

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6b

ACTION ITEM

Date of Meeting April 10, 2012

DATE: April 4, 2012

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Ehl, Director, Airport Operations
Wayne Grotheer, Director, Aviation Project Management Group

SUBJECT: North Sea-Tac Airport Renovations (North STAR) (CIP #C800544)

Amount of This Request: \$1,200,000

Source of Funds: Airport Development Fund

Total Project Cost: Approximately \$200 million

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to (1) authorize preliminary project funding of \$1,200,000 for the North Satellite Renovation project at Seattle-Tacoma International Airport (Airport); (2) execute a consulting contract for design and construction support services; (3) execute a consulting contract for program management services; and (4) authorize the use of Port crews and consultants to conduct regulated materials management surveys and provide field support services for preliminary project planning tasks.

SYNOPSIS:

When the moves associated with the Airport Terminal Realignment Project are completed, Alaska Air Group (Alaska) will be the only airline operating out of the North Satellite. Alaska has decided to relocate most of its operations to the North Satellite to improve its "Curb to Seat" experience. To meet Alaska's requirements, the Port will renovate the main concourse level of the North Satellite, including adding a lounge for Alaska's premier passengers, as part of the North Sea-Tac Airport Renovations (hereafter referred to as North STAR) program. The North STAR program also includes various improvements to the Main Terminal, the C and D concourses, and the airfield.

The total North STAR project cost has not yet been established, but the approximate current estimate is \$200 million. The reason the program is so expensive is that the North Satellite was built over forty years ago and will require modernization, renewal or replacement of its basic mechanical, electrical, communications, heating/air conditioning (HVAC) and plumbing systems along with seismic upgrades. Some of these costs are included in the 2012 - 2016 capital budget

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and plan of finance, and the additional costs will be included in future capital budgets and plans of finance. The Airport Development Fund is the initial source of funds for North STAR, but funding for the entire project will require a future bond issue. The estimated CPE impact is \$0.75 - \$1.00.

Resolution No. 3605, as amended, section 4.2.1 delegates to the Chief Executive Officer authority to spend up to \$300,000 on preliminary project work, but the size and complexity of the North Satellite Renovation project requires more extensive pre-design work than usual. Port staff has previously approved \$300,000 for this preliminary work. Initial scoping has been done which proposed leading project design and construction under a complex lease-leaseback structure. After extensive discussions and analysis, Port staff concluded that the project should be led by the Port rather than Alaska.

The funding in this request will be used for Port staff and consultants. This authorization will allow the Port to execute project specific consulting contracts for (1) design and construction support and (2) program management. The contracts will be phased so that the Port will issue service directives for smaller scopes of work. We will seek airline approval for project work beyond the \$1,500,000 level (this request plus previous staff authorization) in accordance with the Majority-in-interest provisions of the Signatory Lease and Operating Agreement (SLOA).

The scope for design includes extensive work at the North Satellite and some elements of work at the C and D concourses and Main Terminal where Alaska has operations for design consistency.

The scope of the program management support contract will include project management, cost estimation, cost control & scheduling work for the North STAR.

The North Satellite includes regulated materials which must be identified and properly managed during the project. Port Construction Services crews and consultants will conduct the regulated materials survey as an early task.

The total project cost has not yet been established by the Port. Our current estimate for the North Satellite renovation is \$200 million, but this number is very approximate at this time. This includes both new projects and those previously in the Capital Improvement Plan.

BACKGROUND:

With the conclusion of the airline moves associated with the airline reallocation provision of the current Signatory Lease & Operating Agreement (SLOA), Alaska will be the only airline operating out of the North Satellite. Alaska is seeking to improve their "Curb to Seat" experience at the Airport. This customer service concept includes upgrades to the main concourse level of the North Satellite, and adding a lounge for their premium passengers. In order to meet Alaska's projected demand at the North Satellite over the next ten years, additional aircraft gates are also needed. Alaska's conceptual vision is the foundation for this part of the program.

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The North Satellite is over 40 years old and has had only limited upgrades to the building and the systems within it during this period. The basic building infrastructure of mechanical, electrical, communication and plumbing systems needs modernization, renewal and replacement. The Airport capital program currently has two related projects for the North Satellite that are still in the planning stage – replacement of the heating, ventilating, and air conditioning (HVAC) system, ceiling and lighting and a separate project for seismic upgrades.

Port staff intends to combine all of the work described above into one design package due to the complexity and interrelationships between project elements and the need to maintain operations during the extensive construction that will be required. Alaska's financial contribution will be required for some of the project elements consistent with Port policy. Alaska will also do the finish work within the new lounge to be constructed under this project.

There are additional North Satellite project elements that Port staff expect to manage separately and for which we will seek separate Commission authorization in the future:

- Relocation of Alaska employees to remodeled space in the North Satellite by Alaska which may include building improvements that are reimbursable consistent with Port policy
- Baggage system upgrades within the North Satellite, the baggage tunnel connecting the North Satellite and Main Terminal, and Concourse D

Finally, Alaska's program to improve the "Curb to Seat" experience includes various improvements to the Main Terminal, the C and D concourses, and the airfield, all included in the North STAR program. These individual projects will be evaluated and managed separately and we will seek separate Commission authorization for these projects in the future. The authorization that we are requesting in this memo is for contracting for overall program management and design services for the North Satellite and these other projects.

We have established the terms under which Alaska will participate in the North STAR via a letter (attachment A). We will follow the airline project approval process outlined in the agreed Majority-in-interest approval process but will also offer Alaska an unprecedented level of project involvement given the importance of this program to our largest airline tenant.

PROJECT JUSTIFICATION:

Project Objective:

Upgrade North Satellite facilities to accommodate additional aircraft and passengers, improve customer service, improve seismic safety, and renew/replace aging infrastructure.

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PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

This request includes the following design elements at the North Satellite and, as noted below, certain elements at Concourses C and D:

- Renovation of concourse finishes, structure, and amenities
- Addition of three aircraft gates
- Seismic upgrades
- Addition of a lounge building structure for Alaska's premium passengers
- Addition of exterior stairs at gates (including Alaska gates at Concourses C and D)
- Satellite Train System lobby refresh (including Concourse C and the Main Terminal)
- Upgrades, renewal and replacement of mechanical, electrical, plumbing, and communication systems
- Aircraft taxi lane changes around the North Satellite

This request also includes the following optional design elements. These elements are part of the North STAR program, but staff has not yet determined whether technical resources can be obtained via existing Indefinite Delivery Indefinite Quantity contracts or if these contracts are insufficient and these services will be needed from this contract:

- Regional airline vertical circulation at Concourse C
- Main terminal improvements
- Baggage system improvements

Design of these improvements will be done by a designer to be selected.

Schedule:

Design & construction support contract in place	August 2012
Commission Authorization for Design	July – September 2012*
Design Complete	Winter 2014**
Commission Authorization to Bid Work	Fall 2013**
Construction Start	Winter 2014**
Construction Complete	Late 2016**

* Design authorization will follow airline approval of design funding via Majority-in-interest provisions of SLOA

** Port staff has not yet prepared a complete independent schedule and needs to include AAG's gate closure plans which are under development. Dates assume early construction start of some project elements to speed the project, hence the overlap between design and construction phases above.

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FINANCIAL IMPLICATIONS:

<u>Budget/Authorization Summary</u>	<u>Capital</u>	<u>Expense</u>	<u>Total</u>
Original Budget	\$0	\$0	\$0
Budget increase (decrease)	\$0	\$300,000	\$300,000
Revised Budget	TBD	\$300,000	\$300,000
Previous Authorizations	\$0	\$300,000	\$300,000
Current request for authorization	\$1,000,000	\$200,000	\$1,200,000
Total Authorizations, including this request	\$1,000,000	\$500,000	\$1,500,000
Remaining budget to be authorized	TBD	TBD	TBD

Project Cost Breakdown

Outside Professional Services	\$400,000
Port soft costs	\$600,000
RMM – Expense	\$200,000
Total	\$1,200,000

Budget Status and Source of Funds:

The 2012-2016 capital budget and plan of finance included two projects, C102161 North Satellite Seismic, and C800377 North Satellite HVAC, which are elements of this broader North Satellite program. A new CIP, C800544, has been created. This is where the current authorization request will be applied. The funding source for this initial authorization request will be the Airport Development Fund. Funding the total project will require a future bond issue. The total cost projections (using Alaska's figures) for the North STAR program have been included in the financial projections provided to the airlines as part of the current SLOA negotiations with the airlines.

Project costs previously authorized by staff (\$300,000) and RMM costs (\$200,000) were not included in the 2011 or 2012 expense budget. \$16,583 was spent in 2011 on initial project scoping. The airport will either absorb these unbudgeted expense costs in the 2012 operating budget or use contingency budget.

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Financial Analysis:

<i>CIP Category</i>	Renewal and Replacement
Project Type	Terminal Infrastructure
Risk adjusted Discount rate	N/A
Key risk factors	N/A
Project cost for analysis	TBD – approximately \$200 million
Business Unit (BU)	Terminal
Effect on business performance	NOI after depreciation will increase.
IRR/NPV	N/A
CPE Impact	Estimated \$0.75 - \$1.00 CPE in 2016, this project was not included in the capital budget and plan of finance.

Lifecycle Costs and Savings:

Annual Operating and Maintenance costs will be analyzed during project definition.

STRATEGIC OBJECTIVES:

This project promotes the Port's strategic goals to "Ensure Airport and Seaport Vitality" and "Be a Catalyst for Regional Transportation Solutions." This is one of a number of projects that are directly tied to the One-Time Reallocation (Airline Realignment) program, that are in concert with Alaska Air Group's Master Plan to consolidate their gate operations onto the North Satellite and Concourses C and D.

ENVIRONMENTAL SUSTAINABILITY:

This project will incorporate environmental sustainability elements with a goal of reducing energy consumption and life cycle costs compared to the current facility. This will be further evaluated and designed during the project definition and design phases of the project.

BUSINESS PLAN OBJECTIVES:

This project improves operations, building safety, and customer service at what will be the primary location for the Airport's largest airline tenant.

TRIPLE BOTTOM LINE SUMMARY:

This project will increase the long-term ability of the Airport to serve a growing number of both passengers and airlines. Long-term vitality of the Airport benefits the regional economy, the local environment, and nearby communities.

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ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative 1: Do nothing. This alternative would not add capacity, improve customer service, increase seismic safety, nor reduce life cycle costs for the North Satellite. It would also not be consistent with Alaska Air Group's vision to upgrade the "Curb to Seat" experience for the customer. This alternative is not recommended.

Alternative 2: Proceed with project definition, scoping, and procurement of a design consultant for a renovation and rebuild of the North Satellite and limited work at the C and D Concourses and Main Terminal. Work includes remodeling the concourse, addition of 3 aircraft gates, addition of a lounge for Alaska's premium passengers, upgrade/renewal/replacement of mechanical, electrical, plumbing, and communication systems, seismic safety upgrades, addition of elevators, escalators, and exterior stairs (including Alaska gates at Concourses C and D), and a refresh of the satellite transit train lobbies (including Concourse C and the Main Terminal). **This alternative is recommended.**

Alternative 3: Allow Alaska to do this work under Port oversight and reimbursement of Port scope costs. We have examined this alternative thoroughly and spent several months working through this with Alaska, as it was their preferred approach. This approach includes significant legal complexity (requiring a complex lease-leaseback structure) and raises auditing, Port facility responsibility, project execution, and related concerns. This alternative is not recommended.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Attachment A: Letter from Port of Seattle to Alaska concerning Alaska involvement in projects.

PREVIOUS COMMISSION ACTION/BRIEFINGS:

None