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COMMISSION

AGENDA MEMORANDUM Item No. 10b

ACTION ITEM Date of Meeting April 16, 2024

DATE: April 3, 2024

TO: Stephen P. Metruck, Executive Director

FROM: Jeff Wolf, Director, Aviation Commercial Management

Eileen Francisco, Director, Aviation Project Management Group

SUBJECT: Concourse A Duty Free – Tenant Reimbursement Agreement (TRA) and Pre-construction Services

Amount of this request: \$10,100,000

Total estimated project cost: \$46,431,000 – \$60,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to 1) execute a TRA with the selected Duty-Free Operator and 2) authorize \$10.1M for design and pre-construction services for the Concourse A Duty-Free project. The estimated total project cost is between \$46M - \$60M.

EXECUTIVE SUMMARY

This project will renovate a portion of Concourse A and create approximately 12,000 square feet of new leasable space for Duty-Free operations. With the addition of the International Arrivals Facility (IAF), gates on Concourse A are now internationally capable, making it the ideal location to provide expanded Duty-Free services to the traveling public and increasing SEA's nonaeronautical revenue.

With prior Commission approval, the project has completed a Project Definition Document (PDD), developed 15% designs, solicited for, and awarded a Duty-Free Operator.

JUSTIFICATION

Duty-Free at SEA has been an underperforming category within the Airport Dining & Retail (ADR) program due to a lack of required square footage necessary to attract and secure brand names to meet international passenger demands. SEA's existing Duty-Free amenities currently ranks 13 out of 22 for Duty-Free operations within U.S. large hub airports. This project, combined with the South Concourse Evolution Project, will meet passenger and international airline partner demand

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for Duty-Free operations, increase passenger amenities, and aligns with the Port's Century Agenda goal to strengthen SEA's competitiveness in both the regional and global markets.

Today's request is to execute a TRA contract between the Port and the selected Duty-Free Operator such that the Duty-Free Operator may execute their respective design and General Contractor/Construction Management (GCCM) contracts to further project designs.

Furthermore, under a TRA and GCCM project delivery method, the Port is requesting \$10.1M to support and reimburse design and pre-construction services for base building work.

Diversity in Contracting

This project has set a Women-and-Minority Owned Business Enterprise goal of 14% for design and 15% for construction services.

DETAILS

Under this TRA, the cost of design, construction, and associated soft costs of the Concourse A base building improvements and modifications will be reimbursable. The Duty-Free Operator will be responsible for the cost of design, construction, and associated soft costs of all individual tenant improvements within Concourse A and the forthcoming shell and core space in the south satellite, provided by the S Concourse Evolution Program.

On October 26, 2021, Commission authorized the completion of the PDD, preliminary design development, and continued exploration of using a TRA to complete the base-building work. Due to the substantial amount of base-building work needed to complete the renovation on Concourse A, the Port determined a TRA was the preferred option to deliver the project.

Commission authorization for design was originally anticipated in Q3 of 2022 but due to extended COVID impacts and a protracted rebound of international passenger traffic, the project was delayed by 18 months. ADR's solicitation for a Duty-Free Operator was advertised in July of 2023, concluded in October of 2023, and was awarded in March of 2024.

The selected respondent has provided preliminary TRA costs as part of the solicitation. Estimated TRA costs are currently under evaluation by the Port's Project Management/Project Controls teams and will not be fully validated until 100% designs to ensure greater cost accuracy.

This \$10.1M request will provide for design, pre-construction, ADR Owner's Rep, and Port project and construction management services.

In addition to the Port's capital investment for Concourse A, the Duty-Free Operator will also complete various tenant improvements throughout Concourse A, S and N. This expansion of

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Duty-Free Operations is anticipated to create over 150 jobs in design, construction, and operations.

Scope of Work

The project area is located on Concourse A adjacent to the exit from the IAF and Gina Marie Lindsey Hall (GML). It includes concourse circulation and multiple retail, food, and beverage concepts. This existing space will be converted into a Duty-Free area and the layout will be configured such that passengers can flow through both the Duty-Free and Duty-Paid concepts, maximizing revenue. The new Duty-Free space will be in the center of the concourse between Gates A1 through A6. This central location will include ADR space, a customer information hub, a music stage, and Flight Informational Displays throughout.

The new Duty-Free will require a "lid" or structural slab above the existing concourse for support and to maintain the required security separation from the GML arrivals. In doing so, it will create a new expanded, fully renovated mezzanine space for SEA's Conference Center. This additional conference space will also generate new non-aeronautical revenue for the Port.

A new egress stair from the mezzanine level will exit into baggage claim. Directly behind the egress stair is a proposed storage room for lifts and/or a potential baggage claim office location. All existing exits from GML hall will be maintained throughout the project. The future design will be responsible for confirming that all exit egress pathways are maintained.

This project will require a focused, multi-phased construction sequencing plan to coordinate projects within the Concourse A footprint and across the larger airport campus. Additionally, extensive, and constant communication will be required to inform all required Port stakeholders throughout the project's duration to ensure impacts to the Port and passenger experience are limited to the extent practicable.

Additionally, the selected Operator, under a normal tenant improvement, will also complete the design and construction of a new Duty-Free location within the South Concourse Expansion. Construction of the South Concourse Duty-Free location is anticipated to begin as early as 2027.

Schedule

Design Start 2024 Q3

Full Project Authorization 2025 Q4

NTP for Construction 2025 Q4

In-use date 2027 Q3

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Cost Breakdown This Request Total Project

Design \$8,600,000 \$10,346,000

Preconstruction Services \$1,500,000 \$1,500,000

Construction 0 \$34,585,000

Total \$10,100,000 \$46,431,000 - \$60,000,000

The \$46.4M listed above represents the low range of the estimated total project value. Once all costs have been vetted against the 100% design package, the project team will seek Commission approval for the full project authorization, including the total TRA value.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not increase the total leasable square footage of Duty-Free operations. Under this alternative the Port would not move forward with any improvements/modifications to

Concourse A.

Cost Implications: \$549,360 (actual costs to date)

Pros:

- (1) Remaining estimated capital budget of \$45,881,640 could be saved.
- (2) This is the lower cost alternative.

Cons:

- (1) Current project costs would be wasted.
- (2) Loss of opportunity to expanded Duty-Free square footage, maximize non-aeronautical revenue, and struggle to meet current and future international passenger demands.
- (3) Does not increase SEA's competitiveness within regional and global markets or improve SEA's current Duty-Free ranking among large-hub U.S. airports.

This is not the recommended alternative.

Alternative 2 – Re-evaluate the overall project to implement partial elements of the scope identified in the PDD and forgo the execution of a TRA to complete Concourse A improvements/modifications.

Cost Implications: \$549,360 (actual costs to date)

Pros:

- (1) The reevaluated scope could potentially alleviate project conflicts and construction phasing impacts with Checkpoint #1.
- (2) Potential to reduce impacts to operations at the airport.

Cons:

- (1) Significantly delays the overall project schedule to reevaluate critical scope and construction phasing.

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- (2) ADR will need to recompute the Duty-Free RFP as the business model and offering will have changed and the economics associated with the proposals are no longer justified without the full amount of square footage available to the operator. With reevaluation of options there will be additional cost implications for rework of PDD efforts to date.
- (3) Completing any necessary base building modifications in the future would likely be more costly.

This is not the recommended alternative.

Alternative 3 – Execute the TRA contract between the Port and Duty-Free Operator and Approve the necessary funds to support and reimburse for design development preconstruction services.

Cost Implications: \$10.1M

Pros:

- (1) Meets Port's Century Agenda to strengthen the competitiveness of SEA in both the regional and global marketplaces.
- (2) Provides expanded Duty-Free footprint to meet current and future international passenger demands.
- (3) Maximizes Port's non-aeronautical revenue.

Cons:

- (1) Impacts to the passenger experience during construction with a project this size and complexity.
- (2) Increased project-to-project coordination with adjacent Checkpoint #1 project and increased passenger impacts because of multiple project closures in the Concourse A vicinity.
- (3) Large capital investment. Current estimated total project value is \$46M - \$60M.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Estimates included in the table below are represented as the low end of the current total project value of \$46M - \$60M. Completion of the 100% design will inform more accurate project costs and drive the forthcoming request to lock in both the TRA value and the total project costs.

Cost Estimate/Authorization Summary Capital Expense Total

COST ESTIMATE

Original estimate	\$33,366,000	\$0	\$33,366,000
Current change	\$12,565,000	\$500,000	\$13,065,000
Revised estimate	\$46,431,000	-	\$60,000,000

AUTHORIZATION

Previous authorizations \$1,746,071 0 \$1,746,071

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Current request for authorization \$9,600,000 \$500,000 \$10,100,000

Total authorizations, including this request \$11,346,071 \$500,000 \$11,846,071

Remaining amount to be authorized \$35,100,000 -

\$48,700,000

Annual Budget Status and Source of Funds

This project, CIP C801206, was included in the 2024-2028 capital budget and plan of finance with a budget of \$45,931,000. The funding sources will include the Airport Development Fund and revenue bonds.

Financial Analysis and Summary

Project cost for analysis \$46 - \$60 million

Business Unit (BU) Commercial Management

Effect on business performance Over the course of the term for Duty Free, NOI will range

(NOI) from \$90 million-\$110 million depending on project cost.

New additional non-aeronautical revenue will ramp up

from approximately \$5.6 million to \$10.1 million in year

20. Breakeven is expected from 9 to 11 years depending

on project cost.

NPV \$5.7 million-\$23.5 million (depending on project cost)

CPE Impact N/A

Future Revenues and Expenses (Total cost of ownership)

Non-aeronautical revenues are estimated to be approximately \$5.6M (year 1) - \$10.1M (year 20)

based on projected Duty-free sales per international enplaned passenger and long-term

passenger traffic forecasts.

ATTACHMENTS TO THIS REQUEST

(1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

October 24, 2023 – Lease and Concession Termination Agreements for Concessionaries

Concourse A (Duty-Free Construction)

October 26, 2021– Complete Project Definition Document and release the RFP to select a Duty-Free Operator

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