

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA – STAFF BRIEFING

Item No. 7d
Date of Meeting February 2, 2010

DATE: January 27, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Mike Ehl, Director Airport Operations

SUBJECT: Briefing on South Satellite Passenger Growth and Facility Considerations, Delta's Proposed Airline Lounge and other Possible Future Aviation Projects

BACKGROUND

The South Satellite and associated international arrivals facilities opened in 1973. Since then there have been minimal changes to the overall facilities apart from a gate area expansion in the mid-1980s and a concession redevelopment in the late 1990s. In the last decade, Seattle-Tacoma International Airport (Airport) has focused most of its capital resources in the Main Terminal and Concourses, most notably with the Central Terminal Expansion and South Terminal Expansion Project (which includes Concourse A and the Gina Marie Arrivals Hall). With recent changes in the airline industry, a changing perspective on the Airport's international market position, and the prospect of further airline re-alignments, there is need for new attention and considerations toward a major renewal, replacement, and/or expansion of the South Satellite and international arrival facilities.

In the last three years, a variety of airlines has begun new service to international destinations from Seattle. This is in contrast to other west coast airports where international routes have either stayed relatively flat or declined as indicated within the attached slides. Northwest Airlines had earlier announced a new route to Beijing from Seattle; however, that was stalled for a period of time as a result of broader economic concerns. Thereafter, merger discussions ensued between Northwest Airlines and Delta Air Lines.

Delta Air Lines and Northwest Airlines merged in October 2008. This combination created the world's largest airline, as measured in passengers. Their pre-merger market share at the Airport was 12.6% (Delta 5.8%, Northwest 6.8%). The Port responded to their merger with assistance in co-locating their ticketing and gate operations. This co-location was completed in June 2009. More recently, Delta announced new planned international services to both Beijing and Osaka, as well as increased frequencies to Amsterdam. If these new services prove to be successful, there are potential opportunities for Delta to further increase international traffic through the Airport as their focus city on the West Coast.

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Delta has submitted certain projects to the Airport in order to optimize their merged activities and to accommodate their known traffic levels for 2010. Delta and the Port have also discussed additional projects that would be necessary to facilitate more air service routes that could expand their business activities at the Airport. Such projects would be either developed and managed by Delta (a tenant project), or developed and managed by the Airport (a Port Project). A list of projects under consideration to be initiated, and some completed, in 2010 follows:

- South Satellite ramp level office improvements to improve staff efficiency (tenant project)
- Ticket counter improvements to increase passenger processing capacity (tenant project)
- South Satellite concourse level gate and concession enhancements to maximize facility flexibility, revenue opportunities, and provide an improved level of service for increased passengers levels (Port project)
- Concourse B gate improvements to add flexibility to accommodate Delta peak-hour domestic flights that cannot be accommodated on the South Satellite (Port project)
- Capacity enhancements within the international arrivals area to improve peak-hour processing of arriving and transferring passengers and baggage (Port project)
- Abatement of hazardous materials (asbestos, etc.) to allow construction of a 6,500 square feet airline lounge on the roof of the South Satellite (tenant or Port project)
- Construction of the 6,500 square feet rooftop lounge at the South Satellite (tenant project)

Certain tenant projects qualify for a reimbursement from the Port when the tenant's construction project improves the value of a Port asset and/or increases the ability for the Port to collect increased rent above and beyond what it would have prior to the tenant improvement. The rooftop lounge, for example, qualifies for partial reimbursement under a procedure formalized in 2009 and noted within Resolution 3605 section 2.4. It is anticipated that reimbursement agreements related to the above projects will be prepared by staff and brought to Commission for authorization.

STAFF BRIEFING

Today's staff briefing will focus on the support required for Delta to construct a new airline lounge, branded as the "Delta Sky Club." Accommodating Delta's premium business passengers, especially on international routes, is critical to the success of their business model in Seattle. Although Delta currently has use of the lounge previously known as Northwest World Club at the South Satellite, (approximately 4,000 square feet) it is too small for their combined operation and expanded service. Hence, they have provided the Port a Letter of Intent to build a new 6,500 square foot lounge on the roof of the South Satellite. Final design for the expansion is not yet complete, therefore only range of magnitude cost estimates are available. It is expected that the lounge may cost between \$6 and \$8 million dollars, where the Airport tenant reimbursement share may be approximately in the sixty to sixty-five percent range. This

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expansion of leasable space will generate an additional \$550,000 in rent payments from Delta to the Airport each year.

There are additional benefits to the Port resulting from Delta's proposal to build this lounge and vacate the existing Northwest World Club. The Port intends to relocate the existing Port common-use lounge "Club International" to this newly vacated location. Club International provides a common-use airline lounge for carriers that are too small to build out and independently lease their own. Currently, both Asiana and Hainan Airlines utilize the Port's existing Club International facilities and three other carriers have expressed interest if the facilities were improved. This new location would suspend the need for the Port to make major re-investments into the existing Club International facility. This improved facility and location will further assist the Port in marketing to new international airlines and routes. Delta will benefit from the Port's vacation of the existing Club International footprint, located on the Mezzanine Level of the South Satellite, which is expected to meet some of Delta's unmet office space needs.

Staff will present an update on Delta's overall design, schedule, and cost estimate in advance of the later authorization request that will enable Delta and the Port to move forward. Staff will also cover the Port's hazardous material remediation strategy and overall financial commitments related to this project. Other related projects will be presented at future dates in 2010.

ATTACHMENT

PowerPoint