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COMMISSION

AGENDA MEMORANDUM Item No. 8f

ACTION ITEM Date of Meeting July 26, 2022

DATE: July 15, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Eileen Francisco, Director Aviation Project Management

Dawn Hunter, Director of Commercial Management

SUBJECT: Concourse Expansion Early Work Package Budget Authorization
(CIP# C800845)

Amount of this request: \$71,000,000

Estimated Project Budget \$340,000,000 -

Range: \$420,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) authorize \$71,000,000 of the program budget for enabling construction work and early work packages for the C Concourse Expansion program, including (2) execute an amendment in the amount of \$2,500,000 to Service Agreement P-00320163 for additional costs associated with accelerating design packages and added sustainability scope, for a new contract total of \$26,500,000.

EXECUTIVE SUMMARY

The C Concourse Building Expansion (CCE) program was created to address shortfalls in Airport Dining and Retail (ADR) capacity, public amenities, office space, and premium lounge space. The project is located at the intersection of Concourses C and D and will add four floors to the existing three floor structure.

At this time, the project is programmed to provide additional food and beverage space, retail space, and lounge space. The public amenities being provided include new restrooms, a meditation room, a sensory room, nursing suites, and an "outdoor" public lookout.

The project team has accelerated the design of the structural steel package, the vertical circulation package, and the exterior wall design and detailing to facilitate an earlier overall completion of the CCE program. Accelerating these packages allows for known long lead time materials to be purchased and fabricated while the design of the building is still progressing. Early buy out of these packages will also reduce schedule risk and cost uncertainty due to supply chain issues and inflation.

Template revised January 10, 2019.

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Program Budget Update

The original project was estimated at \$340 million. Since that original budget was established, project cost risk has increased and the estimates for the project have grown. The main drivers of the increased estimates are additional sustainability scope, baggage transfer line impacts, and contractor estimates reflecting escalation due to COVID and the current geopolitical situation.

To manage costs and scope the project has taken several steps. Between concept and 15% design the Port, the contractor, and the design team met every two weeks to value engineer and right size the project scope. That effort led to a \$20 million reduction to the concept estimate. That right-sized scope and project programming was used to develop a 30% design. The 30% design was again estimated, and the estimates were reviewed and reconciled with the Port, the designer, and the contractor.

The design is currently moving from 30% development to 60% development and the project team holds weekly Target Value Design meetings. At these meetings the project team meets to review specific cost savings ideas. Cost savings that do not violate Port design standards or the project program are incorporated into the design.

As the design develops, the project teams will continue to assess potential savings in real time with the design team and the contractor. While this will not prevent the higher cost of delivering the project, it will be a tool to control the cost increases and ensure that the scope of work is appropriate to the needs of SEA.

Estimate Trends

Sustainability Initiatives: \$10.4M

Non-Discretionary Scope Changes: \$24M
Escalation and Scope Definition: \$32.6M
Current Estimate Range: \$340M – \$420M

The available Program Contingency is \$14.5M. The project team is assessing how much of this contingency can be allocated to the existing budget. The team is working to balance known risks against the available funds.

JUSTIFICATION

Early work packages allow the project to accelerate specific scopes of work that will benefit the project schedule. Staff worked with the design team and the General Contractor Construction Manager (GCCM) to identify scopes of work that could be accelerated without causing excessive risk to the project. The three major scopes of work that this request represents are the structural steel, vertical circulation, and the exterior curtain wall.

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The structural steel is a long lead item. The steel package must be bid and awarded followed by a product submittal and shop drawing process. By starting to bid this package in September of 2022, the project can lock in raw steel costs and start steel erection in earnest when the project starts full construction in April of 2023. The administrative work and order time will happen concurrently with the remainder of the building design.

There are two advantages to accelerating the vertical circulation design and construction package. The first advantage is that the design requirements for elevators change based on manufacturer. By identifying the manufacturer early through a competitive bid process, the design documents can be finalized to meet the specific manufacturer's specifications. This makes the design more reliable and less likely to require changes during construction. Like structural steel, elevators and their supporting equipment have long lead times. The second advantage is that getting at least one of the long lead time freight elevators up and running early in construction will help support construction activities because materials will more easily be moved from level to level.

The advantages of accelerating the exterior wall are very similar to the structural steel package. The contractor can start the submittal, engineering, and shop drawing process. These activities will happen concurrent to the remainder of the design and not after it is complete. The project will also be able to purchase long lead materials and set that cost early.

Diversity in Contracting

WMBE outreach efforts through local community organizations and publications have begun in support of CCE construction efforts. This includes targeted WMBE and small business pre-bid job walkthroughs for better understanding of project efforts, prior to upcoming bids.

Current WMBE contractual commitment:

1. Designer: 12%
2. GCCM: 12% (The GCCM goal may be modified as design progresses and the scopes of work are further developed.)
3. Program Management and Construction Management: 20%
4. Commissioning Agent: 15%

The project is anticipated to provide approximately 28% in Airport Construction Disadvantage Business Enterprise (ACDBE) post-construction ADR opportunities.

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DETAILS

These additional early work packages will include

- (1) Structural steel
- (2) Vertical circulation
- (3) Exterior wall
- (4) Additional opportunities identified by the project team

Schedule

Commission design authorization 2020 Quarter 2

Design start 2021 Quarter 1

Commission construction authorization early 2021 Quarter 2
work packages

Construction start early work packages 2022 Quarter 3

Commission construction authorization 2022 Quarter 4

In-use date 2027 Quarter 2

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – No early work packages

Cost Implications: Cost will be further impacted by inflation and material supply issues

Pros:

(1) No risk that early work scope will not be fully coordinated with remainder of the design package.

Cons:

(1) Project will be completed later.

(2) Cost to execute contracts will be subject to inflation

(3) Material supply chain issues could impact project schedule

This is not the recommended alternative.

Alternative 2 – Execute early work packages

Cost Implications: Materials will be locked in at the 2022 cost

Pros:

(1) Price certainty for the project on accelerated packages

(2) Accelerates construction completion and opening of the building

Cons:

(1) Remainder of the design is not complete and could impact early work packages

This is the recommended alternative.

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FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary Capital Expense Total

COST ESTIMATE

Original estimate \$331,776,000 \$8,224,000 \$340,000,000

Transfer to Baggage Optimization

(\$15,500,000) \$0 (\$15,500,000)

Program

Revised Estimate Range \$340,000,000 -

TBD TBD

\$420,000,000

AUTHORIZATION

Previous authorizations \$86,174,000 \$7,926,000 \$94,100,000

Current request for authorization

\$71,000,000 \$0 \$71,000,000

(Concourse C Expansion)

Total Auth, including this request

\$157,174,000 \$7,926,000 \$165,100,000

(Concourse C Expansion)

Remaining amount to be authorized \$174,900,000 -

TBD TBD

(Concourse C Expansion) \$254,900,000

Annual Budget Status and Source of Funds

This project is included in the 2022-2026 capital budget and plan of finance with a budget of \$340,000,000. The capital budget decrease of \$8,224,000 would be transferred to the Aeronautical Allowance CIP C800753. The expense budget would be included in the Aviation Division's annual operating expense budget. The funding sources will include the Airport Development Fund and future revenue bonds. This project was approved by airlines through a Majority-In-Interest (MII) vote in April 2021.

Financial Analysis and Summary

Project cost for analysis \$340,000,000*

Business Unit (BU) Terminal Building

Effect on business performance NOI after depreciation will increase due to inclusion of

(NOI after depreciation) capital (and operating) costs in airline rate base.

IRR/NPV (if relevant) PV (40 years) for non-aero \$44.5 million
CPE Impact \$0.68 in 2028

* Financial implication for this project has not changed, but the \$15.5 million is being transferred to the Baggage Optimization project for enabling work to relocate baggage handling system transfer lines in conflict with the CCE project. Authorization and transfer for this work was authorized by the Commission on April 26, 2022.

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Future Revenues and Expenses (Total cost of ownership)

As presented on April 27, 2021, when completed the project will generate incremental nonairline revenues of \$12 million by 2028 and over \$15 million by 2031. Aeronautical revenues will also increase as the allocated operating and capital costs (debt service) are included in airline terminal rate base.

ATTACHMENTS TO THIS REQUEST

(1) Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- April 26, 2022 – C concourse Expansion Budget Authorization and Transfer
- April 12, 2022 - C Concourse Expansion Briefing
- March 8, 2022 – Authorization to execute a Service Agreement for a third-party Commissioning Agent
- April 27, 2021 – C1 Building Project Additional Design and General Contractor/Construction Manager Early Work Authorization – Special Inspection and Testing Authorization
- May 26, 2020 – C1 Building Project Design and General Contractor/Construction Manager Authorization
- March 10, 2020 – C1 Building Project Briefing and Introduction
- June 26, 2018 – C1 Building Project Authorization for Planning Funds

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