

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6g
Date of Meeting December 15, 2009

DATE: November 18, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: James R. Schone, Director, Aviation Business Development
 Jeff Wolf, Manager, Aviation Business Development and Analysis

SUBJECT: Amendment to Extend the License Agreement for The Wireless Communication Access System with New Cingular Wireless PCS, LLC, formerly AT&T Mobility, for Cellular Service at Seattle-Tacoma International Airport

REQUESTED ACTION

Request for authorization for the Chief Executive Officer to execute an Amendment (Attachment A) for a five (5)-year extension with New Cingular Wireless PCS, LLC (AT&T), formerly AT&T Mobility, for the License Agreement (Attachment B) for the Wireless Communication Access System (WCAS) for cellular communication service at Seattle-Tacoma International Airport (Airport), under new negotiated terms.

SYNOPSIS

Port staff seeks approval for an extension to the License Agreement for cellular service at the Airport. The License Agreement is set to expire on December 31, 2009. Port staff evaluated several options for continued cellular service and recommends extending the current License Agreement for an additional five (5) years. Per the terms of the current License Agreement, the Port, in its sole and absolute discretion, may extend the term of the License Agreement for one (1) five (5)-year term.

After a competitive bid process in 2003, AT&T was awarded the WCAS License Agreement to operate the cellular network at the Airport. AT&T implemented a business model common in the cellular industry in which any and all interested cellular companies could utilize the network through sub-License Agreements with AT&T. Three other carriers (Verizon, Sprint, and T-Mobile) became sub-Licensees and continue to operate on the network today. Through the sub-License Agreements, each carrier was, and continues to be, responsible for its pro-rata share of system capital costs. Thus, the initial installation and implementation cost of the system in excess of \$5 million was shared amongst the aforementioned carriers. In addition, each carrier pays an equivalent license fee (including AT&T) to utilize the network.

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Port staff negotiated new terms for the proposed five (5)-year extension including an increase in the guaranteed payment to the Port from \$185,880 to \$200,000, per year, and an increased license fee from \$7,745/carrier, per month, to the equivalent of \$8,333/carrier, per month. Assuming all of the current carriers continue their sub-License Agreements, the annual license fee to the Port would increase from \$371,760 to \$400,000, equating to over \$28,000 additional revenue per year and over \$140,000 over the five (5)-year term. As part of the negotiations to achieve the increased license fee, one additional five (5)-year option, at the Port's sole discretion, has been included. In addition, a tiered license fee structure was incorporated in the proposed extension to incentivize the carriers to add an additional carrier to the network. If achieved, each carrier would pay the equivalent of \$8,000 per month, compared to the \$8,333 per month mentioned above if no new carrier signs on to the network. If a new carrier is added, the Port will realize additional annual license fees of \$108,000, or more than \$540,000 over the five (5)-year term. The new proposed terms are comparable to, or exceed, other similar airports.

The proposed extension not only benefits the Port through increased license fees, but also benefits the travelling public through continued access to reliable and consistent cellular telephone coverage at the Airport.

BACKGROUND

Earlier Procurement and History:

In early 2003, the Port initiated a process to establish a dedicated wireless communication system at the Airport in an effort to provide improved cellular telephone coverage at the Airport. The new system was to provide consistent, seamless coverage for cellular telephones at the Airport, including the terminal building, as well as landside and airside facilities. Up until that time, cellular telephone coverage was based on the availability of signals generated from antennas located off Airport properties, and was neither consistent nor reliable. The Port initiated a Request for Proposals (RFP) to design, install, and operate a radio frequency voice and data system at the Airport called the Wireless Communication Access System (WCAS). This was an intentional effort to enhance the availability of cellular and data services to passengers at the Airport. The WCAS contains two separate components, the Wireless Cellular Network (WCN) and Wireless Data System (WDS) and utilizes a series of antennas and network and cabling infrastructure called the Distributed Antenna System (DAS). The WCN enables wireless communication for paging devices, cellular telephone service, and radio and cellular data service, i.e. data transmission utilizing cellular telephones (text messages). The WDS is comprised of a Wi-Fi system which allows laptops and other mobile devices to connect to the internet.

As part of the RFP and WCAS License Agreement, the selected respondent was required to design and operate the WCN to function as a non-exclusive, hosted intermediary between participating wireless communication providers and allow WCN access to all providers in a non-

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discriminatory fashion. In addition, some of the key goals contained within the RFP for the WCAS included (as stated in the RFP in 2003):

1. Establish reliable seamless wireless communications coverage through the creation of a common, non-discriminatory, comprehensive communications access system using state-of-the-art technology within the Airport premises.
2. Enable equal access to all wireless service providers within the constraints of space available for communications equipment within the Airport's facilities and the financial viability of operating the WCN as a for-profit interest.
3. Provide comprehensive WCAS coverage for use by Airport operations, airline operations, tenant and concessionaire operations, and passengers.

Through the RFP process, the Port selected AT&T to establish the WCAS and upon completion of the build-out of the system during 2004, entered into the WCAS License Agreement beginning January 1, 2005.

The build-out of the WCAS required a substantial investment by AT&T, initially estimated in the RFP response at \$2.7 million, with a final cost exceeding \$5 million. This amount was funded entirely by AT&T.

In its effort to successfully implement the WCAS and allow for shared access to the system, AT&T structured a business model commonly utilized in the wireless industry. The model enacted by AT&T to account for the shared responsibility of initial cost and use of the network includes sub-License Agreements between carriers and AT&T, the main Licensee. This type of agreement required each carrier to pay for its pro-rata share of the WCAS installation. Although the wireless industry is extremely competitive, the carriers implement this shared model and commonly co-locate antennas on towers and at important venues across the country, like the Airport, to provide cellular telephone coverage to their customers. In addition, through the WCAS sub-License Agreements, each carrier is responsible for paying equal license fee amounts, thus leveling the playing field and allowing open and equitable use of the system. In the case of the Airport, AT&T is the main Licensee to the Port with the other carriers acting as sub-Licensees to AT&T. At other locations, each operating independently of one another, carriers other than AT&T act as the "lead" carrier and operate the wireless communications system, with AT&T a co-locating participating carrier. In this way, each carrier is allowed access to networks without being required to pay for the entire cost of each network. Currently, Verizon, Sprint, and T-Mobile have sub-License Agreements with AT&T to provide cellular wireless service through the WCN, all utilizing the same antenna system (DAS). All of the carriers were responsible for their portion of the build-out costs and pay equal fees to utilize the WCN. Further, if an additional carrier signs on to the network, it too would be required to contribute its pro-rata share of system costs and pay the current license fee. Port staff anticipates that all the current carriers will extend their sub-License Agreements with AT&T in conjunction with this five-year extension.

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2009 Negotiations:

Port staff negotiated new terms with AT&T for the five (5)-year extension period which increases the guaranteed payment portion to the Port, and also increases the license fee paid by each carrier, as outlined in Scope of Work below. As part of the extension negotiation process, AT&T requested that in addition to the five (5)-year extension, one additional five (5)-year option be included, again at the Port's sole discretion, mainly due to the high initial investment in both the cellular system and Wi-Fi system. Port staff agreed to this request in exchange for increased license fees, as mentioned above. Port staff believes the new terms within the five (5)-year extension are comparable to, or exceed, other Airport agreements. Below is a chart that compares the new terms to other U.S. airports for cellular service:

	Contract Type	Term	Rent
Seattle	Shared antenna system = DAS (Distributed Antenna System)	5-years with one 5-year option	\$400,000 per year
San Jose	No DAS. Separate agreements with four carriers for lease space for antennas	5-years with one 5-year option	\$84,000 per year, per carrier or \$336,000/year
Portland	Space is leased for separate antennas	Not known	\$22,000 - \$46,000 per year, per carrier
Salt Lake City	No DAS. Separate agreements with three carriers for lease space for antennas	3-years with several 1-year options	\$360,000 per year
Jacksonville	Space is leased for separate antennas. Number of carriers varies by concourse	5-years with 5-year option	\$120,000 per year
Los Angeles, San Francisco, Las Vegas, Phoenix	DAS system being implemented soon. Currently lease space for separate antennas	To be determined with implementation of new DAS system.	To be determined with implementation of new DAS system.

As mentioned above, as part of the installation of the WCAS, the selected respondent was required to build the WDS for Wi-Fi service at the Airport, as Port staff believed it was cost efficient to install a Wi-Fi system in conjunction with the installation of the new cellular telephone system. Upon completion of the installation of the Wi-Fi system, the Port immediately took ownership of these assets. Management of the Wi-Fi system was *not included* in the WCAS License Agreement. At the time, Port staff evaluated several options for management of the Wi-Fi system and ultimately decided to enter into a *separate* Management Agreement with a 3rd party (AT&T) which commenced January 1, 2005. Upon expiration of the Management Agreement for the Wi-Fi system on December 31, 2009, Port ICT staff will take over management and operation of the system. At this time, Port staff is seeking approval for extension *solely* of the WCAS License Agreement for cellular telephone service at the Airport.

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SCOPE OF WORK

Included below is a comparison of the terms of the current License Agreement and the proposed five (5)-year extension:

	Current License Agreement	Five (5)-Year Extension
Term	Five (5)-years from 1/1/2005 through 12/31/2009	Five (5)-years from 1/1/2010 through 12/31/2014
Extension	Yes. One, five (5)-year option at the Port's sole discretion from 1/1/2010 through 12/31/2014	Yes. One, five (5)-year option at the Port's sole discretion from 1/1/2015 through 12/31/2019
License Fee	\$7,745/carrier, per month or \$371,760 per year	Equivalent to \$8,333/carrier, per month or \$400,000 total per year. NOTE: if AT&T signs on an additional carrier by 7/1/2010, a fee equivalent to \$8,000/carrier, per month or \$480,000 total per year, will be applied
MAG (Minimum Annual Guarantee)	\$185,880 per year (based on two carrier minimum at current license fee amount above)	MAG will be set at \$200,000 per year with annual escalation
Escalation	Based on enplanement growth relative to base year (commencement date).	Equivalent to enplanement growth, maximum of 3% and minimum of 0%, per year

STRATEGIC OBJECTIVES

This proposal supports the strategy of "Ensuring Airport and Seaport Vitality" by continuing necessary services, such as cellular telephone service, and improving the financial return to the Airport.

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION

- **Alternative 1: Exercise Five (5)-Year Extension with New Terms**
Port staff has negotiated new terms with AT&T for the extension period, including an increase in MAG (Minimum Annual Guarantee) and in the license fee. Exercising the five (5)-year extension would allow for a seamless continuation of cellular telephone service at the Airport beginning 1/1/2010. AT&T has provided excellent service via the current License

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Agreement and associated sub-License Agreements with all major carriers. Port staff believes this option is the most beneficial to all parties involved. This is the recommended alternative.

- **Alternative 2: Do Nothing**

The current WCAS License Agreement with AT&T to operate the WCN is set to expire 12/31/2009. Upon expiration, there would be no cellular service provider(s) for coverage at the Airport. Thus, a dedicated cellular telephone network would not be available at the Airport and cellular coverage would be severely degraded. Passengers may or may not receive cellular telephone coverage, dependent on the wireless company providing service. Cellular telephone service would rely on off-Airport antennas which for some, or possibly all companies, may not be adequate to supply coverage at the Airport. This is not a recommended alternative.

- **Alternative 3: Re-Bid the License Agreement**

Port staff considered a competitive bid process for continued cellular service at the Airport. After industry and market review, Port staff determined the current License Agreement, with renegotiated terms including increased payments to the Port, was competitive with cellular contracts/agreements at other airports. In addition, the current License Agreement allows for sub-License Agreements with other carriers. Throughout the term of the current License Agreement, all of the major cellular companies have signed sub-License Agreements with AT&T. The sub-License Agreements act as “pass-through” agreements whereby the carriers pay equivalent license fees and share responsibility for network costs. Due to these factors, Port staff determined a competitive bid process would not be beneficial to parties involved. This is not a recommended alternative.

- **Alternative 4: Exercise Five (5)-Year Extension with Current Terms**

The WCAS License Agreement allows for one, five (5)-year extension at the Port’s sole discretion. Under this alternative, the License Agreement would be extended under its current terms. As Port staff was able to negotiate improved terms, including increased guaranteed fees and increased license fees, this is not a recommended alternative.

FINANCIAL IMPLICATIONS

If AT&T continues with the current set of four (4) carriers with sub-License Agreements, total annual license fees will total \$400,000, representing a \$28,000 increase per year over the current License Agreement. Over the five (5)-year extension, this translates into approximately \$140,000. This increase is due to a higher license fee equivalent to \$8,333/month, per carrier, compared to the current \$7,745/month, per carrier.

To help incentivize additional carriers to utilize the WCN, a somewhat lower license fee will apply to *all* carriers if an additional, new carrier signs a sub-License Agreement with AT&T that does not already have a sub-License Agreement. It is important to note that even the lower incentive license fee is still an increase over the current fee. If a new carrier signs on, a fee

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equivalent to \$8,000/month, per carrier will apply to all carriers. This fee would be applied in place of the new \$8,333/month fee mentioned above. As a result, with the addition of a new carrier to the network, total revenues to the Port of Seattle will increase to \$480,000 per year, representing a \$108,000 increase per year compared to the current License Agreement. Over the five (5)-year extension, this translates into approximately \$540,000.

	Current License Agreement	Five (5)-Year Extension	Extension with Additional Signed Carrier
Total Annual License Fees	\$371,760 <i>(4 Carriers)</i>	\$400,000 <i>(4 Carriers)</i>	\$480,000 <i>(5 Carriers)</i>
Annual Increase in License Fees	n/a	\$28,240	\$108,240
Estimated Five (5)-Year Total Increase in License Fees	n/a	\$141,200	\$541,200

ECONOMIC IMPACTS

Cellular coverage is an extremely valuable service to the traveling public. Although direct economic impacts are minimal, the indirect impact of cellular service is substantial. Airport travelers depend on cellular services for both business and personal matters. A disruption in service could have significant impacts.

PREVIOUS COMMISSION ACTION

On January 27, 2004, the Commission approved execution of the WCAS License Agreement with AT&T.

ATTACHMENTS

Attachment A: First Amendment to License Agreement for Wireless Communication Access System (5 pages)

Attachment B: License Agreement for Wireless Communication Access System (63 pages)