



**COMMISSION
AGENDA MEMORANDUM**

Item No.

6a

ACTION ITEM

Date of Meeting

March 28, 2017

DATE: March 10, 2017
TO: Dave Soike, Interim Chief Executive Officer
FROM: Ralph Graves, Senior Director, Capital Programs
David Brush, IAF Project Leader
SUBJECT: Additional International Arrivals Facility (IAF) Project Funding
(CIP #C800583)

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to (1) increase the current IAF project funding authorization by \$130 million from \$352 million to \$482 million and extend the current phase of the contract to September 30, 2017, and (2) execute needed contract amendments and change orders as required to execute this funding provision.

EXECUTIVE SUMMARY

The unprecedented double-digit growth in international passenger traffic at Seattle-Tacoma International Airport drove the decision to construct a new federal inspection facility capable of processing up to 2,600 passengers per hour.

The Port elected to use Progressive Design Build delivery methodology because among other advantages it allows the Port to open the new IAF approximately 18 months sooner than other delivery methods evaluated. The Port subsequently contracted with a Design-Build Team, Clark/SOM, to design and construct a new IAF.

Using the partial project funding (\$352 million) previously approved by the Commission, the design-builder has been able to contract for critical work needed to maintain the ambitious completion schedule (fall of 2019). However, in order to maintain that opening schedule, additional incremental project funding (\$130 million) is now required to permit the design-builder to execute upcoming construction contracts with trade contractors. During the late spring and throughout the summer these trade contractors will be working on the IAF building site installing underground utilities, driving piles and pouring foundations. On the airside, trade contractors will be completing required demolition, building the A20/21 hard stand ramp, drilling caissons, pouring foundations and refurbishing several passenger loading bridges. The project team will continue to advance the design and bid subcontracts. Staff plans to return to the Commission in September with a proposed Guaranteed Maximum Price (GMP) and a request for authorization of the balance of the project funding.

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JUSTIFICATION

In July 2015, Clark/SOM, the IAF Design/Build team, began the work of validating the Port's early planning work. In January 2016, design services for the new IAF commenced. That design has now progressed to the Design Development level—a milestone in the design process where the project's scope is set.

Beginning in the summer of 2016, Clark began bidding selected trade contract work. Clark has now bid 19 different trade packages or approximately 70% of the work (measured in dollars) reflected on the Design Development plans.

Initially, it was the desire of the Port to conclude the negotiation of a Guaranteed Maximum Price (GMP) contract with the IAF Design/Build team by the end of 2016, but higher-than-expected bid results have tempered the team's thinking. Seattle's robust construction market has presented risk and uncertainty regarding the cost of the balance of the work. We propose to continue to look for ways to enhance trade competition as a means of mitigating those rising costs and to explore design and work phasing options that can save money on the trades already bought in addition to the work remaining to be bid. It remains staff's expectation that in the coming months the Port and Clark/SOM will be successful in negotiating a fair and equitable GMP. We recognize the possibility of cost growth above the budget, but there remains uncertainty as to amount.

SMALL BUSINESS PARTICIPATION

As a result of outreach and community inclusion efforts by Clark/SOM, as of February 2017, Clark/SOM has achieved 16.8% or \$86.7 million in small business utilization. Due to Clark/SOM's efforts and results to date, staff confidence has remained high on Clark/SOM's continued dedication and support of the Port's efforts to maximize small business utilization for this project.

DETAILS

The additional funding authorization required falls within the previously forecast project budget of \$684.4 million, which includes the base project budget of \$608.4 million and two added scope authorizations of \$41.0 million (Sterile Corridor Extension) and \$11.0 million (Accelerate Phase 2 work to include Baggage Claim Devices) for a total IAF project cost of \$660.4 million. Additionally, the Port Commission previously authorized \$24 million for two related projects: \$5.5 million (SSAT Narrow Body Aircraft Optimization) and \$18.5 million (Domestic Outbound Baggage Opportunity).

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Key Points:

- Previous authorizations for the IAF project include:

Description	\$millions
Through 2015	300.0
July 2016	41.0
October 2016	<u>11.0</u>
Current Funding Authorization	352.0
This Request	130.0
Total Funding Authorization	482.0

- Clark/SOM has taken bids and executed partial value subcontracts on work for which it cannot fully contract until additional project funding is approved.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

1. Defer Request for Additional Interim Funding

Cost Implications: Cost impact would depend on the length of delay, but a delay of six months could increase project cost by an estimated \$30 million.

Pros:

- (1) Provides opportunity to further develop design and procure additional components of the work with greater cost certainty

Cons:

- (1) Prevents the achievement of the 2019 opening
- (2) Forces forfeiture of solicited sub-contractor proposals
- (3) Forces downsizing of currently assembled project team
- (4) Balance of risk responsibility shifts against Port – for example, cost escalation for components of the work still to be procured must be borne by Port
- (5) Reduces benefit of Progressive Design Build delivery method

This alternative is not recommended.

2. Request the Authorization of a Reduced Additional Interim Funding Amount

Cost Implications: The project would have to return for additional funds authorization sooner, again facing the risk of expensive delay. If the funds are provided when needed, then cost impact would be minimal.

Pros:

- (1) Provides opportunity to continue design development and to procure limited additional components of the work for greater cost certainty

Cons:

- (1) Prevents the achievement of the 2019 IAF opening

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- (2) Balance of risk responsibility shifts against Port – for example, cost escalation for components of the work still to be procured must be borne by Port
- (3) Reduces benefit of Progressive Design Build delivery method

This alternative is not recommended.

3. Request the Authorization of Additional Interim Funding of \$130 Million

Cost Implications: Providing the funding authorization does not inherently increase the cost of the project. The manner in which the funds are provided may affect how the general contractor bids out the work and how the GMP is negotiated, with potential cost impacts.

Pros:

- (1) Provides opportunity for the design-builder to bid and procure additional components of work needed to maintain the IAF’s project schedule

Cons:

- (1) Provides additional funding in advance of the negotiation of a final GMP
- (2) Balance of risk responsibility remains against the Port – for example, cost escalation for components of the work still to be procured must be borne by Port
- (3) Reduces benefit of Progressive Design Build delivery method

This alternative is recommended.

FINANCIAL IMPLICATIONS

<i>Cost Estimate/Authorization Summary</i>	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$300,000,000	\$0	\$300,000,000
Previous changes – net	\$360,365,000	0	\$360,365,000
Current change	0	0	0
Revised estimate	\$660,365,000	0	\$660,365,000
AUTHORIZATION			
Previous authorizations	\$352,000,000	0	\$352,000,000
Current request for authorization	\$130,000,000	0	\$130,000,000
Total authorizations, including this request	\$482,000,000	0	\$482,000,000
Remaining amount to be authorized	\$178,365,000	\$0	\$178,365,000

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Annual Budget Status and Source of Funds

This project was included in the 2017-2021 capital budget and plan of finance with a budget of \$649,365,000. As presented to the Commission on October 11, 2016, the funding plan includes \$200 million of cash (Airport Development Fund), \$100 million of passenger facility charges (PFCs) and \$360 million of future revenue bonds.

Financial Analysis and Summary

The costs of the IAF will be recovered from the airlines through a charge on the use of the facility, referred to as a passenger facility charge (PFC). Consistent with previous funding plans, the Port's goal is to maintain a competitive Federal Inspection Services (FIS) rate compared to peer airports. Sufficient PFCs will be used to pay ongoing revenue bond debt service to manage the FIS rate base, and thus the FIS rate.

ATTACHMENTS TO THIS BRIEFING

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- October 11, 2016 – The Commission authorized IAF to add balance of Phase 2 for accelerated execution
- September 27, 2016 – The Commission was briefed on IAF reconsidering phasing and project update
- September 13, 2016 – The Commission authorized IAF FAA reimbursement agreement
- July 12, 2016 – The Commission authorized IAF to add Phase 2 scope to meet continuing rapid growth
- June 28, 2016 – The Commission was briefed on two additional international aircraft gates at IAF to meet continuing rapid growth briefing.
- May 17, 2016 – The Commission was briefed on Plan of Finance update.
- April 26, 2016 – The Commission was briefed on IAF 1Q2016 update.
- February 9, 2016 - The Commission was briefed on IAF 4Q2015 update.
- December 8, 2015 – IAF guaranteed maximum price (GMP) Development Period authorization (presented in combination with NSAT authorization request).
- November 10, 2015 – The Commission was briefed on IAF update.
- August 11, 2015 – The Commission lead a special meeting, roundtable with airline representatives.
- July 28, 2015 – The Commission lead an IAF forum.
- July 14, 2015 – The Commission lead an IAF forum.
- June 23, 2015 – The Commission authorized execution of the IAF Design-Build Contract.
- May 26, 2015 – The Commission approved IAF preliminary funding plan motion.
- April 28, 2015 – The Commission authorized a service agreement for Commissioning Services.

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April 28, 2015 – The Commission authorized execution of a lease agreement with SEATAC VENTURES 2010 LLC for IAF program management office space near Sea-Tac International Airport.

February 24, 2015 – The Commission authorized a service agreement for IAF consultant program leader.

January 27, 2015 – The Commission was briefed on IAF funding plan.

January 27, 2015 – The Commission approved IAF request for proposals advertisement.

January 13, 2015 – The Commission was briefed on IAF update.

December 2, 2014 – The Commission was briefed on IAF scope and budget update.

October 28, 2014 – The Commission was briefed on IAF 3Q2014 update.

August 19, 2014 – The Commission was briefed on IAF 2Q2014 update.

August 5, 2014 – The Commission authorized IAF request for qualifications advertisement.

July 22, 2014 – The Commission was briefed on IAF progress.

June 10, 2014 – The Commission was briefed on IAF 1Q2014 update.

May 6, 2014 – The Commission was briefed on IAF project delivery.

April 22, 2014 – The Commission was briefed on capital program.

March 11, 2014 – The Commission authorized IAF master planning.

February 25, 2014 – The Commission was briefed on IAF program.

November 19, 2013 – The Commission authorized IAF construction management, testing and inspection; surveying and locating and safety service agreements.

July 23, 2013 – The Commission authorized IAF project and program support; and price factor design-build methodology.

July 9, 2013 – The Commission was briefed on IAF.

July 9, 2013 – The Commission was briefed on alternative public works contracting.

April 9, 2013 – The Commission was briefed on IAF.

June 26, 2012 – The Commission was briefed on airport terminal development challenges at Seattle-Tacoma International Airport.

June 14, 2011 – The Commission was briefed on international air service growth and future facility.

February 2, 2010 – The Commission was briefed on South Satellite passenger growth and facility considerations, Delta's proposed airline lounge and other possible future aviation projects.