



**COMMISSION
AGENDA MEMORANDUM**

Item No. 10a

ACTION ITEM

Date of Meeting June 27, 2023

DATE: June 16, 2023

TO: Stephen P. Metruck, Executive Director

FROM: Rick Duncan, Director, Aviation Business & Properties
Eileen Francisco, Director, Aviation Project Management Group
Ben Brookman, Managing Director of Airport Affairs, Alaska Airlines

SUBJECT: SEA Gateway/North Main Terminal Redevelopment Program (C801204) - FGMP & Phase B Supplemental Construction Funding

Amount of this request: \$46 million

Total estimated project cost: \$546 million

ACTION REQUESTED

Request Commission authorization for the Executive Director to 1) authorize \$46,000,000 of supplemental funding to meet current building code requirements and complete Phase B construction, 2) approve the Final Guaranteed Maximum Price of \$546,000,000 for the overall program, and 3) execute a Tenant Reimbursement Agreement (TRA) 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

This request is to authorize an increase of the Program budget by \$46 million to meet current building code requirements in the construction work area and approve the Final Guaranteed Maximum Price (FGMP) for the overall Program at \$546 million. Phase B construction redevelops Alaska's ticket lobby in Zones 6 & 7, reconfigures Security Screening Checkpoint #5, and updates associated building systems and finishes.

On March 28, 2023, staff reported to the Commission that establishing the final Phase B construction cost and the FGMP for the overall Program had been delayed until the full extent of the additional work required was established. At that time, the estimated cost to complete these items, including associated Port and Alaska soft costs, was \$50 million.

JUSTIFICATION

Under this authorization, the Program team is pursuing construction funding for these additional scope items, which include:

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1. Providing 2-hr fire rating compliance at vertical utility shafts within the Program scope of work.
2. The addition of fire sprinklers inside Skybridges 2 through 6 to allow occupancy of the newly constructed tenant and operational spaces on the Bridge/Promenade level.
3. 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.
4. The addition of supplementary electrical infrastructure required to support connection to an emergency backup power system being installed by a future project.
5. Renovating the restrooms adjacent to Security Screening Checkpoint #5 to comply with emergency exiting requirements.
6. Providing additional exit signage at Baggage Claim.

These code-related items were originally intended to be addressed by future projects currently being planned. The Authority Having Jurisdiction (AHJ) determined that they needed to be shifted instead to this Program's scope of work to allow occupancy once the work is completed.

Other key work elements related to the baggage handling system, signage and wayfinding, HVAC and smoke control have continued to evolve during design and the updated costs for these have been added to the Program scope.

Phase A design is currently at 100% and Phase B design is at 90%. The budget reconciliation by the Port's third-party estimator has been completed with <5% variance between their estimate and the cost model provided by the Design Build team.

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 a sustainable and cost-effective manner.

Diversity in Contracting

Diversity in Contracting has established a Women/Minority Business Enterprise (WMBE) aspirational 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.

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Currently the Port’s consultant support services contract is achieving 26% WMBE utilization, and Alaska’s consultant support and construction teams are attaining 15% SBE/WMBE utilization. The Design Build team is approximately 50% complete with buying out the project scope and are increasing their WMBE/SBE outreach to attain this goal.

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 divided into two distinct phases.

Phase A (Q4 2022 – Q2 2026)

- 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 northernmost 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.

The Program team is implementing the Sustainable Design Approach (SDA) approved by the Sustainability Environment and Climate (SEAC) Committee on February 21, 2023. The Program is also applying strategies toward the achievement of a 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.

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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 & TRA #4	2022 Quarter 4
Execution of TRA #4	2023 Quarter 2
Commission authorization initial Phase B construction & TRA #5	2023 Quarter 1
Execution of TRA #5	2023 Quarter 3
Final Guaranteed Maximum Price (FGMP), Phase B construction & TRA #6	2023 Quarter 2
Execution of TRA #6	2023 Quarter 3
Phase B construction start	2023 Quarter 3
Phase B In-Use-Date	2026 Quarter 2

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, the 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, the 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, the Commission authorized an additional \$149.5 million for Phase A construction and an associated TRA with Alaska.
- On October 25, 2022, the 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.
- On March 28, 2023, the Commission authorized \$159.5 million for Phase B construction and final design for new scope addressing code compliance and an associated TRA with Alaska.
- This request seeks authorization for a further \$46 million for Phase B construction to address several pre-existing building code compliance issues in the construction work area and approve the Final Guaranteed Maximum Price (FGMP) for the overall Program at \$546 million.

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Cost Breakdown

	Previous Requests	This Request	Program 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	\$75,000,000	\$0	\$75,000,000
Phase B Construction	\$176,900,000	\$0	\$176,900,000
Alaska Soft Cost	\$22,700,000	\$0	\$22,700,000
Port Soft Cost	\$34,900,000	\$0	\$34,900,000
Port-held Contingency	\$21,000,000	\$0	\$21,000,000
Code-Related Design	\$3,100,000	\$0	\$3,100,000
Phase B Supplemental Construction	\$0	\$46,000,000	\$46,000,000
Total	\$500,000,000	\$46,000,000	\$546,000,000

Itemization of Additional Funding Request

Address Existing Code Compliance Issues:	
<i>Provide Additional Infrastructure for Emergency Power System</i>	\$5,000,000
<i>Provide 2-way Communication at Elevator Areas of Refuge</i>	\$2,000,000
<i>Allowance for Vertical Utility Shaft Repairs</i>	\$3,500,000
<i>Renovate Restrooms Next to Security Screening Checkpoint #5</i>	\$6,000,000
<i>Install Fire Sprinklers Inside Skybridges 2-6</i>	\$2,000,000
<i>Provide Additional Exit Signage on Baggage Claim Level</i>	\$500,000
Design Development:	
<i>Baggage Handling System</i>	\$1,000,000
<i>Digital Signage and Wayfinding</i>	\$3,500,000
<i>Structural Upgrades (Terrazzo Flooring and SSCP #5 Reconfiguration)</i>	\$6,000,000
<i>HVAC / Smoke Control</i>	\$6,500,000
<i>Fall Protection</i>	\$1,000,000
<i>Security Blast Film</i>	\$500,000
<i>Cost of Scope Transfers from Adjacent Projects</i>	\$4,000,000
Washington State Sales Tax (WSST)	\$4,500,000
TOTAL	\$46,000,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Complete construction of Phase A and limit Phase B construction to work already started.

Cost Implications: ~\$350 million

Pros:

- (1) Reduces the Port’s capital expenditure.

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- (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 Security Screening Checkpoint #5.
- (2) Does not implement desired technology improvements.
- (3) Does not address all existing code inadequacies.
- (4) Does not provide all 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 2 – Proceed with Phase A and Phase B to complete the full North Main Terminal Redevelopment Program scope.

Cost Implications: \$546 million

Pros:

- (1) Achieves the desired capacity improvements on the Bridge/Promenade and Ticketing levels and at Security Screening Checkpoint #5.
- (2) Upgrades the restrooms adjacent to Security Screening Checkpoint #5.
- (3) Implements the desired technology improvements.
- (4) Addresses existing code and ADA inadequacies.
- (5) 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	\$541,000,000	\$5,000,000	\$546,000,000
AUTHORIZATION			
Previous authorizations	\$495,000,000	\$5,000,000	\$500,000,000
Current request for authorization	\$46,000,000	\$0	\$46,000,000
Total authorizations, including this request	\$541,000,000	\$5,000,000	\$546,000,000
Remaining amount to be authorized	\$0	\$0	\$0

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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 \$141 million was transferred from the Aeronautical Allowance¹ CIP (C800753) resulting in zero net change to the Aviation capital budget. The funding sources will be revenue bonds and Airport Development Fund (ADF). This project received Majority in Interest (MII) airlines approval on December 13, 2021. The budget increase was submitted to the airlines for additional Majority-In-Interest approval on May 22, 2023, and received a YES vote on June 23, 2023.

Financial Analysis and Summary

Project cost for analysis	\$546,000,000
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	\$1.33 in 2027

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

March 28, 2023 – North Main Terminal Redevelopment Program – Phase B Construction Funding Authorization (C801204) which authorized \$156,400,000 for Phase B construction, transfer of \$1,559,000 from the Main Terminal Low Voltage Program, \$3,100,000 for final design addressing existing building code compliance, and to execute a fifth Tenant Reimbursement Agreement with Alaska Airlines, Inc. (Alaska).

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).

¹ The Aeronautical Allowance is included in the Capital Improvement Plan to ensure funding capacity for unspecified projects, cost increases for existing projects, new initiatives, and unforeseen needs. This ensures funding capacity for unanticipated spending within the dollar amount of the Allowance CIP.

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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.