



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 10a

**ACTION ITEM**

**Date of Meeting** March 23, 2021

**DATE:** March 16, 2021  
**TO:** Stephen P. Metruck, Executive Director  
**FROM:** James Jennings, Director, Aviation Business and Properties  
Wayne Grotheer, Director, Aviation Project Management  
**SUBJECT: Post IAF Airline Realignment (C801158)**

**Amount of this request:** \$ 26,000,000  
**Total estimated project cost:** \$ 102,000,000

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to (1) execute project specific Service Agreements for project management, construction management, design services, and testing and special inspections; (2) to utilize a General Contractor/Construction Manager (GCCM) and execute a GCCM construction contract for pre-construction services; (3) to use port crews; and (4) to execute a Memorandum of Agreement (MOA) between the Port of Seattle (Port) and United Airlines in support of the Post IAF Airline Realignment Project at Seattle-Tacoma International Airport (SEA). The total authorization request is \$26,000,000.

**EXECUTIVE SUMMARY**

Concourse A at SEA has been used solely for flights that do not need to be cleared by United States Customs and Border Protection (CBP). With the opening of the International Arrivals Facility (IAF), these gates will have direct access to CBP clearance and thus having airlines with preferential leasing rights of gates that do not need this capability is undesirable. United Airlines currently has 3 gates preferentially leased on Concourse A but has no SEA operations that require CBP clearance. Therefore, this project will relocate United Airlines' facilities, to Concourse B and move Delta Air Lines' (who does have SEA operations that require CBP clearance) facilities, from Concourse B into vacated facilities on Concourse A. Please note, specific gate assignments will be determined in accordance with lease terms.

This project will also reconfigure the ticket counters at Zone 4 by demolishing an Airport Dining and Retail facility to make room for additional counters to support international airline operations.

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### **JUSTIFICATION**

Under the 2018-2022 Signatory Lease and Operating Agreement (“SLOA IV”) between the Port and many Airlines, Article 5.2 allows the Airport, at its sole discretion, to reallocate Premises (other than Gates) among the Airlines at SEA. This provision (commonly referred to as “Airline Realignment”) allows the airport to “rebalance” facilities to achieve an overall airport-wide operational or capacity benefit. Over the last two years, the Port has negotiated the proposed plan with significant engagement by all Airlines. The Airlines have reviewed and accepted the recommended alternative.

Our international gating policy (as enumerated in Exhibit D to SLOA IV) states that international flights have priority for accommodation on international capable gates. United Airlines faces the very distinct possibility of being forced off their preferential gates on Concourse A to hardstand operations during the international peak. This would create significant inefficiencies for United Airlines and diminish the benefit of their preferential rights as well as their overall level of service.

Airline Realignment provides the following benefits:

- (1) Allows for accommodation of increased simultaneous wide body international operations associated with the IAF
- (2) Improves overall international to domestic minimum connect times
- (3) Limits domestic carrier preferential lease of international capable gates
- (4) Ensures international flights have improved access to the Concourse A, IAF-connected gates
- (5) Ensures enough space is available to accommodate the contemplated moves, or construct space without increasing the overall building footprint
- (6) Minimizes the operational impacts to the Airlines

### ***Diversity in Contracting***

The project team has worked with the Diversity in Contracting team to understand the women- and minority-owned business enterprise (WMBE) aspirational goals for the project management, construction management, design, testing & special inspections and GCCM contracts. The goals for project management, construction management and design are 8%, 12% and 15% respectively. The testing & special inspections, and GCCM goals will be modified as design progresses and the scopes of work are further developed.

### **DETAILS**

*Project Specific Service Agreements for Project Management, Construction Management, Design Services and Testing and Special Inspections*

These authorizations are needed as internal resources are not readily available to effectively manage this project. The total value of these contracts will be \$20,000,000.

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*GCCM Construction Contract for Pre-construction Services*

This authorization will allow Port staff to procure and engage the subject matter expertise of a GCCM for pre-construction services. The GCCM may include additional disciplines to provide the following services which will allow for better scheduling and cost control during the design phase of the project:

1. The GCCM will provide an extensive survey of existing conditions at Concourses A and B. As-built documents are often incorrect, incomplete, or spread over multiple project documents. Early engagement and access to the site by the GCCM will allow for a more informed and complete design from the Design Team.
2. The GCCM will provide a construction estimate at each major design milestone. This approach will assist with the project team's goal of scope and budget control. The GCCM will provide essential input on project phasing. Concourses A and B are occupied. With early involvement, Port staff aims to minimize change orders and operational & customer service impacts by providing the GCCM early input and access to the site and design documents.

Future authorization will be sought for the final construction contract between the Port and the GCCM. Port staff may also return for authorization that will allow for enabling work or early work packages to be completed. This project will require a Project Labor Agreement.

***Scope of Work***

This project will remodel ramp level operational space at Concourses A and B to prepare them for airline use. Additional office and support space will be built on Concourse B for United Airlines. Up to four (4) gates and accompanying casework at Concourse B will be reconfigured to comply with Port standards. To support the additional ramp level spaces on Concourse B, upgrades will be made to the existing ramp level restrooms and additional restrooms will be constructed to satisfy building code requirements. These will be non-public facing restrooms. There is currently not enough Heating, Ventilation and Air Conditioning (HVAC) capacity (chilled and hot water) on Concourse B to support the build-out of additional space. There is a future capital project planned to upgrade the entire HVAC system on Concourse B. The Airline Realignment project will be responsible for upgrades to the existing HVAC system only where new space will be created on Concourse B.

This project will also reconfigure the ticket counters at Zone 4 by demolishing an Airport Dining and Retail facility to allow space for additional counters and baggage conveyors to support international airline operations.

United Airline's Baggage Service Office (BSO) will be relocated from its current location by Baggage Claim 1 to the existing Central Employee Screening location. The Airline Realignment project has included budget for the design and construction of this work and will transfer the funds directly to the Checkpoint 1 project to complete. This transfer is necessary in order to keep the Checkpoint 1 project on schedule as United's BSO existing space will be converted for checkpoint use, to be completed by Checkpoint 1 project.

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United Airlines will self-perform the construction of their new lounge on Concourse B under a MOA with the Port. Under the SLOA IV provision, the Port is obligated to pay to relocate any impacted airline, and endeavors to create a "like for like" condition in future spaces.

Scope of Work	Capital, Expense, or Both
Concourse B Ramp Expansion	Capital
Concourse B Ramp – Modify Vacated Space	Expense
UA BSO	Capital
UA – B Gates Reconfigure & Casework	Capital
Concourse A Ramp – Leasable Space	Expense
Zone 4 CUSE Reconfiguration	Capital
POS Meter Shop Relocation	Expense
Concourse B Ramp Restrooms	Both
Concourse B HVAC Upgrades	Capital
Relocate POS Baggage Optimization Team	Expense
UA Lounge MOA	Both

**Schedule**

*Activity*

Design start	2021 Quarter 3
Commission construction authorization	2022 Quarter 3
Construction start	2022 Quarter 4
In-use date	2024 Quarter 3

**Cost Breakdown**

	This Request	Total Project
Design	\$26,000,000	\$26,000,000
Construction	\$0	\$76,000,000
Total	\$26,000,000	\$102,000,000

**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

Several alternatives were reviewed that moved carriers to different locations. The preferred alternative is described below.

**Alternative 1** – Continue to operate as-is with United staying on Concourse A and Delta on Concourse B

Cost Implications: \$0

Pros:

- (1) Lowest cost alternative

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Cons:

- (1) This alternative would not follow through with the Port’s commitment to realign Airline carriers to better support future IAF airline operations.
- (2) This alternative does not achieve any of the Port’s criteria, except for minimizing the financial impacts to the Airlines.
- (3) United Airlines would be subject to being bumped off their preferential gates by an International carrier when Common Use availability is insufficient at time of peak demand.
- (4) Concourse A international-capable gates, occupied by United Airlines, would be the last available gates for use by international operations.
- (5) This would not align with airline negotiations which took close to two years to negotiate.

This is not the recommended alternative.

**Alternative 2** – Relocate United Airlines critical facilities from Concourse A to Concourse B and move some limited Delta Air Lines offices from Concourse B to Concourse A, while also readying the offices vacated by United on Concourse A for future occupancy by other tenants.

Cost Implications: \$102,000,000

Pros:

- (1) This alternative has been reviewed and accepted with the Airlines.
- (2) Allows United, an exclusively domestic carrier at SEA, to free up more IAF-connected gates for international use
- (3) Best achieves the Port’s airline realignment criteria

Cons:

- (1) Significant cost to airline cost centers without increased capacity benefits

***This is the recommended alternative.***

**FINANCIAL IMPLICATIONS**

<b><i>Cost Estimate/Authorization Summary</i></b>	Capital	Expense	Total
<b>COST ESTIMATE</b>			
Original estimate	\$35,000,000	\$35,000,000	\$70,000,000
Current change	\$34,000,000	(\$2,000,000)	\$32,000,000
Revised estimate	\$69,000,000	\$33,000,000	\$102,000,000
<b>AUTHORIZATION</b>			
Previous authorizations	\$200,000	\$0	\$200,000
Current request for authorization	\$18,000,000	\$8,000,000	\$26,000,000
Total authorizations, including this request	\$18,200,000	\$8,000,000	\$26,200,000
Remaining amount to be authorized	\$50,800,000	\$25,000,000	\$75,800,000

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The Port will use one of its cost estimating consultants to do an independent estimate of the project cost at 30% design, per Aviation Project Management procedures for projects greater than \$50,000,000.

***Annual Budget Status and Source of Funds***

This project, CIP C801158, was included in the 2021-2025 capital budget and plan of finance with a capital budget of \$35 million and an expense budget of \$35 million for a total cost of \$70 million. The refined budget estimate requires an overall cost increase of \$32 million, with a \$34 million increase to the capital portion of the costs. Consequently, \$34 million was transferred from the Aeronautical Reserve CIP (C800753) resulting in zero net change to the Aviation capital budget. The expense components are estimated to be \$502K in 2021, \$4.9M in 2022, \$4.9M in 2023, \$17.5M in 2024 and \$5.4M in 2025 and will be included in annual operating budgets. The funding source will be Airport Development Fund for operating expense and future revenue bonds for capital.

***Financial Analysis and Summary***

Project cost for analysis	\$102,000,000
Business Unit (BU)	Gates
Effect on business performance (NOI after depreciation)	NOI after depreciation will increase due to inclusion of capital (and operating) costs in airline rate base.
IRR/NPV (if relevant)	N/A
CPE Impact	CPE of expenses between \$.02-\$.67 in 2021-2025 CPE of capital \$.18 starting in 2026

***Future Revenues and Expenses (Total cost of ownership)***

As a result of this project, approximately 7,500 additional square feet will be built and a significant amount of space within the existing terminal will be remodeled. Aviation Maintenance anticipates that there will be impacts and an increase to the Operating & Maintenance (O&M) costs associated with the mechanical systems and the Electronic Technicians. The extent of these impacts and costs will be further determined during the design phase of the project. Impacts to the electrical systems do not appear to be significant presently.

**ATTACHMENTS TO THIS REQUEST**

- (1) Presentation slides

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

None