

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6a
Date of Meeting August 5, 2014

DATE: July 29, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: Wayne Grotheer, Director, Aviation Project Management Group
Michael Ehl, Director, Airport Operations
SUBJECT: Seattle-Tacoma International Airport International Arrivals Facility (CIP #C800583)

| | | | |
|--|-----------------------|-------------------------|--------------------------|
| Amount of This Request: | \$16,000,000 | Source of Funds: | Airport Development Fund |
| Current Total Project Cost: | approx. \$316,000,000 | | |
| Updated Total Project Cost: | to be determined | | |
| Program Authorization Including this Request: | \$24,500,000 | | |

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to (1) authorize additional project funding of \$16,000,000 for the new International Arrivals Facility (IAF) at Seattle-Tacoma International Airport; (2) advertise a request for qualifications to procure a team for delivery using the progressive-design-build (PDB) method; (3) authorize use of Port crews; and (4) authorize procurement of the South Satellite to Concourse A Connector in the same PDB contract as the IAF building to be located adjacent to Concourse A.

SYNOPSIS

Replacing Seattle-Tacoma International Airport's existing over-burdened Federal Inspection Services (FIS) facility with a modern and efficient IAF is a critical part of realizing the Port's Century Agenda objective to make the Airport the West Coast "Gateway of Choice" for international travel.

This request provides for project management, planning, and other support services to facilitate the IAF design-build construction program and allows Port crews to perform work on the project. This request will also authorize staff to advertise a request for qualifications (RFQ) to procure a single PDB team for both the IAF building and the South Satellite to Concourse A Connector. Staff has identified a bridge as the preferred connector design. Advertising the RFQ is the first of a two-step procurement process to select a Design Build team. Finalists shortlisted via the RFQ process will have the opportunity to respond to a subsequent request for proposals

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(RFP). One Design Build team will be selected from those finalists for award of the IAF project contract.

The preliminary cost estimate for the IAF is \$316 million. Staff has noted verbally in two prior updates that the scope refinements may result in a budgetary increase. Staff currently speculates the increase for the initial IAF build-out may range from \$50 to \$100 million for the project. Until the cost estimate is validated, it is premature to present a new number. A new cost estimate (and schedule) is being developed and will be presented to Commission within 3 months.

BACKGROUND

The Commission has been previously briefed on the critical need to increase FIS facility capacity for international travelers at the Airport. International travel through the Airport has increased significantly since 2004, especially during the mid-day peak; and this growth is expected to continue. The Port welcomes and encourages this growth, but the current FIS facility has exceeded its capacity to efficiently process travelers. This has a detrimental effect on connect times between domestic and international flights, placing the Airport at a competitive disadvantage with other West Coast airports. The Commission approved preliminary funds on July 24, 2013, to program a replacement of the current aging facility with a new IAF that will serve the Airport well into the future and facilitate the Commission's Century Agenda objective to make the Airport the West Coast "Gateway of Choice" for international travel.

In July 2013, the Commission approved the procurement of the IAF facility utilizing the PDB procurement methodology. At the time, utilization of design-build procurement for the South Satellite-IAF connector portion of the program was excluded from the request. Now that further analysis has been done and a preference for a bridge connector has been identified, the project team recommends combining the connector procurement with the IAF facility procurement to best facilitate the program's schedule and mitigate risks associated with coordinating two separate contracts. This approach limits the risks associated with timing and coordination efforts of the design development and construction process for the two structures. As with the main IAF, construction costs for the bridge will be negotiated with the selected team and agreement on costs would be reached sequentially. The initial contract would be awarded with certain agreed cost factors, and final construction cost will be negotiated as design packages are finalized.

PROJECT JUSTIFICATION AND DETAILS

The Airport's current international arrivals facility in the South Satellite, including FIS facilities, opened in 1973 and has seen only minimal overall facility changes since that time, apart from an expansion in the mid-1980s that increased capacity to 1,200 arriving passengers per hour. Although the international arrivals facility has not grown significantly over the years, the Airport's international air service has grown significantly and continues to grow at a rapid pace, especially during the mid-day peak. The Airport expects announcements of new international service in the coming years. However, the peaking nature of airline schedules is even more of a challenge than increased traffic volume. Airlines that depart airports in Europe and Asia for West Coast gateway airports, such as Sea-Tac, typically arrive at mid-day, resulting in congested

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arrival facilities. This congestion has caused capacity problems in the existing FIS today and has discouraged some airlines from scheduling additional arrivals during the mid-day.

This summer scheduled flight activity has exceeded the capacity of the existing facility. As an interim measure until additional international arrivals capacity can be provided, aircraft will be serviced on remote parking areas, and passengers will be bused to and from the terminal. This interim measure, if sustained, will lead to connection times longer than the currently published 90 minutes to connect between international and domestic flights. Such alternate procedures as remote parking operations, implemented in conjunction with efforts by Customs and Border Protection, Airport Operations, and the airlines to optimize the capacity of the current facility, are not anticipated to keep pace with projected growth. Increased connection times risk potential loss of market share to other West Coast airports with more modern international arrivals facilities and will handicap the Port in meeting its Century Agenda goals.

Project Objectives

Project Objectives for a new international arrivals facility include:

- Capacity – Accommodate current international travel growth and meet future needs.
- Customer Service – Provide passengers with a higher quality customer experience that will make them choose Sea-Tac as their international arrival airport of choice.
- Competitive Opportunity – Create a facility that will make airlines consider Sea-Tac their preferred West Coast gateway and reduce the minimum connect times.
- Community Image – Construct a facility that will contribute to a unique identity for the Airport and the region.

Scope of Work

This program's full scope of work is still being defined and validated, but the largest individual components will be construction of a new IAF adjacent to Concourse A and linked to the South Satellite by a bridge connector.

Schedule

| | |
|--|-----------|
| Advertise for consultant program management services | Completed |
| Award consultant program management services contract | Completed |
| Port certification as Design-Build Owner by the State of WA | Completed |
| Begin quarterly Commission program updates | Completed |
| Master planning | Completed |
| Connector Decision Briefing | Completed |
| Commission authorization to advertise the RFQ for the PDB team | Q3 2014 |
| Advertise RFQ for PDB Team | Q3 2014 |
| Project definition complete | Q4 2014 |
| Cost and schedule validation complete | Q4 2014 |
| MII Vote (if required) | Q4 2014 |

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| Commission authorization to advertise the RFP for the PDB team | Q4 2014 |
| Advertise RFP for PDB team | Q4 2014 |
| PDB team selected | Q1 2015 |
| Commission authorization to award design-build contract, begin predesign work | Q1 2015 |
| Commission authorization to begin design and construction (following design-build team scope, cost and schedule validation) | Q3 2015 |
| Guaranteed Maximum Price Development | Q3 2016 |
| Construction Complete (depending upon earlier schedule validation listed above) | Q4 2018 |

FINANCIAL IMPLICATIONS

| <i>Budget/Authorization Summary</i> | Capital | Expense | Total Project |
|--|----------------|---------|----------------|
| Original Budget | \$316,000,000 | \$0 | \$316,000,000 |
| Previous Authorizations | \$8,500,000 | \$0 | \$8,500,000 |
| Current request for authorization | \$16,000,000 | \$0 | \$16,000,000 |
| Total Authorizations, including this request | \$24,500,000 | \$0 | \$24,500,000 |
| Remaining budget to be authorized | TBD | TBD | TBD |
| Total Estimated Project Cost | \$316 million* | \$0 | \$316 million* |

***To be updated following scope, schedule and cost validation in October 2014**

| <i>Project Cost Breakdown</i> | This Request | Previous Requests |
|---|--------------|-------------------|
| Design and Construction (PDB Validation) | \$5,600,000 | \$0 |
| Port and Consultant Project Management | \$8,350,000 | \$5,700,000 |
| Technical Criteria Development | \$250,000 | \$0 |
| Port and Consultant Construction Management | \$560,000 | \$100,000 |
| Project Planning and Definition | \$0 | \$2,400,000 |
| Permitting | \$0 | \$0 |
| Other Port Soft Costs | \$240,000 | \$270,000 |
| Environmental Review | | \$30,000 |
| Co-Location Initial Costs | \$1,000,000 | \$0 |
| State & Local Taxes (estimated) | \$0 | \$0 |
| Total | \$16,000,000 | \$8,500,000 |

The preliminary cost estimate for the first phase of a two-phase facility is \$316 million. This is a preliminary estimate that was developed many months ago and will be refined through a cost/schedule validation effort expected to conclude in October 2014. At that time, a target program budget will be established and communicated to the Commission prior to the distribution of the RFP to the progressive design-build finalists.

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Budget Status and Source of Funds

This project was included in the 2014-2018 capital budget and plan of finance within CIP #C800583. The funding sources for the total project budget will include the Airport Development Fund, future revenue bonds, grants, and Passenger Facility Charges (PFCs).

The IAF program was included as an approved project via the current signatory lease and operating agreement (SLOA), or airline lease. Therefore, no majority-in-interest (MII) vote is required for the project unless the program budget is estimated to exceed the amount included in SLOA. \$300,000,000 plus a 10% contingency for a total of \$330,000,000 is currently included in SLOA for the IAF program. If necessary, an MII vote to increase program funding will occur after the IAF program's cost and schedule validation effort is completed in October 2014, but before the RFP is issued to PDB team finalists.

Financial Analysis and Summary

| | |
|---------------------------------------|---|
| CIP Category | Renewal/Enhancement |
| Project Type | Renewal/Replacement |
| Risk adjusted discount rate | N/A |
| Key risk factors | N/A |
| Project cost for analysis | TBD, but estimated at \$316,000,000 for Phase I |
| Business Unit (BU) | Terminal, FIS Cost Center |
| Effect on business performance | N/A |
| IRR/NPV | N/A |
| CPE Impact | CPE is estimated to increase by \$.35 in 2019. The amount will be dependent upon future operating and maintenance costs as well as the combination of funding sources for the capital project, as PFC and grant funded costs are excluded from airline rate base. All airline rate base costs will be recovered by the users of the IAF through FIS fees. |

Lifecycle Cost and Savings

Lifecycle cost and savings will be analyzed during project design, consistent with current Port policy on sustainable asset management. The project team will brief the Commission on the project's sustainable strategies as part of the regular quarterly briefings.

STRATEGIES AND OBJECTIVES

This project addresses the Port's Century Agenda strategic objective to advance this region as a leading tourism destination and business gateway by making Seattle-Tacoma International Airport the West Coast "Gateway of Choice" for international travel.

This project also addresses the Aviation Division's strategic objectives to become one of the top ten customer service airports in the world and to operate a world-class international airport by

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ensuring safe and secure operations and by anticipating and meeting needs of tenants, passengers and the region's economy.

TRIPLE BOTTOM LINE

Economic Development

Construction of a new IAF facility will allow the Port to keep pace with current international air travel growth and position the Airport to attract new international air service. International air service has a direct positive economic impact, but also contributes to increased airport dining, retail and other passenger-related revenues. Studies at other airports have also shown that the addition of new international air service routes provide a substantial boost to the local economy through increased foreign direct investment and exports of goods and services.

Environmental Responsibility

The IAF program gives the Port a rare opportunity to incorporate a variety of sustainable features into the design and construction of the new facility and bridge connector that will facilitate advancement of the Port's Century Agenda goal to meet future load growth through energy conservation or renewable energy. The project team is targeting achieving an environmental level for the IAF equivalent to Leadership in Energy and Environmental Design (LEED) Version 4. The project team will present specific strategies to achieve this level to the Commission during our regular quarterly and design briefings.

Community Benefits

This PLA project benefits the local community by creating a multitude of living-wage jobs over the next five years. The project team will coordinate with the Port's Office of Social Responsibility to identify small business opportunities in the IAF program and will score PDB finalists on their approach to solicitation of small businesses.

Additionally, arriving to a new modern IAF by travelling across a connector bridge from the existing south satellite to the main terminal, instead of arriving to an aging underground facility, will give foreign visitors a unique and welcoming first impression of the SeaTac area and the Pacific Northwest region as a whole. The new facility will create added capacity for additional international service to and from the Seattle region that will bring economic benefits to the entire community.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do nothing. This alternative would put the IAF program on hold since program funds currently authorized are expected to be spent by the end of August 2014. This alternative is not preferred as it would delay ultimate completion of the IAF. This is not the recommended alternative.

Alternative 2) – Authorize additional project expenditures but defer the decision to advertise the RFQ for a progressive design-build contract until after cost and schedule validation is complete.

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This alternative is not preferred as it would also delay completion of the IAF, albeit to a lesser degree than Alternative 1. This is not the recommended alternative.

Alternative 3) – Authorize additional project expenditures and advertisement of the RFQ for the IAF building only, but do not authorize combining the IAF building and bridge connector in a single procurement. This alternative is not preferred as it would take additional time and resources to develop a separate procurement for the bridge connector. This would shift some coordination risk between the two separate contracts over to the Port, increase costs and delay completion of the overall IAF program. This is not the recommended alternative.

Alternative 4) – Authorize additional project expenditures for program management, selection of a progressive design-build team and PDB scope validation tasks. This alternative allows the project to advertise the RFQ on schedule and proceed expeditiously on other critical path project tasks. **This is the recommended alternative.**

FUTURE COMMISSION ACTIONS ANTICIPATED

- Authorization to advertise an RFP to shortlisted PDB finalists

ATTACHMENTS TO THIS REQUEST

- None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- July 22, 2014 – IAF Progress Briefing
- June 10, 2014 – IAF Update and Quarterly Briefing.
- May 6, 2014 – IAF Project Delivery Briefing.
- April 22, 2014 – Capital Program Briefing.
- March 11, 2014 – IAF Master Planning authorization.
- February 25, 2014 – IAF Program Briefing.
- November 19, 2013 – International Arrivals Facility Construction Management, testing and inspection; surveying and locating and safety service agreements.
- July 23, 2013 – International Arrivals Facility Project & Program Support; and Price Factor Design Build Methodology authorization.
- July 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing.
- July 9, 2013 – Alternative Public Works Contracting Briefing.
- April 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing.
- June 26, 2012 – Briefing on Airport Terminal Development Challenges at Seattle-Tacoma International Airport.
- June 14, 2011 – International Air Service Growth and Future Facility briefing.
- February 2, 2010 – Briefing on South Satellite Passenger Growth and Facility Considerations, Delta's Proposed Airline Lounge and Other Possible Future Aviation Projects.