

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	6c
Date of Meeting	September 13, 2016

DATE: September 2, 2016
TO: Ted Fick, Chief Executive Officer
FROM: Ralph Graves, Senior Director Capital Development Division
George England, Program Leader, Aviation Project Management Group
SUBJECT: North Satellite Renovation & North Satellite Transit Station Lobbies Project (NSAT)
(CIP #C800556)

Amount of This Request:	\$31,000,000	Source of Funds:	Revenue Bonds, Airport Development Fund, Passenger Facility Charges
Est. Total Project Cost:	\$549,902,042		
Est. State and Local Taxes:	\$9,575,837		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to (1) increase the North Satellite Renovation & North Satellite Transit Station Lobbies (NSAT) project scope and budget (capital) by \$7,000,000 for a revised total budget of \$549,902,042; (2) increase authorization by \$1,000,000 for project design; (3) amend design service agreement with URS that exceeds 50% of the value of the original contract; and (4) increase authorization by \$30,000,000 for Preliminary Work Package #2 (PWP #2) construction for a revised authorization total of \$194,718,800.

SYNOPSIS

This memo requests authorization for additional scope and associated budget to complete the NSAT project. Staff has determined that a more efficient third floor layout can be configured to better accommodate the signature restaurant, provide additional 3,000 square feet of future airport related leasable space, increase the size and improve the Alaska Airlines premium traveler lounge (Alaska Lounge) area configuration as requested and improve circulation within the third floor. This change results in a \$7,000,000 (1.3%) increase to the current NSAT project capital budget of \$531,102,042 for a new forecasted capital budget of \$538,102,042 and total project budget of \$549,902,042. Staff is recommending proceeding based upon improving functionality and circulation of the third floor, increasing the leasable square footage for the signature restaurant, and accommodating the request for additional lounge space.

In order to delays to the project schedule and expedite the redesign of the 3rd floor, staff is requesting authorization of an additional \$1,000,000 for design and to execute a contract amendment that exceeds \$300,000 and 50% of the original contract value for the existing NSAT design (C800566) and provide additional design support during construction.

Staff is recommending advancing additional construction activities in PWP #2 to benefit the overall construction for the base building, seamlessly transition from preliminary construction to the base building, and benefit the overall construction schedule. Authorization of an additional \$30,000,000 for construction is also requested for PWP #2, which includes excavation, footings and foundations, preliminary mechanical, electrical and plumbing utilities below grade, metal decking, and the structural steel for the expansion portion of the North Satellite

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

September 2, 2016

Page 2 of 8

building. The total capital authorization for the NSAT project will be \$194,718,800 of which construction authorization is \$132,875,000.

The formal majority-in-interest (MII) project approval for \$531 million occurred on March 31, 2016. The Commission previously authorized additional scope items added to the project on May 24, 2016. Another MII approval is not necessary as described on page 5.

Staff continues working closely with Alaska Air Group (AAG) and Hensel Phelps, General Contractor/Construction Manager (GC/CM) to mitigate construction impacts and maintain the highest level of customer experience during the project. A more detailed construction work-sequencing plan to transition from Phase I to Phase II is being finalized. Cost implications for executing the plan may require staff to possibly return in 2017 or later for additional budget and scope to minimize impacts to airport operations and schedule. Staff currently forecasts the estimated cost of the project to range between \$538,000,000 and \$550,000,000 as of the date of this memo and will update the Commission in quarterly briefings as we continue to track market conditions and the design progresses further toward completion.

This project is being coordinated with the Sustainable Airport Master Plan (SAMP) and will not be adversely affected by future development recommendations of SAMP.

BACKGROUND

Since May 24, 2016, when the Commission authorized the additional \$121.2 million increase in scope and capital budget, AAG made a request to increase their original 10,000 square foot lounge by 3,000 square feet to 13,000 square feet. The project team developed six alternative design concepts to modify the 3rd floor of the NSAT where the AAG lounge will be located. The project team selected one preferred alternative for further evaluation. In the final evaluation, this preferred alternative would increase the future leasable space at the NSAT for other airport functions by 3,000 square feet (annual revenue of \$525,000), increase the lounge by 4,485 square feet (annual revenue of \$785,000) and improve the congested circulation throughout the entire 3rd floor space. The cost for this change in scope is estimated at \$7,000,000.

Port staff is requesting authorization of \$30,000,000 additional funding for construction of PWP #2. The increase accommodates the inclusion of additional base building design scope as part of the PWP #2 to cover the potential risk of current market conditions, subcontractor pricing, commodity pricing increases and limited interest in bidding. Staff has worked closely with our contractor to arrange the contract to complement the best pricing with an efficient flow of construction sequencing.

Included is the pre-purchase of copper wiring under the Port's Procurement Excellence initiative to "lock in" the cost of a significant portion of the electrical system wire for the project at current market pricing. Through a change order to the GC/CM contract, the Port will be able to lock in the cost of nearly 910,000 pounds of copper wire at the current market price per pound of copper. This eliminates the risk of copper price escalation over the five-year project duration. In the highly unlikely situation the NSAT project did not move forward, then the Port would need to either take delivery of the wire for use on other projects to reimburse any decrease. The change order required to add the required terms and conditions for this wire purchase agreement to the GC/CM contract is a no cost change. Port staff is requesting authorization but is closely coordinating with Procurement Excellence to monitor the commodity market to weigh the risks and execute if port staff determine the strategy is sound.

Hensel Phelps and Port staff have identified additional PWP #2 authorization increases for building steel for the redesigned third floor expansion, all metal decking, fire alarm system procurement, and escalation contingencies to be included to reduce overall project risk and exposure to costs associated with market conditions, escalating subcontractor pricing, and an increasing tightening bidding climate. This increase in authorization for PWP #2 is within the current project budget of \$531.1M and does not increase the overall requested budget.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

September 2, 2016

Page 3 of 8

In accordance with the Letter of Understanding between the Port and AAG dated April 5, 2012, the Port will seek AAG's concurrence for various project elements, in particular, for construction phasing and the project budget. The Port continues to collaborate with AAG to optimize the construction phasing and the revised project budget. Staff is executing a letter to modify AAG's final point of concurrence to be when the final Maximum Allowable Construction Cost is agreed to between the Port, the Port's GC/CM Contractor and AAG, which is anticipated to occur in Q2 2017.

PROJECT JUSTIFICATION AND DETAILS

This budget increase covers additional scope requested by the port and AAG of \$7 million. .

Project Objectives

- Extend the length of NSAT by approximately two hundred forty feet to improve customer service and accommodate additional aircraft and passengers.
- Seismically strengthen NSAT and expand the existing infrastructure.
- Balance and integrate NSAT functional areas and requirements (concessions, holdrooms, amenities, airline operations and airline services) through a renovation and expansion of the NSAT's terminal area to achieve acceptable levels of service.
- Align near term and forecasted airport-wide gate use and capacity by providing 20 contact gates at NSAT.
- Optimize gate door contact points, loading bridges and aircraft parking positions, including fuel hydrants and other support utilities.
- Meet or exceed current sustainability goals of the Century Agenda. This project is pursuing Leadership in Energy and Environmental Design (LEED) certification.
- Create a "frictionless" and stress-free passenger experience within NSAT.
- Create an exciting and attractive facility integrating hold-rooms, diverse amenities and numerous concessions.
- Maintain and promote a Northwest sense of place through the design of architecture and connected technologies.

Scope of Work

This request includes the following elements associated with the requested authorizations:

- Additional project design services for URS to redesign the 3rd floor and design support for the duration of the project.
- Increase the size of the third floor to better accommodate the signature restaurant, expand the Alaska Lounge, add additional future leasable space, and improve circulation.

In accordance with RCW 53.19, the Commission is notified that amending the URS contract will result in an increase that exceeds 50% value of the original contracts with URS and this memorandum will be made available for public inspection

Schedule

The schedule of the redesign of the third floor does not impact the overall schedule to complete the project as noted below and approved by the Commission in May 2016. The team has accommodated the redesign within the previously planned bid package design schedules and the GC/CM's bidding schedules for both the PWP #2 and Base Building. However, an interim milestone will not be met - completion of the 100% design for the Base

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

September 2, 2016

Page 4 of 8

Building will be delayed from Q4 2016 to Q2 2017. The team is continuing to work to improve the design and construction schedules.

Preliminary Work Package Construction Complete	4 th Quarter 2017
Base Building 90% Design Complete	4 th Quarter 2016
Base Building 100% Design Complete	2 nd Quarter 2017
Base Building Construction Start	4 th Quarter 2017
Base Building Construction Complete	2 nd Quarter 2021

FINANCIAL IMPLICATIONS

North Satellite Renovation (C800556)

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$194,300,000	\$5,000,000	\$199,300,000
Previous budget increase	\$336,802,042	\$6,800,000	\$343,602,042
Requested budget increase	\$7,000,000	\$0	\$7,000,000
Revised budget	\$538,102,042	\$11,800,000	\$549,902,042
Previous Authorizations	\$163,718,800	\$3,500,000	\$167,218,800
Current request for authorization	\$31,000,000	\$0	\$31,000,000
Total Authorizations, including this request	\$194,718,800	\$3,500,000	\$198,218,800
Remaining budget to be authorized	\$343,383,242	\$8,300,000	\$351,683,242
Total Estimated Project Cost	\$538,102,042	\$11,800,000	\$549,902,042

Note: The estimated cost of the project is currently forecasted at \$538-\$550 million. The final estimated project cost will be determined after the Port and Contractor negotiate the final Maximum Allowable Construction Cost (MACC) based on actual bid results.

In accordance with RCW 53.19, the Commission is notified that this amendment exceeds 50% value of the original contracts with URS and this memorandum will be made available for public inspection.

North Satellite Renovation (C800556)

Project Cost Breakdown

	Authorized This Request	Authorization Total	Project Budget Total
Construction Phase	\$27,400,000	\$130,275,000	\$434,113,179
RMM/ERL	\$0	\$3,500,000	\$11,800,000
Design Phase	\$1,000,000	\$53,603,800	\$65,579,863
State & Local Taxes (estimated)	\$2,600,000	\$10,840,000	\$38,409,000
TOTAL	\$31,000,000	\$198,218,800	\$549,902,042

Budget Status and Source of Funds

This project is included in the 2016 – 2020 capital budget and plan of finance with a budget of \$415.8 million. The budget increase, if approved, would be transferred from the Aeronautical Allowance CIP (C800404) resulting in no net change to the Aviation Division capital program. The project will be funded with a combination of Airport Development Fund, revenue bonds and Passenger Facility Charge revenues (PFCs). The terms under which AAG will participate in the Port's NorthSTAR Program costs have been established via an April 5, 2012, Letter of Understanding between the Port and AAG. The airlines approved this project for \$531

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

September 2, 2016

Page 5 of 8

million on March 31, 2016 via the majority-in-interest (MII) process occurred as outlined in the Signatory Lease and Operating Agreement (SLOA). The \$7,000,000 budget increase is within the ten percent cost growth allowance established in SLOA and does not require further MII approval. The airlines have been briefed on this increase at the August 3, 2016 Airline/Airport Affairs Committee meeting.

Financial Analysis and Summary

CIP Category	Renewal and Replacement
Project Type	Terminal Infrastructure
Risk adjusted discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$549M
Business Unit (BU)	Terminal
Effect on business performance	NOI after depreciation will increase
IRR/NPV	N/A
CPE Impact	\$1.29 by 2021. The actual CPE impact for this project could be lower depending on the amount of PFCs applied to construction costs and on revenue bond debt service.

Lifecycle Cost and Savings

An adequate estimate of staff hours and materials expense to operate the expanded and renovated NSAT building is still in development as the project elements are being refined and specifically defined regarding product, materials, and equipment. However, staff will provide an accurate estimate as design progresses. It is already understood that the additional expansion area will incur additional maintenance expense. A key objective of the project is installing sustainable materials and to maximize the maintainability of the new equipment. The complete renovation/replacement of the mechanical, electrical, baggage and other major systems provides an opportunity to achieve life cycle cost efficiencies and savings.

STRATEGIES AND OBJECTIVES

This project supports the Port's Century Agenda objective of meeting the region's air transportation needs at Sea-Tac Airport for the next 25 years. This project also supports the Aviation Division's strategy of anticipating and meeting the needs of our tenants, passengers, and the region's economy, and the increased participation of small businesses in Port project.

The NSAT expansion is also in alignment with Airport master plan development objectives that identify the NSAT as the most logical location for near-term expansion of Airport capacity.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Increase project scope and budget:

Alternative 1 - Proceed with Consultant contract amendments within current authorizations, deferring Commission authorization for the scope and budget change authorization until authorization for the Base Building.

Cost Implications: This alternative would cause a redesign cost of \$7 million.

Pros:

- Final design progresses to maintain current schedule (no delays).
- Maintains Port's intent with AAG for NSAT to meet all programmatic, functional, and design objectives including the added scope.
- Maintains the strong partnership between the Port and AAG.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

September 2, 2016

Page 6 of 8

- Accommodates increasing budget once known and for what is minimally necessary.
- AAG supports the redesign moving forward as long as project maintains overall schedule.

Cons:

- Proceed at risk with deferral of Commission authorization.
- Public perception Port not being transparent with cost of project.

This is not the recommended alternative

Alternative 2 - Status Quo – Maintain existing scope schedule and budget.

Cost Implications: \$0

Pros:

- Saves \$7M in project costs.

Cons:

- Project will not meet programmatic requirements.
- Lounge customer's perception that the new facility is substandard.
- Is not supported by AAG and could affect the long-term relationship with AAG.

This is not the recommended alternative

Alternative 3 - Proceed with adding scope, amending existing contracts, completing the redesign, maintaining current schedule and increasing budget.

Cost Estimate: \$7M

Pros:

- Final design progresses
- Maintains Port's intent with AAG for NSAT to meet all programmatic, functional, and design objectives including the added scope
- Maintains the strong partnership between the Port and AAG
- AAG supports the redesign and moving forward

Cons:

- Further design changes cause budget increase

This is the recommended alternative

Increase construction authorization:

Alternate 1 - Proceed with PWP #2 within current authorizations, deferring additional construction authorization until base building authorization.

Cost Implications: This alternative could cost up to \$6 million due to up to 3-month delay of overall schedule.

Pros:

- Maintains PWP #2 construction authorization at current level

Cons:

- Design packages will require modification to reformat established bid packages and delay the release of bids for the GC/CM.
- Reduces acquisition of early scope in PWP #2 the GC/CM Contractor can solicit for bids, as structural design would be incomplete.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

September 2, 2016

Page 7 of 8

- Completion delayed up to 3 months.
- Budget would increase.

This is not the recommended alternative

Alternative 2 – Proceed with increasing the PWP #2 construction authorization.

Cost Estimate: \$0 (\$30 million previously budgeted)

Pros:

- Design packages do not need to be modified.
- Schedule is not impacted.
- Maintains Port/contractor relationship

Cons:

- None

This is the recommended alternative

ATTACHMENTS TO THIS REQUEST

- Third Floor Redesign Plan

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- August 9, 2016 –NorthSTAR Program status update
- May 24, 2016 – Commission authorized four NSAT related items:
 - Increase NSAT project scope and budget (capital and expense) by \$121,219,098 for a revised total budget of \$542,902,042.
 - Increase authorization by \$11,000,000, \$5,000,000 for continued NorthSTAR Program/Project Management services (CIP# C800544) for a new total of \$9,350,000 and \$6,000,000 and overall project support (CIP# C800556) for a new total of \$163,718,000.
 - Amend service agreements with Jacobs Project Management Company and URS.
 - Authorize the use of port crews and small works contractors to perform work for the project.
- April 26, 2016 – NorthSTAR Program status update
- February 9, 2016 – NorthSTAR Program status update
- December 8, 2015 - Project authorization, and execute contract amendments and change orders to Hensel Phelps General Contractor/Construction Management (GC/CM) for \$98.1 million and execute a contract for project specific construction audit services.
- November 24, 2015 – NorthSTAR Program status update and NSAT budget briefing
- July 14, 2015 – NorthSTAR Program status update
- April 28, 2015 – NorthSTAR Program status update
- March 28, 2015 – The Commission authorized three NSAT related items:
 - Expand the baggage handling system increasing the project scope for \$14,400,000 and authorizing \$1,954,000 to complete the design.
 - Entering into a developer agreement with Puget Sound Energy and authorizing \$200,000 in reimbursement for the design and construction of underground gas infrastructure.
 - Authorized \$5,300,000 to

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

September 2, 2016

Page 8 of 8

- Prepare four locations to accommodate temporary passenger loading bridges, to construct temporary construction offices.
- To complete construction of a Satellite Transit System (STS) North loop Dynamic Display system.
- \$600,000 in expense funds for regulated materials management for AAG's tenant improvement project.
- Approval to use Port crew labor and small works contractors to complete early project work.
- January 27, 2015 – NorthSTAR Program Status Update
- January 6, 2015 – The Commission authorized (1) \$5,000,000 preconstruction services; (2) execution of a General Contractor/Construction Manager contract for preconstruction services; and (3) transfer of scope, \$1,750,000 budget and authorization for STS station roof replacement to the North Satellite Renovation and Expansion project.
- October 28, 2014 – NorthSTAR Program Status Update
- August 5, 2014 – Commission authorized an estimated \$191,323,143 to expand the NSAT by 8 additional gates, an additional \$15,717,800 for design completion, and use of the General Contractor/Construction Manager alternative public works contracting procedure for NSAT expansion construction procurement.
- July 22, 2014 - NSAT Expansion Briefing.
- April 16, 2014 – Seattle-Tacoma International Airport Capital Program – Briefing.
- January 14, 2014 – NorthSTAR Program status update and initial NSAT Expansion briefing.
- September 24, 2013 – NorthSTAR Program status update.
- September 24, 2013 – The Commission authorized staff to: (1) advertise, award, and execute a major public works contract for the construction of the NSAT Refurbish Baggage System Project; and (2) authorize the use of Port crews.
- June 25, 2013 –NorthSTAR Program status update.
- May 28, 2013, Commission authorized the execution of separate service agreements for Construction Management Services and Commissioning Services, of approximate values of \$10 million and \$1.5 million.
- April 9, 2013 – The Commission authorized the Chief Executive Officer to enter into a project labor agreement covering the NorthSTAR program's five major construction projects.
- March 26, 2013 –NorthSTAR Program status update.
- December 11, 2012 – The Commission was briefed on the Vertical Conveyance Modernization Project Aero Phases 1 and 2 and the possibility of adding the specified elevators and escalators to the NorthSTAR program.
- July 24, 2012 - Commission authorized \$32,000,000 for the design of the NorthSTAR NSAT Renovation and NSTS Lobbies project.
- June 26, 2012 - The Port Commission was briefed on the NorthSTAR program by Wayne Grotheer, Director Aviation Project Management Group.
- April 10, 2012 - The Commission authorized the execution of consultant contracts for design and construction support services; program management services; and the completion of site surveys for regulated materials management, for \$1,200,000.