



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8a

ACTION ITEM

Date of Meeting September 25, 2018

DATE: September 15, 2018

TO: Stephen P. Metruck, Executive Director

FROM: Dave Soike, Chief Operating Officer

SUBJECT: International Arrivals Facility (IAF): Request Balance of Program Funding, the Guaranteed Maximum Price (GMP) Contract Amendment, and necessary consulting contracts. (CIPs #C800583, #C800781, and #C800836)

Amount of this request: \$ 177,463,250

Total estimated program cost: \$ 968,445,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to: (1) fund the \$177,463,250 balance of the program for a total cost of \$968,445,000 for the International Arrivals Facility (IAF); (2) execute the Guaranteed Maximum Price (GMP) contract amendment with the design-build team including schedule extension for substantial completion to May 30, 2020, and November 20, 2020, as described in the agenda memorandum, and (3) execute any necessary change orders, work authorizations, contract amendments, and contracts to complete the IAF at Seattle-Tacoma International Airport within the approved total program cost.

EXECUTIVE SUMMARY

The Port contracted with a Design-Build team, Clark/SOM, to design and construct a new International Arrivals facility (IAF) at the Seattle-Tacoma International Airport using a Progressive-Design-Build project delivery method. The Port Commission received a comprehensive briefing on the entire program on September 11, 2018 that included testimony from 14 individuals including the port's Executive Director, the program executive, and airport director; the design-builder's leaders; the Commission's independent Executive Review Panel that independently reviewed the program and provided recommendations to move the program forward; and from airline representatives who commented and urged completion of the IAF. The Commission took the testimony under advisement with a plan for this action request to come forward at the next regular scheduled Commission meeting. During the intervening time the program team has developed a work plan to incorporate the recommendations of the Executive Review Panel. Staff now requests full authorization to move forward with the IAF program.

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JUSTIFICATION

The Airport reaches full capacity every day during the noon-hour peak arrival time of inbound international aircraft. After 10 to 15 hour flights, some passengers are often either held on board until an aircraft gate is available, or held on board the aircraft while at the aircraft gate until crowding subsides inside the 45 year old arrival facility, or held waiting in upper level narrow corridors until congestion dissipates enough to move down into the US Customs and Border Protection passport areas. The IAF program is necessary to accommodate airport growth that already exists as a result of the broad economic growth across the region in the last 5 to 10 years. Each international airline service that has come to Seattle has provided approximately \$74 million in economic benefit to the region in terms of jobs, payroll, business connections, tax base, etc.

GUARANTEED MAXIMUM PRICE AND SCHEDULE INFORMATION

The request for Commission consideration from the design-builder and Port staff is a Guaranteed Maximum Price (GMP) Amendment for the construction elements of \$773,945,385 with a substantial completion of construction work on May 30, 2020. Following substantial completion, Operational Readiness and Activation Testing will commence, and contingency time reserved for any issues unforeseeable at this time, are expected to take up to 60 days to ensure the entire 537,062 square feet physical facility is functional, all Port and federal employees are trained, and all building systems are robustly tested to ensure 24/7/365 operational uptime. This culminates in a projected in-service opening date for airline customer operations of July 30, 2020.

This in-service date includes three major components of the project:

- First, the IAF landside grand hall for international travelers that houses baggage reclaim, US Customs and Border Protection various passport and immigration functions, and US Transportation Security Administration checkpoint and baggage functions. The lowest level of the grand hall includes secure operational space and equipment for combined airport and airline baggage operations.
- Second, three flexible airside swing-gate structures that allow both domestic and international airlines to share and operate on the aircraft gates depending upon their time-of-day operations.
- Third, the pedestrian overhead walkway that links the South Satellite gates to the airside international swing gate overhead walkway corridor and on to the IAF grand hall where traditional baggage claim and passport control occur.

A long-planned, separate, and later substantial completion of construction work date is November 20, 2020 for the fourth major portion of the project that is comprised of three swing gates that includes two international swing-gates and one domestic gate. This completion

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would be followed by similar necessary activation and readiness testing work that leads to an in-use date for airlines and travelers of December 31, 2020.

The GMP Amendment itself was the result of substantial negotiation between the Port and Clark/SOM, with the assistance of senior leaders of both the Port and the design builder, outside counsel for both parties, and many contributing team members. Generally speaking, and if the Commission approves its execution, the GMP Amendment will reset the project as of the date of execution of the GMP Amendment.

Scope of Work

Authorization of this request will enable the project team to move into the final phase of the contract, the Post-GMP Period for full build.

At completion, the IAF will include:

- (1) World-class facility capable of processing 2,600 passengers per peak hour and a Minimum Connect Time (MCT) goal of 75 minutes
- (2) First Port facility to have pursued LEED certification under the new Version 4 standard

FINANCIAL IMPLICATIONS

The GMP as presented in this memo would increase total program cost from \$790,981,750 to \$968,445,000.

<i>Cost Estimate/Authorization Summary</i>	Capital	Expense	Total
PROGRAM COST ESTIMATE			
Cost estimate on August 15, 2017	\$785,500,000	\$4,500,000	\$790,000,000
Changes since August 15 th 2017 - net	\$169,945,000	\$8,500,000	\$178,445,000
Revised estimate on September 11, 2018	\$955,445,000	\$13,000,000	\$968,445,000
PROGRAM AUTHORIZATION			
Previous authorizations	\$786,481,750	\$4,500,000	\$790,981,750
Current request for authorization	\$168,963,250	\$8,500,000	\$177,463,250
Total authorizations, including this request	\$955,445,000	\$13,000,000	\$968,445,000
Remaining amount to be authorized	\$0	\$0	\$0

This program cost includes the following categories:

Description	CIP #	Cost
International Arrivals Facility	C800583	\$931,445,000
International Arrivals Facility - Expense	N/A	\$13,000,000

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SSAT Narrow Body Gates	C800781	\$5,500,000
Outbound Baggage	C800836	\$18,500,000
Total		\$968,445,000

Annual Budget Status and Source of Funds

The capital budget increase for the IAF will be transferred from the Aeronautical Allowance CIP (C800753), resulting in no net change to the Aviation Division capital budget. As presented to the Commission on July 12, 2016, the funding plan includes \$200 million of cash (Airport Development Fund), \$100 million of Passenger Facility Charges (PFCs) and the remaining budget funded with revenue bonds. Consistent with this plan, the capital cost increase will be funded with revenue bonds. The other two projects in the program are funded with a combination of the Airport Development Fund and revenue bonds.

Financial Analysis and Summary

No local or county tax dollars are used to fund the IAF program. Costs are recovered from the airlines that use the the facility based on a per passenger charge. In accordance with previous negotiations with airlines, the costs of the IAF will be included within the Federal Inspection Services (FIS) cost center as opposed to other airport cost allocation centers. In order to reduce the FIS cost, the \$200 million of cash to fund construction costs will not be amortized in the airline rate base (per provision in the Signatory Lease and Operating Agreement). Additionally, as with all PFC funded projects, the \$100 million of capital costs funded with PFCs will be excluded from the airline rate base. The annual debt service relating to the revenue bond funded portions of the project will be included in the FIS cost center unless the debt service is paid by PFCs. Debt service paid by PFCs is excluded from airline rate bases. The funding plan for the IAF does include the use of PFCs to pay some level of ongoing revenue bond debt service. Consistent with the commission funding motion of May 26, 2015 and the funding plan update presented on May 17, 2016, the Port’s goal is to maintain a competitive FIS rate compared to peer airports. To the extent possible, and considering other rate management priorities, sufficient PFCs will be used to pay ongoing revenue bond debt service to manage the FIS rate base, and thus the FIS rate, to a competitive level.

Project cost for analysis	\$931,445,000
Business Unit (BU)	FIS cost center
Effect on business performance (NOI after depreciation)	Could be positive or negative depending on level of PFCs used. Increasing use of PFCs reduces Port revenues as capital costs are excluded from airline rate base.
IRR/NPV (if relevant)	N/A
CPE Impact	CPE will increase approximately \$2.20 by 2021

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Consultant Contract Amendment Summary

The IAF project relies on contract amendments and specific Service Agreements to augment the Port’s Program and Construction Management staff. This request includes authority to execute amendments exceeding \$300,000 of the following Service Agreements to increase capacity as required to complete the IAF Program:

Agreement	Firm	Service
P-00317740	AECOM Technical Services	Program Management Services
P-00318626	Parsons Transportation Group	Construction Management Services
P-00318275	McKinstry	Third Party Commissioning Services
P-00319044	Mayes Testing	Special Inspection Services

The IAF Program Management service agreement requires additional time and level of effort to support project completion. The original duration for the IAF Program Management contract with AECOM Technical Services was intended to coincide with the completion of the IAF project planning, design, construction and closeout. Extensions of schedule throughout the project have lengthened the overall project duration and shifted the completion date into early 2021. This amendment serves to extend the AECOM Agreement to that adjusted end date. Now that a GMP has been agreed to, it is necessary to issue additional service directives for scope necessary to help manage the project toward substantial completion. An added necessary amendment of \$12 million would increase the current contract value from \$17 million to a new total of \$29 million. While these services are related to this public works program, they are not technically subject to RCW 53.19.060 that applies to personal services contracts; however consistent with past Port practice, staff follows the above RCW and notified Commission that this contract amendment will exceed fifty percent of the original contract value. As such staff will follow our long standing past procedure and make the amendment available for public inspection.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

September 11, 2018 – The Commission received a comprehensive briefing regarding the program and Guaranteed Maximum Price negotiated with the design-builder.

March 20, 2018 – The Commission was briefed on IAF progress.

November 14, 2017 – The Commission was briefed on 3rd quarter 2017 progress.

August 15, 2017 – The Commission authorized the balance of IAF funding in a joint request with the NSAT project.

March 28, 2017 - The Commission authorized additional IAF funding.

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- October 11, 2016 – The Commission authorized IAF to add balance of Phase 2 for accelerated execution.
- September 27, 2016 – The Commission was briefed on IAF reconsidering phasing and project update.
- September 13, 2016 – The Commission authorized IAF FAA reimbursement agreement.
- July 12, 2016 – The Commission authorized IAF to add Phase 2 scope to meet continuing rapid growth.
- June 28, 2016 – The Commission was briefed on two additional international aircraft gates at IAF to meet continuing rapid growth briefing.
- May 17, 2016 – The Commission was briefed on Plan of Finance update.
- April 26, 2016 – The Commission was briefed on IAF 1Q2016 update.
- February 9, 2016 - The Commission was briefed on IAF 4Q2015 update.
- December 8, 2015 – IAF guaranteed maximum price (GMP) Development Period authorization (presented in combination with NSAT authorization request).
- November 10, 2015 – The Commission was briefed on IAF update.
- August 11, 2015 – The Commission lead a special meeting, roundtable with airline representatives.
- July 28, 2015 – The Commission lead an IAF forum.
- July 14, 2015 – The Commission lead an IAF forum.
- June 23, 2015 – The Commission authorized execution of the IAF Design-Build Contract.
- May 26, 2015 – The Commission approved IAF preliminary funding plan motion.
- April 28, 2015 – The Commission authorized a service agreement for Commissioning Services.
- April 28, 2015 – The Commission authorized execution of a lease agreement with SEATAC VENTURES 2010 LLC for IAF program management office space near Sea-Tac International Airport.
- February 24, 2015 – The Commission authorized a service agreement for IAF consultant program leader.
- January 27, 2015 – The Commission was briefed on IAF funding plan.
- January 27, 2015 – The Commission approved IAF request for proposals advertisement.
- January 13, 2015 – The Commission was briefed on IAF update.
- December 2, 2014 – The Commission was briefed on IAF scope and budget update.
- October 28, 2014 – The Commission was briefed on IAF 3Q2014 update.
- August 19, 2014 – The Commission was briefed on IAF 2Q2014 update.
- August 5, 2014 – The Commission authorized IAF request for qualifications advertisement.
- July 22, 2014 – The Commission was briefed on IAF progress.
- June 10, 2014 – The Commission was briefed on IAF 1Q2014 update.
- May 6, 2014 – The Commission was briefed on IAF project delivery.
- April 22, 2014 – The Commission was briefed on capital program.
- March 11, 2014 – The Commission authorized IAF master planning.
- February 25, 2014 – The Commission was briefed on IAF program.
- November 19, 2013 – The Commission authorized IAF construction management, testing and inspection; surveying and locating and safety service agreements.

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July 23, 2013 – The Commission authorized IAF project and program support; and price factor design-build methodology.

July 9, 2013 – The Commission was briefed on IAF.

July 9, 2013 – The Commission was briefed on alternative public works contracting.

April 9, 2013 – The Commission was briefed on IAF.

June 26, 2012 – The Commission was briefed on airport terminal development challenges at Seattle-Tacoma International Airport.

June 14, 2011 – The Commission was briefed on international air service growth and future facility.

February 2, 2010 – The Commission was briefed on South Satellite passenger growth and facility considerations, Delta’s proposed airline lounge and other possible future aviation projects.