RFP) for soliciting a design-build entity to design and construct the proposed Interim Facility Project at the Airport that will provide four new aircraft gates on the south end of Terminal B.

## **EXECUTIVE SUMMARY**

The Airport's unprecedented growth of passenger traffic has led to increased demand for additional aircraft gates. To address this demand, the Airport is proposing the construction of an Interim Facility, which would include four (4) additional gates with accompanying hold room space. The Interim Facility would be attached to Terminal B by connector bridges to allow passengers to move freely between Terminal B and the Interim Facility (see Attachment A for a drawing of the facility). The Interim Facility is estimated to cost approximately \$50 million, and staff will recommend financing the cost through the City's Airport commercial paper program. Debt service for the commercial paper would be paid from the increased revenue from the airlines and passengers resulting from the utilization of these four (4) gates.

Airport staff is asking the Council to accept the recommendation for the use of a design-build procurement process. The Airport expects design-build to save money and to allow for faster construction, with an anticipated completion date of June 15, 2019. The Airport is also requesting approval of the RFP for the selection of a design-build entity for the Project.

## **BACKGROUND**

The Airport Master Plan for the Norman Y. Mineta San José International Airport consists of facility improvements designed to adequately accommodate projected aviation demand (passenger, cargo, and general aviation), with development phased as demand warrants and as determined to be financially feasible. The Airport Master Plan was originally adopted by the City Council in 1997 and subsequently updated through a series of adopted amendments as prescribed by the Municipal Code, the most recent of which occurred in June 2010. The Airport Master Plan currently extends to the year 2027 and states:

The Master Plan identifies a number of improvement projects to undertake, including the expansion of passenger terminal facilities: Up to 40 air carrier gates provided through construction of new and remodeled terminal buildings to adequately serve projected demand (17.6 million annual passengers and 184,000 aircraft operations in 2027), along with garages for public and rental car parking, roadway improvements, new or expanded jet fuel storage and other support facilities on the east side of the Airport.

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As part of the Phase I Terminal Area Improvement Program approved in 2006, Terminal A was upgraded and expanded in 2009, and the new Terminal B was constructed and opened in June of 2010 (replacing the old Terminal C that was demolished). From late 2010 until the fall of 2017 the Airport had 28 aircraft gates with jet bridges available for passenger airline operation. In November of 2017, the Airport completed the building of two additional interim aircraft gates with jet bridges (Gates 29 and 30) to accommodate increased flights from the airlines. These two aircraft gates were immediately assigned to an airline and are used several times each day. The Airport has also initiated improvements to Terminal A to support the busing of passengers directly from the terminal to an airplane for remote ground boarding.

Over the past three years, the Airport has experienced significant growth in the number of passengers and increased airline flight schedules. The Airport anticipates continued strong growth in 2018, based on the number of new routes already scheduled for the year.

Year	Passengers	CY Percent Growth	CY Passenger Growth
2015	9,800,000	4.4%	+414,000
2016	10,800,000	10.2%	+ 997,000
2017	12,500,000	15.6%	+1,683,000
2018p	13,600,000	9.0%	+1,120,000
2019p	14,200,000	4.4%	+600,000
<b>Passenger Growth from 2014 to 2019</b>			<b>+4.8 million</b>
			<i>Data is rounded</i>
			<i>p = projected</i>

In 2014, the Airport had 10 airlines flying to 22 non-stop destinations, including 3 international destinations. Today, the Airport has 16 airlines, with 54 non-stop announced destinations, 10 of which are international. In 2016 and 2017, Norman Y. Mineta San José International Airport was the fastest growing of the 50 largest airports in the nation in terms of percent increase in seat capacity.

Given the unprecedented growth at the Airport and as part of our planning process, the City retained Landrum and Brown, an aviation planning and development firm, to conduct a near-term terminal capacity analysis. The purpose of this study was to highlight areas of congestion as the Airport approaches 14 million passengers. The study identified several challenges for the Airport to focus on including hold rooms, select ticket counters, baggage drop-off, baggage claims, and the customs facility. The study also found that the Airport was projected to have insufficient overnight aircraft parking locations, given the projected demand, and that without the ability to accommodate this demand, the Airport would miss out on additional opportunities for flight operations. Finally, the study identified the increased need for remote ground boarding positions with busing requirements to be able to accommodate the increased passenger traffic.

The Airport is currently experiencing areas of congestion during select peak time periods. During the day there are a number of peaks, where there is a high demand for aircraft parking at the gates. The Airport is currently operating two ground boarding positions at Terminal A and busing passengers from Terminal A during some of these peak periods when no gates at the Terminal are available.

## **ANALYSIS**

### **A. Interim Facility**

The Airport continues to experience significant demand for gate facilities caused by high demand from the added airline flights. This continues to be the case even after completing the two additional gates in November 2017. Each night, a minimum of 43 aircraft are parked around the Airport waiting for their initial morning departures. Thus, during the peak morning flight launch, all 30 gates at the Airport are being utilized, and the remote parked aircraft are towed to a gate when it becomes vacant. In addition, it is not unusual to have arriving aircraft waiting on taxiways for a gate to become available. The Airport has experienced some flight delays as aircraft have arrived without an open gate to park at to deplane their passengers.

These challenges of current gate capacity limit the Airport's ability to attract new flights and to expand competition on existing routes. Landing times are based on the availability of planes, connections at the other airports, and demand for routes from passengers. When the available landing/departing flight times are not available, the airlines do not always have the flexibility to modify their schedules to accommodate the availability of an open gate at SJC.

In order to address these immediate challenges, the Airport is proposing the construction of an Interim Facility at Terminal B. Constructing the proposed Interim Facility at Terminal B would allow the Airport to be able to respond relatively quickly with aircraft gates to address the current constraints and to accommodate new and existing routes.

The proposed Interim Facility would be a remote hold room just south of Terminal B with connector bridges to Terminal B to allow passengers to move between Terminal B and the Interim Facility. The facility would include four (4) gates with accompanying ground loading jet bridges, an appropriately sized hold room for passengers, restrooms, and a "grab-and-go" type food and beverage concession. In addition, the RFP will include equipment purchases and installation as necessary, as well as airline relocation action that may be necessary. See Attachment A for drawing of the facility and its relationship to Terminal B.

The construction of the Interim Facility would allow the Airport to respond to the current challenges of the growth in flight operations and passengers while the Airport continues to plan for Phase II of the Terminal Area Improvement Program as envisioned in the Master Plan. A design-build procurement would allow the Interim Facility to be constructed cost effectively and

would allow the Airport to quickly address terminal constraints and congestion. If the Council approves the design-build delivery method for the Interim Facilities, the design-build agreement will require that the successful Design-Build Entity to deliver the Interim Facility by June 15, 2019.

## **B. Financial Considerations**

The Airport has prepared a financial analysis of the Project to determine the feasibility of the proposed capital investment. This financial plan includes the identification of specific funding sources as well as projections of revenue and expenses and the impact on the airline's cost per enplaned passenger (CPE). Overall, the budget for the interim facility by the estimators, under a design build delivery method, is anticipated to be \$50 million, plus or minus 15%. The funding for this Project would come from the Airport commercial paper program. Additional Council approvals will be needed to use the Airport commercial paper program to fund the Project, and the City may need to increase its Airport commercial paper letter of credit to fully fund this Project. The impact on CPE is expected to be minimal, based on the cost of the gates and the fact that the gates are expected to be fully utilized as soon as the Project is completed.

## **C. Design-build Justification**

The City of San Jose Charter requires the City to competitively and publicly bid each construction contract for public works projects costing more than \$100,000 and to award this contract to the lowest responsive and responsible bidder,. The Charter expressly exempts certain types of public works contracts from "bidding and award" requirements. On March 2, 2004, the voters passed Measure D, which amended the City Charter to add a new exemption from the "bidding and award" requirements for "design-build" contracts meeting certain requirements. Section 1217 (e) (7) contains the exception to the public bidding requirement for "design-build" public works projects if the following two requirements are satisfied:

1. The contract will be more than \$5,000,000; and
2. The City Council finds that "design-build" would save money or result in faster project completion.

If these requirements are satisfied, the City may solicit, negotiate and award a "design-build" contract in accordance with the requirements of Chapter 14.07.100 of Title 14 of the San Jose Municipal Code.

Design-build allows the "owner" to define the project based on available funds, select a contractor based on qualifications, and consider price elements other than low bid, and negotiate a contract structured around the project's priorities. The City has successfully used the design-build procurement process to construct several large-scale projects including the Mineta San Jose International Airport Terminal Area Improvement Program - Phase I, the San Jose McEnery Convention Center Expansion Project, and the United States Patent and Trademark Office Project.

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The City is currently managing four large design-build projects (totaling approximately \$350 Million) at the San Jose – Santa Clara Regional Wastewater Facility.

The City of San Jose Charter and Municipal Code requires City Council to approve the RFP and evaluation criteria and process for selecting a Design-Build Entity prior to advertisement. The proposed RFP for this Project is posted with this memorandum on the City's agenda web page.

Upon City Council approval of the recommendations contained in this memorandum, the RFP will be advertised and will be posted for a minimum of 21 calendar days. The RFP provides a description of the Project, and describes the selection process that will be used, the information required from the potential Design-Build Entities (Design-Build Entity/Entities), the exemplar design-build agreement and the necessary forms for submitting a proposal. A selection committee comprised of City staff and industry partners will evaluate the written proposals and conduct interviews with the most qualified Design-Build Entities.

Sealed cost proposals from each Design-Build Entity will be evaluated by the City, after the written proposals and interviews, to establish the best value for this project. The City will begin negotiations with the highest ranked Proposers. Consideration will be given to profit and overhead, general conditions, design fees, project/construction management, construction acceleration concepts, risk allocation and stakeholder engagement methods. The selection process will result in the City acquiring the services of a highly qualified firm that will ultimately lead to an efficient project delivery. Specific scoring is described later in this memorandum.

The Mineta San Jose International Airport is the fastest growing airport for the last two years of the top fifty airports in the country, for a 33% cumulative growth rate for the last three calendar years. The Airport hired a consultant to perform a Gap study (completed in September 2017) to determine what is required to use the current facilities until 14 million annual passengers (MAP). However, the 14 MAP will be reached much earlier than projected (December 2018) and we currently are seeing airline schedules six months in advance that still show double digit growth over the same time the prior year. The Director of Aviation has consulted with the Airlines serving San Jose International Airport and they have agreed to pursue this Interim Facility project (Project), which is needed immediately by our Airline partners. There is a sense of urgency to provide additional aircraft gate facilities to allow for additional flights and passenger growth, otherwise, the Airport will be artificially constrained and further flight offerings will be limited. The Project will be in a constrained space located between airside flight operations and landside parking facilities. The Project must be performed safely and securely as to not hinder normal Airport operations. In addition to the typical agencies in a construction project, the Airport has extensive stakeholder engagement with the airlines, concessionaires, Federal Aviation Administration, Transportation Security Administration, among other important airport partners.

There is a high confidence this Project will be more efficient if performed under a single Design-Build Entity. This Design-Build Entity will have direct control over the design, construction activities, and the stakeholder engagement process. The intent is to maximize the productivity

while expediting the construction to allow the Project to be in operation on or before June 15, 2019.

The design-build delivery method will preserve open, fair and objective contracting process requirements. Per a comparative analysis by Leland Saylor Associates (March 2018), the feedback from the construction community indicates this project delivery method results in more efficient project teams with the contracting community. This method focuses on a pro-active, owner engaged, resolution of challenges during the design phase which results in a better-quality product.

According to Design-build Institute of America (DBIA), the following benefits are expected if this Project is delivered using the design-build project delivery method:

- The price of the project is known early in the project and is negotiated under a guaranteed maximum price.
- Cost efficiencies can be achieved since the contractor and designer are working together collaboratively throughout the entire process.
- The schedule is fast tracked with parallel design and construction activities. Design-Build can deliver a project faster than conventional Design-Bid-Build.
- Experience has found there are fewer design changes, fewer claims and less litigation.

Additional benefits to the City include:

- It allows for a greater collaboration between the City, contractor, designer, stakeholders, and our regulatory agencies. There is enhanced stakeholder engagement with our airline partners, concessions, Federal Aviation Administration, Transportation Security Administration, and other important airport partners.
- Provide agility to the Project to allow the operation of the gates by June 15, 2019.
- An analysis study completed by Leland Saylor Associates in March 2018 found the Design-Build delivery method reduces unit costs by 6.1% when compared to the traditional Design-Bid-Build method. In addition, design-build construction speed is 12% faster than Design-Bid-Build methodology with an overall delivery speed of 33.5% faster. There is also a 5.2% less cost growth potential for design-build over the entire construction period when compared to the Design-Bid-Build. Other factors include:

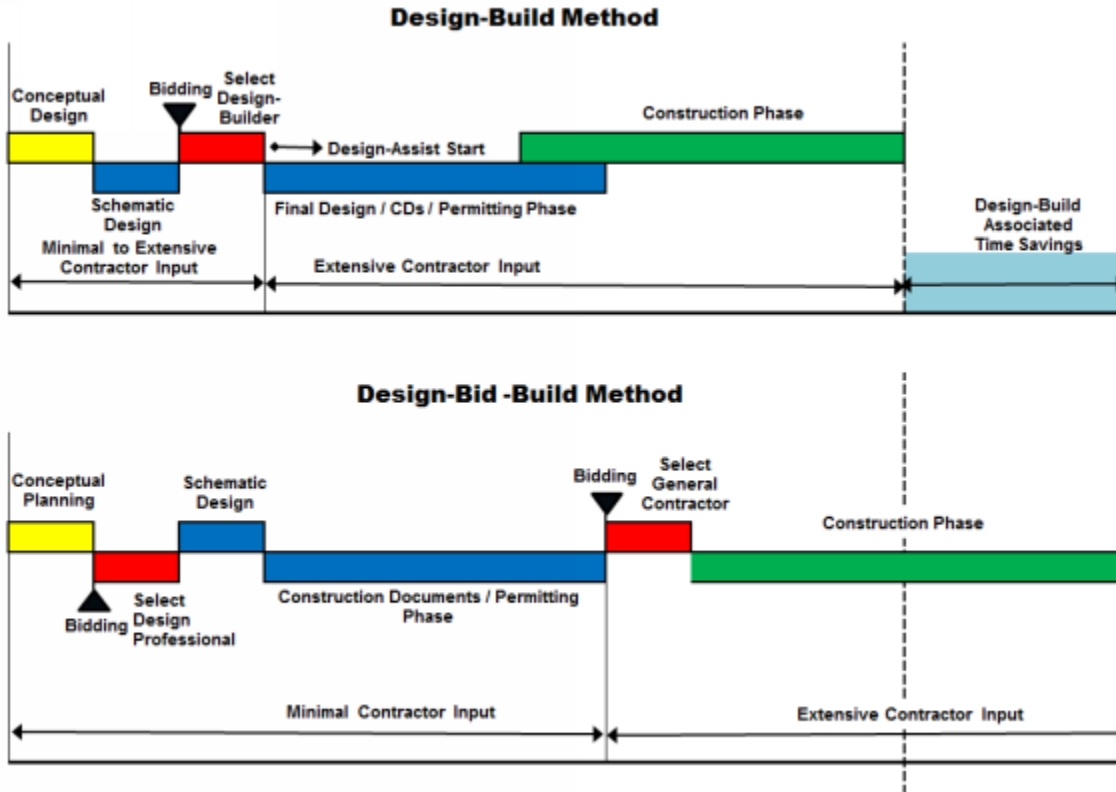
a. Risk Reduction

As part of the design-build delivery method, the design-build agreement will provide for a guaranteed maximum price ("GMP"). Under a GMP contract, the Design-Build Entity guarantees that the City will pay no more than the GMP for completion of the work. Ideally, regardless of how high the actual cost of the work plus the Contractor's fee, the City will not pay more than the GMP in exchange for the Work. Savings on the project is defined by the difference between the GMP and the final cost of the Work plus the

Contractor's fee. In the event the cost is lower than the GMP, the City benefits from the savings. Since this Project is important to have open for airline operations by June 15, 2019, it is desired that the RFP and resulting contract offer an incentive to the selected Design-Build Entity to provide cost saving opportunities and negotiate sharing the savings between the City and the Design-Build Entity.

b. Schedule Savings

The chart provided by Leland Saylor Associates Project Delivery Method report (March 2018) below illustrates the projected schedule savings between the Design-Build delivery method and Design-Bid-Build method for this Project. The Design-Build delivery method allows for concurrent construction and design activities thus reducing the overall project schedule when compared to Design-Bid-Build. The design process is also more efficient since the contractor is involved from the initial design stages to maintain the consistent element of cost and support of constructability issues. Also, there is reduced time contributed to bidding/negotiation since the GMP is issued at a single stage and Design-Bid-Build has two stages (estimate and bidding). Also, the Design-build method would provide the agility and flexibility to deliver the Project on or before the required delivery date.





c. Cost Savings

The cost savings chart provided by Leland Saylor Associates Project Delivery Method report (March 2018) below illustrates the projected cost savings between a Design-Build delivery and a Design-Bid-Build delivery for this Project. Considerable projected cost savings are attributed to reduced unit cost of 6.1 percent for Design-Build delivery and additional cost growth under the Design-Bid Build delivery of 5.2 percent. The projected combined savings amounts to \$5,650,000 for this Project.

<b>Interim Four Gate Facility – Design-Build Delivery Estimated Design-Build Contract Cost</b>	<b>\$50,000,000</b>
Interim Four Gate Facility – Design-Bid-Build Cost Growth of 5.2%	\$2,600,000
Interim Four Gate Facility – Design-Bid-Build Unit Cost Difference of 6.1%	\$3,050,000
<b>Cost Savings with Design-Build compared to Design-Bid-Build</b>	<b>\$5,650,000</b>

**D. Request to Advertise RFP**

If authorized, the RFP will solicit proposals from design-build entities for the construction of an Interim Facility at the Airport. The proposal scoring criteria to be used to rank the Proposals includes: experience and qualifications; project team; project approach; design narrative; design rendering; schedule and phasing; safety and security approach; local business enterprise (5%), small business enterprise (if local) (5%) and on-site interviews. More specifically the evaluation elements for this RFP are as follows:

**Step 1**

Screening of proposals to ensure the required documents meet the minimum qualifications and are determined to be responsive.

**Step 2**

Evaluation Panel

- The City will establish an evaluation panel of four (4) or more voting members to review submitted Proposals that have met the Minimum Qualifications. Using the Evaluation Criteria, each member of the evaluation panel will independently evaluate each submission and will score the Proposals according to the Evaluation Criteria.

Technical Evaluation Criteria

<b>Description</b>	<b>Points Assigned</b>
Minimum Qualifications	Pass/Fail
Cover Letter	Pass/Fail
Experience and Qualifications	100 pts
Project Team and Subcontractor List	100 pts
Project Approach	100 pts
Design Narrative	75 pts
Design Rendering	75 pts
Schedule and Phasing	75 pts
Safety and Security Approach	75 pts
<b>MAXIMUM TOTAL</b>	<b>600 pts</b>

**Step 3**

Interviews

After evaluating and scoring the Proposals, the City may – in its sole discretion – decide to conduct oral interviews of some or all of the prospective Proposers before making its final ranking. The oral interviews will be based on a predetermined set of situation-based scenarios, which will be evaluated. Each member of the interview panel will independently evaluate and score each interviewed Proposer using a 500-point system.

**Step 4**

City staff will calculate and assign points for the Price Proposal. The lowest rough order of magnitude (ROM) price for Evaluation will receive one hundred percent (100%) of the points assigned to the Price Proposal. Remaining Proposers will receive a deduction in points equal to the percentage difference between their total ROM price for Evaluation and the lowest ROM for evaluation.

<b>RFP – Written and Oral Proposal Evaluation</b>	<b>Scoring Weight</b>
Technical Proposal	600
Oral Interview	500
Price Proposal	250
Local Business Enterprise (5%)	75
Small Business Enterprise (5%) (only applicable if local)	75
<b>Total Possible Points.</b>	<b>1500</b>

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### **Authorization and Direction to Public Works Staff:**

The Staff recommends that Council authorize Public Works Director, Acting Public Works Director, or designee to issue and advertise the RFP for a Design/Build procurement process for the Interim Facility Project.

During the development of the Request for Proposals and advertisement of the document, there may be revisions or additional information necessary to the document that are required to be posted before the proposals being submitted. It is therefore requested that the City Council authorize the Acting Public Works Director, or designee to issue addenda as necessary and consistent with the provisions of the RFP during the procurement process. Staff anticipates bringing a recommendation for award of the Best Value Proposer to Council in June 2018.

### **E. Environmental Approvals**

Eleventh Addendum to the Airport Master Plan Environmental Impact Report

The Director of Planning, Building and Code Enforcement approved an Eleventh Addendum to the Airport Master Plan Environmental Impact report (EIR) on April 4, 2018. As set out in the Addendum, a copy of which is attached to this Memorandum as Attachment B, the Director of Planning, Building and Code Enforcement determined that the Project will not have any significant environmental impacts not previously disclosed in the Airport Master Plan EIR, nor changes with respect to the circumstances under which the Project is undertaken, that would indicate that the Project's impacts will be any greater than those previously analyzed. Therefore, no new mitigation is required to implement the Project and no subsequent or supplemental EIR is warranted or required.

### **F. Municipal Code Prerequisites**

The Municipal Code (Section 25.04.310) provides that construction of additional gates beyond thirty-one at the Airport shall not proceed until (a) annual passenger volume exceeds 11.2 million, and (b) certain transportation prerequisites specified in the Municipal Code have been met.

By April 2017, the passenger count at the Airport exceeded the 11.2 million identified in the Municipal Code (Section 25.04.310) and is projected to exceed 14 million by 2019. The transportation prerequisites have also been met, including: the completion of Route 87; the identification of funding for a rail line; the expansion of the I-880/Coleman Avenue interchange; and improvements to Airport Boulevard, Skyport Drive, and Coleman Avenue.

The rail or fixed guideway transit connection between the Airport and either the Santa Clara BART/Caltrain Station or the Light Rail line on N. First Street is identified as a project under the VTA 2000 Measure A Program. Measure A revenues of \$200 million are allocated to the project. The City anticipates working with VTA this year to prepare an alternatives analysis/business plan

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to refine the project, potentially including a refocus on linking the Airport with Diridon Station rather than the Santa Clara Station or the N. First Street light rail line. Staff further recommends that Council find that the Airport traffic and transit improvement conditions set forth in Part 4 of Chapter 25 of the San José Municipal Code have been met.

### **G. Airline Approval**

In accordance with the Section 12.02 of the current Airline-Airport Lease and Operating Agreement for the Norman Y. Mineta San José International Airport, the Airport sent a letter notifying the airlines of the plans for this capital project and received their approval. The airlines' share of capital expenses for the Project will be accounted for in the terminal rates and charges under the airline lease agreement and will be billed accordingly.

### **FISCAL/POLICY ALIGNMENT**

The San Jose Municipal Code requires that capital projects at the Airport be consistent with the adopted Airport Master Plan. The proposed Interim Facility is a near term interim project that addresses the challenge the Airport is experiencing until Phase II of the Terminal Area Improvement Plan is constructed which is identified in the Airport Master Plan ("Project T-13"), and is therefore consistent with the Master Plan pursuant to Municipal Code Section 25.04.210 (B)(2).

### **EVALUATION AND FOLLOW-UP**

Upon approval of the recommendations in this memorandum, the City will issue and advertise an RFP for a Design/Build Entity. Staff anticipates bringing a recommendation for award of the Best Value Proposer to Council in June 2018.

### **PUBLIC OUTREACH**

The general concept of an Interim Facility was presented at the January 23, 2018 City Council meeting. This topic of the Airport terminal constraints was discussed at the August 14, 2017 Airport Commission meeting, which was open to the public. The topic of airline leases, including future Airport needs and the potential of an Interim Facility, was discussed at a Special Commission meeting on January 22, 2018, which was open to the public. This memorandum will be posted to the City Council Agenda website for the May 1, 2018 meeting.

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### **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office, Planning Building and Code Enforcement, Public Works, and the City Manager's Budget Office.

### **COMMISSION RECOMMENDATION/INPUT**

The Airport Commission was briefed on current and future Airport terminal growth constraint issues at its August 14, 2017 Commission meeting and was briefed on Airport plans at a special meeting on January 22, 2018.

### **BUDGET REFERENCE**

The table below identifies the fund and appropriation to fund the issuance of the RFP and contract execution recommended as part of this memorandum.

The Interim Facility capital project budget of \$50,000,000 will be a recommended adjustment to the 2018-2019 Proposed Capital Budget and will be requested as a 2018-2019 clean-up request in May 2018. Approval of the project budget in the Manager's Budget Addendum enables the project to be available in July for the anticipated award of the Design Build contract.

Fund #	Appn #	Appn. Name	Total Appn.	Amt. For Contract	2017-2018 Adopted Capital Budget Page	Last Budget Action (Date, Ord. No.)
<b>Current Funding Available</b>						
527	404Y	Terminal Facility Gap Plan	\$2,000,000		853	6/20/2017, 29962
<b>Total Current Funding Available</b>			<b>\$2,000,000</b>			

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**CEQA**

Addendum to the Norman Y. Mineta San José International Airport Master Plan Update Project Environmental Impact Report and Addenda thereto (Resolution Nos. 67380 and 71451), File No. PP18-038.

/s/

**JOHN CICIRELLI**

Acting Director of Public Works

/s/

**JOHN AITKEN, AAE**

Director of Aviation

For questions, please contact Matthew Kazmierczak, Manager of Strategy and Policy for the Airport, at 408-392-3640 or Janelle Adams at 408-392-3611.

Attachment A

