



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 10b

**ACTION ITEM**

**Date of Meeting** December 14, 2021

**DATE:** December 3, 2021

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

**FROM:** Jeff Moken, Interim Director, Aviation Business and Properties  
Wayne Grotheer, Director, Aviation Project Management Group

**SUBJECT: North Main Terminal Redevelopment Program – Phase 1 Construction Funding Authorization (C801204) and approval of a third Tenant Reimbursement Agreement with Alaska Airlines**

**Amount of this request:** \$149.5 million

**Total estimated project cost:** \$400 million

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to fund \$149.5 million for construction of the Phase 1 Enabling Work of the North Main Terminal Redevelopment Program at Seattle-Tacoma International Airport, and to execute a third Tenant Reimbursement Agreement with Alaska Airlines, Inc. (Alaska) to complete the Phase 1 construction work.

**EXECUTIVE SUMMARY**

Alaska desires to redevelop the north end of the Main Terminal at the Airport to increase passenger throughput and security screening capacity and to improve the overall passenger experience. This request is to authorize funding for the construction of Phase 1 Enabling Work, which includes converting the currently undeveloped Bridge/Promenade level into usable space for Alaska and other Port tenants, which will add approximately 20,000 square feet (about ½ office, ½ ticket counters), and remodel approximately 6,500 square feet of space in the central mezzanine area. These space additions are anticipated to be offset by a reduction of approximately 16,500 square feet of space that will be demolished in the future Phase 2 construction, if approved. The amount of this request is \$149.5 million - \$140.5 million for construction and \$9 million for associated Port and Alaska staff costs. The current cost estimate provided by Alaska for the full program is \$400 million; the Port's independent cost estimate is within 10% of Alaska's, and this will continue to be evaluated and refined as the design progresses. This Phase 1 scope is considered value-added to the Port, even if Phase 2 work is not completed should Alaska choose to not proceed further with the Phase 2 work, or Commission choose to not authorize that future portion of this project.

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### **JUSTIFICATION**

The ticketing area used by Alaska at the north end of the Main Terminal regularly experiences serious overcrowding during peak departure periods throughout the day and is in critical need of code upgrades and an aesthetic refresh.

Although previous work has been done by Alaska to alleviate passenger queuing and processing gridlock, more than 10 years later the ticketing area is again in need of modernization to address existing and projected passenger volume increases, keep pace with technology advances and improve the overall passenger experience. Alaska runs a very efficient operation in their current leased area, accommodating 53.8% of the airport’s passengers (market share report as of September 2021) in approximately 34.1% of the ticketing capacity (as a percentage of leasable square footage of ticket counters) at SEA.

The Port anticipates completing similar building system and architectural improvements for the remainder of the ticketing level to the south under the upcoming Main Terminal Improvements Program, which is currently in the Program Definition Document phase. Working groups of key Port stakeholders and members of the Main Terminal Improvements team meet regularly with the North Main Terminal Redevelopment team to review changes and updates as the design progresses.

Lastly, with only 5 lanes in its current configuration, Security Screening Checkpoint #5 has long been unable to accommodate increased passenger volumes, regularly resulting in a processing bottleneck during peak travel periods that creates further delays for departing passengers. A portion of the offices being built as part of this Phase 1 Enabling Work will be replacement for approximately 6,500 square feet of existing offices on the north end of the terminal that will be eliminated to make way to increase Checkpoint #5 to 7 lanes.

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

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

Diversity in Contracting has established a Women/Minority Business Enterprise (WMBE) goal of 15% for the Port’s consultant support procurement. Alaska has separately established a 20% WMBE goal for their consultant support and for construction.

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### DETAILS

Alaska is completing this work under a multi-phased Tenant Reimbursement Agreement (TRA) using the Progressive Design Build (PDB) project delivery method.

To execute the program, Alaska procured through a competitive process the following services:

1. Progressive Design-Builder
2. Project Management Support Services (Tenant Relocations)
3. Project Controls Management
4. Operational Readiness, Activation and Transition (ORAT) Support Services
5. Financial and Cost Support Management (TRA)
6. Project Manager Baggage Improvements
7. Project Labor Agreement Administrator

The construction work is currently broken down into two distinct phases.

#### Phase 1

- Develop the currently unused Promenade Level for Alaska check-in, bag drop and operations spaces and locations to accommodate most of the tenants that will be displaced during Phase 2 work
- Buildout existing locations in the Main Terminal to accommodate the remaining tenants displaced during Phase 2 work
- Modifications/upgrades to existing building systems (HVAC, Baggage Handling System, Low Voltage etc.) to support the newly built Promenade spaces, to mitigate future operational impacts and control costs in Phase 2

#### Phase 2

- Abatement and demolition of a portion of the Mezzanine Level above Alaska ticketing
- Abatement, demolition, and reconfiguration of the north Main Terminal Ticketing Level
- Reconfiguration of the northern-most Mezzanine level
- Expand Security Screening Checkpoint #5 from 5 to 7 screening lanes
- Installation of new building systems and providing code upgrades/modifications to existing building systems (smoke control, fire suppression and ADA) to support the reconfigured spaces on the Mezzanine, Ticketing and Baggage Claim levels

This division of the scope is advantageous because it:

- Provides for a clear ‘offramp’ decision point at the end of Phase 1 in the event either the Port or Alaska decides not to continue with the Phase 2 scope of work. However, if this off-ramp is taken, the code upgrades, regulated materials abatement, and HVAC, Smoke Control and Fire Suppression System modifications would then need to be incorporated into the future Main Terminal Improvements Program that will be brought before the Commission for approval in the future.

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- Provides fully functional, value-added leasable space, including new check-in and bag drop locations for Alaska on the Promenade if the decision is made not to proceed with the Phase 2 scope of work.

Staff presented a briefing to the Sustainability Environment and Climate (SEAC) Committee on 11/18/21 to provide an update on the status of the Sustainable Design Approach (SDA) for the overall program and seek guidance in regard to next steps. As the majority of the sustainability effort for this program is concentrated in the Phase 2 scope of work, the team anticipates returning to SEAC with a fully developed SDA in Q1 2022.

The Port and Alaska are continuing to refine Alaska’s overall program budget of \$400M, including:

- reconciliation of Alaska’s estimate with the Port’s Independent 3<sup>rd</sup> Party estimate
- agreement for cost-sharing between Alaska and the Port
- agreement on a Final Guaranteed Maximum Price (FGMP) from Alaska’s PDB by the end of Q2 2022

**Schedule**

The PDB project delivery method involves overlap between many of these milestones, with the result that some activities in both Phase 1 and Phase 2 will take place concurrently.

*Activity*

Execution of TRA #1	2021 Quarter 4
Commission full program design and TRA #2 authorization	2021 Quarter 4
Commission construction Phase 1 and TRA #3 authorization	2021 Quarter 4
Execution of TRA #2	2021 Quarter 4
Construction start – Phase 1	2022 Quarter 1
Execution of TRA #3	2022 Quarter 1
In-use date – Phase 1	2023 Quarter 1
Commission construction Phase 2 and TRA #4 authorization	2022 Quarter 3
Execution of TRA #4	2022 Quarter 3
Construction start – Phase 2	2022 Quarter 4
In-use date – Phase 2	2025 Quarter 2

To provide clear project decision points and to ensure there are key concurrence milestones between the Port and Alaska, the reimbursement of project funds to Alaska is projected to happen in phases (as outlined above). The first TRA, to complete up to 30% design, was approved by Commission, on April 27, 2021, for an authorization of up to \$10M for both Alaska and Port costs. The second TRA, authorized by Commission on November 9, 2021, provided an additional \$21.5M to complete the remaining design of the overall project. The third TRA, represented in this request, will authorize \$150 million to construct Phase 1 of the project, also via a TRA. Staff anticipates returning to Commission in Q3 2022 to request authorization of the remainder of construction via a TRA. This multi-phased authorization and TRA approach allows Alaska to

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continue to develop work expeditiously, while affording both Alaska and the Port clear project decision points to ensure alignment of scope, schedule, and budget.

<b>Cost Breakdown</b>	Previous Requests	This Request	Total to Date
Complete PDD and 30% Design	\$9,000,000	\$0	\$9,000,000
Design – Phases 1 and 2	\$16,900,000	\$0	\$16,900,000
Phase 1 Construction Cost	\$0	\$140,500,000	\$140,500,000
Alaska Soft Cost	\$3,300,000	\$5,200,000	\$8,500,000
Port Soft Cost	\$2,300,000	\$3,800,000	\$6,100,000
<b>Total</b>	<b>\$31,500,000</b>	<b>\$149,500,000</b>	<b>\$181,000,000</b>

## **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

### **Alternatives Considered:**

**Alternative 1** – Delay Alaska’s Program and combine with the Port’s Main Terminal Improvements Program

Cost Implications: ~\$1.2 – \$1.5 billion (estimated combined cost of Alaska and Port Programs)

#### Pros:

- (1) Delays capital investment for another 14-16 months, allowing for a single project for the entire Main Terminal
- (2) Potentially allows for improved cost certainty
- (3) Reduces technical challenges of systems integration and schedule coordination between adjacent projects

#### Cons:

- (1) Does not allow Alaska to manage their own operational impacts
- (2) Delays needed congestion relief
- (3) Does not meet Alaska’s target completion date
- (4) Costs will continue to escalate
- (5) Coordinating Alaska TRA and Port Capital work would be challenging
- (6) Significantly reduces the advantages of the PDB project delivery method

***This is not the recommended alternative.***

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**Alternative 2** – Remove Alaska’s scope of work and the Port completes the expansion of Security Screening Checkpoint #5 and only the necessary code upgrades in the north end of the Main Terminal.

Cost Implications: ~\$125 – \$150 million

Pros:

- (1) Reduces the Port’s capital expenditure
- (2) Potentially increases cost certainty

Cons:

- (1) A new design team would need to be procured by the Port, further delaying the work
- (2) Does not address congestion relief at Alaska ticketing in Zones 6 & 7
- (3) Tenants in Zone 7 Ticketing/ATO still need to be relocated
- (4) Delays architectural visioning upgrades in Zones 6 & 7
- (5) Costs continue to escalate
- (6) Does not allow Alaska to manage their own operational impacts in Zones 6 & 7

***This is not the recommended alternative.***

**Alternative 3** – Proceed with full scope of Phase 1 construction for Alaska’s Program

Cost Implications: \$149.5 million

Pros:

- (1) Allows Alaska to manage their own operational impacts
- (2) More closely aligns with Alaska’s target completion date and avoids the cost escalation penalty with Alternatives #1 & #2
- (3) Provides needed congestion relief sooner
- (4) Retains advantages of the PDB project delivery method

Cons:

- (1) Represents a considerable capital investment
- (2) Does not provide optimal cost certainty

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

**FINANCIAL IMPLICATIONS**

***Cost Estimate/Authorization Summary***

	Capital	Expense	Total
<b>COST ESTIMATE</b>			
Early estimated program cost	\$350 - \$450 million	\$TBD	\$350 - \$450 million
Current estimated program cost	\$400 million	\$TBD	\$400 million
<b>AUTHORIZATION</b>			

Previous authorizations	\$31,500,000	\$0	\$31,500,000
Current request for authorization	\$149,500,000	\$0	\$149,500,000
Total authorizations, including this request	\$181,000,000	\$0	\$181,000,000
Remaining amount to be authorized	TBD	\$0	TBD

**Annual Budget Status and Source of Funds**

This project was included in the 2022-2026 capital budget and plan of finance with a budget of \$350 million. 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 on November 12, 2021 and received a YES vote on December 13, 2021.

**Financial Analysis and Summary**

Project cost for analysis	\$400 million
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	\$.47 in 2023 and \$.97 in 2025

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

- It is anticipated that there will be increased costs to ongoing operating and maintenance work performed by Aviation Maintenance (AVM) in the new North Main Terminal space. AVM will continue to work through design challenges while also anticipating increased O&M costs.

Further design is needed to evaluate and better define these impacts for Electrical and Electronic Systems, Facilities Systems and Grounds as well as Custodial Services. AVM will continue to work with the program team to ensure that Port standards are incorporated in the future design.

**ADDITIONAL BACKGROUND**

Many of the mechanical, smoke control, fire suppression and architectural updates being incorporated into the design for the North Main Terminal Redevelopment Program will be applied throughout the rest of the facility by the Main Terminal Improvement Program, which is currently in the Project Definition phase.

The ongoing collaboration between these programs will facilitate continuity of systems and architectural updates and finishes throughout the Main Terminal, Ticketing and Baggage Claim Levels.

In addition, this program is also continuing to collaborate on boundary, scope, and schedule coordination with:

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- Baggage Optimization Program
- Main Terminal Low Voltage Upgrades
- Terminal Security Enhancements

**ATTACHMENTS TO THIS REQUEST**

- (1) Presentation

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

November 9, 2021 – North Main Terminal Redevelopment Program – Full Program Design (C801204) which authorized \$21.5 million for the remaining design for all phases of the North Main Terminal Redevelopment Program, and execution of a second Tenant Reimbursement Agreement with Alaska Airlines

April 27, 2021 – North Main Terminal Redevelopment Program – Preliminary Design (C801204) which authorized up to \$10 million in support of the North Main Terminal Redevelopment Program to complete a Project Definition Document, 30% design and to execute a Tenant Reimbursement Agreement with Alaska Airlines.