



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 8d

**ACTION ITEM**

**Date of Meeting** November 12, 2019

**DATE:** November 4, 2019

**TO:** Stephen P. Metruck, Executive Director

**FROM:** Jeffrey Brown, Director Aviation Facilities and Capital Programs  
James Schone, Director Aviation Business Development  
Wayne Grotheer, Director Aviation Project Management  
Janice Zahn, Assistant Director Engineering, Construction Services

**SUBJECT:** Central Terminal Infrastructure Upgrade budget increase request (CIP #C800722)

**Amount of this request:** \$5,000,000

**Total estimated project cost:** \$21,834,000

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to (1) increase the authorized funds for the Central Terminal Infrastructure Upgrade project in the amount of \$5,000,000 for a revised total estimated project cost of \$21,834,000; and (2) execute two construction change orders in excess of \$300,000 and 60-day time extensions.

**EXECUTIVE SUMMARY**

The Central Terminal Infrastructure Upgrade project provides the shell space and associated vertical circulation for expansion of and improvements to the Airport Dining and Retail (ADR) Program in the Central Terminal which will improve customer service, create more jobs and increase non-aeronautical revenues.

The most recent Airport Dining and Retail (ADR) demand analysis, completed in 2016, showed there was a significant deficiency of space for food service throughout the main terminal building to meet the anticipated 2025 passenger volume projections. And since that analysis, enplanements have grown faster than the 2016 forecast, creating an even greater deficiency. This project, which will add over 11,000 square feet of new leasable space to the Central Terminal, was determined to be the best option to address that deficiency.

The project estimate at completion (including replenishment of contingencies) exceeds the current project authorization by \$5,000,000. The anticipated budget overrun is primarily a result of scope additions, unforeseen conditions, and design errors and omissions. While scope changes to this project have resulted in the current budget shortfall, these change orders such as the deferred closing of Anthony's, pest mitigation, and provisions for temporary food carts

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have resulted in significant benefit to the Port and the traveling public. The deferred closing of Anthony's and the investment in the temporary food carts not only had a significant positive impact on customer service, together they generated over \$1.25 million in revenue to the Port. Project scope additions and Port requested schedule delays have resulted in about 40% of the \$5,000,000 budget overrun.

### **JUSTIFICATION**

This project supports the redevelopment of the ADR program which is a significant contributor to customer service for the travelling public as well as the creation of jobs for residents of this region and is the second-largest source of non-aeronautical revenue for the Port. At the end of 2018, there were over 2,000 full and part-time jobs directly associated with the tenants that comprise the ADR Program. During 2018, the ADR program generated \$336 million in gross sales with over \$52 million paid to the Port as rent and concession payments. The ADR units in the Central Terminal alone generated \$95.5 million in gross sales in 2018 (28% of total ADR gross sales) with over \$11.75 million (12%) paid to the Port as rent and concession payments.

The 2016 ADR Demand Analysis showed that there was a significant shortfall in dining and retail capacity to meet the forecasted demand based on passenger projections for 2025. Specifically, there was a shortfall of over 26,000 square feet of food and beverage service forecasted for the post-security area in the main terminal building.

This project, which will add over 11,000 square feet of leasable space on the mezzanine level of the Central Terminal, was determined to be the best option to significantly reduce this shortfall. It develops spaces in the Central Terminal that are currently unused and reconfigures/repurposes existing spaces for improved utilization. The completion of this project will enable the Port to better meet passenger demand for food service while creating more jobs and increasing non-aeronautical revenues. This project will also ensure that the base building systems and all points of connection for utilities are code compliant.

### ***Diversity in Contracting***

It is a requirement of this project that 25 percent of the total construction contract value be performed by one or more small businesses. Small business participation is currently in excess of 78 percent. Minority and Women-owned Business Enterprise (MWBE) participation is currently at 11.3 percent.

### **DETAILS**

Given the sizeable shortfall of space identified in 2016 ADR Demand Analysis, staff looked throughout the Airport for space to meet the forecasted demand. Staff determined that the expansion of the ADR Program in the Central Terminal through the utilization of unused spaces

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on the mezzanine level, would be the best alternative to reduce the shortfall. This project is necessary to enable the utilization of these spaces.

This project was originally bid as two separate construction projects. All bids received for the two projects exceeded the engineer’s estimate, and as a result the projects were combined and rebid as a single construction package. The current project estimate at completion is \$21,834,000 this includes the request for \$5,000,000 in this memorandum. If the original bids would have been accepted and contracts awarded the total project cost would have been \$24,716,000. If these contracts had been awarded the project team is confident that an authorization for additional budget would still have been required.

The project has experienced major construction change orders above and beyond the projected costs due to business and customer service improvements, costlier than anticipated unforeseen field conditions, and designer errors and omissions. These costs include additional barricades, errors in elevator pit depths, added power and communications for temporary food carts, delays in closing tenant spaces, pest mitigation, unforeseen conditions, and additional support costs for AV Maintenance, Port Construction Services, and design.

There are currently two change orders related to these decisions that require Commission authorization; both will extend the contract duration more than 60 days and increase the contract value by more than \$300,000. Final values are still under negotiation, and staff estimates the additional cost and time due to changes in construction phasing of approximately \$530,000 and 120 calendar days. Impacts from unforeseen utilities are currently estimated at \$300,000 and 90 calendar days.

***Scope of Work***

Upgrade the infrastructure in the Central Terminal to include adding new heating, ventilation, and air conditioning (HVAC) air handling units, variable air volume boxes, plumbing, electrical, mechanical systems, demising walls, elevators and stairways, and demolition to prepare the mezzanine and all Central Terminal spaces for future tenant build-out projects. This will require closing all Central Terminal tenant spaces, in multiple phases, to accomplish the work.

***Schedule***

*Activity*

Commission design authorization	2 <sup>nd</sup> Quarter 2015
Design start	2 <sup>nd</sup> Quarter 2015
Commission construction authorization	2 <sup>nd</sup> Quarter 2016
Commission construction authorization combined C800638 & C800722	3 <sup>rd</sup> Quarter 2017
Construction start	4 <sup>th</sup> Quarter 2017
In-use date	3 <sup>rd</sup> Quarter 2020

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<b>Cost Breakdown</b>	This Request	Total Project
Design	\$450,000	\$2,301,000
Construction	\$4,550,000	\$19,533,000
Total	\$5,000,000	\$21,834,000

**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** – Substantial scope reduction, north penthouse extension not completed

Cost Implications: An estimated \$1,500,000 in project costs would need to be expensed.

Pros:

- (1) No additional capital investment required.

Cons:

- (1) The North Mezzanine would not be available for use and the increased passenger demand for food service in the Central Terminal would not be met.
- (2) The planned ADR Lease Group 3 tenant spaces in the Central Terminal would not be remodeled as part of the Central Terminal Infrastructure Upgrade project resulting in a loss of future non-aeronautical revenues.

This is not the recommended alternative.

**Alternative 2** – Upgrade the Central Terminal Infrastructure

Cost Implications: \$5,000,000

Pros:

- (1) Design for Central Terminal Infrastructure Upgrade project is complete.
- (2) Enables the ADR Lease Group 3 expansion into the north mezzanine spaces not currently being used by the traveling public.
- (3) This project will add approximately 11,000 square feet of new ADR space to the Central Terminal.

Cons:

- (1) Requires capital investment by the Port of Seattle.
- (2) Project will require complex construction in support of the planned expansion that will affect the traveling public; closure of tenant spaces during construction.
- (3) An additional \$5,000,000 is required to complete the project for a revised total estimated cost of \$21,834,000.

***This is the recommended alternative.***

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**FINANCIAL IMPLICATIONS****Cost Estimate/Authorization Summary**

	Capital	Expense	Total
<b>COST ESTIMATE</b>			
Original estimate, CTE HVAC	\$6,589,000	\$23,000	\$6,612,000
Original estimate, ADR Infrastructure	\$6,190,000	\$0	\$6,190,000
Previous changes - net	\$4,032,000	\$0	\$4,032,000
Current change	\$5,000,000		\$5,000,000
Revised estimate	\$21,811,000	\$23,000	\$21,834,000
<b>AUTHORIZATION</b>			
Previous authorizations	\$16,811,000	\$23,000	\$16,834,000
Current request for authorization	\$5,000,000	\$0	\$5,000,000
Total authorizations, including this request	\$21,811,000	\$23,000	\$21,834,000
Remaining amount to be authorized	\$0	\$0	\$0

**Annual Budget Status and Source of Funds**

This project, CIP C800722, was included in the 2019-2023 capital budget and plan of finance with a budget of \$16,811,000. A budget increase of \$5,000,000 will be transferred from the Aeronautical Reserve CIP (C800753) resulting in zero net change to the Aviation capital budget. The funding source will be 2018 revenue bonds.

**Financial Analysis and Summary**

Project cost for analysis	\$21,834,000
Business Unit (BU)	Terminal Building (HVAC) and Terminal Non-Aeronautical (vertical circulation)
Effect on business performance (NOI after depreciation)	NOI after depreciation will increase
IRR/NPV (if relevant)	N/A
CPE Impact	\$0.06 in 2020

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

Aviation Maintenance anticipates only a minimal increase in operations and maintenance costs with respect to the additional 13 variable frequency drives and the light emitting diode lighting for the sides of the one staircase, which will be absorbed with current resources. No impact is anticipated as a result of the renewal and replacement of the existing equipment. There will be an increase in operations and maintenance costs related to the two additional elevators of approximately \$35,000 per year, and a total annual increase of \$8,000 for the two additional HVAC units as a result of this project.

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**ATTACHMENTS TO THIS REQUEST**

- (1) Presentation slides

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

June 27, 2017 – Commission transferred the ADR Infrastructure Modifications scope and budget of \$6,190,000 to the Central Terminal Infrastructure Upgrade project and authorized the construction of the combined project for an additional \$4,032,000. The total estimated cost of the combined project is \$16,834,000.

August 9, 2016 – Commission authorized construction of the Central Terminal Infrastructure Upgrade project for an additional \$5,498,000.

June 28, 2016 – Commission authorized an additional \$5,825,000 for the ADR Infrastructure Modifications project and transferred \$1,500,000 of savings from the Checked Baggage Recapitalization / Optimization project.

May 26, 2015 – Commission authorized design for the Central Terminal Infrastructure Upgrade Project for a total of \$1,114,000.

October 28, 2014 – Commission authorized design for the ADR Infrastructure Modifications project for a total of \$2,801,000 and transferred scope and budget of \$3,775,000 to the Checked Baggage Recapitalization / Optimization project for the design and construction of two elevator pits.