

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4i
Date of Meeting July 12, 2016

DATE: July 5, 2016
TO: Ted Fick, Chief Executive Officer
FROM: Ralph Graves, Senior Director, Capital Development
David Brush, IAF Program Leader
SUBJECT: International Arrivals Facility (IAF) Authorization to Add Phase 2 Scope to Meet Continuing Rapid Growth
(CIP #C800583)

Amount of This Request:	\$41,000,000	Source of Funds:	Future Revenue
Est. Total Project Cost:	\$649,365,000		Bonds
Est. State and Local Taxes:	\$43,600,000		

ACTION REQUESTED

Request Commission authorization to add a portion of the IAF Phase II scope to the current Phase I project. This scope will extend the sterile, pre-customs corridor on Concourse A in order to provide two additional international-capable wide-body gates (Gates A3 and A4). The total estimated cost of this added scope is \$41,000,000, which will increase the total budget for IAF Phase I from \$608,365,000 to \$649,365,000. Also request Commission authorization to increase the authorized budget from \$300,000,000 to \$341,000,000 and for the Chief Executive Officer to execute needed contract amendments and change orders as required to execute this scope.

SYNOPSIS

This request adds international capable aircraft gates with necessary sterile corridor connection to this project in order to meet existing year over year record growth, and to take advantage of cost efficiencies of the current contract. These added gates were earlier anticipated and need to be initiated now to be available for operational use in 2020 to meet growth needs.

On April 26, staff briefed the Commission that as international traffic continues to grow at a record pace. On June 28th staff briefed the cost of the added gates at \$41 million. The Commission also asked what added scope might be necessary, which led to a discussion about baggage claims and other amenities (described below) that are planned as part of a future request.

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As the Airport engages in conversations with new international entrant carriers, there is a clear need to provide more international capable gates than are currently planned as part of Phase I of the IAF project. During the early programming of the IAF planners discussed the timing associated with maximizing the number of international wide-body gates, but deferred the additional two gates to a future date based on the more moderate traffic growth known at that time.

During the April 26 briefing, staff proposed that while the IAF is still in early schematic design phase, it would be prudent to approve additional funding to convert the two Phase II Concourse A gates to international wide-body “swing gates” capable of handling both domestic and international arriving aircraft and passengers. That conversion would increase the number of international wide-body gates from 18 to 20.

This request confirms the cost to incorporate this work is \$41 million and requests authorization to increase the total IAF cost from \$608,365,000 to \$649,365,000 to add the early execution of this Phase II scope to the design-build contract.

No airline majority-in-interest (MII) approval is required in support of this action in accordance with the current Signatory Lease and Operating Agreement (SLOA III). Approval will increase the current \$300 million project authorization to \$341 million.

Staff will continue consideration of whether to accelerate design and construction of the remaining Phase 2 scope – adding planned Carousels 6 and 7 in the new Customs Hall – as raised in the June 28th briefing. [In addition, staff will work to clarify the issue of building for capacity versus supporting the operations required to process increasing passenger volume. This discussion will separate the scope of work appropriate for execution under the IAF design/build contract and, for example, purchase of additional automated passport control (APC) kiosks or Customs and Border Protection’s (CBP) document verification officer (DVO) podiums that may be required when the facility processing rate increases to 2,600.] Staff will return in August to present their findings supporting the conclusions theorized in the June 28th discussion.

In a future Commission action staff will be requesting that the two remaining baggage claim units (#6 and #7) planned for Phase II be moved into Phase I to be undertaken in the current design-build contract. The \$8 million request will complete the scope of work contemplated for the new IAF.

BACKGROUND

In July 2013, the Commission approved preliminary funds to program a replacement of the existing under-sized and aging Federal Inspection Service (FIS) facility in the South Satellite (SSAT) with a new IAF that will serve the Airport well into the future and facilitate the Port’s Century Agenda objective to make the Airport the West Coast “Gateway of Choice” for international travel. The Commission also authorized use of an alternative project delivery method called Progressive Design Build for the IAF program. This method is newly available for use by public agencies in Washington State and allows the Port to select a design-build team

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based mainly on their qualifications with competitive pricing on certain commercial terms (e.g., fee, insurance, bond) as an additional selection factor.

The Port contracted with Clark/SOM as the Design-Builder to undertake and successfully deliver this project. The contract with Clark/SOM is a phased contract covering three distinct periods: the Validation Period, the Guaranteed Maximum Price (GMP) Development Period (including some preliminary base building construction e.g., site utilities and footings and the purchase of long lead items e.g., steel), and the GMP Execution Period (full build).

On November 17, 2015, Clark/SOM delivered the Target Budget and Target Schedule, two critical Validation Period deliverables, along with the many other reports and plans required under the terms of the contract, completing the first phase. On December 8, 2015, the Commission approved \$275.5 million for the program to amend the Design-Builder's contract, via a planned Post-Validation Amendment and to initiate the second phase - the GMP Development Period. That Amendment was executed in January, 2016 launching the GMP Development Period and start of design. During this period, the Design-Builder will continue to work to improve on the Target Budget and Target Schedule in order to establish the GMP.

PROJECT JUSTIFICATION AND DETAILS

This request addresses a change in program execution strategy to accommodate the dramatic growth the Airport is experiencing today compared to the 2015 growth forecast used in planning the program. The IAF Program was planned to accommodate a peak hour passenger processing capacity of 2,600 and a maximum number of FIS connected gates on SSAT and Concourse A. Implementation of the program was divided into two phases based on projected future passenger and service requirements.

Phase 2 included extending the sterile corridor on Concourse A to include providing two additional wide-body, FIS connected gates (Gates A3 and A4) in the IAF arrivals hall. In order to provide the additional wide-body capacity and operational flexibility to sustain operations in the face of unanticipated growth and take full advantage of the contracts and resources already mobilized to deliver Phase 1, this request adds a portion of Phase 2 scope to the current IAF design-build contract.

Project Objectives

Early execution of this Phase 2 work will accomplish the following objectives:

- Reduce risk of market volatility and escalation impacting price
- Provide two additional needed wide-body, FIS connected gates faster than alternatives
- Take advantage of resources already mobilized for the IAF project and eliminate disruption of executing Phase 2 work in the future
- Enhance opportunity to coordinate construction sequencing with on-going operations and minimize disruption

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- Ensure uniformity in design (if built under a separate contract at a later date, there is no guarantee that the same design team would be involved)

Scope of Work

Extension of the sterile corridor on Concourse A to add two additional wide-body, FIS connected gates (Gates A3 and A4). This work also includes design and construction of the associated infrastructure for these components: an additional “gate pod” – a structure housing the vertical circulation associated with providing access for domestic passenger flow at Concourse A and international passenger connection to the sterile corridor and FIS. Also included is all associated site work and associated indirect and soft costs (e.g., design, general conditions, overhead and profit, Washington state sales tax, and Port staff costs).

This additional scope of work was previously programmed to be executed within Phase 2 as a separate project. This request will provide for design and construction the maximum number of FIS connected gates on SSAT and Concourse A.

Schedule

Procurement of long lead materials and equipment (e.g., steel and passenger loading bridges)	3 rd Quarter 2016
Start of construction of this scope of work	3 rd Quarter 2019
Additional gates available for operational use	2 nd Quarter 2020

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$300,000,000	\$0	\$300,000,000
Previous budget increase	\$308,365,000		\$308,365,000
Current budget increase	\$41,000,000		\$41,000,000
Revised budget	\$649,365,000		\$649,365,000
Previous Authorizations	\$300,000,000	\$0	\$300,000,000
Current request for authorization	\$41,000,000	\$0	\$41,000,000
Total Authorizations, including this request	\$341,000,000	\$0	\$341,000,000
Remaining budget to be authorized	\$308,365,000	\$0	\$308,365,000
Total Estimated Project Cost	\$649,365,000	\$0	\$649,365,000

Budget Status and Source of Funds

This project was included in the 2016 – 2020 capital budget and plan of finance with a budget of \$608,365,000. The budget increase will be transferred from the aeronautical allowance CIP, C800404, resulting in no net change in the total airport capital plan. As presented to the Commission on May 17, 2016, the funding plan includes \$200 million of cash (Airport Development Fund), \$100 million of Passengers Facility Charges (PFCs) and \$308 million of

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future revenue bonds. This budget increase will be funded with additional future revenue bonds, bringing the total to \$341 million. Consistent with the funding strategy presented on May 17, the Port plans to use sufficient PFCs to pay revenue bond debt service to maintain a competitive Federal Inspection Services area (FIS) rate. Given that the FIS rate is charged to airlines on a per passenger basis, and given the growth in arriving international passengers, it is not yet clear the extent to which more or less PFCs would be used beginning in 2020 to pay revenue bond debt service compared to the original financing plan. The decision on the use of PFCs in 2020 will be made in 2019 when the 2020 budget is developed. At that time, the Port will also have a better understanding of then current peer airport FIS rates.

STRATEGIES AND OBJECTIVES

This project addresses three strategic objectives of the Port's Century Agenda: 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, be the greenest and most energy efficient port in North America, and, in the process of delivering the IAF, to provide opportunities for increased utilization of small businesses by the Port.

Small Business

Small business utilization efforts within the design and construction portions of this project will be absorbed within the IAF project team efforts. The IAF project has a 17.5% small business utilization goal, based on estimated total contract volume eligible to be sub-contracted, which focuses on Small Contractor and Supplier (SCS) businesses.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – *Status quo*, maintain phased implementation strategy

Cost Implications: Airline and operational cost impact not assessed

Pros:

- (1) Saves \$41M in current project costs
- (2) Provides opportunity for the SAMP to consider and prescribe solution

Cons:

- (1) Strains the Airport's ability to sustain international service in a manner consistent with the Port's Century Agenda

This is not the recommended alternative.

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Alternative 2 – Postpone action until 3rd Quarter 2019, the end of the project, to execute a change order to the IAF design/build contract to implement the sterile corridor extension.

Cost Implications: \$50M (current \$41M project cost plus additional estimated \$9M separate design and procurement costs and escalation)

Pros:

- (1) Postpones investment in airport infrastructure/facility
- (2) Provides opportunity for the SAMP to consider and prescribe solution

Cons:

- (1) Dismisses current discussions with new market entrant airlines and number of international gates Airport will need in 2021
- (2) Subjects Port to risk of market timing and substantial cost escalation (e.g., millions)
- (3) Increases challenge of sequencing the work and minimizing impact to on-going operations

This is not the recommended alternative.

Alternative 3 – Leverage IAF design and capacity to construct additional infrastructure/facility.

Cost Implications: \$41M

Pros:

- (1) Reduces risk of market volatility and escalation impacting price
- (2) Takes advantage of resources already mobilized for the IAF project
- (3) Provides additional needed wide body, FIS connected gates faster than alternatives
- (4) Enhances opportunity to coordinate construction sequencing with on-going operations and minimize disruption

Cons:

- (1) Requires accelerating the plan of finance
- (2) Commits operations to enduring longer duration construction period for current project completion (e.g., structural steel and curtain wall are two required components of this work and currently have a long lead order time of approx. 6 and 12 months respectively)

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- June 28, 2016 -Two Additional International Aircraft Gates at International Arrivals Facility (IAF) to Meet Continuing Rapid Growth briefing.

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- May 17, 2016 – Plan of Finance Update briefing.
- April 26, 2016 – IAF 1Q2016 Briefing.
- February 9, 2016 - IAF 4Q2015 Briefing.
- December 8, 2015 - IAF Guaranteed Maximum Price (GMP) Development Period Authorization (presented in combination with NSAT authorization request).
- November 10, 2015 – IAF Update.
- August 11, 2015 – Special Meeting, Roundtable with Airline Representatives.
- July 28, 2015 – IAF Forum.
- July 14, 2015 - IAF Forum.
- June 23, 2015 – Authorization to Execute a Design-Build Contract.
- May 26, 2015 – IAF Preliminary Funding Plan Motion.
- April 28, 2015 - Service Agreement for Commissioning Services.
- April 28, 2015 – Request Authorization to Execute Lease Agreement with SEATAC VENTURES 2010 LLC for International Arrivals Facility (IAF) Program Management Office Space near Sea-Tac International Airport.
- February 24, 2015 – Service Agreement for IAF Consultant Program Leader.
- January 27, 2015 – IAF Funding Plan.
- January 27, 2015 – IAF RFP Advertisement.
- January 13, 2015 – IAF Update.
- December 2, 2014 – IAF Scope and Budget Update.
- October 28, 2014 – IAF Q3 Quarterly Briefing.
- August 19, 2014 – IAF Q2 Quarterly Briefing.
- August 5, 2014 – IAF RFQ Advertisement.
- 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.