



**COMMISSION
AGENDA MEMORANDUM**

Item No. 4b

ACTION ITEM

Date of Meeting April 11, 2017

DATE: March 21, 2017

TO: Dave Soike, Interim Chief Executive Officer

FROM: James R. Schone, Director, Aviation Commercial Development
James Jennings, Senior Manager, Aviation Properties

SUBJECT: Tenant Reimbursement Agreement with Alaska Airlines for Baggage System Upgrades in the Zone 7 Ticketing Area (CIP #C800154)

Amount of this request: \$880,448.66

Total estimated project cost: \$880,448.66

ACTION REQUESTED

Request Commission authorization to enter into a Tenant Reimbursement Agreement (“TRA”) with Alaska Airlines (“Alaska”) to reimburse \$880,448.66 for Port-responsible baggage system improvements constructed as part of a tenant improvement project in the Zone 7 ticketing area at Seattle-Tacoma International Airport (see attached Exhibit A).

EXECUTIVE SUMMARY

In early 2015, in anticipation of increased flight operations and passenger volumes during the summer season, Alaska made an urgent request to the Port to lease and improve the Zone 7 ticket counters (see Exhibit B) at Sea-Tac International Airport. With the Port’s agreement to lease the counters, Alaska undertook an aggressive schedule to construct new ticket counters and baggage conveyor improvements for the entire Zone 7 bank.

Although not agreed upon in advance, upon completion of the tenant improvements, Alaska requested reimbursement for the Port-maintained baggage system assets. After a detailed review of scope, as well as the Port’s reimbursement policy, the Port agreed to reimburse \$880,448.66, as long as Alaska was able to produce the required tenant reimbursement documentation. Pursuant to the Tenant Reimbursement Guidelines, and RCW 14.08.120(4), Alaska has now submitted all required documentation to be eligible for a tenant reimbursement, including the validation of prevailing wages and release of liens. The significant delay between construction and reimbursement timeframes was largely due to Alaska’s difficulty in producing the required reimbursement documentation.

Meeting Date: April 11, 2017

JUSTIFICATION

This project supports the Century Agenda objective of meeting air transportation needs at Seattle-Tacoma International Airport by providing cost-effective expansion of domestic and international passenger capacity. The project does so by supporting Alaska's operational expansion and ticketing capacity. This project furthers the Port's goals of renewal and replacement of the Port-owned baggage system, through the replacement of a baggage belt that was at the end of its useful life.

- Alaska made capital improvements to the Zone 7 ticketing area that conformed to Port standards and created new Port owned baggage system assets.
- Reimbursement of the requested improvements is in alignment with the Port's AV-2 Tenant Reimbursement Guidelines and Policy.
- Although the total cost of the Alaska tenant improvement project was \$2,411,085.98, the Port agreed to reimburse \$880,448.66 for Port standard assets only.

Tenant Improvement Scope of Work

The scope of work included:

1. Install 30 kiosks and 24 proprietary ticket counter positions (not reimbursed by the Port).
2. Install new mainline baggage belt and controls behind the ticket counters which connect Zone 7 to the C1 baggage system (reimbursed by the Port).
3. Install 24 proprietary baggage scale "finger piers," which allow the passenger to directly place the bag into the baggage system without the agent's assistance (not reimbursed by the Port).

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Port Denies Alaska Reimbursement of Baggage System Improvements

Cost Implications: No tenant improvement funds applied.

Pros:

- (1) Port benefits from updated baggage conveyor support systems without committing any capital towards the project.
- (2) The Port maintains budget for dedicated tenant reimbursement funds to apply to other tenant improvement projects.

Cons:

- (1) This would be inconsistent with the Port's treatment of other airlines where the Port paid for similar baggage system project scope in associated tenant projects.
- (2) It may create unclear ownership and warranty of systems the Port typically owns and maintains.

This is not the recommended alternative.

Meeting Date: April 11, 2017

Alternative 2 – Port Approves Alaska Reimbursement of Baggage System Improvements

Cost Implications: \$880,448.66

Pros:

- (1) The Port’s reimbursement would be consistent in its application of tenant reimbursement of baggage system assets as part of other tenant projects.
- (2) Continues clear and consistent ownership, warranty and maintenance lines associated with baggage system assets.
- (3) Would follow through on the Port’s commitment to reimburse Alaska based on their ability to provide the required documentation to substantiate a tenant reimbursement per Port Tenant Reimbursement Guidelines and Policy.

Cons:

- (1) The budget of \$880,448.66 could not be used for other future tenant improvement reimbursements.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary

	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$880,448.66	\$0	\$880,448.66
AUTHORIZATION			
Previous authorizations	\$0	\$0	\$0
Current request for authorization	\$880,448.66	\$0	\$880,448.66
Total authorizations, including this request	\$880,448.66	\$0	\$880,448.66
Remaining amount to be authorized	\$0	\$0	\$0

Annual Budget Status and Source of Funds

Funds for this tenant reimbursement are included in the 2017 – 2021 capital budget and plan of finance within the tenant reimbursement CIP #C800154. The funding source will be the Airport Development Fund.

Financial Analysis and Summary

Project cost for analysis	\$880,449
Business Unit (BU)	Baggage System
Effect on business performance (NOI after depreciation)	NOI after depreciation will decrease
IRR/NPV (if relevant)	N/A
CPE Impact	Less than \$.01 in 2018

Meeting Date: April 11, 2017

Future Revenues and Expenses (Total cost of ownership)

Incremental operating and maintenance costs associated with this project are expected to be minimal. The expected life of the asset is uncertain given the potential need to reconfigure the north end of the ticketing area. The estimated CPE impact above is calculated based on a ten year life.

ATTACHMENTS TO THIS REQUEST

Exhibit A – Tenant Reimbursement Agreement (“TRA”)

Exhibit B – Ticketing Level Zone 7

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None