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COMMISSION

AGENDA MEMORANDUM Item No. 10c

ACTION ITEM Date of Meeting March 28, 2023

DATE: March 17, 2023

TO: Stephen P. Metruck, Executive Director

FROM: Jeff Moken, Senior Manager, Airline Affairs & Aviation Properties

Eileen Francisco, Director, Aviation Project Management Group

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

Amount of this request: \$159.5 million

Total estimated project cost: \$550 million

ACTION REQUESTED

Request Commission authorization for the Executive Director to 1) authorize \$156,400,000 for Phase B construction, 2) authorize the transfer of \$1,559,000 from the Main Terminal Low Voltage Program, 3) authorize \$3,100,000 for final design addressing existing building code compliance, and 4) 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 is redeveloping 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 additional \$156.4 million for Phase B construction, including associated Port and Alaska soft costs. The Phase B scope redevelops Alaska's ticket lobby in the northern-most section of the Main Terminal Ticketing level, reconfigures Security Screening Checkpoint #5 (Checkpoint #5) and updates associated building systems and architectural finishes.

This request also seeks authorization for the transfer of \$1,559,000 from the Main Terminal Low Voltage Program (C800061) for electrical work being moved to the North Main Terminal Redevelopment Program (Program) as well as authorization of \$3,100,000 for the final design to address existing building and fire code compliance issues that were not known during the Project Definition phase.

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As the design has progressed several items have been added to the Program work to resolve preexisting building and fire code compliance issues. The impacts of these corrective actions on follow on projects/programs in the Main Terminal are also directly influencing the design approaches being used to address these items.

As a result, establishing the final Phase B construction cost and the Final Guaranteed Maximum Price (FGMP) for the overall Program have been delayed. Staff intends to return to the Commission for authorization of these remaining items on 06/27. Currently, the estimated cost for these, including associated Port and Alaska soft costs, is approximately \$50 million. The current estimated cost for the overall Program is \$550 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 as well as an update to the architectural finishes.

Although previous work was 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 terminal to the south under the upcoming Main Terminal Improvements Program (MTIP), which is currently in the Program Definition Document phase.

With its current staggered screening lane layout, 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. Phase B work will reconstruct Checkpoint #5 to have 6 side-by-side lanes and provide a greatly enlarged recompose area for passengers, which is a significant improvement over the current configuration. Further, the Checkpoint #5 reconfiguration is being phased and coordinated with work planned at other screening checkpoints to minimize the number of search lanes out of service at any given time. Determining the method and extent of correcting the previously described fire and building code-related compliance issues has become a precondition for the Airport Building Department to issue building permits and later, certificates of occupancy for the Program. These items include:

1. Providing 1-hr fire rating compliance at the wall separating the Baggage Claim from the Bagwell within the Program scope of work.
2. Providing 2-hr fire rating compliance at vertical utility shafts within the Program scope of work.
3. The addition of fire sprinklers in Skybridges 2 through 6 to allow occupancy of the newly constructed tenant and operational spaces on the Bridge/Promenade level.

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4. The addition of a two-way communication system at several elevator lobbies within the Program footprint that have been identified as areas of refuge for mobility limited individuals.

5. The addition of supplementary electrical infrastructure required to support connection to an emergency backup power system to be provided in a future project.

In addition, the Program is continuing to progress key design elements related to the baggage handling system, signage and wayfinding, HVAC, smoke control, and scope transferred between adjacent projects/programs that also affect the overall Program scope, the construction schedule and the FGMP. Again, the impacts of these changes to adjacent and follow-on projects/programs in the Main Terminal are also directly influencing the design approaches being used by the Design Build team to address them.

The Program team is pursuing final design funding for these added scope items under this authorization. The final design will refine the code-related and additional scope items over the next several months to determine the final Program budget and FGMP.

Finally, this Program also 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/Small Business Enterprise (SBE) combined goal for their consultant support and for construction.

Currently the Port's consultant support services contract is achieving 22% WMBE utilization, and Alaska's consultant support and construction teams are attaining 15% SBE/WMBE utilization.

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 (Q4 2022 – Q2 2026)

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- Construct approximately 24,000 square feet of new tenant and operational space on the Bridge/Promenade level.
- Install structural upgrades and provide building systems infrastructure throughout the Baggage Claim level to support the construction of the Bridge/Promenade level.
- Install ADA compliant ramps at nine Baggage Claim exit doors.
- Relocate three entry doors on the Departures Drive to improve passenger flow.
- Create 'bump-outs' at the window walls on the Ticketing level to provide additional space

for passenger check-in and bag drop.

- Remove asbestos containing material and install fire sprinklers throughout the work areas.
 - Upgrade/refresh architectural finishes, signage, and lighting throughout the work areas.
- Phase B (Q3 2023 – Q3 2026)
- Remove the Mezzanine level above Alaska's existing ticketing Pods.
 - Reconfigure the most northern section of the Mezzanine.
 - Reconfigure Alaska's Ticketing areas and Checkpoint #5.
 - Remove asbestos containing material and install fire sprinklers throughout the work areas.
 - Upgrade/refresh architectural finishes, signage, and lighting throughout the work areas.

Since the last Commission authorization in October 2022, the program received acceptance of the Sustainable Design Approach (SDA) by the Sustainability Environment and Climate (SEAC) Committee on February 21, 2023. The Program is implementing strategies to achieve the United States Green Buildings Council's (USGBC) Leadership in Energy and Environmental Design (LEED) Silver Certification for Commercial Interiors on Phase B construction.

Schedule

The PDB project delivery method includes several overlaps 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 2023 Quarter 1

In-use date – Phase A 2024 Quarter 2

Commission authorization revised Phase A construction and TRA #4 2022 Quarter 4

Execution of TRA #4 2023 Quarter 1

Commission authorization initial Phase B construction and TRA #5 2023 Quarter 1

Execution of TRA #5 2023 Quarter 2

Commission authorization of Final Guaranteed Maximum Price (FGMP), 2023 Quarter 2

Phase B construction and TRA #6

Execution of TRA #6 2023 Quarter 3

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Phase B construction start 2023 Quarter 3

Phase B In-Use-Date 2026 Quarter 3

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

The reimbursement of project funds to Alaska is also occurring in phases (as outlined above). Each of these decision points includes a TRA or TRA amendment to memorialize the agreement between the Port and Alaska.

- On April 27, 2021, Commission authorized up to \$10 million for both Alaska and Port costs to complete up to 30% design and an associated TRA with Alaska.
- On November 9, 2021, Commission authorized an additional \$21.5 million to complete the remaining design of the overall program and an associated TRA with Alaska.
- On December 14, 2021, Commission authorized an additional \$149.5 million for Phase A construction and an associated TRA with Alaska.
- On October 25, 2022, Commission authorized \$159.5 million to construct the revised scope of Phase A and enabling work to facilitate Phase B construction and an associated TRA with Alaska.
- This request seeks authorization for a further \$159.5 million for Phase B construction and final design for new scope addressing code compliance and an associated TRA with Alaska.
- We anticipate returning to the Commission to request authorization for the FGMP, the balance of Phase B construction funding and an associated TRA with Alaska in Q2 2023.

Cost Breakdown Previous This Future Program

Requests Request Request Total

Complete PDD and 30% Design \$9,000,000 \$0 \$0 \$9,000,000

Design – Phases A and B \$16,900,000 \$0 \$0 \$16,900,000

Phase A Construction	\$140,500,000	\$0	\$0	\$140,500,000
Phase A Supplemental Construction	\$75,000,000	\$0	\$0	\$75,000,000
Phase B Construction	\$36,000,000	\$140,900,000	\$0	\$176,900,000
Alaska Soft Cost	\$21,200,000	\$1,500,000	\$0	\$22,700,000
Port Soft Cost	\$20,900,000	\$14,000,000	\$0	\$34,900,000
Port-held Contingency	\$21,000,000	\$0	\$0	\$21,000,000
Design – Code-Related Scope	\$0	\$3,100,000	\$0	\$3,100,000
Estimated Supplemental Cost Increase	\$0	\$0	\$50,000,000	\$50,000,000
Total	\$340,500,000	\$159,500,000	\$50,000,000	\$550,000,000

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Don't continue with Phase A construction and do not begin Phase B construction.

Cost Implications: Potential \$450-\$500 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 Checkpoint #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) Enabling construction, design and other soft cost expenses spent to date [approximately \$50 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.

Cons:

- (1) Does not achieve the desired capacity improvement on the Ticketing level or at Checkpoint #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 - \$550 million

Pros:

- (1) Achieves the desired capacity improvements on the Bridge/Promenade and Ticketing levels and at Checkpoint #5.
- (2) Implements the desired technology improvements.
- (3) Addresses existing code and ADA inadequacies.

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(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

Estimated supplemental cost increase \$50 million \$0 \$50 million

AUTHORIZATION

Previous authorizations \$338,400,000 \$2,100,000 \$340,500,000

Current request for authorization \$156,600,000 \$2,900,000 \$159,500,000

Total authorizations, including this request \$495,000,000 \$5,000,000 \$500,000,000

Remaining amount to be authorized \$50,000,000 \$0 \$50,000,000

Annual Budget Status and Source of Funds

This project, CIP C801204, was included in the 2023-2027 capital budget and plan of finance with a budget of \$400,000,000. A budget increase of \$95 million was transferred from the Aeronautical Reserve CIP (C800753) resulting in zero net change to the Aviation capital budget. The remaining supplemental cost increase will be transferred when the FGMP is known. The funding sources will be revenue bonds and Airport Development Fund (ADF). This project received Majority in Interest airlines approval on December 13, 2021.

This request would allow the Commission Authorization transfer of \$1,559,000 from the Main Terminal Low Voltage Program (C800061) for electrical scope being moved to the North Main Terminal Redevelopment Program (Program C801204).

Financial Analysis and Summary

Project cost for analysis \$500M

Business Unit (BU) Terminal Building

Effect on business performance NOI after depreciation will increase due to inclusion of capital (NOI after depreciation) (and operating) costs in airline rate base.

IRR/NPV (if relevant) N/A

CPE Impact \$1.29 in 2026

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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.

ATTACHMENTS TO THIS REQUEST

(1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

October 25, 2022 – North Main Terminal Redevelopment Program – Phase A Supplemental Construction Funding Authorization (C801204) which authorized an additional \$159,500,000 to continue Phase A construction, and to execute a fourth Tenant Reimbursement Agreement with Alaska Airlines, Inc. (Alaska).

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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