

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6a
Date of Meeting November 24, 2015

DATE: November 16, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Wayne Grotheer, Director, Aviation Project Management Group
Michael Ehl, Director, Aviation Operations
SUBJECT: South Satellite Interior Renovations project at Seattle-Tacoma International Airport (CIP #C800549)

Amount of This Request:	\$2,435,000	Source of Funds:	Airport Development Fund
Est. Total Project Cost:	\$4,356,000		
Est. State and Local Taxes:	\$265,000		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a contract to construct Phase Two of the South Satellite Interior Renovations project at Seattle-Tacoma International Airport. This request is for \$2,435,000 of a total estimated project cost of \$4,356,000.

SYNOPSIS

This project will make interior renovations to the mezzanine and departure levels of the South Satellite. The elimination of large, bulky backstands; modernization of boarding door portals and the upgraded finishes will help travelers feel they are in a lighter, more inviting and updated facility. Our airline customers have told us these changes are an important part of making the Airport the West Coast “Gateway of Choice” for international travel.

Phase Two of this project includes:

- New podiums and backstands
- New door portals
- New wall panels in the escalator banks and concourse level

Phase One included: new carpet, new vending alcoves, removal of old unused signage, consolidation of payphones, replacement of water fountains to include new dual water bottle filling stations and fountains, and new paint. Construction was completed in June 2015.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

November 16, 2015

Page 2 of 7

In November 2014, the airlines approved this project through a majority-in-interest vote. The airline carriers still agree this project is in the best interest of the Port, airlines and traveling public, by providing a better overall passenger experience.

A new project is planned to renovate the South Satellite, however the earliest it could be completed is 2023. At a meeting of the International Sea-Tac Airline Managers Association convened on October 7, 2015 the international carriers in attendance unanimously reaffirmed their support for the completion of Phase Two now.

BACKGROUND

The South Satellite was constructed in the early 1970s, at the same time as the North Satellite, and is in need of renovation similar to the NorthSTAR project. In 2014 ten of the eleven carriers that operate at the South Satellite sent letters to the Airport Managing Director requesting modifications and upgrades to the terminal to enhance the overall customer experience. An \$18M project that would include most of the airline requested modifications and upgrades had been proposed in earlier years. After reviewing the initial scope of that project, staff determined that the project could complete some scope items quickly to improve customer experience while others were more appropriate to include in a future comprehensive renovation of the South Satellite.

This project emerged as a way to provide targeted reasonably priced improvements that could meet the short term needs of the airlines and traveling public until the more comprehensive renovations would be undertaken in the future. Certain improvements, like paint, vending alcove, casework replacement, new wall panels and door portals could be completed relatively quickly and inexpensively when compared to more expensive and intrusive work like ceiling or lighting replacement. Since any of these improvements would be difficult to save during a complete renovation, a smaller targeted investment makes more sense now, in order to meet the needs of the airlines and travelers.

The project was broken into two phases. The first phase, authorized in December 2014 included work that required little design and could be completed quickly, such as wall paint and carpet replacement. This phase was completed June 2015 with a budget savings of approximately \$600,000 from the estimated cost of \$1,900,000. The second phase (this request) required more detailed design and construction activity phasing based on operational activities and thus is only now ready to proceed.

PROJECT JUSTIFICATION AND DETAILS

The South Satellite, with the exception of the west end, was last updated in the 1990s, when new carpet was installed. Many of the original 1970s finishes remain today. Passengers flying through or departing from the South Satellite, the international gateway to and from the Puget Sound region, should be provided with the experience expected from a major modern international airport, with newer clean modern finishes.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

November 16, 2015

Page 3 of 7

The gate podium casework is outdated, does not allow light into the interior of the satellite and does not match the new gate standards established in 2013. The white wall panels were part of the original construction, and the pink wall panels on some interior public walls installed in the 1980s are old and outdated. The gate boarding door portals which serve as entrances to the loading bridges are original to the building and should be replaced with new doors with modern signage door and security hardware.

Project Objectives

Improve the declining tenant and customer satisfaction and feedback related to the look and feel of the departure experience in the South Satellite.

Scope of Work

This project will make interior renovations to the mezzanine and departure levels of the South Satellite. These Phase Two improvement include:

- New podiums and backstands
- New wall panels in the escalator well and on the concourse level
- New gate boarding door portals

Schedule

Commission Authorization for Design	3 rd Quarter 2014
Commission authorization for Construction Phase One	4 th Quarter 2014
Phase One Work Complete	2 nd Quarter 2015
Commission Authorization for Construction Phase Two	3 rd Quarter 2015
Issue Notice to Proceed Phase Two	1 st Quarter 2016
Construction Complete	3 rd Quarter 2016

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$18,900,000	\$1,829,000	\$20,729,000
Budget Adjustments	(\$15,674,000)	\$(699,000)	\$(16,373,000)
Revised Budget	\$3,226,000	\$1,130,000	\$4,356,000
Previous Authorizations	\$1,331,000	\$590,000	\$1,921,000
Current request for authorization	\$1,895,000	\$540,000	\$2,435,000
Total Authorizations, including this request	\$3,226,000	\$1,130,000	\$4,356,000
Remaining Budget to be Authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$3,226,000	\$1,130,000	\$4,356,000

Project Cost Breakdown

	This Request	Total Project
Design Phase	\$0	\$971,000
Construction Phase	\$2,228,000	\$3,120,000
State & Local Taxes	\$207,000	\$265,000
Total	\$2,435,000	\$4,356,000

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

November 16, 2015

Page 4 of 7

Budget Status and Source of Funds

The South Satellite Interior Renovations project, CIP #C800549 was originally included in the 2014 capital plan with a budget of \$18.9 million. The scope and budget was reduced when it became clear that the South Satellite would need a full renovation sooner than originally anticipated. The capital budget of \$3,197,000 was included in the 2016 – 2020 capital budget and plan of finance. The figure above reflects a recent shift from expense to capital to reach the current capital budget of \$3,226,000. Due to the planned renovation of the South Satellite, these improvements will have an economic life of approximately 4-6 years. The expense budget increase (reflecting scope items that do not qualify as capital improvements) were included in the 2015 operating budget. The funding source for both capital and operating costs will be the Airport Development Fund (ADF).

Financial Analysis and Summary

CIP Category	Renewal/Enhancement
Project Type	Renewal and Replacement
Risk adjusted discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$4,356,000
Business Unit (BU)	Terminal
Effect on business performance	NOI after depreciation will decrease
IRR/NPV	N/A
CPE Impact	\$0.03 in 2017

Lifecycle Cost and Savings

The existing conditions in the South Satellite have been in place for 20 to 40 years. The life expectancy for these systems and finishes has been exceeded, in some cases drastically. The new systems and finishes are not expected to have significant repair over their life span. Preventative maintenance costs will be consistent with the current maintenance program.

STRATEGIES AND OBJECTIVES

This project supports the Century Agenda strategy of “advancing this region as a leading tourism destination and business gateway” by providing targeted improvements to the departure level of the South Satellite.

TRIPLE BOTTOM LINE

Economic Development

This project represents an investment in our current facilities and supports the long-term vitality of the airport, airlines and Airport tenants. This project also provides an opportunity to help meet the region’s air transportation needs at Seattle-Tacoma International Airport for the next 25 years and encourage the cost-effective expansion of domestic and international passenger and cargo service through providing a pleasing experience for passengers.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

November 16, 2015

Page 5 of 7

Environmental Responsibility

The project design team has specified materials for use in this project that can be sourced locally, recycled and re-used or refurbished.

Community Benefits

Updating the South Satellite will improve the experience of millions of international and domestic visitors that travel through the facility each year. The project manager will collaborate with the Office of Social Responsibility (OSR) to maximize small business participation.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Status Quo – Cancel Phase Two of the project.

Cost Estimate: This would save \$3.4M but approximately \$160,000 in design fees would need to be expensed.

Pros:

- This alternative would result in capital savings.
- No construction disruption to a building planned to be renovated in 6 years.

Cons:

- No updates to the oldest building at the Airport that has not undergone a major renovation.
- The airlines have already approved and are expecting these interim improvements.
- Approximately \$160,000 will need to be expensed that could otherwise be amortized over 5 years as capital cost.

This is not the recommended alternative.

Alternative 2) – Eliminate the door portals from the scope of this project.

Cost Estimate: \$850K

Pros:

- This alternative would result in capital savings.
- Potential cost savings if the door portals will only be removed/replaced as part of a future South Satellite renovation project.

Cons:

- Uncertain if the portals would be retained in a major renovation.
- Approximately \$3K is being spent per year on repairs to the doors.
- The project team investigated ways to improve the portals in the short term but there are no viable alternatives, as they are made of plastic laminate and cannot be painted.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

November 16, 2015

Page 6 of 7

- The international air carriers have clearly expressed displeasure with the condition of the facility.

This is not the recommended alternative.

Alternative 3) – Do not replace the podiums and backstands.

Cost Estimate: \$1.9M

Pros:

- This alternative would result in capital savings.
- Potential cost savings if the podiums and backstands will only be removed/replaced as part of a future South Satellite renovation project.

Cons:

- The existing podiums are dated and are not uniform in appearance across the concourse.
- Uncertain if the podiums and backstands would be retained in a major renovation.
- Lost revenue if the carriers decide to take their business elsewhere.

This is not the recommended alternative.

Alternative 4) – Delete concourse wall panels from the scope of this project.

Cost Estimate: \$900K

Pros:

- This alternative would result in expense savings.
- Potential cost savings if the wall panels will only be removed/replaced as part of a future South Satellite renovation project.

Cons:

- Uncertain if the wall panels will be retained in a major renovation.
- Lost revenue if the carriers decide to take their business elsewhere.

This is not the recommended alternative.

Alternative 5) – Delete only the escalator wall panels from the scope of this project.

Cost Estimate: \$200K

Pros:

- This alternative would result in expense savings.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

November 16, 2015

Page 7 of 7

- Potential cost savings if the wall panels will only be removed/replaced as part of a future South Satellite renovation project.

Cons:

- Uncertain if the wall panels will be retained in a major renovation.
- Lost revenue if the carriers decide to take their business elsewhere.

This is not the recommended alternative.

Alternative 6) - Proceed with all components of Phase 2.

Cost Estimate: \$3.4M

Pros:

- Making the changes carriers have requested.
- Add the appearance of additional light coming into the now dark and dreary South Satellite.
- The international airlines that serve the Airport have unequivocally voiced their support for this project moving forward and believe these improvements are necessary now to get through the next 5 years until construction of a major renovation begins.

Cons:

- Uncertain if any portion of this project will be retained in a major renovation.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- PowerPoint presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- December 9, 2014 – The Commission authorized construction of Phase One of this project.
- August 5, 2014 – The Commission authorized design funds for the South Satellite Interior Renovations project.