

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 8a

Date of Meeting February 24, 2009

DATE: January 21, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Dave Soike, Deputy Director, Aviation Division

SUBJECT: Request authorization for the Chief Executive Officer to execute a professional services agreement to perform technical review on behalf of the airlines and airport related to capital projects.

SYNOPSIS Having an independent consultant perform technical reviews of capital projects and provide coordination among the two dozen airlines at Seattle Tacoma International Airport has proven useful. This service agreement renews that service after completing a public advertisement and competitive interview process to determine the selected firm. The winning firm that will perform the work over a four year period is Airport & Aviation Professionals, Inc. The maximum total estimated cost of this professional services agreement over the coming four years is \$1,600,000.

BACKGROUND

The Port of Seattle Aviation Division and the airlines serving Seattle-Tacoma International Airport (Airport) decided in early 2001 to establish an Airline Technical Representative (ATR) Office to assist the Airport and airlines in their mutual efforts related to implementation of the Airport's Capital Improvement Program (CIP). This ATR service generally performs technical reviews and coordination among airlines to benefit both the airlines and Airport.

Similar ATR have been established at large airports including Washington DC, Miami, Atlanta, Chicago, Detroit, and Denver. Representative offices are also common on the west coast and have been set up in Anchorage, Portland, San Francisco, San Jose, Los Angeles, and Honolulu. These offices have successfully facilitated implementation of the Airport capital programs by ensuring timely involvement of the airlines and by coalescing independent views of various airlines into a unified position that Airports can respond to in an effective manner.

These services have been beneficial to STIA since 2001. Port staff followed Port procurement processes to publicly advertise, receive qualification proposals, perform interviews, rate the submittals and interviews, and document the results to competitively select the firm that will perform the services for 2008 through 2012. The qualification and interview process resulted in

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Airport & Aviation Professionals, Inc. being selected from among the four competitors. This is the same firm that performed the prior work.

PROJECT DESCRIPTION/SCOPE OF WORK

The scope of work that the ATR will perform includes the following:

Capital Coordination Services: The Airport's capital program continues to be significant. Capital spending during 2009 through 2012 is expected to exceed one hundred million dollars. Capital spending is the largest driver of rising cost-per-enplaned-passenger (CPE) which is an Airport standard cost measure that differentiates low cost Airports from high cost Airports. STIA desires to maintain a moderate cost position among peer airports, and desires to continue to apply downward pressure to its CPE. Both the airport and the over two dozen airlines at STIA believe it is wise to continue to utilize an outside consultant (ATR) to serve as a capital program intermediary to assure that the capital program is well planned, designed, and implemented in a fiscally responsible manner.

There are several primary purposes of the ATR scope of work for all projects that they will work on. First, the ATR shall gather airline comments and forward them as a single communication to the Airport. This saves the Airport staff the time in contacting the many airline representatives across the country to receive their individual input. Second, the ATR shall reach out to gather the comments and submit them to the Airport in a timely manner. Third, each airline has its own business model and therefore each has differing levels of interest in the most important of the hundreds of projects or initiatives considered over the four year period. The ATR shall coordinate, evaluate, and resolve any conflicting comments and reduce the remaining issues into fewer key issues that represent consensus among the airlines and enable resolution. Fourth, the ATR shall consider the airlines operating requirements and incorporate those needs as necessary into project designs. Fifth, the ATR shall review and comment on selected tenant and Airport project proposals, long range planning, schematic layouts, design objectives and criteria, designs, cost estimates, schedules, specifications, construction drawings, commissioning plans, and activation efforts.

Coordination is a primary component of the ATR's work that includes maintaining an open and frank communication path between the airlines and the Airport, along with coordinating activities with the Airport / Airline Affairs Committee (AAAC). The ATR also holds technical committee meetings on behalf of the AAAC and seeks less expensive operational, rather than capital, solutions to airline needs. New project requests from airlines are evaluated and recommendations are made as to whether they should proceed or not. To assure coordination, the ATR also participates as a member of the Airport's investment committee to provide both comment from the airline's perspective and to provide a third party independent view of investment proposals.

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Financial Services: Provide financial services to the airlines and Airport on an as requested basis. These services shall include reviewing operating elements related to capital projects, providing net present value analysis, cost estimating operational aspects related to capital projects, budgetary review, analysis related to minimizing cost per enplanement, and reporting. This work involves researching alternatives, gathering cost information from a variety of sources within individual and multiple airlines and the Port. Analysis of annual Airport operating budget summaries may also be requested. Financial services work shall be performed at the direction of the Airport Director, the AAAC Chairperson, and the Deputy Director for Finance and Development of the Airport. The financial service work is anticipated to be a minor portion (10 to 20 percent) of the overall work when compared to the capital coordination work; however a large portion of services will be necessary in the fourth year to perform analysis to support negotiations for a new lease agreement.

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION

1. Request authorization to end the ATR agreement and substitute additional Port staff to perform the work. Based upon airline support of the existing ATR program, and considering that Port staff could not perform fully independent reviews, monitoring, and coordination; it was determined with airline input that ending the ATR program at this time would be detrimental. This is not the recommended alternative.
2. Request authorization to continue the ATR services on a recurring one year basis. The long learning curve to understand operations at STIA and to become familiar with STIA's long term development plan and the many parties involved in the capital operation at STIA make annual contracts inefficient. This is not the recommended alternative.
3. Request authorization to continue the ATR agreement for a period of four years to match the time frame until the next lease agreement with all the airlines. This alternative minimizes the learning curve concerns and cost inefficiencies of successive shorter term agreements. This alternative also allows continuity over a multi-year timeframe that matches the typical timeframe that it takes to conceive, approve, design and authorize construction capital improvements at STIA. This is the recommended alternative.

FINANCIAL IMPLICATIONS

Cost Estimate

The maximum total estimated cost for 2009 totals \$400,000 which includes approximately \$360,000 in capital cost, and \$40,000 in expense cost. The cost is estimated to be same for the successive years adding to \$1,600,000 over the four year period. The actual work will be scoped and contracted for annually via service directives that will match the varying projected capital work that occurs over each year depending upon Commission approvals of projects.

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Source of Funds

The capital costs incurred will be allocated to the project budgets of existing CIP's and funded according to the plan of each CIP that is authorized by the Commission and is active during 2009. The expense costs will be paid by the Airport Development Fund and recovered from the airlines through rates and charges.

Financial Analysis

The capital costs associated with this authorization request are included in the overall capital budget because the costs are charged or allocated to individual projects. The financial analysis for each project, including associated costs such as the ATR, are reviewed by the Commission prior to authorization. Therefore a discreet financial analysis of this coordination and financial services request is not meaningful. However, airline representatives and staff continue to believe that the benefits of the ATR program exceed the costs.

ENVIRONMENTAL SUSTAINABILITY/COMMUNITY BENEFITS

During 2009 the ATR will participate in the joint airport and airline team that will promote opportunities to expand the Airport environmental program in the form of beneficial projects.

TRIPLE BOTTOM LINE SUMMARY

The work of the ATR helps both the Airport and airlines to optimize projects so that the Airport's limited resources are focused to effectively assist the travelers within our community and to create the most effective capital program for the Airport and for our airline customers.

PROJECT SCHEDULE

This authorization request and associated professional services agreement will be completed in December 2012. If the services are still necessary beyond that time, then Airport staff will competitively re-compete the agreement during the latter half of 2012.

PREVIOUS COMMISSION ACTION

Between 2001 and 2007, Port staff received six authorizations from the Commission to award the previous contract and to amend it to perform ATR services at STIA.