

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4d
Date of Meeting August 4, 2015

DATE: July 27, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Wayne Grotheer, Director, Aviation Project Management Group
James Schone, Director, Aviation Business Development
SUBJECT: Regulated Materials Abatement to Support Airport Tenant Construction Projects
(Expense)

Amount of This Request:	\$1,800,000	Source of Funds:	Airport Development Fund
Est. Total Project Cost:	\$1,800,000		
Est. State and Local Taxes:	\$127,000		

ACTION REQUESTED

Request Commission single authorization for the Chief Executive Officer to design, advertise for construction, bid and award a construction contract to abate regulated materials in support of tenant construction projects in the Main Terminal at Seattle-Tacoma International Airport. The total estimated cost of this project is \$1,800,000.

SYNOPSIS

Alaska Airlines (Alaska) and Delta Air Lines (Delta) have requested to add new leased space at the Airport in four different locations of the Main Terminal. Staff identified three vacant spaces and one soon to be vacant space that meet their needs. Each of the proposed spaces contains regulated materials that must be abated or removed before tenant improvement construction can take place. Consistent with Port policy, the tenants pay for their tenant improvements while the Port pays for the costs relating to the abatement of regulated materials. Upon completion of these tenant projects, the Port will realize annual rent from previously vacant space of approximately \$1.6 million beginning in 2017. The cost of the abatement, which was not anticipated in the 2015 budget, will be accounted for as an operating expense and recovered through terminal rents. Staff estimates that approximately \$900,000 will be recognized as an expense in 2015, of which 77 percent will be recovered through increased terminal rents.

BACKGROUND

Both Alaska and Delta have experienced continued growth at the Airport throughout 2015 and require additional space to accommodate their operations. Airport-wide, passenger enplanements grew 7.7 percent in 2014 and yearly totals for this year continue to grow at a double digit rate exceeding 13 percent. Suitable lease space for tenants to expand their operations in the Main

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Terminal is becoming increasingly scarce. Four such locations have been identified that are shown on the graphics that accompany this memo. None of these locations is suitable for dining and retail development.

Alaska proposes to complete the following work:

- Remodel the vacant office space behind their self-check-in/bag drop operation at the far north end of the ticket lobby
- Remodel vacant space on Concourse D
- Remodel vacant space at the north end of the Main Terminal Mezzanine

Delta proposes to complete the following work:

- Remodel the current US Airways ticket counter and offices after it is vacated when US Airways co-locates with American Airlines in Q4 2015

These locations are shown on the attached graphic.

Regulated materials, primarily asbestos-containing spray-applied fire-proofing, are present at each of the locations described above. In order to remove the risk of accidental exposure to these hazardous materials, the complete removal of these materials is required before construction or remodeling work by the tenant can take place. The Port has completed initial surveys of these materials in order to prepare a project plan to complete the abatement work in each of these locations.

The regulated material abatement design will be performed by Port Construction Services (PCS) and the actual abatement work will be performed via a Project Specific Major Works Open Order contract. The remodeling work in each location will be performed as tenant improvement projects by each tenant at its expense.

PROJECT JUSTIFICATION AND DETAILS

Suitable alternate lease space that has already been abated is not available in the Main Terminal. Each of identified locations requires some level of remodel or tenant improvements in order to best suit the tenants' needs. Thus regulated materials must be abated before the tenants can complete their planned tenant improvements.

Project Objectives

Project objectives include:

- Complete abatement of regulated materials in advance of construction activities by each tenant.
- Complete abatement of regulated materials inside each of the spaces now so that continued management of them is no longer required.

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As passenger enplanements continue to increase at the Airport, leading to increased demand for leasable space to support the growth in operations, it is important that we first look to optimize existing space before undertaking new construction. It is less expensive to abate and remodel than to build new facilities, which can be difficult to site on the small footprint of the Airport. This proposed abatement work will allow each tenant to remodel and reconfigure each location into spaces nearby to the airline operations that will be much better suited to meet their growing operations.

Scope of Work

Prepare a project to complete regulated materials abatement in the identified locations to include:

- Develop abatement scope and design for each proposed project location
- Advertise and execute a Project Specific Major Works Open Order procurement for regulated materials abatement
- Abate regulated materials identified at each project location
- Provide wall and floor penetrations at each project location as required
- Provide all required oversight and monitoring for this abatement work

Schedule

Activity	Dates
Complete Design	3 rd Quarter 2015
Abatement Contract Executed	4 th Quarter 2015
Complete Abatement Work	4 th Quarter 2016
Tenant Construction Work	1 st Quarter 2016 – 1 st Quarter 2017

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Current Budget	\$0	\$1,800,000	\$1,800,000
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$0	\$1,800,000	\$1,800,000
Total Authorizations, including this request	\$0	\$1,800,000	\$1,800,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$0	\$1,800,000	\$1,800,000

Project Cost Breakdown

This Request and Total Project

Design	\$94,000
Construction (Abatement)	\$1,579,000
State & Local Taxes (estimated)	\$127,000
Total	\$1,800,000

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Budget Status and Source of Funds

The 2015 operating budget included \$2,642,000 for Regulated Materials Mitigation expenses. Funding for this work was not included in the 2015 Environmental Remediation Liability (ERL) Program. All costs will be accounted for as environmental remediation liabilities and charged as operating expense in accordance with Port Policy AC-9. Staff anticipates that approximately \$900,000 of the costs will be incurred in 2015 with the remainder in 2016. Staff will strive to absorb the 2015 costs within the approved budget through savings in other areas. The source of funds is the Airport Development Fund.

Financial Analysis and Summary

Project Type	Environmental Project, Expense
Risk adjusted discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$1,800,000
Business Unit (BU)	Terminal Building
Effect on business performance	Approximately 77% of the abatement costs will be recovered in the airline rate base in 2015 and 2016. Additionally, upon completion, rent from previously vacant office space (9,439 square feet) will result in increased rent of approximately \$1.6 million annually beginning in 2017.
IRR/NPV	N/A
CPE Impact	Approximately \$.04 in 2015 and \$.03 in 2016

Lifecycle Cost and Savings

This expense project will remove asbestos-containing fireproofing and other regulated materials throughout the proposed lease locations. Although there is a short-term cost associated with this work, maximizing the project footprint and removing as much material as possible in a single Open Order contract minimizes the unit and overall costs for abatement. This would be the most cost effective way to perform the abatement in support of the identified tenant projects.

The risks associated with leaving the regulated materials in place include inadvertent exposure to workers, staff and general public during any remodel work. This risk would also be present for any future construction projects and any maintenance work needing to be completed in these areas.

Even if the tenants accepted each space as-is, spot abatement of regulated materials at multiple locations throughout each of the identified locations would be necessary to support each tenant's proposed remodeling work. Revisions to the heating, ventilation and air conditioning ductwork and associated components as well as wall, door and window configurations, lighting and ceiling systems will likely be required. A regulated materials abatement contractor would first have to spot abate and prepare each location for work by other trades, which slows up the construction

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schedule and over time is more costly than abating the entire space. In an area that has been fully abated the ongoing costs associated with spot abatement are eliminated.

STRATEGIES AND OBJECTIVES

This project aligns with the Port's Century Agenda strategy of advancing the region as a leading tourism destination and business gateway by providing improved facilities to support our airline partners as they expand operations at the Airport.

ENVIRONMENTAL SUSTAINABILITY

This project demonstrates the Port's commitment to environmental stewardship and the Century Agenda strategic objective to be the greenest and most energy efficient port in North America by removing regulated materials from the airport.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Perform no regulated materials abatement in the identified locations. Tenants make use of these spaces as-is. No remodel or tenant improvements would be allowed.

Project Cost: \$0 for the Port/Unknown for Tenants

Pros:

- Each tenant would theoretically be able to occupy the proposed spaces immediately as-is.
- The Port would not incur abatement costs.

Cons:

- Multiple spot abatement projects would be required during tenant improvement or maintenance work that impacted regulated materials.
- There is a risk of inadvertent regulated materials release and exposure to workers, staff and the general public during remodeling work.
- Tenants would not be allowed to remodel and/or reconfigure the space.
- This approach is not in alignment with the tenant's interests and would leave them with a space that might not be maximized for its intended use and the flexibility of use of the space would be substandard as compared to the earlier abated spaces used by other airlines in the vicinity.
- This could lead to a much less efficient use of the diminishing supply of available tenant spaces.

This is not the recommended alternative.

Alternative 2) – Perform regulated materials abatement in a “spot” fashion only where required to complete structural attachments for or impacted by tenant improvements.

Project Cost: \$1,600,000 for the Port/Unknown for Tenants

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Pros:

- In theory, the spot regulated materials abatement costs would be less than for a complete abatement.
- Annual rent from previously vacant space will increase revenues by approximately \$1.6 million.

Cons:

- Coordinating the abatement work with the tenant improvement construction work will take longer.
- Upon completion of the spot abatement and tenant improvement work, the remaining regulated materials would continue to require management and cause a risk of future release and/or exposure.

This is not the recommended alternative.

Alternative 3) – Perform regulated materials abatement as necessary in the identified locations prior to each tenant improvement project that has been identified.

Project Cost: \$1,800,000

Pros:

- The regulated materials will be abated from each location and will not impact future tenant construction work.
- The risk of inadvertent regulated materials release/exposure in these locations is eliminated.
- Allows the Port to optimize existing leasable space in the Main Terminal.
- The tenants will be able to configure each space to best suit their needs.
- Annual rent from previously vacant space will increase revenues by approximately \$1.6 million.

Cons:

- This is the costliest alternative.
- The regulated materials abatement schedule will determine the tenant improvement schedules.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- Maps showing project locations

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None