

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No.	<u>7a</u>
Date of Meeting	<u>July 9, 2013</u>

DATE: June 28, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: Elizabeth Leavitt, Director Aviation Planning & Environmental Programs
Wayne Grotheer, Director Aviation Project Management
SUBJECT: Update on Planning for Sea-Tac Airport International Arrivals Facility (IAF)

SYNOPSIS:

International passenger activity at Seattle-Tacoma International Airport (Airport) requiring Federal Inspection Services (FIS) clearance has grown 59 percent since 2004. Also since 2004, international arrival activity has concentrated in the mid-day peak. This peak has increased from three to seven wide-body flights with 116 percent more passengers requiring FIS clearance. These increases are welcome news, but they significantly strain capacity and degrade the passenger experience in the aging and inadequate international arrivals facilities of the Airport's South Satellite.

The Port's Century Agenda focuses Airport resources to advance the Puget Sound region as a leading tourism and business gateway. Part of this strategy is the doubling of the number of international flights and destinations over the next 25 years. Each new international flight provides significant economic benefit to the region, and spending by international visitors supports tourism and travel as a major U.S. industry. The Commission has directed staff to report back with bold ideas to accomplish Century Agenda objectives. This briefing will update the Commission on continued planning to define and evaluate alternatives for improvement of the Airport's international arrivals facilities to ensure continued growth and deliver exceptional customer service. The estimated cost for building a new international arrivals facility ranges from \$250 million to \$400 million at this early stage. We will have better cost estimates by the end of the year.

A capital program of this magnitude requires significant resources to implement. In order to meet airline and passenger needs as soon as possible, we need to start now on the work that will be required to fully define the project and have the program management support in place. Additional work is also needed to implement an alternative project delivery option for the IAF building that will be the largest part of this program, located next to Concourse A. All of this will allow the Port to proceed rapidly with full project implementation when these questions are resolved and further Commission authorization is obtained. At the July 23, 2013, Commission meeting, Port staff will request

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authorization for initial project funding, procurement of project and program management support, and authorization to use an alternative project delivery method authorized by State law that requires State board approval for implementation.

BACKGROUND:

International Air Service History at Sea-Tac Airport - For nearly 65 years, Sea-Tac Airport has served the international air service needs of the Pacific Northwest. The Airport is equidistant between Asia and Western Europe and benefits from being the closest West Coast airport in the United States to many important international markets. The South Satellite and the FIS facility opened in 1973. Since then, there has been minimal capital investment in the South Satellite FIS facility apart from an expansion in the mid-1980s, which increased passenger processing capacity from 600 to 1,200 arriving passengers per hour.

Economic Benefit - International flights provide significant economic benefit to the region and bring additional traffic in domestic routes via new connections. A 2012 consultant study estimated that each new international flight generates \$75 million annually in direct and indirect economic impact to the region. Port staff estimates that one international route generates an average of \$1.5 million annually in landing fees and terminal revenues to the Port, in addition to PFC (Passenger Facility Charge) revenues. Also, international passengers typically contribute higher amounts in concession and other related passenger revenues, according to industry research. There have been several analyses for other airports that indicate the economic benefit of a non-stop flight to a new international destination are far greater than just the economic activity associated with the flight activity itself, such as foreign direct investment and exports of goods and services.

Century Agenda Strategic Objectives - In 2012, the Port Commission established a 25-year vision, which includes a strategic objective to advance this region as a leading tourism and business gateway by:

- Making Sea-Tac Airport the West Coast “Gateway of Choice” for international travel;
- Doubling the number of international flights and destinations;
- Meeting the region’s air transportation needs at Sea-Tac Airport for the next 25 years, and encouraging the cost-effective expansion of domestic and international passenger and cargo service; and
- Doubling the economic value of cruise traffic to Washington State.

International Air Service Growth - International air service continues to grow at a rapid rate due in large part to Seattle’s proximity to Asia and the rapid growth of Asian economies. International passenger activity at the Airport requiring FIS clearance grew 59 percent from 2004 to 2013, and the trend is not slowing. Since March 2012, four new international services were initiated from Seattle, and additional flights or larger aircraft

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have also been added to existing services. International flights per week will increase in the summer of 2013 from 110 to 128 compared to the summer of 2012. Taking into account use of larger aircraft, increased numbers of flights, and new services, this represents an additional 5,200 weekly seats each way, an 18.8% increase over 2012.

Peaking Problem – Airline schedules have a greater effect than annual traffic on FIS facility capacity because of the peak traffic they generate. Airlines make market-driven decisions that determine when flights depart airports in Europe and Asia for gateway airports in North America, which results in congestion at Sea-Tac Airport during the mid-day. Much of the growth in international passenger activity has been concentrated in the mid-day peak from 11 a.m. to 1 p.m. This peak grew from three flights in 2004 to seven flights in 2013 with 116 percent more passengers requiring FIS clearance. On a typical day, 1,200 international passengers now arrive at Sea-Tac Airport in a single hour during this period. Staff anticipates that three to five additional flights will be added to this peak within the next five years.

FIS Capacity - The existing FIS facility is experiencing peak-hour capacity problems today. For example, in 2012, airlines were forced to hold passengers onboard aircraft or in the sterile corridor leading to primary inspection 103 times due to a lack of adequate capacity at gates or in the primary inspection facilities. In the summer of 2013, increased activity during the mid-day peak may require busing passengers to the South Satellite from remote hardstands due to a lack of available wide-body gates. Peak hour facility constraints have discouraged airlines from scheduling further arrivals in the mid-day time period. For example, the British Airways second daily London flight that begins in November 2013 has been rescheduled by the carrier to arrive just prior to the peak period.

With anticipated growth, the existing FIS facility will exceed capacity within the next five years. Facility congestion will result in a longer minimum connection time between international and domestic flights, exceeding the published minimum connection time of 90 minutes. This risks potential loss of market share for Sea-Tac Airport. A competitor airport, Vancouver, is implementing a strategic initiative to both simplify the connection process for international to domestic transfers of passengers and baggage, as well as to reduce minimum connection time through a series of capital improvements.

Operational Measures – Operational measures have been implemented to optimize the existing facility. Port staff has worked with airlines and U.S. Customs and Border Protection (CBP) on a wide number of operational measures to optimize capacity. These measures include:

- CBP's increasing document check staffing during peak periods by using agents from back offices and other areas of the Airport.
- Improved queue management throughout each step of the clearance process.
- Expanding the use of the Global Entry program for automated passport inspection.

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- More timely delivery of bags to the FIS bag claim devices.
- Relocation of Delta Air Lines' domestic flights from the South Satellite during the peak period to increase wide-body gate capacity.
- Contingency plans for a busing operation from aircraft parking hardstands in summer 2013.
- Development of plans to reposition aircraft parking around the South Satellite to yield one additional wide-body gate.

While these low-cost operational measures have been implemented, they will not provide sufficient gate or processing capacity to accommodate anticipated near-term growth.

Aging FIS Facility - The 40-year-old FIS facility has surpassed its design life and needs to be renewed to meet ambitious Century Agenda goals and remain competitive with other West Coast airports. Sea-Tac currently has the oldest FIS in operation at a large airport. For example, San Francisco, Vancouver, and Los Angeles – our primary competitors for flights to Asia – either have, or will have, new FIS facilities by the end of this year.

Coordination with Airlines - Port staff has coordinated with the airlines to address FIS facility issues and maximize the usefulness of the existing facility since 2010. Potential alternatives to meet long-term needs are described later in this memo. There is general agreement that an improvement to the existing FIS facility is needed; however, the exact scope and timing of a larger improvement has not been fully defined.

Development Timeframe - Based on our initial project schedule, staff estimates that it would take until sometime in 2018 to design and construct the facility.

Financing Plan – Under all alternatives under consideration for the successor to the current airline lease agreement, a new IAF will be treated as a separate cost center. The funding plan will utilize traditional airport funding sources and will be designed to ensure that FIS rates per passenger (charged to airlines) will be in line with our peer airports in the western United States.

ALTERNATIVES ANALYSIS:

In 2010, Airport staff embarked upon a multi-step work plan to address capacity and operational challenges exacerbated by accelerated growth in international traffic. The work plan included the following sequential elements: respond to immediate challenges, establish objectives for mid- and long-term improvements, collaborate with our airline partners and Customs and Border Protection (CBP) stakeholders, and develop alternatives by which to provide a sustainable solution. We initially pursued simpler and faster solutions and moved on to more expensive and substantial solutions when the easier options proved impossible. We evaluated de-peaking flight activity via slot

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control; improvements within the existing building footprint; expanding and renovating within the footprint of the existing site; and constructing a new facility on a new site.

With additional wide-body arrivals at peak in recent years, Airport staff and our airline partners have acknowledged that improvements to the existing facility without major expansion will not provide adequate capacity for even the mid-term if growth continues at current rates. Slot control was also rejected by the airlines. More recent study has focused on two options involving significant capital investment in expanded and/or refurbished facilities to accommodate future growth. The two remaining options are detailed in the attached PowerPoint presentation.

Staff has concluded that a new IAF is needed, and has been working with our airline partners to better understand the two alternatives. The first alternative is a new stand-alone IAF at Concourse A, connected by a bridge or tunnel to the South Satellite. The second is a “split operation” using the existing FIS at the South Satellite and a new IAF at Concourse A. Staff will continue to work with the airlines to evaluate the best option and to recommend a preferred alternative. We anticipate coming back to the Commission with a preferred alternative later this year.

STRATEGIC OBJECTIVES:

The Port of Seattle Commission’s Century Agenda Strategic Objectives related to this briefing include:

- Advance this region as a leading tourism destination and business gateway
 - Make Seattle-Tacoma international Airport the West Coast “Gateway of Choice” for international travel
 - Double the number of international flights and destinations
 - Meet the region’s air transportation needs at Seattle-Tacoma international Airport for the next 25 years and encourage the cost-effective expansion of domestic and international passenger and cargo service

The Port of Seattle Aviation Division’s Strategic Objectives related to this briefing include:

- Operate a world-class international airport by:
 - Ensuring safe and secure operations
 - Anticipating and meeting needs of tenants, passengers, and region’s economy
- Become one of the top 10 customer service airports in the world by 2015
- Reduce airline costs (CPE) as far as possible without compromising operational and capital needs

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ATTACHMENTS TO THIS BRIEFING:

- PowerPoint Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- **April 9, 2013** – Briefing on Sea-Tac Airport International Arrivals Facility.
- **June 26, 2012** – Briefing on Airport Terminal Development Challenges at Seattle-Tacoma International Airport.
- **June 14, 2011** – Briefing on International Air Service Growth and Future Facility Requirements.
- **February 2, 2010** – Briefing on South Satellite Passenger Growth and Facility Considerations, Delta's Proposed Airline Lounge and Other Possible Future Aviation Projects.