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COMMISSION

AGENDA MEMORANDUM Item No. 10a

ACTION ITEM Date of Meeting October 25, 2022

DATE: October 18, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Jeff Moken, Interim Director, Aviation Business and Properties

Eileen Francisco, Director, Aviation Project Management Group

SUBJECT: SEA Gateway/North Main Terminal Redevelopment Program (C801204) – Phase A
Supplemental Construction Funding Authorization

Amount of this request: \$159.5 million

Total estimated project cost: \$500 million

ACTION REQUESTED

Request Commission authorization for the Executive Director to 1) increase the program budget to the amount of \$500 million, 2) authorize an additional \$159,500,000 to continue Phase A construction, and 3) execute a Tenant Reimbursement Agreement with Alaska Airlines, Inc. (Alaska) for this portion of the work of the North Main Terminal Redevelopment Program at Seattle-Tacoma International Airport.

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 an increase of the overall program budget by \$100 million to \$500 million and to authorize an additional \$159.5 million of this amount for Phase A construction. Phase A converts the currently undeveloped Bridge/Promenade level into approximately 24,500 square feet of usable space for Alaska and other Port tenants and also updates other portions of the Main Terminal and associated building systems required to support the buildout of the Bridge/Promenade level.

Since the last Commission authorization, Alaska has continued to refine its customer service program and the new technologies needed to implement it. The Port and Alaska are jointly recommending changes to the earlier Phase A scope of work to achieve alignment with these updated goals. This requires the shifting of some Phase B scope to the Phase A construction scope.

The additional work being added to this request consists of:

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- Additional selective demolition and regulated materials abatement on the Ticketing level
- Relocation of three doors on the Ticketing level to facilitate expansion of the window wall to make room for additional Alaska proprietary check-in and bag drop capacity
- Additional baggage handling system modifications
- Additional tenant relocations

The amount of this request is \$159.5 million - \$75 million for additional Phase A construction, \$36 million for Phase B enabling construction, \$27.5 million for associated Port and Alaska staff costs and \$21 million for Port-held program contingency. The current cost estimate for the overall program is \$500 million.

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.

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 (MTIP), which is currently in the Program Definition Document phase. Working groups of key Port stakeholders and members of the MTIP team meet regularly with the North Main Terminal Redevelopment team to review changes and updates as the design progresses.

Lastly, with its current staggered screening lane configuration, Security Screening Checkpoint #5 (SSCP#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 allow Checkpoint #5 to be reconfigured with 6 side-by-side 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

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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/SBE goal for their consultant support and for construction.

DETAILS

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

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

Phase A

- 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 B work
- Buildout existing locations in the Main Terminal to accommodate the remaining tenants displaced during Phase B work
- Modifications/upgrades to existing building systems (HVAC, Baggage Handling, Electrical and Communications Systems etc.) to support the newly built Promenade spaces, to mitigate future operational impacts and control costs in Phase B
- Enabling work on the departures level for the relocation of three Ticketing-level entry doors and associated expansion of Alaska's ticketing areas at the window wall
- Perform ADA upgrades to the ramps at the exit doors on the Baggage Claim level

Phase B

- Abatement and demolition of a portion of the Mezzanine Level above Alaska ticketing
- Abatement, demolition, and reconfiguration of Alaska's ticketing in the northern-most section of Main Terminal Ticketing Level
- Reconfiguration of the northern-most Mezzanine level
- Reconfigure SSCP#5 with 6 side-by-side lanes with an enlarged post screening recompose area. The checkpoint is being designed to be able to be quickly expanded to 7 lanes in the future

- Installation of new building systems and providing code upgrades/modifications to existing building systems (smoke control, fire suppression and ADA modifications) to support the reconfigured spaces on the Mezzanine, Ticketing and Baggage Claim levels

The program is finalizing its Sustainable Design Approach (SDA) and staff is preparing to present the SDA to the Sustainability Environment and Climate (SEAC) Committee for acceptance in Q1 2023. A key element of the SDA is for the program to achieve LEED Silver certification for Commercial Interiors.

The Port and Alaska are continuing to refine the overall program budget of \$500 million, including:

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- reconciliation of Alaska's estimate with the Port's Independent 3rd Party estimate
- agreement for cost-sharing between Alaska and the Port
- agreement on a Final Guaranteed Maximum Price (FGMP) from Alaska by the end of Q4 2022

Schedule

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

Activity

- Phase A construction start 2022 Quarter 4
- Execution of TRA #3 2022 Quarter 4
- In-use date – Phase A 2024 Quarter 1
- Commission authorization revised Phase A construction and TRA #4 2022 Quarter 4
- Execution of TRA #4 2022 Quarter 4
- Commission authorization of Final Guaranteed Maximum Price 2023 Quarter 1 (FGMP), Phase B construction and TRA #5
- Execution of TRA #5 2023 Quarter 2
- Phase B construction start 2023 Quarter 3
- Phase B In-Use-Date 2026 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).

- On April 27, 2021, Commission authorized up to \$10 million for both Alaska and Port costs to complete up to 30% design. A Phase 1 North Main Terminal Redevelopment Agreement (“Design TRA”) was executed by the Port and Alaska to memorialize this.
- On November 9, 2021, Commission authorized an additional \$21.5 million to complete the remaining design of the overall program. This was memorialized as an amendment to the Design TRA.
- On December 14, 2021, Commission authorized an additional \$149.5 million for Phase A construction. Port staff and Alaska continue to negotiate the language for the Phase A (Construction) Reimbursement Agreement – North Main Terminal Redevelopment (“Construction TRA”).
- This request seeks authorization for an additional \$159.5 million to construct the revised scope of Phase A and enabling work to facilitate Phase B construction. It is anticipated that this will either be incorporated into the Construction TRA during negotiations or by amendment.
- We anticipate requesting authorization for the Final Guaranteed Maximum Price (FGMP) and the balance of Phase B construction in Q1 2023, which would be incorporated into the Construction TRA by amendment.

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

Cost Breakdown Previous This Future Program

Requests	Request	Request	Total
Complete PDD and 30% Design	\$9,000,000	\$0	\$9,000,000
Design – Phases A and B	\$16,900,000	\$0	\$16,900,000
Phase A Construction	\$140,500,000	\$0	\$140,500,000
Phase A Supplemental Construction	\$0	\$75,000,000	\$75,000,000
Phase B Construction	\$0	\$36,000,000	\$36,000,000
Alaska Soft Cost	\$8,500,000	\$12,700,000	\$21,200,000
Port Soft Cost	\$6,100,000	\$14,800,000	\$20,900,000
Port-held Contingency	\$0	\$21,000,000	\$21,000,000
Total	\$181,000,000	\$159,500,000	\$340,500,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Don’t move forward with the Program.

Cost Implications: Potential \$475 million savings

Pros:

- (1) Reduces the Port’s capital expenditure
- (2) Eliminates scope, schedule, and budget uncertainties due to inflation and supply chain disruptions

Cons:

- (1) Does not achieve the desired capacity improvements on the Bridge/Promenade and Ticketing levels or at SSCP#5
- (2) Does not implement desired technology improvements
- (3) Does not address existing code and ADA inadequacies
- (4) Does not provide base building infrastructure upgrades
- (5) Design and other soft cost expenses spent to date [approximately \$25 million] would need to be expensed

This is not the recommended alternative.

Alternative 2 – Complete only Phase A construction.

Cost Implications: \$304.5 million

Pros:

- (1) Reduces the Port's capital expenditure
- (2) Eliminates scope, schedule, and budget uncertainties due to inflation and supply chain disruptions

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Cons:

- (1) Does not achieve the desired capacity improvement on the Ticketing level or at SSCP#5
- (2) Does not implement desired technology improvements
- (3) Does not address existing code and ADA inadequacies
- (4) Does not provide base building infrastructure upgrades
- (5) Design and soft costs associated with Phase B construction would need to be expensed

This is not the recommended alternative.

Alternative 3 – Proceed with the full scope of work as described.

Cost Implications: \$500 million

Pros:

- (1) Achieves the desired capacity improvements on the Bridge/Promenade and Ticketing levels and at SSCP#5
- (2) Implements the desired technology improvements
- (3) Addresses existing code and ADA inadequacies
- (4) Provides base building infrastructure upgrades

Cons:

- (1) Risk of continuing scope, schedule, and budget uncertainties due to inflation and supply chain disruptions

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary Capital Expense Total

COST ESTIMATE

Early estimated program cost \$350 - \$450 million \$0 \$350 - \$450 million

Current estimated program cost \$495 million \$5,000,000 \$500 million

AUTHORIZATION

Previous authorizations \$181,000,000 \$0 \$181,000,000

Current request for authorization \$157,400,000 \$2,100,000 \$159,500,000

Total authorizations, including this request \$338,400,000 \$2,100,000 \$340,500,000

Remaining amount to be authorized \$156,600,000 \$2,900,000 \$159,500,000

Annual Budget Status and Source of Funds

This project, CIP C801204, was included in the 2022-2026 capital budget and plan of finance with a budget of \$400,000,000. A budget increase will be transferred from the Aeronautical Reserve CIP (C800753) resulting in zero net change to the Aviation capital budget when the Final Guaranteed Maximum Price (FGMP) is available. The funding sources will be revenue bonds and

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Airport Development Fund (ADF). This project received Majority in Interest airlines approval on December 13, 2021.

Financial Analysis and Summary

Project cost for analysis \$400M - \$500M

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) N/A

CPE Impact \$1.12 - \$1.29 in 2026

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.

ADDITIONAL BACKGROUND

Over the past 4 months, the Port and Alaska have worked together to refine the baseline scope of work specific to the passenger check-in and bag drop layouts on the Ticketing and Bridge/Promenade levels and have jointly agreed to request authorization to modify the Phase A scope of work during a combined design validation meeting with Port and Alaska stakeholders on August 5, 2022. The following are the key elements included in this recommended modification:

- Relocate three entry doors on the Ticketing-level to enhance the reconfiguration of Alaska's window wall check-in and bag drop areas.
- Retain and reconfigure the existing Alaska check-in and bag drop function along the backwall separating Ticketing and Security Screening Checkpoint #5 (SSCP#5).
- Construct SSCP#5 with 6 screening lanes that is also being designed to quickly expand to an additional 7th screening lane when passenger screening volume requires.
 - o This expansion will require Alaska to relinquish their check-in and bag drop positions on the Ticketing level adjoining SSCP#5
 - o The Port will establish the metric(s) used to determine when this expansion will take place
- Install up to 24 traditional check-in and bag drop positions for Alaska proprietary use on the Bridge/Promenade Level as originally specified in the Project Definition Document.

As well as the additions described above, Phase A construction costs have increased between 8-10%, or \$15 million, due to unprecedented cost escalation in the construction market. Further, \$20 million of new scope has been included in the overall Program work to address unforeseen infrastructure and building code deficiencies identified during design development, including the addition of new HVAC equipment and a new pump to support the fire suppression system.

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Many of the mechanical, smoke control, and fire suppression system upgrades and updated architectural finishes and treatments 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 updated architectural finishes and treatments 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:

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

ATTACHMENTS TO THIS REQUEST

(1) Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

December 14, 2021 – North Main Terminal Redevelopment Program – Phase 1 Construction Funding Authorization (C801204) which authorized \$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. Note, Phase 1 is now known as Phase B.

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.

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