



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 10e

**ACTION ITEM**

**Date of Meeting** April 27, 2021

**DATE:** April 20, 2021

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

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

**SUBJECT: North Main Terminal Redevelopment Program – Preliminary Design C801204**

**Amount of this request:** \$10,000,000

**Early estimated program cost:** \$300M - \$400M

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to authorize up to \$10 million in support of the North Main Terminal Redevelopment Program (1) for Alaska Airlines to complete a Project Definition Document and to progress the overall program design at Seattle-Tacoma International Airport, (2) fund associated Port soft costs, (3) to execute a Tenant Reimbursement Agreement with Alaska Airlines, and (4) authorize the execution of a consultant support services contract for an estimated value of \$16.5M as well as a design services contract for an estimated value of \$4.5 million.

**EXECUTIVE SUMMARY**

Alaska Airlines (Alaska) desires to extensively redevelop existing space at the north end of the Main Terminal Ticketing Level (Zones 6 & 7) of the Airport to improve passenger processing, security screening throughput, and to elevate the overall passenger experience in these areas. Seattle-Tacoma International Airport (Airport) supports this proposal, which when complete would progress the Airport closer to the desired Optimum Level of Service in key functional service areas; as well as contribute to the Port's strategic objective of "*Continuously improve(ing) the operational efficiency and customer experience at SEA.*" Portions of this program are intended to be performed by Alaska and memorialized via a multi-phase Tenant Reimbursement Agreement (TRA).

This request is to provide preliminary funding for Alaska for the completion of a Project Definition Document (PDD), that will further develop the overall design and validate the program's scope, work limits, cost, and schedule. Additionally, this request includes an option for Alaska to further progress the overall design to a 30% design milestone, which will inform the overall program scope, budget, and schedule. The TRA for construction is not yet finalized as it will be based on

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the 30% design estimate and the cost split between the Port and Alaska will then be memorialized in a subsequent TRA, subject to further Commission approval.

Lastly, this request also seeks authorization for a (1) program-specific consultant contracts for Project Management, Project Controls and Construction Management support and (2) a program-specific Design consultant contract.

### **JUSTIFICATION**

The Airport Main Terminal, Ticketing Level was constructed in the 1960s, with an expansion on the north end in the 1980s. The Port has been working to develop an overall main terminal redevelopment program that will address many necessary code upgrades and aesthetic improvements. This Program is anticipated to be the first step of a much larger program that will ultimately result in a full refresh of the full main terminal at the Airport. Although we don't expect the remainder of the Main Terminal to be a carbon copy of what will be done in this Alaska driven program, the Port will be working to ensure architectural and system integration in future project scopes as they are brought forward. One key benefit of Alaska constructing much of this project scope is Alaska's ability to manage the level of operational impact during the complex construction phasing required to redevelop this critical area, while still processing passengers.

This program supports the Port's Century Agenda's strategic goal of "Advancing this region as a leading tourism destination and business gateway" by:

- Continuously improving the operational efficiency and customer experience at the Airport.
- Strengthening the competitiveness of the Airport in the regional and global marketplace.
- Meet the region's air transportation needs by delivering vital facilities and infrastructure in a sustainable and cost-effective manner.

Alaska approached the Port to manage the construction project to renovate the northernmost two sections of the main terminal building (Zones 6 and 7) that currently house Alaska's ticketing functions to provide an enhanced passenger experience.

As part of this work, they are requesting to remove the mezzanine section(s) above their ticketing counters, which necessitates buildout of replacement space to accommodate displaced offices, as well as update finishes (ceiling, flooring, lighting, etc.) in areas adjacent to their leased premises to provide a more aesthetically cohesive environment.

This work will also enable substantial code upgrades to the impacted areas of the Terminal (sprinklers, smoke control, etc.). This work is all requested by Alaska to be completed by the airline itself under a TRA. Port staff is supportive of Alaska performing the majority of the work,

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and the Port reimbursing Alaska’s reasonable costs, as it puts Alaska in control of managing the impacts to their operations, which are anticipated to be substantial during construction.

- Integrating the design and construction into the Airport-wide architectural vision, reflecting the Pacific Northwest sense of place.
- Ensuring the program is effectively and efficiently incorporated into airport-wide systems so that all the “behind the walls” infrastructure meets Port standards and specifications
- Maintaining operational flexibility in ticketing that supports Airport-wide growth
- Minimizing operational and passenger impact during course of construction
- Endeavoring to take advantage of reduced passenger levels and softer construction market to create jobs in the local market and assist with the overall economic recovery in the region
- Alaska managing construction impact to gain efficiencies throughout construction process to deliver program expediently and at a competitive cost
- Managing to an agreed-upon proposed program scope, schedule and budget as will be detailed in the completed PDD and via a joint program governance document.

Alaska and the Port are committed to creating a best-in-class passenger experience at the Airport moving towards an optimum level of service in the redeveloped ticket lobby, including an expanded and streamlined security screening checkpoint, improved passenger processing and baggage handling capability and leveraging the new and enhanced functionality in Alaska’s digital touchpoints.

## **BACKGROUND**

The Port and Alaska have been working collaboratively to develop a program that facilitates:

- Increasing passenger check-in, baggage drop, and security screening capacity while reducing congestion.
- Accommodating the growth in capacity anticipated by the soon-to-be-completed 20 gate North Satellite project.
- Aligning the adjoining Security Screening Checkpoint #5 to current TSA standards or better while providing improved screening lane flexibility and efficiency.
- Leveraging passenger adoption of simple and intuitive mobile and online applications to streamline the day-of-travel experience.
- Promoting new Airport-wide Architectural Visioning concepts.
- Demonstrating independence from future Airport expansion projects.
- Creating a ‘best-in-class’ customer experience at SEA.

Alaska provided the Port with a high-level Basis of Design (BOD) for this program in late July 2020, which was reviewed by key Port stakeholders. A revised BOD addressing many Port reviewer comments was submitted to the Port in mid-December 2020, along with a high-level phasing

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plan/schedule, two high-level cost estimates, and a preliminary structural review of the proposed work area.

Despite the work of the BOD, there remains uncertainty regarding the boundaries of the program and its interface with existing systems in the terminal. This uncertainty has created an unacceptable level of scope risk and an associated budget as well as schedule risk. In order to create more scope, schedule and budget certainty, the Port has requested Alaska's program team to complete a PDD that more fully investigates and develops the following:

- The structural, life safety, and utility infrastructure improvements required.
- Tenant relocation plan to include location, size, and concept.
- Strategies to mitigate and/or minimize operational and logistical impacts.
- Interface (scope, schedule and operational impacts) with other upgrade projects in the Main Terminal that are either already in progress or planned.
- Defining the limits of the proposed scope of work.

The Port has worked closely with Alaska to develop a path forward on developing the PDD over the next 4 - 6 months, which should provide enough information to allow the Port and Alaska teams to decide on the next steps.

Since this is a short-term program, estimated by Alaska to be completed within 3 years, it is best to provide the Port's oversight of this program with consultant support instead of FTE's. Further, the Aviation Project Management Group and Engineering – Construction Management departments do not have sufficient staff, or consulting resources to support this program and additional FTEs have not been authorized. The Port Project Representative and the Project Management, Project Controls, and Construction Management consultants will provide high-level program, TRA compliance oversight, and technical support. Specific tasks include:

1. Coordinating design reviews.
2. Coordinating construction phasing/work package schedule development.
3. Coordinating building permit applications.
4. Analyzing and making recommendations on reimbursement requests.
5. Processing reimbursement requests.
6. Serving as single point of contact on technical issues.
7. Providing Project Management and Construction Management support and oversight.
8. Functioning as the Port's liaison with Alaska's program team for the Port's program management, design and project delivery teams and represent the Port's operational and business interests and requirements.

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

The Port is working with Alaska to establish appropriate Women & Minority Business Enterprise (WMBE) aspirational goals and incorporate inclusion plan requirements into their solicitations. The resulting contracts will include the WMBE, Priority Hire, and Apprenticeship commitments

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agreed to by Alaska and will require that they use reporting systems used by the Port to enable appropriate tracking and monitoring.

WMBE aspirational goal for the Port consultant procurement is 15%. Aspirational goals for the design services procurement will be established once the final scope of work has been established. Alaska has also agreed to enter into a Project Labor Agreement for their construction procurements.

### **DETAILS**

The amount of \$10,000,000 being requested in this authorization, is planned to support both Port soft costs, as well as be issued in phases under a multi-phase Tenant Reimbursement Agreement to Alaska as follows:

- 1) Port staff will negotiate TRA(s) up to \$9 million for Alaska to develop the PDD and advance the overall program design to approximately 30% completion.
- 2) Up to \$1 million is intended to fund participation by Port staff in development of the PDD and the overall program design.
- 3) Additional authorizations to fund Port and Alaska costs in follow-on phases of the program will be requested from the Commission per the schedule developed in the PDD and agreed upon by the Port-Alaska executive level steering committee.

The Program Specific Port Program Representative, Project Management, Project Controls and Construction Management Support procurement:

- Provides additional consultant staffing support for oversight for the portions of the work being completed by Alaska and for the work that will be completed by the Port.
- Seeking a three-year base contract with one potential one-year extension option.
- The value of this contract is estimated at \$15.5 to \$16.5 million, depending on the final scope of work after the PDD is completed.
- If the Port decides not to move forward with the full program after the PDD has been completed, this contract will not be executed.

Program Specific Design Services Support:

- Provides design support services for companion work that will be completed by the Port outside of Alaska's leased areas. The full scope of work that the Port will be completing will be more fully defined after completion of the PDD.
- Seeking a three-year base contract with one one-year extension option.
- The value of this contract is estimated in the \$4 - \$4.5 million range, depending on the final scope of work after the PDD is completed. If the Port decides not to move forward with the full program after the PDD has been completed, this contract will not be executed.

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**Scope of Work**

- 1) Renovation of the ticketing level of the Main Terminal in Zones 6 and 7 to include architectural and structural upgrades, improved lighting, enhanced passenger experience with added customer service positions, technology, as well as a curbside beautification element with additional passenger bag drop locations.
- 2) Accessibility upgrades on the Baggage Claim level associated with the Promenade buildout.
- 3) Demolition of portions of the existing mezzanine to create a high-bay configuration.
- 4) Relocate tenants displaced by the demolition of portions of the Mezzanine level to:
  - a. Newly built-out spaces on the currently undeveloped Promenade/Bridge level
  - b. Other available locations on the Mezzanine level
  - c. The first floor of the Parking Garage

**Schedule**

The following is the current high-level schedule for this scope of work:

Commission authorization for PDD & consultant procurements	2021 Q2
PDD Start	2021 Q2
PDD Completion	2021 Q3
Start Consultant Procurements	2021 Q2
Execute Consultant Procurements	2021 Q3/Q4
Commission authorization to proceed with full program	2021 Q3
In-use date	2025 Q2

**Cost Breakdown**

	This Request	Total Program
Planning/Design	\$9,000,000	TBD
Port/Consultant Staff Support	\$1,000,000	TBD
Total	\$10,000,000	TBD

**Project Cost Estimate**

- The current budget of \$100,000,000 in the CIP is a placeholder only, inserted when there was no design, and no preliminary concept development. It was understood at the time that this preliminary budget would increase once additional scoping and design were completed.
- Port staff are using a rough order of magnitude estimate range of \$300,000,000 to \$400,000,000.

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- There are many factors that may affect the final cost estimate and how the cost for the project will be allocated between the Port and Alaska, including scope changes, project delivery method, and elements of the agreement with Alaska.
- The final cost estimate will be updated as the TRA(s) are negotiated and amended and the work to be performed by Alaska, and the cost split between the Port and Alaska is still being negotiated, but will ultimately will be based on Alaska Airlines estimated construction costs.

### **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** – The Port develops the preliminary design of the North Main Terminal Redevelopment program alone, including development of the PDD.

Cost Implications: \$2.5 million

Pros:

- (1) There would be time to further develop the program scope.
- (2) The Port would have greater control over the process.
- (3) This alternative would not require a TRA.

Cons:

- (1) This alternative would not meet Alaska’s schedule goals.
- (2) This alternative would not necessarily include all of Alaska’s objectives.
- (3) There is no risk/responsibility sharing for the PDD.
- (4) The PDD costs would need to be expensed by the Port if the decision is made not to move forward with the program after the PDD is completed.
- (5) Doesn’t maximize the opportunity to accelerate program development during low traffic volume and favorable business climate.

This is not the recommended alternative.

**Alternative 2** – Alaska develops a PDD only, delaying the Port’s portion of funding of design funds to 30% and Alaska then would assume full risk for additional design costs if it chooses to proceed with design on its own.

Cost Implications: \$2.5 million

Pros:

- (1) Allows more time to further develop the program scope.
- (2) Allows for greater cost and schedule certainty for the Port and Alaska before committing to funding additional design.
- (3) Reduces the Port’s overall financial risk.

Cons:

- (1) Would delay the project and therefore not meet Alaska’s schedule goals.
- (2) Does not allow for greater refinement of design to better inform program cost and schedule, requiring additional design before a solid budget is developed.

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- (3) Doesn't maximize opportunity to accelerate program during lower traffic volumes and favorable business climate.
- (4) Does not optimize cost and schedule certainty when compared with other alternatives.

This is not the recommended alternative.

**Alternative 3** – Request Commission authorization for the Executive Director to authorize up to \$10 million in support of the North Main Terminal Redevelopment Program (1) for Alaska Airlines to complete a Project Definition Document (PDD) and to progress the overall program design at Seattle-Tacoma International Airport (SEA) to an approximately 30% design milestone, (2) to fund associated Port soft costs, (3) to execute a Tenant Reimbursement Agreement (TRA) with Alaska Airlines, (4) authority to execute a consultant support services contract for an estimated value of \$16.5M; authority to execute a design services contract for an estimated value of \$4.5 million.

Cost Implications: \$10 million

Pros:

- (1) Provides adequate resources to progress the design to better align with Alaska's schedule goals.
- (2) Allows for the design to progress while the Port and Alaska further refine the business deal and equitable risk and cost-sharing between the Port and Alaska.
- (3) Maximizes the opportunity to accelerate program development during low traffic volume and favorable business climate.
- (4) Ensures that the proper support resources are in place for the Port if the decision is made to continue with the full program.
- (5) The Port has a PDD and a Building Information Model (BIM) that may be useful for future development projects if the decision is made not to proceed with the full program.

Cons:

- (1) Moves at a faster pace than a typical Port project that makes it more challenging to accommodate the Port design review process.
- (2) Invests up to \$10M before fully committing to the full program.

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

**FINANCIAL IMPLICATIONS**

The amount of this authorization, if any, that could be considered Expense has not yet been determined.

***Cost Estimate/Authorization Summary***

	Capital	Expense	Total
<b>AUTHORIZATION</b>			
Previous authorizations	\$100,000	\$0	\$100,000
Current request for authorization	\$10,000,000	\$0	\$10,000,000
Total authorizations, including this request	10,100,000	\$0	\$10,100,000



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Remaining amount to be authorized	TBD	\$0	TBD
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**Annual Budget Status and Source of Funds**

Although this program, CIP C801204, was included in the 2021-2025 capital budget and plan of finance, the current budget of \$100,000,000 in the CIP is a placeholder only, inserted when there was no design, and no preliminary concept development. It was understood at the time that this budget would increase once additional scoping and design was done and will need to be updated at the 30% design milestone.

**Financial Analysis and Summary**

Program cost for analysis	TBD
Business Unit (BU)	Terminal Building
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	TBD

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

It is anticipated that there will be some increased costs to the Aviation Maintenance department annual operating & maintenance (O&M) costs as a result of this project. This includes but is not limited to the mechanical and electrical systems, and a slight increase in custodial costs. As the design develops, these costs can be better defined and evaluated.

**ADDITIONAL BACKGROUND**

The first round of funding for \$10,000,000 will be broken out to fund various elements of the work:

- \$2.5 million to complete the PDD, begin developing a BIM, and after the acceptance of the PDD, begin work on the 30 percent design deliverable.
- Up to \$1.0 million will be used for Port staff to support the PDD development and to procure Program / Project Management consultant support.
- The next \$6.5 million can only be released after acceptance of the PDD and will be used to further advance the design.

**ATTACHMENTS TO THIS REQUEST**

- (1) Presentation slides

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

None.