

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6c

ACTION ITEM

Date of Meeting July 24, 2012

DATE: July 18, 2012

TO: Tay Yoshitani, Chief Executive Officer

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

SUBJECT: North Satellite and North Satellite Transit System (STS) Lobbies Renovation
at Seattle-Tacoma International Airport (CIP #C800556)

Amount of This Request: \$ 32,000,000 **Source of Funds:** Airport Development Fund
and future bond proceeds

Est. State / Local Sales Tax: \$ 0

Est. Total Project Cost: \$194,300,000

ACTION REQUESTED:

Request authorization for the Chief Executive Officer to design, perform construction support and project management services and overall project support in an amount not to exceed \$32,000,000 for the renovation of the North Satellite passenger terminal and the Satellite Transit System station lobbies (North Satellite / Concourse C / North Baggage Claim) at Seattle-Tacoma International Airport for an eventual total estimated project cost of \$194,300,000.

SYNOPSIS:

Alaska is seeking to improve its “Curb to Seat” customer service experience at the Airport. This concept includes upgrades to the main concourse and STS levels 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 10 years, additional aircraft gates are also needed. Alaska’s conceptual vision is the foundation for this part of the NorthSTAR program.

At the conclusion of the airline moves associated with the airline reallocation provision of the current Signatory Lease & Operating Agreement (SLOA), Alaska Air Group (Alaska) will be the only airline operating out of the North Satellite. Alaska will relocate most of its operations to the North Satellite. To meet Alaska’s requirements for growth, the Port will renovate the concourse level of the North Satellite and will construct a rooftop structure in which Alaska will build a new Alaska Board Room facility for its premier passengers. Alaska will also renovate leased portions of the North Satellite ramp and STS levels for use by its operations personnel. This request is for both the funding of design and project management services, and the

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commencement of these services, associated with the North Satellite renovation that is part of the more comprehensive North Sea-Tac Airport Renovations (NorthSTAR) program. This request does not pertain to improvements to the Main Terminal, Concourse C, and Concourse D that are also part of the NorthSTAR program.

The current cost estimate for Port work at the North Satellite and North STS Lobbies Renovation project is \$194.3 million. The North Satellite was built over 40 years ago and will require modernization, renewal, or replacement of its basic communications systems, roofing system, mechanical, electrical, plumbing, and heating/air conditioning (HVAC) systems along with seismic upgrades. Some of these costs are included in the 2012-2016 capital budget and plan of finance. Additional costs will be included in future capital budgets and plans of finance. The Airport Development Fund is the initial source of funds for NorthSTAR, but funding for the entire NorthSTAR program will require a future bond issue. The estimated cost per enplanement (CPE) impact is \$0.75-\$1.00.

BACKGROUND:

The North Satellite is over 40 years old and has had only limited upgrades to the building and its infrastructure. The basic building's mechanical, electrical, plumbing, and communication systems need modernization, renewal, and replacement. Additionally, the proposed renovation provides the opportunity to seismically reinforce the building to comply with current building codes. The Airport capital program has three related projects for the North Satellite that are still in the planning stage – (1) replacement of the HVAC system, ceiling and lighting; (2) structural reinforcement for seismic resistance; and (3) replacement of the North Satellite roof.

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 and within employee areas under this project.

The funding in this request will be used for Port staff and consultants. This authorization will allow the Port to proceed with previously authorized design, construction support, and project management services.

The North Satellite includes regulated materials that 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, although removal of regulated materials is not part of the initial authorization.

There are specific concurrence milestones between the Port and Alaska Airlines in the completion of construction documents for this project. The next such milestone will occur at the 15% conceptual design submittal. While these concurrence points are not a formal restriction on the Port's ability to proceed, they will help validate the Port's and Alaska's continued alignment.

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There are additional North Satellite project elements that Port staff expects 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; and
- Baggage system upgrades within the North Satellite, the baggage tunnel connecting the North Satellite and the Main Terminal, and Concourse D.

Finally, Alaska's program to improve the "Curb to Seat" experience includes various improvements to the Main Terminal, Concourses C and D, and the airfield taxi-lane areas, all included in the NorthSTAR program. These individual projects will be evaluated and managed separately. Staff will seek separate Commission authorization for these projects in the future. The authorization requested in this memo is for commencement of NorthSTAR program management services and for commencement of design services for the North Satellite project.

The terms under which Alaska will participate in NorthSTAR have been established via an April 5, 2012, letter. The airline project approval process outlined in SLOA will be followed, but Alaska will also be offered an unprecedented level of project involvement given the importance of this program to our largest airline tenant.

PROJECT JUSTIFICATION:

Since its construction in 1971 infrastructure improvements to the North Satellite have been limited to minor plumbing and electrical upgrades. The remainder of the outdated infrastructure and interior finishes need renewal and replacement to improve the building's utilization, increase operational efficiencies, reduce energy consumption, improve sustainability and sustainable asset management, enhance customer comfort and service, and ensure compliance with current building codes. The renovation will accommodate Alaska Air Group's goal to improve the customer's experience from drop-off to gate and its expansion into the North Satellite as part of Sea-Tac's airline re-alignment program, as well as the eventual future expansion of the satellite.

Project Objective:

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

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

The scope of the program management support contract will include project management, cost estimation, cost control, and scheduling work for NorthSTAR.

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This request includes the following design elements at the North Satellite and, as noted below, certain elements at Concourse C and the Main Terminal:

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

Schedule:

Design & Program Management Contracts in Place	August 2012
Design Complete	February 2014
Commission Authorization to Bid First Phase of Work	Winter 2013*
Construction Start	Winter 2013*
Construction Complete	Winter 2016*

- * Port staff needs to validate the current schedule with the recently selected design and program management consultants. Dates assume early construction start of some project elements to speed the project, hence the overlap between design and construction phases above.

FINANCIAL IMPLICATIONS:

<i>Budget/Authorization Summary:</i>	Capital	Expense	Total Project
Original Budget	\$0	\$0	\$0
Related project budgets	\$46,500,000	\$0	\$ 46,500,000
New project budget	TBD	TBD	\$147,800,000
Revised project budget	TBD	TBD	\$194,300,000
Previous Authorizations	\$ 1,000,000	\$500,000	\$ 1,500,000
Current request for authorization	\$32,000,000	\$0	\$ 32,000,000
Total Authorizations, including this request	\$33,000,000	\$500,000	\$ 33,500,000
Remaining budget to be authorized	TBD	TBD	TBD
Total Estimated Project Cost	TBD	TBD	\$194,300,000

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<i>Project Cost Breakdown:</i>	This Request	Total Project
Construction	\$0	TBD
Design and Construction Support	\$17,000,000	\$17,000,000
Project Management	\$ 5,400,000	\$ 5,800,000
Permitting	\$ 3,100,000	\$ 3,100,000
RMM - Expense	\$0	\$ 200,000
Port Soft Costs	\$ 6,500,000	\$ 7,400,000
Undefined Cost – to be determined	\$0	\$160,800,000
Total	\$32,000,000	\$194,300,000

Budget Status and Source of Funds:

The 2012-2016 capital budget and plan of finance included two projects, C102161 North Satellite Seismic (\$19 million), and C800377 North Satellite HVAC (\$27.5 million), which are elements of this broader North Satellite program. These two related project budgets totaling \$46.5 million will be consolidated into the North Satellite Renovation and North STS loop lobbies project (C800556). The total cost for this project that was not included in the 2012-2016 capital budget and plan of finance totals \$147.8 million. Some portion of this total budget of \$194.3 million will be transferred to a new CIP (C800544) created to manage overall program costs. The funding source for this current authorization request will be the Airport Development Fund (augmented as needed with the issuance of commercial paper). Funding the total project will require a future bond issue, planned for 2013. The total cost projections (using Alaska's estimate) for the NorthSTAR program have been included in the financial projections provided to the airlines as part of the current SLOA negotiations.

Financial Analysis and Summary:

CIP Category	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 Cost and Savings:

Annual operating and maintenance costs will be analyzed during the completion of the final project definition notebook.

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STRATEGIC OBJECTIVES:

This project promotes the Port's business 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's Master Plan to consolidate its gate operations onto the North Satellite and Concourses C and D.

ENVIRONMENTAL SUSTAINABILITY:

This project will incorporate environmental sustainability elements that are being analyzed currently in the NorthSTAR sustainability study with a goal of reducing energy consumption and lifecycle costs of the North Satellite. This will be further evaluated, as well as opportunities to seek third party environmental certifications (e.g., LEED Certification), and incorporated into the project definition and design 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 passengers and airlines. Long-term vitality of the Airport benefits the regional economy and nearby communities. The sustainable aspects of this project will benefit the local environment.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative 1) Do nothing. This alternative would not add capacity, improve customer service, increase seismic safety, or reduce lifecycle costs for the North Satellite. It would also not be consistent with Alaska'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 design for the renovation of the North Satellite and limited work to the North STS stations located in the Satellite, Concourse C and the Main Terminal. Work includes remodeling the concourse, addition of three 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 and escalators, and a remodel of the satellite transit train lobbies (including Concourse C and the Main Terminal). This alternative is recommended.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- None.

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PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- 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, in the amount of \$1,200,000.
- June 26, 2012 - The Port Commission was briefed on the NorthSTAR program by Wayne Grotheer, Director Aviation Project Management Group.