



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 10d

**ACTION ITEM**

**Date of Meeting** April 27, 2021

**DATE:** March 19, 2021

**TO:** Stephen P. Metruck, Executive Director

**FROM:** Wayne Grotheer, Director Aviation Project Management  
James Jennings, Director Aviation Business and Properties

**SUBJECT: C1 Building Expansion Design Authorization (CIP# C800845)**

**Amount of this request:** \$81,000,000

**Total estimated project cost:** \$340,000,000

**ACTION REQUESTED**

Request authorization to (1) execute a contract for Program Management and Project Management support, not-to-exceed the amount of \$14,000,000; (2) execute a contract for Construction Management support, not-to-exceed the amount of \$15,000,000; (3) execute a contract for Special Inspections and Testing, not-to-exceed the amount of \$1,000,000; (4) authorize the remainder of the design budget; (5) execute an amendment to the C1 Building Expansion Design Services contract, in the amount of \$17,880,000, for a new contract total of \$24,080,000; (5) for the Executive Director to execute a change order to Contract MC-0320161 General Contractor/Construction Manager (GC/CM) Preconstruction Services Agreement for the remaining preconstruction services portion of the GC/CM contract with Turner Construction Company for work to be performed at Seattle-Tacoma International Airport (SEA). The amount of the change order is \$1,000,000 for a revised total Not-to-Exceed (NTE) contract amount of \$3,500,000, and (6) authorize enabling construction work and early work packages.

**EXECUTIVE SUMMARY**

The C1 Building Expansion project will construct four additional floors on top of the existing C1 Building, located adjacent to Gate C3 and between Concourses C and D at Seattle-Tacoma International Airport (SEA). The project will also redevelop the existing concourse level footprint, which is largely blocked off from the general public, to provide additional concessions, services and amenities to the travelling public. Each new floor plate will be approximately 27,000 square feet. An additional 5,000 square feet will be added to the existing building footprint for the construction of a new loading dock.

The expansion of this existing building will provide new Airport Dining and Retail (ADR) options, new premium club spaces, and new ancillary office space for tenants. The C1 Building Expansion will also construct a post security Meditation Room, a Nursing Mothers Room, build new

Meeting Date: April 27, 2021

restrooms, create circulation and seating for the traveling public, and expand the existing Gate C3 hold room.

### **Project Scope and Budget Controls**

The total program budget for the C1 Building Expansion program is \$340M. At this early stage of project development, the total program budget could range from 30% below to 50% above the stated figure, but the staff goal for the C1 Building Expansion is to design to this budget.

To support the goal of staying on budget, the team brought the GCCM on board concurrently with the designer. The GCCM has been providing many preconstruction services including estimating input through design development and not just at design milestones or after the design is complete. Staff is currently working with the GCCM to provide early estimates based on the current concept that is being developed. The goal of the project team is to leverage the construction expertise and cost knowledge from the GCCM to make the best design choices and not require re-design to meet established budget.

### **Key Risks**

The project team has identified Key Risks for the C1 Building Expansion project. These risks are being strategically mitigated, or they are being accounted for in the Project Risk Contingency. The identified Key Risks are:

1. Complex phasing: The C1 Building is currently occupied on all three existing levels. Throughout the life of the project, these levels will be occupied to a greater or lesser extent at different times during construction. The mitigation strategy employed to control this risk is the early procurement of the GCCM. The GC/CM will be a partner with the project team and designer in creating a viable phasing plan and finding cost effective solutions to phasing challenges.
2. Operational constraints: The C1 Building is located at the intersection of Concourse C and Concourse D. There is limited access for construction material laydown and the construction equipment required to erect a new building. The project team employed two different strategies to control this risk: early procurement of the GCCM and early involvement of Airport Operations. The project team completed a Safety Risk Assessment that addressed safety and operational concerns both during construction and in the final configuration of the building.

### **Environmental**

The C1 project is the first project that has been identified as a “Tier three project” under the Port’s new ***Sustainable Project Framework***; and the project team will execute design and construction work consistent with the following Commission-approved approach:

Meeting Date: April 27, 2021

1. Integrate sustainability early in the capital process by establishing a team of project-specific experts through the Sustainable Project Assessment and Review Committee (SPARC).
2. Convene subject matter experts to develop sustainable design approaches for the project and operational team to consider and evaluate through project development.
3. Select and apply the relevant Sustainable Evaluation Framework criteria to highlight tradeoffs and benefits during development of the sustainable design approach.
4. Present SPARC recommendations to Commission early in the design process.
5. Develop a Sustainable Design Strategy that includes the selected alternatives from the Sustainable Design Approach. The Sustainable Design Strategy will be included in the final construction authorization for the project.
6. Track progress and recognize achievements of project teams.

**JUSTIFICATION**

Over the last decade, leasable space post-security at the Airport has become almost non-existent due to the continued growth of airlines and tenants' operational and administrative needs. Staff has identified the C1 Building area as a key location where the terminal can be expanded without the consumption of additional real estate (building up rather than out). There are no other viable options for expanding the terminal without significant negative impacts to existing capacity or operational areas.

Despite the COVID-19 economic crisis, Port staff believe it makes sense to move forward with this project now because the completion of construction is still several years out into the future when passenger traffic will more than likely have recovered. Prior to COVID, the demand for increased airport dining and retail space post-security significantly outpaced availability across the airport. Airport Dining and Retail services are crucial to providing a high level of service and an important generator of non-aeronautical revenue. At our peak, Concourses C and D were underserved by approximately 30,000 square feet of Airport Dining and Retail services. This shortage takes in to account the spaces that have opened or will open as part of the current Airport Dining and Retail Re-Development.

The C1 Expansion Project will grow Airport Dining and Retail services with two floors of new space. This additional square footage will provide a higher level of service to travelers and generate additional non-aeronautical revenue. The remaining three new floors will provide space for two new premium lounges and additional office space. The office space will serve to support existing tenants, airlines, and TSA in addition to creating support space for the new C1 Airport Dining and Retail spaces. The Port of Seattle has received general support from the airline community, including letters of interest for large portions of the leasable space.

In previous requests, the project team was authorized to procure two separate contracts, one for a Designer and the other for a General Contractor / Construction Manager (GC/CM). A limited design request was made to Commission in early 2020, after consultation with the airlines, due to unknowns related to the emerging COVID-19 demand, thus the amounts requested and

Meeting Date: April 27, 2021

authorized meant that the current design contract is only funded through 30% design development. The team anticipates completing the 30% design and exhausting those funds in Q4 2021. The current authorization will allow the project team to fully fund the design contract and allow staff to take advantage of early or enabling work identified by Port Staff, the Designer, and the GCCM. Early and enabling work will allow the team to deliver the project quicker. An accelerated delivery will help the project stay on budget and reduce soft costs.

***Diversity in Contracting***

The project team has worked with the Diversity in Contracting team to conduct outreach and the setting of a women- and minority-owned business enterprise (WMBE) aspirational goal of 12% for both the design contract and for the GCCM contract. The GCCM goal may be modified as design progresses and the scopes of work are further developed.

**DETAILS**

The C1 Building is an existing three-level structure that was built to house the C1 in-line baggage screening system (on the baggage claim and bridge levels) that supports Alaska Airlines. The current C1 Building houses the Transportation Security Administration (TSA) in much of the concourse level space, which would be better utilized for publicly accessible services and amenities. As part of this project, the TSA functions will be relocated to make way for higher and better uses.

Beyond being one of the few locations for the Airport to expand its footprint without further encroaching on limited real estate, this will be the first project to utilize the Environmental Sustainability Framework adopted by the Commission, and a great opportunity to embody the new SEA brand.

The Gate C3 Holdroom scope of work was previously authorized by Commission for design and execution of a major works contract. However, the bids submitted exceeded the engineers estimate. Since the C3 Holdroom expansion is adjacent to the C1 Building expansion, the Aviation division decided to cancel the procurement and combine both projects into one program.

***Scope of Work***

This project will add an additional four floors to the three floors C1 Building and expand the existing Holdroom at Gate C3. The new space will be used for ADR, Offices, and Premium Lounge space.

- (1) Four new floors
- (2) New HVAC Penthouse
- (3) Mechanical / Electrical / Plumbing Improvements
- (4) Infrastructure for ADR, Tenant Offices, and Premium Lounge spaces
- (5) Expansion of the C3 Holdroom
- (6) Upgraded and added vertical circulation
- (7) New restrooms
- (8) New nursing mothers' room

Meeting Date: April 27, 2021

- (9) New post security Meditation room

**Schedule**

Commission design authorization	2020 Quarter 2
Design start	2021 Quarter 1
Commission construction authorization	2022 Quarter 4
Construction start	2022 Quarter 4
In-use date	2027 Quarter 2

**Cost Breakdown**

	This Request	Total Project
Design	\$41,500,000	\$51,000,000
Construction	\$39,500,000	\$289,000,000
Total	\$81,000,000	\$340,000,000

**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1 – Delay Authorization until January 2022**

Cost Implications: \$0 - Likely to add time and cost to the project.

Pros:

- (1) Less Port capital will be invested now. making it easier to “off ramp” the project.
- (2) Project team will have more time to get a positive MII.
- (3) Project is currently funded through the end of 2021.

Cons:

- (1) Project will not be able to take advantage of GCCM suggestions to deliver the project quicker.
- (2) Project has no contingency. Any issues will stop progress until a new Authorization can be approved.
- (3) Project Management team is currently staffed by 1.5 Full Time Employees for 2021. Additional support is needed for a project this large, including project controls.
- (4) Construction Management team will have insufficient funds to provide the necessary staffing for a project of this magnitude.

This is not the recommended alternative.

Meeting Date: April 27, 2021

**Alternative 2 – Reduce Authorization**

Cost Implications: Will reduce Authorization by \$40 Million - Likely to add time and cost to the project.

Pros:

- (1) Less capital is committed to the project up front.
- (2) Project team will have more time to get a positive MII.
- (3) Project is currently funded through the end of 2021.

Cons:

- (1) Project may not be able to take advantage of GCCM suggestions to deliver the project quicker.
- (2) Project team will have to prioritize project support for PM and for CM.

This is not the recommended alternative.

**Alternative 3 – Request Authorization per the Memo**

Cost Implications: \$81 million

Pros:

- (1) Project will be able to take advantage of GCCM ideas to deliver the project more quickly.
- (2) Project will be able to identify and start planning for enabling work that will allow for a quicker delivery.
- (3) The project will be adequately staffed.

Cons:

- (1) \$81 million is a substantial commitment to the project during a time of reduced revenues.

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

**FINANCIAL IMPLICATIONS**

***Cost Estimate/Authorization Summary***

	Capital	Expense	Total
<b>COST ESTIMATE</b>			
Original estimate	\$331,776,000	\$8,224,000	\$340,000,000
<b>AUTHORIZATION</b>			
Previous authorizations	\$11,600,000	\$0	\$11,600,000
Current request for authorization	\$73,074,000	\$7,926,000	\$81,000,000
Total authorizations, including this request	\$84,674,000	\$7,926,000	\$92,600,000
Remaining amount to be authorized	\$247,102,000	\$298,000	\$247,400,000

Meeting Date: April 27, 2021

**Annual Budget Status and Source of Funds**

This project is included in the 2021-2025 capital budget and plan of finance with a budget of \$340,000,000. The funding sources will include the Airport Development Fund and future revenue bonds. This project was submitted to the airlines for Majority-In-Interest approval due on April 26, 2021.

**Financial Analysis and Summary**

This project is an investment in additional terminal space that is intended to be used for both aeronautical and non-aeronautical purposes. As a hybrid project, the financial analysis looks at the projects as both a standalone non-aero investment and a terminal investment that flows through airline rates and charges.

**Non-aeronautical Investment Analysis**

The following table shows the allocation of capital costs based on rentable square footage. For non-aero purposes, 54.5% of the rentable square footage, equating to \$185 million in capital cost, establishes the basis of the non-aero portion of the project. The lower part of the table identifies an incremental revenue increase from \$12.1 million in 2028, which assumes first year of occupancy at 60% of available non-aero office, to \$15.5 million in 2031, the year by which all space is assumed to be fully leased. This new revenue, attributed to airport dining, retail, and office lease, generates the positive Net Present Value of \$44.4 million, which signifies a good investment. Given that the existing space is currently generating revenues, the NPV is netted against a base case (do nothing).

<b>Non-aero Investments</b>				
	\$ in 000s	Non-aero	Aero	Total
C1 rentable sqft		69,773	58,245	128,018
C1 rentable sqft %		54.50%	45.50%	
Project Cost	\$	185,308	\$ 154,692	\$ 340,000
Payback (years from opening)		11		
NPV (40 years)	\$	145,500		
<b>NPV Incremental to Base</b>	\$	44,400		
		<b>2028</b>	<b>2031</b>	
Incremental Non-aero Revenue	\$	12,073	\$ 15,466	
Incremental Non-aero O&M	\$	504	571	
Net Operating Income	\$	11,569	\$ 14,895	

**Aeronautical Rate Base Impacts**

Meeting Date: April 27, 2021

Under the terms of SLOA IV, the Airport’s terminal space is allocated between aeronautical and non-aeronautical cost centers based on rentable square feet. Terminal rents are established based on the total cost center costs. Therefore, in looking at the impacts of a project like C1 that adds significant square footage, it is important undertake a two-step analysis that accounts for changes in the total terminal space distribution, and therefore the entire terminal cost center distribution between aeronautical and non-aeronautical changes.

The table below shows that before the C1 Building Expansion, 77.31% of the terminal costs are allocated to the aeronautical rate base. This suggests that \$21.3 million of the C1 incremental revenue would be allocated to the aeronautical rate base. After the project completion, 76.68% of the terminal costs are allocated to the aeronautical rate base. This effectively shifts \$2.5 million of costs from the aeronautical rate base to the non-aeronautical side. Thus, in 2028, after project completion, the net impact of the C1 project is to attribute \$18.9 million in incremental revenue to the aeronautical rate base.

Airline Rates and Charges				
	(\$000s)	2028		
		Aero	Non-aero	Total
Rentable sqft without C1 sqft		77.31%	22.69%	
Rentable sqft WITH C1 sqft		76.68%	23.32%	
Project cost	\$	260,702	\$ 79,298	\$ 340,000
Incremental Revenues WITHOUT C1 sqft		21,332	12,073	33,405
Terminal redistribution		(2,464)		
Incremental Revenues WITH C1 sqft		18,868	12,073	30,941
Incremental Debt Service		20,664	6,286	26,950
Incremental Amortization		79	23	97
Incremental O&M			504	504

The table below shows that starting in 2028, the project will effectively increase the CPE by \$0.68, however by full occupancy the CPE declines to \$0.62. It also shows that starting in 2028, the average terminal rental rate will increase because of the C1 Building Expansion, however, by full occupancy the rate of increase declines. Overall, the project will result in a slight reduction in debt service coverage of (\$0.01) starting in 2028.

	Without C1 **		WITH C1 Renovation SQFT		2028 Change	2031 Change
	2028	2031	2028	2031		
Terminal Revenue Requirement	\$ 297,780	\$ 349,926	\$ 314,707	\$ 366,357	\$ 16,927	\$ 16,431
Airline Rentable Space (normalized)	1,380	1,380	1,429	1,429	49.5	49.5
Terminal Rental Rate	\$ 215.78	\$ 253.57	\$ 220.16	\$ 256.29	\$ 4.38	\$ 2.72
Cost Per Enplanement (CPE)	\$ 24.44	\$ 25.60	\$ 25.12	\$ 26.22	\$ 0.68	\$ 0.62
Debt service coverage	1.34	1.46	1.33	1.45	(0.01)	(0.01)

**Summary**

Overall, from a financial perspective, the project is a favorable non-aeronautical investment with relatively modest impacts on the average airline terminal rental rate while delivering needed airline office and lounge space. While the project generates a slight decrease in debt service



Meeting Date: April 27, 2021

coverage through 2031, assuming growth in NOI and level debt service, debt service coverage is expected to increase beyond 2031.

**ATTACHMENTS TO THIS REQUEST**

- (1) Presentation slides

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- May 26, 2020 – Design and GCCM Authorization
- March 10, 2020 – C1 Building Briefing and Introduction
- June 26, 2018 – Authorization for Planning Funds
- January 26, 2016 – The Commission authorized design of an expansion for the existing Gate C3 passenger Holdroom at Seattle-Tacoma International Airport.
- July 11, 2017 – The Commission authorized (1) advertise and execute a construction contract for the Gate C3 Holdroom Expansion project at Seattle-Tacoma International Airport; and (2) use Port crews in executing the project