

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**  
**STAFF BRIEFING**

**Item No.** 7a  
**Date of Meeting** January 13, 2015

**DATE:** January 6, 2015  
**TO:** Ted Fick, Chief Executive Officer  
**FROM:** Frederick Robinson, Program Leader, Aviation Project Management Group  
Michael Ehl, Director, Aviation Operations  
Dave Soike, Director, Aviation Facilities and Capital Programs  
**SUBJECT:** Update on the Airport's International Arrivals Facility Program

**SYNOPSIS**

Replacing Seattle-Tacoma International Airport's existing overburdened Federal Inspection Services (FIS) facility with a modern, efficient International Arrivals Facility (IAF) is a critical part of realizing the Port's Century Agenda objective to accommodate growth of international traffic, improve the level of service for Airport users, and increase competitiveness with peer airports.

The Capital Development Division will brief the Commission on the following project topics:

- Overall budget – budget has risen to include additional state sales tax
- Near-term schedule steps ahead – a request to select, but not yet contract with, a design-build team
- Cost control tools – several techniques will be employed to contain costs as the project moves forward

The Airport Division will brief the Commission on the following topics:

- Adjustments to the capital budget to accommodate the cost increase of the IAF
- Update on Airport-wide plan of finance and financial implications
- Policy issue inherent in the allocation of funding sources by cost center and the resulting impact on airline rates

On December 24, 2014, the Port received statements of qualifications (SOQs) from design-build teams pursuing the IAF design build contract. Port staff will return on January 27, 2014, to request authorization by the Commission of the next step in the Port's procurement of that contract – issuing a request for proposals (RFP) to a short list of finalists selected from those who submitted SOQs.

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### **BACKGROUND**

The IAF program consists of a single capital project for design and construction of a new IAF located landside of Concourse A to replace the existing facility at the South Satellite. This project will also construct a secure International Corridor at Concourse A for arriving international flights and a bridge for passengers to walk from the existing International Corridor at the South Satellite to the new facility.

### **TOTAL PROGRAM BUDGET**

At the December 2, 2014, Commission meeting, the IAF total program budget was presented as \$596 million. That reported figure must be revised based on resolution of applying Washington state sales tax to this progressive design build (PDB) contract and is set at \$608 million. The increase is necessitated by a legal interpretation that design service fees would be taxed under this project. While under traditional design-bid-build models design services are not taxed, they are taxed under the design-build model because design is so integral to the construction process. Direct construction cost is taxed under either type of delivery model.

This briefing will also provide an answer to the question raised during the December 2 Commission meeting discussion, whether the IAF program should include extension of the Concourse A Sterile Corridor in order to meet the forecasted increase in international services in the foreseeable future. Owing to the flexibility provided by the PDB contracting approach and the unsure nature of the forecast, staff recommends not including the sterile corridor extension in the current program. It is not included in the \$608 million budget. Instead, staff has identified the sterile corridor extension as a potential scope addition later as the design progresses and as more becomes known about the likelihood of additional international services at peak hour.

### **STAKEHOLDER SUPPORT**

The airlines have participated in confirmation of the IAF program definition as described to the Commission in the December 2, 2014, briefing. In a meeting with the Airport and Airline Affairs Committee on December 17, 2014, the Airport noted that the budget increase for the IAF will require a majority-in-interest vote that is anticipated to occur in the first few months of 2015 prior to the Commission approving any contractual agreement with the final selected design builder.

The Port has confirmed participation and support from critical stakeholders, most notably, U.S. Customs and Border Protection (CBP). CBP is working with the IAF team to define a pilot program that will empower the project to explore innovative technologies in design and establish protocols that will support and facilitate a successful PDB project delivery approach.

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### **PROCESS & COST CONTROLS SPECIFIC TO PROGRESSIVE DESIGN BUILD**

The progressive design build project delivery approach has unique cost control methods. Those controls are established in the contract and the management of it. Since this is the first large-scale Port project to be contracted using this approach, the Port has engaged a qualified and experienced program management team and an expert contracting support consultant with PDB specialization.

The management controls outlined in the attached Risk Allocation Memorandum from Thaxton Parkinson LLC are framed as part of the design-build team selection process, defined and established in the validation phase and practiced in the phases marked as pre- and post-agreement on the guaranteed maximum price.

### **CAPITAL BUDGETING AND FUNDING RELATED TO THE IAF**

An update outlining the most recent discussion with airlines, and description of recommended changes to the existing five-year capital budget to make room for increases in the IAF cost estimate will be presented. The update to the Airport plan of finance (including funding of the IAF project) is very complex in that it includes many variables, each of which will have effects upon several categories of Airport rates and charges. Therefore, multiple scenarios will be developed and presented in order to underline the pros and cons of different approaches to updating the plan of finance. Staff will give a verbal update on the progress of this in-depth work; but as of the time of this writing, it is not anticipated that staff will have sufficient time to fully engage the airline stakeholders in order to present a full and finished analysis by the time of this briefing. Therefore, a second public Commission briefing will be made when the analysis is ready but prior to the Commission having to take action that will commit further funding to the project.

### **ATTACHMENTS TO THIS BRIEFING**

- Aviation Capital Budget Update slide presentation
- CDD IAF Program Update slide presentation
- Risk Allocation Memorandum from Thaxton Parkinson LLC

### **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- December 2, 2014 – IAF Scope and Budget Update.
- October 28, 2014 – IAF Q3 Quarterly Briefing.
- August 19, 2014 – IAF Q2 Quarterly Briefing.
- August 5, 2014 – IAF RFQ Advertisement.
- July 22, 2014 – IAF Progress Briefing.
- June 10, 2014 – IAF Update and Quarterly Briefing.
- May 6, 2014 – IAF Project Delivery Briefing.
- April 22, 2014 – Capital Program Briefing.
- March 11, 2014 – IAF Master Planning authorization.

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- February 25, 2014 – IAF Program Briefing.
- November 19, 2013 – International Arrivals Facility Construction Management, testing and inspection; surveying and locating and safety service agreements.
- July 23, 2013 – International Arrivals Facility Project & Program Support; and Price Factor Design Build Methodology authorization.
- July 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing.
- July 9, 2013 – Alternative Public Works Contracting Briefing.
- April 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing.
- June 26, 2012 – Briefing on Airport Terminal Development Challenges at Seattle-Tacoma International Airport.
- June 14, 2011 – International Air Service Growth and Future Facility briefing.
- February 2, 2010 – Briefing on South Satellite Passenger Growth and Facility Considerations, Delta's Proposed Airline Lounge and Other Possible Future Aviation Projects.