



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6d

ACTION ITEM

Date of Meeting June 27, 2017

DATE: June 5, 2017

TO: Dave Soike, Interim Executive Director

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: \$200,000,000

Total estimated project cost: \$551,321,192 (update in August)

ACTION REQUESTED

Request Commission authorization for the Executive Director to: (1) increase project authorization for the North Satellite Renovation & North Satellite Transit Station Lobbies Project by \$200,000,000; (2) execute Preliminary Work Amendment #3 (PWA #3) with Hensel Phelps (HP) for up to \$200,000,000; (3) authorize Port staff to execute all change orders to the HP contract within authorized budget and project scope without returning for additional Commission authorization; and (4) authorize Port Construction Services (PCS) to execute small works contracts and use Port crews to support NSAT construction.

EXECUTIVE SUMMARY

Since September 13, 2016, when the Commission authorized an additional \$7 million capital budget increase for the third floor redesign for a total authorized budget of \$551M, staff has completed the scope and budget transfers associated with taxiway revisions, emergency generator purchase and consolidation of Program Management CIP. Additionally, the final NSAT design was completed on April 14, 2017. The project team consisting of the Port, Alaska Airlines (AS), AECOM and HP has continued to collaborate and coordinate, as has been the foundation of the Port/Alaska partnership throughout, to refine the development of the NSAT project. Staff has determined the current \$551M authorized budget must be increased, the magnitude of which will be updated in August of 2017.

The result of the last nine months is an improved design that better addresses customer and operational service, gate capacity and the passenger experience for the next 5 years. The intent has been to ensure that during construction there is no significant degradation in level of service and to assure the smooth activation of each new portion of the facility. Recent work

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included validation of the design by conducting simulations, analysis, studies, detailed phasing, micro phasing and construction sequencing.

The negotiations continue with HP on the final Maximum Allowable Construction Cost (MACC) and the project team continues to refine the final estimated cost and budget required to complete the project. The final cost impacts of all this will exceed the current \$551M budget and staff is working to finalize the necessary increase to move the project forward. In order to continue construction and maintain the overall project completion schedule, staff recommends amending the HP contract under PWA #3 to perform Preliminary Work Package #3 (PWP #3) for up to an additional \$200,000,000. PWA #3 allows HP to retain current staff, continue construction and to execute contracts with all subcontractors whose bids have been accepted for the base building construction.

In order to maintain project schedule and construction sequencing, staff is requesting authorization to execute all pending and future change orders to the HP contract within authorized budget and project scope. The allowances and contingencies identified in the contract are required by RCW and are the contractual mechanisms for executing the future change orders. Staff will provide summaries of these changes in quarterly briefings throughout construction.

To better accommodate unforeseen/changed conditions and install port procured equipment, staff is requesting approval for PCS to execute small works contracts with small contractors and suppliers and use crews in support of the NSAT construction.

Port staff is working closely with AS to prepare a letter of concurrence to move forward with this project in accordance with the Letter of Understanding between the Port and AS dated April 5, 2012.

Key Points:

1. Authorization to execute a contract amendment with HP is requested to maintain the project schedule completion dates. While staff continues finalizing the necessary budget increase, negotiating the final MACC, the Port and HP have negotiated services and secured subcontract bids for the project. Details of the contract amendment are as follows:
 - a. HP will execute contracts with all subcontractors whose bid results have been received and accepted in order to retain each sub and their bid pricing. This is needed given the current hot construction market, and increases in commodity and subcontractor pricing that we are experiencing.
 - b. Increase General Conditions and Negotiated Support Services for items that HP would normally provide on a construction project including temporary phasing

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support items such as lifting and transport equipment, work platforms, shoring, scaffolding and barricades to separate and protect passengers from the construction work.

JUSTIFICATION

Amending the contract by up to \$200,000,000 is necessary to support the critical path of construction, to retain current HP staff managing the construction, to retain subcontractor bids by executing contracts and to maintain the overall project schedule completion dates. This provides staff the additional time required to finalize the specific budget increase and complete negotiations of the final MACC. Staff will return to the Commission with the full project authorization request in August 2017. To date \$196,773,800 has been previously authorized for design and preliminary work. Staff recommends proceeding with construction by increasing the current project authorization and executing a contract amendment with HP.

Staff has been advancing construction activities through two preliminary work packages that have used previously authorized funds. The preliminary work has benefitted the project and will seamlessly transition into the major construction of the project. Preliminary construction work 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 building. Structural piles have been installed in the new expansion area as construction progresses.

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 September 13, 2016. Staff recently briefed the Airlines on May 18, 2017 on the current status of the project. Staff has determined another MII approval from the Airlines is not required as described in the section titled budget and source of funds below.

Staff has been reporting that market conditions have contributed to overall budget increases. These factors are now included as realized market driven cost increases, due to documented increases in regional construction activity, increases in subcontractor and commodity pricing, resulting in a low interest bidding climate. While staff has worked closely with the contractor to maximize bidder interest to obtain competitive pricing, a large number of sub-bid packages had only one or two bidders. As we completed the design the building systems designs were fully developed resulting in the engineer's estimate for the project increasing. As a result staff has determined the budget must increase, the magnitude of which is not fully finalized at this time.

Staff has and will continue to work closely with AS and HP to mitigate construction impacts in order to maintain the highest level of customer and operational experience during the project. A more complex and detailed construction work-sequencing plan to transition from Phase I to Phase II has been completed. The sequencing plan harnesses new port strategies for growth via

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the new Hardstand Terminal at Concourse D to minimize impacts to airport operations while providing as many operational gates as possible during the construction.

This project has been coordinated with the Sustainable Airport Master Plan (SAMP), continues to coordinate closely with the near term planning of the Airport through 2021, and will not be adversely affected by future development recommendations of SAMP.

Project Objectives

1. Extend the length of NSAT by approximately two hundred forty feet to improve customer service and accommodate additional aircraft and passengers.
2. Seismically strengthen NSAT and expand the existing infrastructure.
3. 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.
4. Align near term and forecasted airport-wide gate use and capacity by providing 20 contact gates at NSAT.
5. Optimize gate door contact points, loading bridges and aircraft parking positions, including fuel hydrants and other support utilities.
6. Meet or exceed current sustainability goals of the Century Agenda. This project is pursuing Leadership in Energy and Environmental Design (LEED) certification.
7. Create a "frictionless" and stress-free passenger experience within NSAT.
8. Create an exciting and attractive facility integrating hold-rooms, diverse amenities and numerous concessions.
9. Maintain and promote a Northwest sense of place through the design of architecture and connected technologies.

DETAILS

The project design has been completed and delivered to HP. The passengers will travel smoothly through the construction areas and be drawn to positive digital messaging illustrating the final facility configuration. The Port has collaborated with the contractors, designers and Alaska to maintain operational requirements through the planned construction.

Numerous passenger flow simulations, level of service analyses, and circulation/use studies have been conducted. These efforts have led to a path of success during the construction phases and assuring the smooth activation of each consecutive sequence of construction. The collaboration results in a better overall NSAT terminal design.

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Scope of Work

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

1. Amend the HP contract by up to \$200,000,000 to maintain project schedule completion dates. While finalizing negotiations on the MACC for a revised total authorization of \$299,895,187 capital.
2. Authorize PCS to execute small works contracts and use crews to support NSAT construction.

Small Business

Under the current scope of work the Contractor and their sub-contractors will be executing small works contracts. In addition any work required to support the project contracted through Port PCS will further continue to support small business attainment for this project.

Schedule

The schedule to complete the project as noted below. The team has accommodated many changes including the redesign of the third floor. HP’s bidding schedules are completed. The team has agreed to the project schedule and it is specifically noted in the HP contract amendment.

Activity

Design completion	2 nd Quarter 2017
Commission construction authorization	2 nd Quarter 2017
Construction start	2 nd Quarter 2016
In-use date Phase 1	2 nd Quarter 2019
In-use date Phase 2	3 rd Quarter 2021
Substantial Completion	1 st Quarter 2022

Cost Breakdown

This Request

Project Total

	This Request	Project Total
Design	\$0	\$80,844,013
RMM/ERL	\$0	\$11,800,000
Construction	\$200,000,000	\$432,245,676
State & Local Taxes	\$0	\$38,231,503
Total	\$200,000,000	\$563,121,192

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FINANCIAL IMPLICATIONS

Authorization Summary	Capital	Expense	Total
Previous Budget	\$538,102,042	\$11,800,000	\$549,902,042
Budget Transfers	\$13,219,150	\$0	\$13,219,150
Current Budget	\$551,321,192	\$11,800,000	\$563,121,192
Previous authorizations	\$194,718,800	\$3,500,000	\$198,218,800
Authorization Transfers associated with above Budget Transfers	\$2,055,000	\$0	\$2,055,000
Current request for authorization	\$ 200,000,000	\$0	\$200,000,000
Total authorizations, including this request	\$396,773,800	\$3,500,000	\$400,273,800
Remaining amount to be authorized	\$154,547,392	\$8,300,000	\$162,847,392

Annual 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 project will be funded with a combination of Airport Development Fund, revenue bonds and Passenger Facility Charge revenues (PFCs).

The terms under which AS will participate in the Port’s NorthSTAR Program costs have been established via an April 5, 2012, Letter of Understanding between the Port and AS. The airlines approved this project for \$531 million on March 31, 2016 via the majority-in-interest (MII) process as outlined in the Signatory Lease and Operating Agreement (SLOA). Since the project is under construction, per SLOA any additional budget increase does not require further MII approval. The airlines were recently briefed on the potential for a budget increase on May 18, 2017.

Financial Analysis and Summary

Project cost for analysis	\$551M
Business Unit (BU)	Terminal
Effect on business performance (NOI after depreciation)	NOI after depreciation will increase
IRR/NPV (if relevant)	N/A
CPE Impact	\$1.20 in 2021 per March 2016 MII. To be updated upon agreement of MACC.

Future Revenues and Expenses (Total cost of ownership)

An adequate estimate of staff hours and materials expense to operate the expanded and renovated NSAT building is still in development. Thorough design reviews of 30, 60, and 90 percent design stages have evaluated infrastructure systems to minimize the total cost of ownership. It is already understood that the additional expansion area will incur additional

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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, lighting, communications, pre-conditioned air, 400 Hz, baggage and other major systems provides an opportunity to achieve life cycle cost efficiencies and savings.

The project is pursuing LEED certification, and is submitting the design for evaluation in June of 2017. Rigorous in depth studies and evaluation of options for 30 year life cycle cost have resulted in a more holistic decision making throughout the design process, balancing first cost, energy consumption, replacement cost of infrastructure, and maintenance over the life of the facility. The resulting design champions total cost of ownership for the Port.

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- April 25, 2017 –NorthSTAR Program status update
- January 24, 2017 –NorthSTAR Program status update
- September 13, 2016 – Commission authorized four NSAT related items:
 - 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.
 - Increase authorization by \$1,000,000 for project design.
 - Amend design service agreement with URS that exceeds 50% of the value of the original contract.
 - Increase authorization by \$30,000,000 for Preliminary Work Package #2 (PWP #2) construction for a revised authorization total of \$194,718,800.
- 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.

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- 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 HP 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
 - 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 AS'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.

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- 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.