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COMMISSION

AGENDA MEMORANDUM Item No. 8i

ACTION ITEM Date of Meeting February 14, 2023

DATE: February 6, 2023

TO: Stephen P. Metruck, Executive Director

FROM: Janice Zahn, Director, Engineering

Eileen Francisco, Interim Chief Development Officer

Jeff Moken, Senior Manager Airline Affairs & Aviation Properties

SUBJECT: Post IAF Airline Realignment Scope Development (C801158)

Amount of this request: \$7,000,000

Estimated project cost range: \$98,000,000 – \$172,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) amend a project-specific design contract to increase the contract value by \$5,200,000, and (2) execute a Change Order to the General Contractor/Construction Manager Pre-Construction Services contract for \$1,800,000 in support of the Post IAF Airline Realignment project at Seattle-Tacoma International Airport.

EXECUTIVE SUMMARY

The Post IAF Airline Realignment project is facilitating the relocation of United Airlines' domestic only operations from Concourse A to Concourse B at Seattle-Tacoma International Airport (Airport). This allows for airlines with international flights at SEA to use the vacated international capable gates on Concourse A. Associated office and support spaces to support both relocations will be delivered as part of the project. This project will also reconfigure and add ticket counters to support international airline operations in the central main terminal (also known as Zone 4) by demolishing an Airport Dining and Retail facility to make room. Additionally, United Airlines will self-perform the construction of their new lounge on Concourse B under a Memorandum of Agreement with the Port.

Since March 2021, progress on the Post IAF Airline Realignment project includes award and execution of contracts for project management services, construction management services, design services, and General Contractor/Construction Manager (GCCM) pre-construction support activities through 30% design development. Site investigation, condition documentation, and verification of the primary construction sites is ongoing and project design has advanced to approximately a 15% level of completion.

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Site investigation and design development efforts have revealed gaps in the project scope. This includes significant code deficiencies identified during preliminary design, requiring unanticipated renovations and construction phased to be completed before initiating the base scope work. Early programming confirmed the relocation of United Airlines and consolidation of Delta Air Lines on Concourse B would increase the occupancy load, exceeding the capacity of existing air handling units (AHU) to serve conditioned air to the expanded space. The existing AHUs serving Concourse B, planned for replacement in a future project, must be included now to support the new space. The project has identified two additional work packages to facilitate the confirmed scope. Additional budget authorization is required for the design and pre-construction efforts, to develop and design these additional scope elements.

With the current understanding of scope development, it is the project team's assessment that additional budget will be required for this project in the future. The current budget is \$102,000,000. As detailed further in this memo, the project is currently estimated to fall within a range of \$98,000,000 and \$172,000,000.

JUSTIFICATION

Authorizing the design and pre-construction contract changes is required to continue progressing the Airline Realignment design and support the Port's overall airline realignment criteria and future gate allocation by advancing the relocation of airlines as planned.

While this project completed a preliminary project definition process as part of a project notebook, current Port project management practices would now require a more thorough project definition document level of understanding (typically taking a project design to a 15% level of completion). This process would best document project requirements and conditions

such that more accurate assessments of project scope, cost, and schedule could be made at the time of design contract solicitation. This action supports the additional design services required to incorporate necessary code upgrades and advancement of mechanical system upgrades.

#### Diversity in Contracting

The project team has worked with the Diversity in Contracting team to understand the women and minority-owned business enterprise (WMBE) aspirational goals for the project management, construction management, design, testing & special inspections and GCCM contracts. The testing & special inspections, and GCCM goals will be modified as design progresses and the scopes of work are further developed.

#### Contract Goal Commitment

PM 14% 98%

CM 30% 30%

Design 15% 17%

Testing & Special Inspection TBD TBD

GCCM (Construction) 13% TBD

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#### DETAILS

A detailed code analysis of Concourse B identified significant code deficiencies initiating restroom improvements not previously included in the project and the need for an interior corridor to be constructed at the ramp of Concourse B. An Enabling work package is required to facilitate initial infrastructure relocations and construction activities necessary to bring Concourse B Ramp operational space to full code compliance. The existing Air Handling Units (AHUs) and Heating, Ventilation, and Air Conditioning (HVAC) system have been a known deficiency for the Airport and scheduled to be updated under a future airport-wide project. The increase in leasable square footage and building occupancy necessary on B Concourse for Airline Realignment requires the project accelerate the future AHU and HVAC scope of work to meet minimum code requirements. Additionally, scanning and subsequent building information modeling (BIM) efforts facilitated through the GCCM Pre-Construction contract, are identifying the location and extents of unknown and unforeseen existing utilities. In support of the schedule milestone deliverables, the Design Team has continued to progress all five work packages to approximately 15% design development.

The project-specific design contract amendment that would increase the contract value by \$5,200,000 would bring the contract total value to \$10,200,000. In accordance with RCW 53.19.060, this memorandum constitutes notification to the Commission that the amended amount of the design contract exceeds 50 percent of the original not-to-exceed contract value. Additional GCCM Pre-construction services are required to identify existing conditions and provide as-built documentation. The activities represented by the contract changes are required to support the remaining design development and have been reevaluated, informed through site investigation and preliminary design coordination. Documentation of existing conditions for Concourse B to support this project is either deficient or missing. This has driven a need for the GCCM to provide additional laser scanning, 3D space modeling, and site investigation activities not previously anticipated. To maintain progress, the GCCM pre-construction contract (established at \$900,000) required a change order in the amount of \$281,105.87. This was executed from project contingency funds in January. The GCCM change order included in this action will fully fund pre-construction support activities through the balance of the schedule. These efforts support design progression, the current GCCM Pre-construction Bid Package Schedule and ultimately limit delays in relocating airlines.

The project will be returning to the Commission in Q2 2023 after design has reached a 30% level of completion to establish a more definitive project budget and schedule. The current project budget range relies on a Class 5 Estimate that captures the conceptual scope and projected project costs prior to 30% design development.

Current project risks that represent the majority of potential cost increases can be attributed to:

(1) Industrywide inflation and cost escalation since the project budget establishment in 2021.

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(2) Magnitude and extents of utility relocations and mechanical system upgrades being

identified now in Preliminary Design.

(3) Existing space building code deficiencies that have triggered additional improvements to restrooms and accessibility on the Concourse B ramp.

(4) Additional design and pre-construction efforts to incorporate building code upgrades, expanded mechanical system requirements and continued site investigation to mitigate project risk.

As an industry standard, a Class 5 Estimate provides a range with accuracy from -50% on the low side and +100% on the high side. Preliminary Design efforts and verification of existing infrastructure have allowed the project to define and mitigate project risks. As a result, the project team has evaluated the estimate range for Airline Realignment to be -20% and +40% of current budget estimate.

Low Range -20% Estimated Costs High Range +40%  
\$98,000,000 \$122,000,000 \$172,000,000

Additional risks to the project that the team continues to track include the development of smoke control as new standards are being developed, unforeseen conditions in the aging facilities, and the continued impact of cost escalation.

#### Scope of Work

At the time of solicitation, the project anticipated three packages of work to provide: (1) remodel and expansion of airline operational space on the ramp level of Concourse B, (2) remodel of airline operational space on the ramp level of Concourse A, and (3) remodel of ticket counters in Zone 4 of the Airport Main Terminal.

Preliminary Design efforts identified two work packages necessary to support delivery of base scope: (4) an Enabling work package to correct code deficiencies on Concourse B and facilitate initial infrastructure relocations, and (5) Replacement of Heating, Ventilation, and Air Conditioning (HVAC) Air Handler Units (AHUs) and associated systems on Concourse B. Additional Design Services are required to facilitate the fourth and fifth packages of work. GCCM Pre-construction Activities to support development of the additional packages are required to continue site investigation and verification of existing conditions. BIM modeling effort included within this request is ongoing, prioritizing existing unknown mechanical, electrical and other building systems.

#### Schedule

The project team continues to collaborate with Airport stakeholders and impacted airlines to improve the project schedule and identify opportunities for efficiencies in construction phasing to support the ultimate priority of relocating Delta to the international, wide body, preferential gates on Concourse A.

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#### Activity

Commission construction authorization 2023 Quarter 2  
(Enabling/Early Work Packages)

Construction Start 2023 Quarter 3

In-use date (Concourse B) 2025 Quarter 1

In-use date (Concourse A) 2026 Quarter 1

Cost Breakdown This Request Total Project

Design \$7,000,000 \$33,000,000

Construction 0 \$65,000,000 – \$139,000,000

Total \$7,000,000 \$98,000,000 – \$172,000,000

#### ALTERNATIVES AND IMPLICATIONS CONSIDERED

Port staff evaluated a “do nothing” alternative; however, it proved not feasible.

Alternative 1 – Delay project until a separate project completes HVAC and Air Handling Unit (AHU) improvements.

Cost Implications: Overall cost to the Port would increase. No cost reduction would occur as costs for HVAC AHU improvements are still required but are borne by another project. Due to the delay, cost increases for escalation are likely to occur, though they have not been estimated.

#### Pros:

(1) Project will have the opportunity to complete site investigation, verification and as-built of existing utilities and infrastructure to provide more certainty in design development documents.

(2) The airport wide HVAC AHU improvement project will be evaluated holistically in lieu of

portions being accelerated. This would limit cost for re-design and re-work when the future project is delivered.

Cons:

- (1) This alternative would delay the Port's commitment to realign Airline carriers to better support future IAF airline operations.
- (2) United Airlines would be subject to being bumped off their preferential gates by an international carrier when Common Use availability is insufficient at time of peak demand.
- (3) Concourse A international-capable gates, occupied by United Airlines, would be the last available gates for use by international operations.
- (4) This would delay the relocations for United and Delta included in the project and does not align with the outcome of lengthy negotiations with the airlines regarding realignment.
- (5) Delays to Airline Realignment project completion may impact international gate closures currently planned when construction begins on South Concourse Evolution Project in 2026.

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This is not the recommended alternative.

Alternative 2 – Increase project scope to include new work.

Cost Implications: Project cost would increase. The project budget will be revisited in Q2.

Pros:

- (1) This alternative continues the project that had been reviewed and accepted with the airlines.
- (2) Allows for the relocation of United Airlines, an exclusively domestic carrier at SEA, to free up more internationally connected gates for international use.
- (3) Best achieves the Port's airline realignment criteria and future gate allocation.
- (4) Facilitates upgrades to insufficient and/or failing building systems that have a risk for catastrophic failure.
- (5) Project will have the opportunity to complete site investigation, verification and as-built of existing utilities and infrastructure to provide more certainty in design development documents, delivering a model of existing conditions at project completion.

Cons:

- (1) The project has cost and schedule uncertainty until the location, capacity and condition of existing utilities and infrastructure on Concourse B are confirmed.
- (2) Advancing Concourse B Smoke Control Design ahead of airport wide upgrade of Smoke Control Design may increase costs for future project to retrofit the new system installed under Airline Realignment.

This is the recommended alternative.

#### FINANCIAL IMPLICATIONS

Port Budget Estimate for the Airline Realignment Project was refreshed on September 9, 2022, and United Club Port Budget Estimate was refreshed on December 27, 2022, to inform the increases in Cost Estimate section below. These were refreshed to capture cost increases based on current markets and escalation forecast through construction. The project will return to the Commission in Q2 2023 to update the overall project budget after the design has reached 30% development and more cost and schedule certainty can be provided.

Cost Estimate/Authorization Summary Capital Expense Total

#### COST ESTIMATE

Original estimate	\$35,000,000	\$35,000,000	\$70,000,000
Previous changes – net	\$34,000,000	(\$2,000,000)	\$32,000,000
Current change	\$0	\$0	\$0
Current Budget	\$69,000,000	\$33,000,000	\$102,000,000

#### AUTHORIZATION

Previous authorizations	\$18,200,000	\$8,000,000	\$26,200,000
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Current request for authorization \$5,200,000 \$1,800,000 \$7,000,000

Total authorizations, including this request \$23,400,000 \$9,800,000 \$33,200,000  
Remaining amount to be authorized \$45,600,000 \$23,200,000 \$68,800,000

**Annual Budget Status and Source of Funds**

This project, CIP C801158, was included in the 2023-2027 capital budget and plan of finance with a capital budget of \$69 million and an expense budget of \$33 million for a total cost of \$102 million. The expense components are estimated to be \$555K in 2022, \$2.4M in 2023, \$6.6M in 2024, \$11.5M in 2025, \$7.3M in 2026 and \$4.6M in 2027 and will be included in annual operating budgets. The funding sources will be Airport Development Fund for operating expense and future revenue bonds for capital.

**Financial Analysis and Summary**

Project cost for analysis \$102,000,000

**Business Unit (BU) Gates**

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 CPE of expenses between \$0.11-\$0.27 in 2023-2027

CPE of capital \$0.22 starting in 2027

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

As a result of this project, approximately 7,500 additional square feet will be built and a significant amount of space within the existing terminal will be renovated. These improvements will replace aging and deficient infrastructure and building systems and improve overall operation and maintenance of Concourse B Ramp. The project team will coordinate with Aviation Maintenance when the extents of operating and maintenance costs can be more accurately evaluated at 60% design development. Complete upgrade and replacement of the HVAC system serving the project footprint increases code compliant leasable space, giving the Port flexibility and potential for increased revenues.

**ADDITIONAL BACKGROUND**

Under the 2018-2022 Signatory Lease and Operating Agreement (“SLOA IV”) between the Port and many Airlines, Article 5.2 allows the Airport, at its sole discretion, to reallocate Premises (other than Gates) among the Airlines at SEA. This provision (commonly referred to as “Airline Realignment”) allows the airport to “rebalance” facilities to achieve an overall airport-wide operational or capacity benefit. In 2019 and 2020 the Port negotiated the proposed plan with significant engagement by all Airlines. The Airlines have reviewed and accepted the recommended alternative.

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The Port’s international gating policy (as enumerated in Exhibit D to SLOA IV) states that international flights have priority for accommodation on international capable gates. United Airlines faces the very distinct possibility of being forced off their preferential gates on Concourse A to hardstand operations during the international peak. This would create significant inefficiencies for United Airlines and diminish the benefit of their preferential rights as well as their overall level of service.

United Airlines will self-perform the construction of their new lounge on Concourse B under a MOA with the Port (currently in review for final execution). Under SLOA IV provision 5.2.4., the Port is obligated to pay the reasonable costs to relocate any impacted airline, and endeavors to create a “like for like” condition in future spaces. The project team anticipates the United Airlines lounge design contract to be executed and work to begin Q1 2023.

**ATTACHMENTS TO THIS REQUEST**

(1) Presentation slides

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

March 23, 2021 – The Commission authorized \$26,000,000 to facilitate the following actions:

(1) execute project specific Service Agreements for project management, construction management, design services, and testing and special inspections; (2) to utilize a General Contractor/Construction Manager (GCCM) and execute a GCCM construction contract for pre-construction services; (3) to use port crews; and (4) to execute a Memorandum of Agreement (MOA) between the Port of Seattle (Port) and United Airlines.

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