



**COMMISSION
AGENDA MEMORANDUM**

Item No. 10b

ACTION ITEM

Date of Meeting October 26, 2021

DATE: September 22, 2021

TO: Stephen P. Metruck, Executive Director

FROM: Mandy Xiggores, Senior Development Manager – Aviation Capital Programs
Dawn Hunter, Director Aviation Commercial Management

SUBJECT: Concourse A Duty Free (CIP# C801206)

Amount of this request: \$475,000

Total estimated project cost: \$24,000,000 - \$42,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to authorize \$475,000 to complete a Project Definition Document, and to progress the overall project design to 15% for the Concourse A Duty Free Project at Seattle-Tacoma International Airport. The anticipated total project cost is in the range of \$24M - \$42M.

EXECUTIVE SUMMARY

A new Duty Free space is needed at the Seattle-Tacoma International Airport. The addition of the International Arrivals Facility (IAF) provides gates on the A concourse that will become internationally capable. This location is ideal to provide a Duty Free service to the travelling public, ultimately maximizing the Port's non-aeronautical revenue potential.

To effectively meet the Airport's current and future demands within the existing terminal footprint, the Airport must engage in thoughtful planning during the project definition phase. Initial concept development of this space has been completed using staff authorization for preliminary project design.

The removal of an existing secure wall is required and will be relocated as shown on the preferred plan by inclusion of a floor-to-ceiling glass wall, separating the atrium of the GML Hall from the expanded footprint of Concourse A.

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JUSTIFICATION

The existing Duty Free area on Concourse A does not provide adequate space for current passenger demand, let alone additional demand expected once IAF opens. Creating this large walk-through Duty Free retail experience, directly supports the Port of Seattle's dedication to financial sustainability, as well as to advance the Airport as a leading tourism destination in the global marketplace. Additionally, the initial designs for this space have carved out specific square footage for Women/Minority owned Business Enterprises (WMBE) / Small Business opportunities as well as a music stage within the Duty Free footprint.

The Airport currently makes 50% less Duty Free non-aeronautical revenue than comparable U.S. Airports. This project combined with the Duty Free in the South Satellite Renovation Program will meet passenger demand for Duty Free.

Diversity in Contracting

The existing contract to be used for this work includes a 15% WMBE Goal, with 24% WMBE participation anticipated for this Service Directive.

DETAILS

- Phase 1 of the Concourse A Duty Free Project Definition Document was completed using staff authorization for preliminary project design. This request is to further refine and complete the document.
- This project will require buy-out of existing tenant leases (Q2 2023).
- Exploring opportunity for a Tenant Reimbursement Agreement with the new Duty Free provider to potentially complete base building changes.

Scope of Work

The scope of work for the second phase of the Concourse A Duty Free PDD includes the following:

- (1) Preferred Concept Refinements
- (2) Life Safety & Egress Plan
- (3) PDD planning/design for Port base building improvements.
- (4) HVAC and Smoke Control
- (5) Structural Impacts
- (6) Renderings
- (7) Implementation Plan (phasing, schedule, estimate)
- (8) Project Definition Document

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Schedule

Completion of the PDD is targeted for Q2 2022. Factors such as level of building improvements required, Duty Free vendor solicitation and selection, project delivery method as well as potential operational mitigations may shift these dates.

Activity

| | |
|---------------------------------------|----------------|
| Commission design authorization | 2022 Quarter 3 |
| Design start | 2022 Quarter 4 |
| Commission construction authorization | 2023 Quarter 3 |
| Construction start | 2023 Quarter 4 |
| In-use date | 2026 Quarter 3 |

Cost Breakdown

| | This Request | Total Project |
|--------------|--------------|---------------|
| Design | \$475,000 | \$3,993,500 |
| Construction | \$0 | \$21,647,500 |
| Total | \$0 | \$27,276,000 |

ALTERNATIVES AND IMPLICATIONS CONSIDERED

The PDD would be focused on implementing the third, preferred alternative described below.

Alternative 1 – Proceed straight to design

Cost Implications: \$3,993,500

Pros:

- (1) Design could begin immediately

Cons:

- (1) Project scope would be developed during an active design process, leading to potentially costly design revisions if anything is missed or overlooked very early in the design process.
- (2) Much of the PDD process would need to be replicated within the design effort to answer basic project questions, such as project scope and contracting method; it would just happen on a more ad hoc basis.
- (3) Care would need to be taken to address the requirements of all users during design, or risk costly change orders or operational disruption later.

This is not the recommended alternative.

Alternative 2 – Create bridging documents for a design/build effort.

Cost Implications: \$1,300,000

Pros:

- (1) Would allow project design to proceed up to the 30% level

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- (2) Usually allows for more deliberate consideration of project requirements before obtaining a design/build contractor

Cons:

- (1) Ties the project to a design/build method of construction
- (2) Usually leads to offering each of the design/build teams selected in the request for qualifications a design stipend to cover the design costs associated with their proposed designs, adding to design costs.

This is not the recommended alternative.

Alternative 3 – Complete development of the PDD that addresses outstanding life safety, structural and infrastructure design elements.

Cost Implications: \$475,000

Pros:

- (1) Completion of the PDD Level Planning of the structural, building shell and systems requirements of the preferred Duty Free and Mezzanine lid concept, including an implementation plan.
- (2) Allows time to get a Duty Free vendor on board so they can weigh in on the design of the space.

Cons:

- (1) Design level of the PDD will be lower than the other alternatives, which might introduce greater design risk than the other alternatives.
- (2) Overall a slower and more methodical approach, balanced against the need to understand the entirety of the impacts to better prepare a successful Duty Free.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

We will continue to refine the cost estimate as we move through the PDD process and can apply more information to the assumptions we’ve made in our estimates. Estimates included in the header of the document are based on phase 1 of the PDD and are represented with a range.

| <i>Cost Estimate/Authorization Summary</i> | Capital | Expense | Total |
|---|--------------|---------|--------------|
| COST ESTIMATE | | | |
| Original estimate | \$25,180,000 | \$0 | \$25,180,000 |
| Current change | \$8,186,000 | | \$8,186,000 |
| Revised estimate | \$33,366,000 | | \$33,366,000 |
| | | | |
| AUTHORIZATION | | | |
| Previous authorizations | | | |
| Current request for authorization | \$475,000 | 0 | \$475,000 |

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|--|--------------|-----|--------------|
| | | | |
| Total authorizations, including this request | \$475,000 | 0 | \$475,000 |
| Remaining amount to be authorized | \$32,925,000 | \$0 | \$32,925,000 |
| | | | |

Annual Budget Status and Source of Funds

This project was included in the 2021-2025 plan of budget and finance at the estimated budget based on conceptual planning (pre-PDD) at \$25,180,000. A budget increase of \$8,186,000 was transferred from the Non-aeronautical Reserve CIP (C800754) resulting in zero net change to the Aviation capital budget. The funding sources will be the Airport Development Fund and revenue bonds.

Financial Analysis and Summary

| | |
|---|--------------|
| Project cost for analysis | \$33,400,000 |
| Business Unit (BU) | Non-airline |
| Effect on business performance (NOI after depreciation) | \$79,385,000 |
| IRR/NPV (if relevant) | \$25,310,000 |
| CPE Impact | N/A |

Future Revenues and Expenses (Total cost of ownership)

Part of the PDD effort is to begin assessing what effect renovating and renewing the SSAT building and building systems will have on operating costs and total cost of ownership. This analysis has not yet been performed.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None