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**COMMISSION**

AGENDA MEMORANDUM Item No. 10b

ACTION ITEM Date of Meeting June 25, 2024

DATE: June 14, 2024

TO: Stephen P. Metruck, Executive Director

FROM: Rick Duncan, Director, Aviation Business &amp; Properties

Eileen Francisco, Director, Aviation Project Management Group

SUBJECT: Post IAF Airline Realignment Construction Authorization (CIP#801158)

Amount of this request: \$85,800,000

Total estimated project cost: \$154,500,000

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to approve a total project budget of \$154,500,000 and to allocate \$85,800,000 of that budget for the Post IAF Airline Realignment Project at Seattle-Tacoma International Airport and to execute the Maximum Allowable Construction Cost Contract Amendment, any related project change orders, amendments, work authorizations, purchases, contracts, and to take any actions necessary to support and deliver the project within the approved budget. (CIP #C801158)

**EXECUTIVE SUMMARY**

At the September 2023 Commission briefing Port staff presented a budget range for this project between \$102M and \$140M. With the completion of design and the receipt of subcontractor bids, the MACC contract amendment can be completed. This step has solidified a project budget grown to \$154.5M to accommodate scope changes, market conditions, and schedule mitigations. The project is facilitating the relocation of airline operations from Concourse A to Concourse B. This allows for airlines with international flights to use the vacated international capable gates on Concourse A. Associated office and support spaces to support airline relocations are being performed on Concourse A and Concourse B. Additionally, a ticket counter reconfiguration in the main terminal.

This request will provide construction authorization for the balance of airline realignment scope; (1) Concourse B mechanical system upgrades, (2) renovation and expansion of office and airline operations support space on Concourses A and B and (3) reconfigured and expanded common

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use ticket counters in the Main Terminal. Completion of this work will provide ramp level operational space for United Airlines by Quarter 3 of 2025.

The United Airlines' Lounge will be delivered under a separate reimbursement agreement and will be the subject of a future authorization request.

**JUSTIFICATION**

In April 2024 construction activities for enabling work commenced, facilitating the consolidation of existing airline operations to make way for the balance of the airline realignment scope included within this authorization.

Should this request be approved, the Maximum Allowable Construction Costs (MACC) negotiated with the General Contractor Construction Manager (GCCM) would be executed in mid-July and construction activities for the balance of the airline relocations would begin shortly thereafter.

Seeking this authorization now supports the project team's efforts to advance the project expeditiously and support the earliest move of the airlines.

With the completion of the subcontractor construction bidding process, the project has greater cost certainty for the airline realignment scope included within this authorization. Competitive market costs were secured with subcontractor bids received throughout the month of May 2024. Market conditions with bids received reflected higher costs than estimated at 60% design development and can be attributed to increases in material and shipping costs, shortages in the labor market and the complexity of the phased work to deliver the airline realignment scope while maintaining 24/7 airport operations. Additional temporary provisions to maintain existing operations incorporated into the project have increased costs to mitigate schedule delays.

**Diversity in Contracting**

The project team has worked with the Diversity in Contracting team to establish the following women- and minority-owned business enterprise (WMBE) goals for the project's contracts as

outlined in the table below.

Contract Goal Commitment

Project Management 14% 98%

Construction Management 30% 30%

Design 15% 17%

Testing & Special Inspection TBD TBD

GCCM (Construction) 13% TBD

#### DETAILS

Significant phasing and sequencing are required to deliver the airline realignment scope in a 24/7 operational airport. Initiating key infrastructure and existing systems relocations on Concourse B

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ramp through the enabling work in April allowed the GCCM to streamline construction durations to support the work outlined below beginning in July.

##### Scope of Work

- (1) Renovations to existing tenant-leased spaces on Concourse A to support final tenant relocations required for airline realignment.
- (2) Renovated and expanded tenant-leased spaces on Concourse B ramp to create new office support space for the relocated airline tenant.
- (3) Code upgrades to extend the new interior corridor initiated with the enabling work.
- (4) Cage storage provided with enabling work will be reconfigured to support final airline relocations.
- (5) Modifications and upgrades to existing Concourse B mechanical system to support the newly expanded and renovated ramp leasable space, including two new enclosed penthouses at the roof level.
- (6) Renovated ticket counter and tenant-leased space in the central main terminal to provide ten ticketing positions, an airline break room and leasable space for a future tenant.

##### Schedule

###### Activity

Enabling Work Construction Start 2024 Quarter 2

Airline Realignment Construction Authorization 2024 Quarter 2

Airline Realignment Construction Start 2024 Quarter 3

In-use date (Concourse B) 2025 Quarter 3

In-use date (Concourse A) 2026 Quarter 1

Note that the "in-use date" for Concourse B establishes the planned move date for United Airlines in 2025 Quarter 3, presuming no extra-ordinary steps taken to revise this date. United Airlines had earlier elected to self-complete their lounge. The schedule for completion of this work remains to be determined.

##### Cost Breakdown This Request Total Project

Design \$10,000,000 \$43,750,000

Construction \$75,800,000 \$110,750,000

Total \$85,800,000 \$154,500,000

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##### ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Delay MACC authorization until completion of negotiations to maximize project cost certainty.

Cost Implications: \$85,800,000 (same as Alternative 2)

##### Pros:

- (1) All subcontractor costs would be known prior to executing the MACC.
- (2) Project budget certainty would be increased when authorizing the MACC.

##### Cons:

- (1) Waiting for the completion of negotiations would delay the start of construction by several months while preparing the request.
- (2) Delays United Airlines Gate allocation on Concourse B to 2026

(3) Delays the GCCM from beginning work in tenant lease spaces that are available for construction now.

(4) Creates unforeseen schedule impacts from adjacent Port projects performing work in 2024.

(5) Significantly reduces the advantages of the GCCM contracting method by delaying the work the mechanical and electrical subcontractors could negotiate and perform now.

This is not the recommended alternative.

Alternative 2 – Authorize MACC execution now as requested.

Cost Implications: \$85,800,000

Pros:

(1) Aligns with the current scheduling coordination with adjacent Airport projects.

(2) Supports phased delivery of airline realignment scope to deliver Concourse B gates in 2025.

(3) Continues the renovation and consolidation delivered with the enabling work, mitigating the risk of schedule delays for Concourse B In-Use dates.

(4) Leverages the advantages of the GCCM contracting method by starting work the mechanical and electrical subcontractors could negotiate and perform now.

Cons:

(1) An increase to project budget is required to deliver the airline realignment scope.

This is the recommended alternative.

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FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary Capital Expense Total

COST ESTIMATE

Original estimate \$35,000,000 \$35,000,000 \$70,000,000

Previous changes – net \$101,145,000 \$855,000 \$102,000,000

Current change \$52,430,000 \$70,000 \$52,500,000

Revised estimate \$153,575,000 \$925,000 \$154,500,000

AUTHORIZATION

Previous authorizations \$54,202,000 \$898,000 \$55,100,000

Current request for authorization \$85,773,000 \$27,000 \$85,800,000

Total authorizations, including this request \$139,975,000 \$925,000 \$140,900,000

Remaining amount to be authorized \$13,600,000 \$0 \$13,600,000

Annual Budget Status and Source of Funds

This project, CIP C801158, was included in the 2024-2028 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 of the project in amount of \$32,145,000 were deemed as capital. The current budget increase of \$52,430,000 was transferred from the Aeronautical Allowance CIP C800753 resulting in no net change to the Airport capital budget. The funding sources will be Airport Development Fund and revenue bonds.

Financial Analysis and Summary

Project cost for analysis \$154,500,000

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 \$0.52 in 2027

Future Revenues and Expenses (Total cost of ownership)

The project team is working with Aviation Maintenance and Facilities and Infrastructure groups to finalize the existing asset data and coordinate the phased delivery of in-use assets beginning in December 2024. Operating and maintenance costs for new infrastructure and systems will be determined when the MACC is executed in July 2024.

ADDITIONAL BACKGROUND

The project team is meeting with adjacent projects to coordinate project schedules, scope overlap and other necessary items to limit construction impacts to normal airport and tenant operations.

1. Baggage Optimization Program

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2. Main Terminal Low Voltage Upgrades
3. North Main Terminal Redevelopment
4. Concourse HVAC Infrastructure Renewal and Replacement Program (CHIRRP)
5. 2024 Airfield Improvement Project
6. 2026 Airfield Improvement Project

ATTACHMENTS TO THIS REQUEST

(1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

January 9, 2024 – The Commission authorized \$7,500,000 to advance the project schedule for the Post IAF Airline Realignment project at Seattle-Tacoma International Airport.

September 26, 2023 – The Commission authorized \$14,400,000 to facilitate the following actions: (1) authorize enabling construction work for the Post IAF Airline Realignment project at Seattle-Tacoma International Airport, (2) procure long lead items, (3) increase the project authorization by \$14,400,000, and (4) execute a project labor agreement.

September 12, 2023 – The Commission was briefed on the program status and schedule for future authorization requests.

February 14, 2023 – The Commission authorized \$7,000,000 to facilitate the following actions: (1) amend a project-specific design contract, and (2) execute a Change Order to the General Contractor/Construction Manager Pre-Construction Services contract.

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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