



**COMMISSION
AGENDA MEMORANDUM**

Item No. 10d

ACTION ITEM

Date of Meeting November 9, 2021

DATE: October 29, 2021

TO: Stephen P. Metruck, Executive Director

FROM: James Jennings, Director, Aviation Business and Properties
Wayne Grotheer, Director, Aviation Project Management Group

SUBJECT: North Main Terminal Redevelopment Program – Remaining Design Funding Authorization (C801204) and approval of a Tenant Reimbursement Agreement with Alaska Airlines

Amount of this request: \$21.5 million

Total estimated project cost: \$350 - \$450 million

ACTION REQUESTED

Requesting Commission authorization for the Executive Director to fund \$21.5 million for the remaining design for all phases of the North Main Terminal Redevelopment Program, at the Seattle-Tacoma International Airport, and execution of a second Tenant Reimbursement Agreement with Alaska Airlines to complete the remaining design scope.

EXECUTIVE SUMMARY

The Port of Seattle and Alaska Airlines have partnered to redevelop the north end of the Main Terminal at the Seattle-Tacoma International Airport (Airport) to improve passenger processing, security screening throughput and the overall passenger experience. On April 27, 2021, the Commission authorized up to \$10 million to complete the Program Definition Document (PDD) and develop the 30% design for the full program. With both the PDD and 30% design now complete, this request will enable Alaska's Progressive Design Build (PDB) team to continue developing the design for the full program. The amount of this request is \$21.5 million. The current cost estimate for the full program, including Port soft costs, is between \$350 - \$450 million.

JUSTIFICATION

The original 1968 design of the Main Terminal was based on an anticipated design capacity of 25 Million Annual Passengers (MAP). With the existing passenger volume nearing 50 MAP, the ticketing area used by Alaska at the north end of the Main Terminal regularly experiences serious overcrowding during peak departure periods throughout the day and is in dire need of critical code upgrades and an aesthetic refresh. It is also important to note that the Port anticipates

Meeting Date: November 9, 2021

completing similar improvements for the remainder of the ticketing level to the south (called the Main Terminal Upgrade Program). This future Port project will be coming forward to Commission separately at a future date.

Although a previous Alaska project to create a flow-through passenger check-in and bag drop configuration in their ticketing area addressed earlier passenger queuing and processing deficiencies, more than 10 years later the ticketing area is again in need of modernization to address existing and projected passenger volume increases, keep pace with technology advances and improve the overall passenger experience.

Lastly, with only 5 lanes in its current configuration, Security Screening Checkpoint #5 has long been unable to accommodate increased passenger volumes, regularly resulting in a processing bottleneck during peak travel periods that creates further delays for departing passengers.

This program supports the Port’s Century Agenda’s strategic goal of “*Advancing this region as a leading tourism destination and business gateway*” by:

- Continuously improving operational efficiency and customer experience at the Airport.
- Strengthening the competitiveness of the Airport in the regional and global marketplace.
- Meeting the region’s air transportation needs by delivering vital facilities and infrastructure in a sustainable and cost-effective manner.

Diversity in Contracting

Diversity in Contracting has established a Women/Minority Business Enterprise (WMBE) goal of 15% for the Port’s consultant support procurement. Alaska has separately established a 20% WMBE goal for their consultant support and Progressive Design Build (PDB) project delivery method procurements for construction.

DETAILS

Alaska is completing this work under a multi-phased Tenant Reimbursement Agreement (TRA) using the Progressive Design Build (PDB) project delivery method.

To execute the program, Alaska procured through a competitive process the following services:

1. Progressive Design-Builder (DB)
2. Project Management Support Services (Tenant Relocations)
3. Project Controls Management
4. Operational Readiness, Activation and Transition (ORAT) Support Services
5. Financial and Cost Support Management (TRA)
6. Project Manager Baggage Improvements
7. Project Labor Agreement Administrator

Meeting Date: November 9, 2021

The work is currently broken down into two distinct phases.

- Phase 1 will build out key enabling scope, largely comprised of converting the undeveloped Promenade level into usable space for Alaska and other Port tenants.
- Phase 2 will reconfigure the Mezzanine, Ticketing and Baggage Claim levels at the north end of the Main Terminal to complete code enhancements and significantly improve passenger processing and security screening capacity.

This division of the scope is advantageous because it:

- Provides for a clear ‘offramp’ decision point at the end of Phase 1 in the event either the Port or Alaska decides not to continue with the Phase 2 scope of work.
 - Limited elements of Phase 2 work, primarily related to code compliance and the baggage handling and smoke control systems, are also scheduled to take place in Phase 1 to mitigate future operational impacts and control costs.
- Provides fully functional, value added leasable space, including new check-in and bag drop locations for Alaska on the Promenade if the decision is made not to proceed with the Phase 2 scope of work.

Based on the current schedule for the program, the intent is to return to the Commission for construction authorization for Phase 1 in the near future, followed by a request for authorization for Phase 2 construction in Q3 2022, at which time we expect to have a Final Guaranteed Maximum Price for the overall program.

Tenant Reimbursement Agreement Plan

TRA #	Scope	Value	Execution
#1	Project Definition Document & 30% Design	\$10 million	10/15/21
#2	Post 30% full program design	\$21.5 million	Q4 2021
#3	Projected Phase 1 construction	\$TBD	Q4 2021/Q1 2022
#4	Projected Phase 2 construction	\$TBD	Q3 2022

To ensure clear project decision points and to ensure there are key concurrence milestones between the Port and Alaska, the reimbursement of project funds to Alaska is projected to happen in phases (as outlined above). The first TRA, to complete up to 30% design was approved by Commission, on April 27, 2021, for an authorization of up to \$10M for both Alaska and Port costs. The second TRA, reflected in this request, will authorize an additional \$21.5M to complete the remaining design of the overall project. Staff anticipates returning to Commission, in the near future, to request authorization to construct Phase 1 of the project via a TRA (value TBD). Staff anticipates returning to Commission in Q3 2022 to request authorization of the remainder of construction via a TRA. This multi-phased authorization and TRA approach allows Alaska to continue to develop work expeditiously, while affording both Alaska and the Port clear project decision points to ensure alignment of scope, schedule, and budget.

Meeting Date: November 9, 2021

Scope of Work

This scope of work will complete the design for all phases of the program:

Phase 1

- (1) Develop the currently unused Promenade Level for Alaska check-in, bag drop and operations spaces and space to accommodate most of the tenants that will be displaced during Phase 2 work
- (2) Buildout existing locations in the Main Terminal to accommodate the remaining tenants displaced during Phase 2 work
- (3) Modifications/upgrades to existing building systems to support the newly built Promenade spaces and to mitigate future operational impacts and control costs in Phase 2

Phase 2

- (1) Abatement and demolition of a portion of the Mezzanine Level above Alaska ticketing
- (2) Abatement, demolition, and reconfiguration of the north Main Terminal Ticketing Level
- (3) Reconfiguration of the northern-most Mezzanine level
- (4) Expand Security Screening Checkpoint # 5 from 5 to 7 screening lanes
- (5) Installation of new building systems and provide upgrades/modifications to existing building systems to support the reconfigured spaces on the Mezzanine, Ticketing and Baggage Claim levels

Schedule

The PDB project delivery method involves overlap between many of these milestones, with the result that some activities in both Phase 1 and Phase 2 will take place concurrently.

<i>Activity</i>	
Execution of TRA #1	2021 Quarter 3
Commission full program design and TRA #2 authorization	2021 Quarter 4
Design start – Phase 1	2021 Quarter 4
Commission construction Phase 1 and TRA #3 authorization	2021 Quarter 4/2022 Quarter 1
Execution of TRA #2	2021 Quarter 4
Construction start – Phase 1	2022 Quarter 1
Execution of TRA #3	2022 Quarter 1
Design start – Phase 2	2021 Quarter 4
In-use date – Phase 1	2023 Quarter 1
Commission construction Phase 2 and TRA #4 authorization	2022 Quarter 3
Execution of TRA #4	2022 Quarter 3
Construction start – Phase 2	2022 Quarter 4
In-use date – Phase 2	2025 Quarter 2

Meeting Date: November 9, 2021

Cost Breakdown	Previous Requests	This Request	Total to Date
Complete PDD and 30% Design	\$9,000,000	\$0	\$9,000,000
Design – Phases 1 and 2	\$0	\$16,900,000	\$16,900,000
Port Soft Cost	\$1,000,000	\$1,300,000	\$2,300,000
Alaska Soft Cost	\$0	\$3,300,000	\$3,300,000
Total	\$10,000,000	\$21,500,000	\$31,500,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Authorize design for Phase 1 only for Alaska’s Program.

Cost Implications: \$13 million (includes \$8.4 million for design and \$4.6 million in soft costs for Alaska and Port staff)

Pros:

- (1) Delays Port commitment to full design for the overall program until 30% design is reviewed and independent cost estimate is developed. Allows for improved cost certainty
- (2) Allows for a better defined offramp between Phase 1 and Phase 2

Cons:

- (1) Delays congestion relief
- (2) Significantly reduces the cost and schedule advantages of PDB project delivery
- (3) Substantially impacts Alaska’s target completion date
- (4) Costs will continue to escalate

This is not the recommended alternative.

Alternative 2 – Delay design for Alaska’s Program and combine this program’s scope with the Port’s future Main Terminal Upgrade Program.

Cost Implications: \$1.2 - \$1.5 billion (combined cost of North Main Terminal Redevelopment and the Port’s Main Terminal Improvement programs)

Pros:

- (1) Delay’s capital investment for another 12-14 months, and combines both scopes into a single project for the entire Main Terminal
- (2) Potentially allows for improved cost certainty
- (3) Reduces technical challenges of system integration and schedule coordination between adjacent projects

Cons:

- (1) Does not allow Alaska to manage their own operational impacts during construction
- (2) Delay’s congestion relief
- (3) Eliminates the cost and schedule advantages of PDB delivery

Meeting Date: November 9, 2021

- (4) Substantially impacts Alaska’s target completion date and costs will continue to escalate
- (5) Coordinating Alaska TRA and Port capital work would be challenging
- (6) Significantly reduces the advantages of PDB project delivery

This is not the recommended alternative.

Alternative 3 – Proceed with full design of Phases 1 and 2 of the Alaska Program.

Cost Implications: \$21.5 million (includes \$16.9 million for design and \$4.6 million in soft costs for Alaska and Port staff)

Pros:

- (1) Allows Alaska to manage their own operational impacts during construction
- (2) More closely aligns with Alaska’s target completion date and avoids the cost escalation penalty associated with Alternatives #1 & #2
- (3) Provides congestion relief sooner
- (4) Retains the cost and schedule advantages of PDB project delivery

Cons:

- (1) Commits to full program design prior to the Port deciding whether to pursue Phase 2 of Alaska’s Program
- (2) Does not provide optimum cost certainty for Phase 1 work

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary

Capital Expense Total

	Capital	Expense	Total
COST ESTIMATE			
Early estimated program cost	\$350 - \$450 million	\$TBD	\$350 - \$450 million
Current estimated program cost	\$350 - \$450 million	\$TBD	\$350 - \$450 million
AUTHORIZATION			
Previous authorizations	\$10,000,000	\$0	\$10,000,000
Current request for authorization	\$21,500,000	\$0	\$21,500,000
Total authorizations, including this request	\$31,500,000	\$0	\$31,500,000
Remaining amount to be authorized	TBD	\$0	TBD

Annual Budget Status and Source of Funds

This project was included in the 2021-2025 capital budget and plan of finance with a budget of \$100 million as a place holder. The cost estimate was revised to \$350 million in early 2021. A budget increase in the amount of \$250 million was transferred from the Aeronautical Reserve CIP (C800753) resulting in zero net change to the Aviation capital budget. The funding sources

Meeting Date: November 9, 2021

will include the Airport Development Fund and future revenue bonds. This project will be submitted to the airlines for Majority-In-Interest review in December 2021.

Financial Analysis and Summary

Project cost for analysis	\$350 million - \$400 million
Business Unit (BU)	Terminal Building
Effect on business performance (NOI after depreciation)	NOI after depreciation will increase due to inclusion of capital (and operating) costs in airline rate base.
IRR/NPV (if relevant)	N/A
CPE Impact	\$1.12 - \$1.25

Future Revenues and Expenses (Total cost of ownership)

As a result of this project, it is anticipated that there will be increased costs to ongoing operating and maintenance performed by Aviation Maintenance (AVM), including for mechanical and custodial costs. Further design is needed to evaluate and better define these impacts. AVM will continue to work with the program team to ensure that Port standards are incorporated in the future design.

ADDITIONAL BACKGROUND

Many of the mechanical, smoke control, fire suppression and architectural updates being incorporated into the design for the North Main Terminal Redevelopment Program will be applied throughout the rest of the facility by the Main Terminal Upgrade Program, which is currently in the Project Definition phase.

The ongoing collaboration between these programs will facilitate continuity of systems and architectural updates and finishes throughout the Main Terminal, Ticketing and Baggage Claim Levels.

This program is also continuing to collaborate on boundary, scope, and schedule coordination with:

- Baggage Optimization Program
- Main Terminal Low Voltage Upgrades

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

April 27, 2021 – North Main Terminal Redevelopment Program – Preliminary Design (C801204) which authorized up to \$10 million in support of the North Main Terminal Redevelopment Program to complete a Project Definition Document, 30% design and to execute a Tenant Reimbursement Agreement with Alaska Airlines.