

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4c
Date of Meeting March 24, 2015

DATE: March 17, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Dave Soike, Director, Aviation Facilities and Capital Program
Wayne Grotheer, Director, Aviation Project Management Group
SUBJECT: North Satellite Renovation & North Satellite Transit Station Lobbies Project (CIP #C800556) Seattle-Tacoma International Airport

Amount of This Request:	\$200,000	Source of Funds:	Airport Development Fund
Est. Total Project Cost:	\$421,682,944		
Est. State and Local Taxes:	\$28,951,600		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to take the following actions related to the North Satellite Renovation & North Satellite Transit Station (STS) Lobbies (NSAT) Project at the Seattle-Tacoma International Airport:

- (1) Increase project scope to include the construction of underground natural gas infrastructure to support the Airport Dining and Retail businesses planned for the NSAT project with no increase in budget;
- (2) Execute a developer agreement with Puget Sound Energy (PSE) to extend the existing underground natural gas line located along the west side of Air Cargo road;
- (3) Grant and transfer a utility easement, if necessary, to PSE on Port property located along the west side of Air Cargo road and across the north apron to the North Satellite; and
- (4) Authorize \$200,000 to reimburse PSE, subject to the developer agreement, for underground natural gas line design and construction.

SYNOPSIS

A key factor in renovating and expanding the satellite is to meet the Port's and Alaska Air Group's (AAG) vision, project objectives, and specific requirements. The Port and AAG share goals for the North Satellite including: compliance with applicable codes to ensure life safety, improved passenger experience, increased level of service and passenger comfort. There is also the need to provide high quality restaurant and retail offerings within the renovated satellite to meet the customer experience and level of service goals for the NorthSTAR program and specifically the NSAT project. Staff is recommending that the Port provide restaurant operators

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with the ability to use natural gas as the preferred method of cooking rather than electricity. The use of natural gas in cooking provides restaurants with a broader range of menu options for passengers and enhanced quality of food.

If available, most restaurants also will choose natural gas for cooking to increase their own efficiencies. Natural gas availability at the North Satellite will benefit future tenants and ultimately elevate the customer experience.

The requested action item number (4) for \$200,000 is identified as public expense that originates from the approved project budget. The funds are classified as expense due to the nature of the developer agreement and the fact that PSE will own the infrastructure that results from the agreement. The remaining construction cost of \$150,000 for natural gas piping infrastructure within the renovated building is not included in this request, is being absorbed within the project budget and will be including in the authorization for construction of the NSAT.

The availability of natural gas will decrease the NSAT's electricity usage which is in the Port's economic interest. The reduced electricity usage at NSAT will help to control the airport's total electricity consumption. This will help to keep the Port from needing to purchase power under the Bonneville Power Administration (BPA) Tier 2 rate schedule which is 30% more expensive than the Tier 1 rates the Port currently pays.

BACKGROUND

The Airport-wide dining and retail program has provided natural gas for food service tenants at most other locations in the Airport. However, the original North Satellite was built without natural gas infrastructure and instead electricity has been used for restaurant cooking. The NSAT is now being renovated and expanded. The current space devoted to dining and retail will expand from approximately 19,000 square feet to approximately 46,000 square feet. The increase in square footage will allow the Port and its future restaurant operators to provide a vastly improved variety and quality of dining options than exists today. The high caliber of full-service restaurant dining offered today in the Central Terminal will be a part of the new NSAT along with quick service options. Most of these restaurant concepts require natural gas for cooking.

PROJECT JUSTIFICATION AND DETAILS

The NorthSTAR program and NSAT project goals include providing a world class environment and improved passenger experience. Providing natural gas to NSAT creates another opportunity to achieve these goals and is supported by the Port's Airport Dining and Retail (ADR) department and AAG.

The use of natural gas for cooking will reduce the amount of electricity the Port is required to purchase for reimbursement by the tenants. This will help reduce the airport's electricity consumption which will help prevent the Port from purchasing electricity under the much more expensive Bonneville Power Administration Tier 2 rate schedule.

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Based on the lifecycle cost analysis (see below), the improved tenant customer service, and the reduction in electricity usage staff recommends utilizing PSE to install and maintain a natural gas line to NSAT. This recommendation requires the Port to enter into a utility developer agreement with PSE to extend natural gas service from an existing natural gas main on the west side of Air Cargo road to a meter room located within the NSAT. The Port will then design and install natural gas piping in the NSAT as part of the NSAT renovation & expansion project to distribute natural gas from the PSE owned tenant meters to the individual tenant spaces.

Project Objectives

- The addition of natural gas infrastructure to the North Satellite will provide for high quality restaurant dining experiences and increased passenger satisfaction.
- Decreased electricity usage will help control the airport's overall electricity usage and will help prevent the Port from purchasing electricity under the BPA Tier 2 rate schedules.

Scope of Work

- PSE to extend natural gas pipe from Air Cargo Road to North Satellite
- Port to install natural gas distribution infrastructure to tenant spaces.

Schedule

- Q2 2015 – Enter into developer agreement with PSE
- Q4 2015 – PSE completes design
- Q2 2016 – NSAT Phase 1 construction begins
- Q1 2018 – Natural gas infrastructure installed - phase 1
- Q3 2018 – Phase 1 completed
- Q1 2020 – Natural Gas infrastructure installed - phase 2
- Q3 2020 – NSAT Phase 2 substantial completion

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$194,300,000	\$5,000,000	\$199,300,000
Previous budget increase	\$207,182,944	\$800,000	\$207,982,944
Concurrent proposed budget increase	\$14,400,000	0	\$14,400,000
Revised budget	\$415,882,944	\$5,800,000	\$421,682,000
Previous Authorizations	\$55,464,800	\$200,000	\$55,664,800
Current request for authorization	\$0	\$200,000	\$200,000
Total Authorizations, including this request	\$55,464,800	\$400,000	\$55,864,800
Remaining budget to be authorized	\$360,418,144	\$5,400,000	\$365,818,144
Total Estimated Project Cost	\$415,882,944	\$5,800,000	\$421,682,944

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Project Cost Breakdown

This Request Total Project Budget

Construction Phase		\$200,000	\$334,344,600
Design Phase		\$0	\$58,386,744
State & Local Taxes (estimated)		\$0	\$28,951,600
Total		\$200,000	\$421,682,944

Budget Status and Source of Funds

This project is included in the 2015 – 2019 capital budget and plan of finance with a budget of \$401.5 million. The Airport Development Fund (augmented as needed with the issuance of commercial paper) continues to be the initial source of funds for this project but funding for the entire project will include Passenger Facility Charge revenues (PFCs) and future bond issues. The Port anticipates issuing revenue bonds in 2015.

The terms under which AAG will participate in the Port's NorthSTAR Program costs have been established via an April 5, 2012, Letter of Agreement between the Port and AAG. The airlines were briefed on December 18, 2013, with regard to the decision to expand the NSAT and the resultant increase in budget. The formal Majority-In-Interest (MII) project approval process outlined in Signatory Lease and Operating Agreement (SLOA) was followed with the airlines voting in favor of this expansion and the project in July 2014.

The funds for this \$200,000 request will be classified as public expense and come from the approved project budget. The funds are expense due to the nature of the developer agreement and the fact that PSE will own the infrastructure that is built per the agreement. The remaining construction cost for natural gas that is not included in this request will be capitol funds from the already approved project budget.

Financial Analysis and Summary

CIP Category	Renewal and Replacement
Project Type	Terminal Infrastructure
Risk adjusted discount rate	7.0%
Key risk factors	<ul style="list-style-type: none">• Date of installation• Quantity of natural gas actually used by tenants
Project cost for analysis	\$350,000
Business Unit (BU)	Terminal
Effect on business performance	NOI after depreciation will increase
IRR/NPV	13%/\$500,000 (based on avoiding BPA tier 2 electrical rates. NPV at tier 1 rate is still positive).
CPE Impact	The CPE impact is less than \$.01

Lifecycle Cost and Savings

An Energy Life Cycle Cost Analysis was performed to determine whether natural gas should be pursued or if electricity should remain as the preferred cooking method. Based on the expected

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cost to provide natural gas to NSAT and from the anticipated electrical savings assuming the tier 2 rates, it was found that the payback period would be 7 years under conditions similar to alternative 4 below. However, this represents a worst case scenario as the cost analysis assumes no cost share with PSE per the terms of the developer agreement. The life cycle analysis was performed according to the guidelines issued by the Washington State Department of Enterprise Services. The project costs used for analysis were programmatic costs that include construction costs and applicable Port soft costs. The discount rate used was 7.0% and after consultation with the Airport Facilities and Infrastructure department it was assumed that electricity rates would increase at 2.8% and natural gas rates would increase at 2% over the next 15 years.

The Aviation Maintenance department does not anticipate a significant increase in maintenance costs for this project based on the information available at this time. As design development proceeds, any cost impacts will be further evaluated.

STRATEGIES AND OBJECTIVES

This project supports the Port's Century Agenda objective of meeting the region's air transportation needs at Sea-Tac Airport for the next 25 years. This project also supports the Aviation Division's strategy of anticipating and meeting the needs of our tenants, passengers, and the region's economy.

This is one of a number of projects that are directly tied to the One-Time Reallocation (Airline Realignment) program, that are in alignment with AAG's plan to consolidate its gate operations onto the NSAT and Concourses C and D. The NSAT expansion is also in alignment with Airport master plan development objectives that identify the NSAT as the most logical location for near-term expansion of airport capacity.

TRIPLE BOTTOM LINE

Economic Development

This project will increase the long-term ability of the Airport to serve AAG's future growth. This project cost effectively meets AAG and Port needs by allowing for a world class concessions program where tenants can operate as efficiently as possible.

Environmental Responsibility

This project represents a tradeoff between financial opportunities, customer service, and environmental impacts. The electricity purchased by the Port is 98% carbon-free whereas natural gas has a higher carbon footprint. Adding natural gas for NSAT restaurant operators will increase airport tenant carbon footprint by approximately 20%. However, the restaurant operators switching to natural gas will free up more clean electricity, benefiting the airport and our entire region.

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Community Benefits

Long-term vitality of the Airport benefits the regional economy, the local environment and nearby communities. The Office of Social Responsibility (OSR) will provide support in determining small business participation with PSE.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Retain the Status Quo. Restaurant spaces will be provided electricity for cooking. As part of the already approved expansion, electrical infrastructure will be designed to support electric cooking appliances. This is not a recommended alternative.

PROS:

- No additional cost to the project
- Minimal increase in carbon footprint

CONS:

- Would not meet Port or AAG project goals. High quality restaurants prefer cooking with natural gas.
- The Port, as the tenants' electrical utility, would be required to buy additional electricity to meet cooking needs which moves the Port closer to buying electricity at the BPA Tier 2 rate schedule.

Alternative 2) - Under a developer agreement with the Port, PSE designs, constructs, and maintains an underground extension of the natural gas main to a single meter within NSAT from a point of connection next to Air Cargo Road. This requires the Port to grant an easement to PSE for the natural gas line extension up to the PSE meter. However, beyond the PSE meter at NSAT, the Port will be responsible for building and maintaining the natural gas infrastructure that delivers the natural gas to the individual tenants, including the tenant meters. As a result the Port pays PSE for tenant natural gas service and the Port bills tenants for reimbursement. This is not a recommended alternative.

PROS:

- Provides natural gas service for restaurant operators
- Upgrades available infrastructure so that the North Satellite is similar to other areas of the airport.
- Potential to recover some of the cost of construction from PSE per the terms of the developer agreement.
- Decreased electricity usage will help control the airport's overall electricity usage and will help prevent the Port from purchasing electricity under the BPA Tier 2 rate schedules.

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CONS:

- Added scope and construction cost of \$200,000 for PSE work and \$100,000 for natural gas infrastructure for a total of \$300,000.
- PSE will require an easement over the airfield
- The Port will act as a utility manager in the natural gas billing arrangement. This increases Port management costs and is not a part of the Port's line of business and the Port gains no long term economic benefit.
- Increased carbon footprint.

Alternative 3) - Same as Alternative 2 except that the PSE portion of the natural gas line ends before the airport fence. The Port would then be responsible for design, construction, and maintenance of an underground natural gas line under the north apron to NSAT as well as the individual tenant meters. This is not a recommended alternative

PROS:

- No airfield easement required
- Port owns the asset and has more control over installation of natural gas line across the airfield.
- Decreased electricity usage will help control the airport's overall electricity usage and will help prevent the Port from purchasing electricity under the BPA Tier 2 rate schedules.

CONS:

- Of the four options this has the largest construction cost to the Port (\$320,000) in addition to the PSE cost.
- Minimized cost share with PSE.
- The Port will act as a middle man in the natural gas billing arrangement. This is not a part of the Port's line of business and the Port gains no long term economic benefit.
- Increased long term maintenance and management costs for the Port.
- Increased carbon footprint

Alternative 4) – Same as Alternative 2 except PSE will place individual tenant meters at the end of the natural gas line at NSAT. The Port is still responsible for building the natural gas lines to each tenant but the Port would not be responsible for metering the natural gas. As a result, tenants are billed by PSE directly. **This is the recommended alternative**

PROS:

- Provides natural gas service for restaurant operators
- Upgrades available infrastructure such that the North Satellite is similar to other concourses.
- Under this alternative PSE will own most of the natural gas delivery infrastructure minimizing Port maintenance and management costs and with a similar cost recovery to Alternative 2 under the terms of the developer agreement with PSE
- The Port is removed from the billing relationship. Tenants are billed directly by PSE.

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- Decreased electricity usage will help control the airport's overall electricity usage and will help prevent the Port from purchasing electricity under the BPA Tier 2 rate schedules.

CONS:

- Added scope and construction cost of \$200,000 for PSE work and \$150,000 for the natural gas infrastructure for a total of \$350,000.
- PSE will require an easement over the airfield
- Increased carbon footprint

ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- January 27, 2015 – NorthSTAR Program Status Update
- January 6, 2015 – The Commission authorized (1) \$5,000,000 preconstruction services; (2) execution of a General Contractor/Construction Manager (GC/CM) contract for preconstruction services; and (3) transfer of scope, \$1,750,000 budget and authorization for STS station roof replacement to the North Satellite Renovation and Expansion project.
- October 28, 2014 – NorthSTAR Program Status Update
- August 5, 2014 – Commission authorized an estimated \$191,323,143 to expand the NSAT by 8 additional gates, an additional \$15,717,800 for design completion, and use of the GC/CM alternative public works contracting procedure for NSAT expansion construction procurement.
- July 22, 2014 - NSAT Expansion Briefing.
- April 16, 2014 – Seattle-Tacoma International Airport Capital Program – Briefing.
- January 14, 2014 – NorthSTAR Program status update and initial NSAT Expansion briefing.
- September 24, 2013 – NorthSTAR Program status update.
- September 24, 2013 – The Commission authorized staff to: (1) advertise, award, and execute a major public works contract for the construction of the NSAT Refurbish Baggage System Project; and (2) authorize the use of Port crews.
- June 25, 2013 –NorthSTAR Program status update.
- May 28, 2013, Commission authorized the execution of separate service agreements for Construction Management Services and Commissioning Services, of approximate values of \$10 million and \$1.5 million.
- April 9, 2013 – The Commission authorized the Chief Executive Officer to enter into a project labor agreement covering the NorthSTAR program's five major construction projects.
- March 26, 2013 –NorthSTAR Program status update.

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- December 11, 2012 – The Commission was briefed on the Vertical Conveyance Modernization Project Aero Phases 1 and 2 and the possibility of adding the specified elevators and escalators to the NorthSTAR program.
- July 24, 2012 - Commission authorized \$32,000,000 for the design of the NorthSTAR NSAT Renovation and NSTS Lobbies project.
- June 26, 2012 - The Port Commission was briefed on the NorthSTAR program by Wayne Grotheer, Director Aviation Project Management Group.
- 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.