



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6c_attach_1

ACTION ITEM

Date of Meeting August 15, 2017

DATE: August 8, 2017

Attachment A

SUBJECT: International Arrivals Facility (IAF); Authorize the Balance of Funding
(CIP #C800583)

EXECUTIVE SUMMARY

The Port contracted a Design-Build team, Clark/SOM, to design and construct a new IAF at the Seattle-Tacoma International Airport (the Airport) using a Progressive Design Build project delivery. The design-builder commenced the Validation Period of the contract on July 21, 2015. At the end of that 120-day period, the design-builder validated and accepted the Port's \$608.4 million Target Budget and September 2019 IAF opening Target Schedule. Soon thereafter, on January 4, 2016, the Port and the design-builder entered into the Guaranteed Maximum Price (GMP) Development Period of the contract and design commenced. As the design of various elements of the work advanced sufficiently far to permit the bidding of trade packages, the design-builder bid that work. Approximately 98% of the IAF has now been bid and work is being authorized using numerous mini-GMPs. Port staff and the design-builder are now actively engaged in the negotiation of a roll-up GMP so a GMP Amendment can be executed. It is the intent of the project team to execute a roll-up GMP upon negotiation of a satisfactory price for completion of the project.

Staff forecasts a full IAF project funding requirement of \$766 million which includes the base project funding of \$608.4 million and two previous Commission authorizations to add scope: Sterile Corridor Extension for \$41 million and Phase 2 Acceleration for \$11 million. Additionally, two related projects that were separately authorized are included in the IAF program: CIP# C800781 - SSAT Narrow Body Configuration for \$5.5 million, and CIP# C800836 - Domestic Outbound Baggage Opportunity for \$18.5 million. The design-build contractor continues to evaluate costs and has forecast a range between \$790 million and \$812 million for the total program. Although there is risk associated with approving the lower number, staff believes \$790 million to be sufficient to complete the IAF program.

JUSTIFICATION

The Port contracted with Clark/SOM as the Design-Build team to deliver this project. The contract with Clark/SOM is a phased contract covering three distinct periods: the Validation Period, the GMP Development Period (including some preliminary base building construction

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e.g., site utilities and footings and the purchase of long lead items e.g., steel), and the GMP Execution Period (full build). The Project team has completed the first two phases of the contract and requires authorization of the unfunded balance of the budget in order to complete the project.

DETAILS

The IAF project team will complete the IAF Project as well as two other capital improvement projects that fall within the IAF footprint and timeframe; the SSAT Narrow Body Configuration (CIP# C800781) and Domestic Outbound Baggage Opportunity (CIP# C800836).

Scope of Work

Authorization of this request will enable the project team to move into the final phase of the contract, the Post-GMP Period for full build.

At completion, the IAF will include:

- (1) World-class facility capable of processing 2,600 passengers per peak hour and a Minimum Connect Time (MCT) of 75 minutes
- (2) First Port facility to have pursued Leadership in Energy and Environmental Design (LEED) certification under the new Version 4 standard
- (3) First International Arrivals Hall to achieve LEED v4 silver certification

Schedule

The Target Schedule established at that end of the contract’s first phase, the Validation Period, will be baselined and serve as the starting point from which all future progress will be measured. The Target Schedule completion dates are as follows. This request includes an extension of the contract time for contract completion on December 31, 2020.

Activity:

IAF Open	2019 Quarter 4
Sterile Corridor Extension (Pod D) Complete	2020 Quarter 3

FINANCIAL IMPLICATIONS

This request is for additional project funding. The increase in the previous total project budget from \$608 million to \$660 million was due to adding phase 2 elements for \$41 million and \$11 million. The program budget was increased from \$660 million to \$684 million due to adding two related capital improvement projects: CIP# C800781 South Satellite Narrow Body Configuration and C800836 Outbound Baggage Opportunity.

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Cost Estimate/Authorization Summary

Capital

Expense

Total

International Arrivals Facility – C800583

COST ESTIMATE			
Previous budget	\$660,365,000	\$0	\$660,365,000
Current Request for budget	\$101,135,000	\$4,500,000	\$105,635,000
Revised estimate	\$761,500,000	\$4,500,000	\$766,000,000
AUTHORIZATION			
Previous authorizations	\$482,000,000	\$0	\$482,000,000
Current request for authorization	\$279,500,000	\$4,500,000	\$284,000,000
Total authorizations, including this request	\$761,500,000	\$4,500,000	\$766,000,000
Remaining amount to be authorized	\$0	\$0	\$0

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. Consistent with the funding plan 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) with the remainder funded by revenue bonds. Consequently, the cost increase will be fully funded with future revenue bonds. This action will increase total project cost from \$660,365,000 to \$766 million, resulting in a total program authorization of \$790 million.

Financial Analysis and Summary

The costs of the IAF will be included in the Federal Inspection Services (FIS) cost center. All costs are recovered from the airlines that use the FIS based on a per passenger charge. In order to reduce the FIS cost, the \$200 million of cash to fund construction costs will not be amortized in the airline rate base (per provision in the Signatory Lease and Operating Agreement). Additionally, as with all PFC funded projects, the \$100 million of capital costs funded with PFCs will be excluded from the airline rate base. The funding plan also includes the use of PFCs to pay some level of ongoing revenue bond debt service. Debt service paid by PFCs is also excluded from the airline rate base. The amount of PFCs applied to this project will vary over time depending on the PFC eligibility of the project (application is currently pending with Federal Aviation Administration), availability of PFCs each year (e.g., 1998 PFC backed bonds will be fully amortized in 2023, thus freeing up considerable capacity), rate management decisions (i.e., allocation of PFCs among airfield, terminal and FIS cost centers), and other FIS rate considerations (e.g., O&M costs, FIS passenger volume, FIS rates at competing airports). Consistent with the commission funding motion of May 26, 2015 and the funding plan update presented on May 17, 2016, the Port’s goal is to maintain a competitive FIS rate compared to peer airports. To the extent possible, and considering other rate management priorities, sufficient PFCs will be used to pay ongoing revenue bond debt service to manage the FIS rate base, and thus the FIS rate, to a competitive level.

Project cost for analysis	\$766 million
Business Unit (BU)	FIS cost center
Effect on business performance (NOI after depreciation)	Could be positive or negative depending on level of PFCs used. Increasing use of PFCs reduces Port revenues as capital costs are excluded from airline rate base.
IRR/NPV (if relevant)	N/A
CPE Impact	\$0.41 - \$1.74

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- March 28, 2017 - The Commission authorized additional IAF funding.
- 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.
- 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.

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- 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.