

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No.	<u>6b</u>
Date of Meeting	<u>April 5, 2011</u>

DATE: March 25, 2011

TO: Tay Yoshitani, Chief Executive Officer

FROM: David Soike, Director, Aviation Facilities and Capital Program
James R. Schone, Director, Aviation Business Development
Wayne Grotheer, Director, Aviation Project Management Group

SUBJECT: Central Terminal Freight Elevator Project at Seattle-Tacoma International Airport
(CIP # C800334)

Amount of This Request: \$634,000

Source of Funds: Airport Development Fund

Total Estimated Cost: \$6,664,000

ACTION REQUESTED:

Request authorization for the Chief Executive Officer to (1) prepare full design documents using an existing Indefinite Delivery Indefinite Quantity (IDIQ) contract; and (2) execute and amend service agreements for the Central Terminal Freight Elevator project at Seattle-Tacoma International Airport (Airport) for an estimated cost of \$634,000. The total estimated cost for the constructed project is currently \$6,664,000.

SYNOPSIS:

This project will install two new freight elevators, one to the north and one to the south of the public area of the Central Terminal base building. These new freight elevators will be constructed on the exterior of the Central Terminal and connected to the structure to serve the basement, ramp, concourse, and mezzanine levels. The Central Terminal service elevators that currently support the post-security main terminal are undersized for Airport needs, unreliable to operate and expensive to maintain. The undersized elevators cost the Airport and tenants money, exposes passengers and employees to risk for injury, and represents a threat to the Port's ability to command the highest possible rents for tenant spaces in the future. Addressing this problem aggressively now will avoid the risks of near-term consequences, avoid risk of longer-term loss of revenue, and support the 1,300 concession jobs within the airport. The design work will be accomplished within a previously authorized IDIQ contract.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

March 25, 2011

Page 2 of 8

BACKGROUND:

The Central Terminal Expansion (CTE) project, completed in 2005, added 240,000 square feet of terminal space, featuring a six-story tall glass window atrium facing the airfield. Approximately 130,000 square feet of the space was allocated to new airport concessions. Ten new restaurants and nine retail shops were added, including a 7,000 square foot sit-down restaurant (Anthony's). However, the expansion project did not include freight elevators to support the existing terminal (replacing freight elevator capacity removed in project demolition) or the new expansion.

Freight elevators are classed for incidental passenger use and frequent freight use up to 14,000 lbs. Instead, the project installed two service elevators (classed for passenger use and incidental light freight use up to 4,500 lbs.) flanking each side of the Central Terminal. This installation of service elevators, rather than freight elevators, was a shortcoming within the CTE project design that was not remedied prior to construction, and one that has become more significant as usage has increased to serve both the Central Terminal and adjacent Concourses.

Virtually all Airport deliveries (including food and beverage, retail products, maintenance and janitorial supplies, construction material, office and other supplies) arrive at the Central Load Dock accessed via a service tunnel under the main terminal building. Concessionaire product deliveries are off-loaded with powered pallet jacks for transport into the building. From the load dock level, there are two 12,000 lbs. freight elevators, which connect to the basement and ramp levels of the Central Terminal building. Concessionaire deliveries are taken to the basement or mezzanine level for storage or directly to the concession unit on the concourse level. Any product being moved to the concourse level must be transported from the basement level via the two existing Central Terminal service elevators (See Exhibit A).

These two 4,500 lbs. light capacity service elevators are the primary bottleneck in the effort to move product to the concession tenants throughout the terminal. The average amount of concessions goods moving through the two service elevators is 630,000 lbs. per week year-round, with a summertime peak use of 875,000 lbs. per week. This equates to about 230 trips per week in the off-season, and 320 trips per week in the summer. Standard equipment for moving this much product is a powered pallet jack that alone can weigh up to 1,000 lbs. With palletized product, the load is often many times too heavy for a service elevator. In this case, the product must be split into smaller loads and transported by dolly to the desired location. This significantly increases the labor required for deliveries, increases the number of trips for the elevators and increases the congestion in the elevator lobbies. In addition to the weight limitation, the service elevators fall short of the needed width and depth to easily accommodate the standard pallet jack equipment. Because of these tight conditions, it is easy for delivery personnel to accidentally hit the elevator doors or elevator cab interior surfaces, resulting in damage that requires elevator downtime for repairs.

Whenever the service elevators are shut down for repairs, there is not a secondary elevator within a reasonable distance. This requires the deliveries to be broken down into much smaller units and hand-carried up the stairs to the concourse or mezzanine level. If a concession unit's normal back-of-house access is not available due to an elevator outage on their side of the terminal, the delivery must be carted across the public area to its destination. These practices consume an

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

March 25, 2011

Page 3 of 8

inordinate amount of time and labor and expose concessionaire employees to injuries/accidents. For example, when the north Central Terminal elevator is out-of-service, Anthony's Restaurant must bring their large deliveries of fresh fish on ice up via the south elevator and transport them across the public area to the restaurant, where they must unpack and hand-carry the fish up the stairs to the prep-kitchen located on the mezzanine level, one flight above the concourse level. This practice is difficult for concessionaire employees, and is unsightly for the traveling public, while causing unsafe congestion in the public space.

The existing Central Terminal service elevators also are the only means to transport trash and recyclables from Central Terminal, Concourse B, Concourse C and Concourse D down to the ramp level collection areas. This necessary activity adds to the number of trips the elevators must make, increases traffic congestion at the elevator lobbies, and thus adds wait time for the elevator users. Labor is a significant cost for concessionaires, and the time waiting in an elevator lobby for this transport process becomes a financial and operating burden particularly in a challenging business climate such as during the last few years.

The lack of adequate post-security freight elevator capacity is a facility deficiency that affects all users of the airport – airlines, construction crews, janitorial crews, Port maintenance staff, Transportation Security Administration security staff, delivery personnel and concessionaires. It has been an operational struggle during the past six years with inadequate freight elevator capacity. Continued reliance on the existing service elevators poses a number of significant risks, identified in more detail below.

High Costs of Operation:

The Port has spent an estimated \$75,000 per year in repair costs (not counting Port staff time) to maintain and repair the Central Terminal service elevators. Typical downtime is estimated at a minimum of 20 days per year for each elevator. High cost replacement parts must always be kept in inventory. Aviation Maintenance anticipates that these elevators will reach only half of their 20-year expected life under current usage conditions, before complete replacement will be necessary. This replacement would likely occur in 2014 at a cost of approximately \$2 million.

In most cases, Maintenance has been able to sustain service to at least one elevator during maintenance and downtime for repairs. However, during the snowstorm of December 2008, both Central Terminal elevators failed at the same time, and were out of service for eight days. Not only were concessionaires unable to get product up into the building to provide for stranded passengers, janitorial staff were unable to efficiently get airport-wide garbage and recycling down to the basement level. This incident was particularly costly in overtime labor cost and rush delivery of needed parts estimated at \$50,000. In an attempt to improve the reliability of the service elevators, Aviation Maintenance staff performed various measures including installation of surveillance cameras, guide gates/rails to prevent door damage, and interior toggle switches that hold the doors in the open position. These measures have reduced some damage to the elevators, but they have also further reduced their efficiency by reducing the space in the loading vestibule.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

March 25, 2011

Page 4 of 8

Elevator capacity in the Central Terminal is part of a larger issue of elevator operability. While these elevators are too small and prone to failure, they are still most often the best (if not only) alternative over the other remotely placed elevators (See Exhibit B). If other elevators fail, it places additional pressure on the existing Central Terminal service elevators as the only remaining option, despite the already-existing congestion around their use.

Burdensome Tenant Labor Costs:

Total costs of operation are already much higher in an airport environment compared to a non-airport retail or restaurant location, and the insufficient elevator capacity further increases overall costs of operation. All main terminal concession tenants bear some degree of higher operational costs, depending upon product volumes. For example, Ivar's Seafood Bar adds an additional nine hours per week to their labor schedule due to the elevator inefficiencies. At an average hourly labor cost of \$13, this means more than \$5,000 in additional labor costs per year.

Anthony's Restaurant (operated by HMSHost), located on the north flank of the Central Terminal, achieved gross sales of nearly \$11 million in 2010, and boasts higher sales volumes than any airport restaurant in North America. This operation is dependent upon the north service elevator to move fresh product to the prep-kitchen on the mezzanine level, and prepared food to customers on the concourse level. Anthony's staff estimates that their increased costs of operation are approximately \$20,000 annually in extra staffing/longer hours devoted to elevator issues and work-arounds.

According to Hudson Group, a typical trip via the service elevators to their basement storage takes 20-30 minutes, much of that time devoted to breaking deliveries down into smaller loads and wait time for elevator use. Labor costs increase even more during periods of elevator failure.

Health & Environmental Risk:

The current Central Terminal service elevators are used for goods deliveries, storage replenishment as well as for removing terminal garbage, recycling, used fryer grease and compostable material. The current level and modes of usage of the service elevators means increased risk for injuries due to the 'work-arounds' required for failure and lack of capacity. The new Central Terminal freight elevators would enable separate delivery and disposal streams as the service elevators would only handle garbage, recycle, compost and used cooking grease. One of the most common complaints from concessionaires is the risk to both employees and the public from pushing large dollies across the public areas when one of the service elevators is shut down for repairs. There is significant concern about the risk for costly workers compensation claims as the result of an elevator-related injury.

The main recycling stations for Concourses B, C, D and Central Terminal are below the Central Terminal and accessed via the service elevators. The elevator capacity/reliability issue in Central Terminal will hamper the Port's efforts to increase its percentage of recycling/composting to 50%, a key goal of the Port's environmental strategy. New freight elevators will enable the waste reduction goals by adding additional freight capability to allow greater ease for recycling flows to use the existing elevators.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

March 25, 2011

Page 5 of 8

Risk for Revenue Loss:

Prior to construction, a project consultant estimated that the future Central Terminal independent tenants would generate \$19 million in revenue to the Port over 10 years. These tenants have generated \$20 million in five and a half years of operation. However, tenant operating costs have been high (particularly for small operators) partly because the elevators cannot adequately service current business. Future revenue growth hinges on the ability to support future enplanement growth.

The majority of the units in the Central Terminal lease expirations fall in mid-2015. The Port will seek to maximize the percentage rent of gross sales paid to the Port in the new lease terms. Aviation Business Development has carefully analyzed the possible future financial ramifications of the elevator problem. Many variables are unknown, such as the exact magnitude of current tenant costs, the competitive and financial climate at the time the leases are re-negotiated, and/or other changed conditions in the airport environment affecting costs, etc.

However, for the purposes of analysis, staff has contrasted a likely outcome of building new freight elevators in 2013 versus replacing the existing service elevators in 2014. While the investment in freight elevators is more costly now, the Airport would be building infrastructure with a 30-year lifespan, as well as increasing capacity. Replacing the service elevators after 10 years of heavy use would likely provide only another 10 years of service before another replacement, and would not increase capacity. Additionally, there is a risk that bids in 2015 for the concession spaces in the Central Terminal, when the current leases expire, could be negatively impacted by the now known higher costs of operation due to insufficient elevator capacity. If the proposed bids were lowered by 1-2% to reflect the higher than normal operating costs, then investing in freight elevators now becomes a financially responsible investment.

PROJECT DESCRIPTION/SCOPE OF WORK AND SCHEDULE:

Project Statement:

This project will build two new freight elevators to serve the post-security Main Terminal by April 2013 for \$6,664,000.

Project Objectives:

- 1) Provision of efficient method for delivery of goods to all airport tenants and the Port;
- 2) Fewer instances of damage to existing service elevators due to freight use;
- 3) No impacts to aircraft ramp parking positions near the project sites;
- 4) Minimal impacts to the aesthetics of the Central Terminal exterior appearance;
- 5) Effective circulation paths on all levels to and from the new freight elevators.

Scope of Work:

Develop documents for the construction of two new freight elevators and necessary infrastructure and enclosures adjacent to the Central Terminal facility. Construction elements include:

- 1) Site preparation including relocation of conflicting underground utilities;
- 2) Removal of regulated materials as required;

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

March 25, 2011

Page 6 of 8

- 3) Construction of elevator enclosures, utilities, and other infrastructure;
- 4) Installation of elevator mechanisms;
- 5) Testing and commissioning of elevators and systems;
- 6) Close out of completed project.

Schedule:

The project schedule is as follows:

- Complete design August 2011
- Bid advertisement September 2011
- Construction start December 2011
- Construction complete April 2013

STRATEGIC OBJECTIVES:

The project ensures Airport vitality by providing enhanced capacity and flexibility in delivering key supplies for Airport concessionaires, which ultimately benefits travelers.

FINANCIAL IMPLICATIONS:

Budget/Authorization Summary:

Original Budget	\$6,664,000
Budget Increase (Decrease)	\$ 0
Revised Budget	\$6,664,000
Previous Authorizations	\$ 0
Current request for authorization	\$ 634,000
Total Authorizations, including this request	\$ 634,000
Remaining budget to be authorized	\$6,030,000

<u>Project Cost Breakdown</u>	<u>This Request</u>	<u>Total Project</u>
Construction costs	\$0	\$4,919,000
Sales tax	\$0	\$464,000
Outside professional services	\$488,000	\$488,000
Aviation PMG and other soft costs	\$146,000	\$793,000
Total	\$634,000	\$6,664,000

Source of Funds

This project was included in the 2011-15 capital budget (CIP # C800334). The funding source for design will be the Airport Development Fund.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

March 25, 2011

Page 7 of 8

Financial Analysis

<i>CIP Category</i>	Renewal/Enhancement
Project Type	Infrastructure Upgrade & Customer Service
Risk adjusted Discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$6,664,000
Business Unit (BU)	Concessions (non-aeronautical)
Effect on business performance	Will reduce NOI after depreciation due to added O&M costs and increased depreciation.
IRR/NPV	N/A
CPE Impact	None

From a financial analysis perspective, the Port will incur increased Operation and Maintenance (O&M) costs of about \$26,400 per year for these new elevators. These O&M costs are the expenses related to required staffing, tools and supplies and the requirement for ongoing maintenance and periodic component renewal as well as energy use. However, these are normal O&M costs, which are expected to be offset to some degree by lower damage repair costs to the current service elevators once the new larger freight elevators are put into service.

The primary benefit of this project will be realized by the concessionaires through improved elevator reliability and efficiencies in transporting product; however, all Airport users will benefit.

Based solely on financial metrics, it is challenging to justify the installation of new freight elevators, as compared to premature replacement of the current service elevators. From a cost standpoint, it is less expensive to replace the current service elevators every 10 years. However, as mentioned previously, there are several significant risks with this alternative. One is the risk of lower bids from concessionaires who will be proposing new concepts for the Central Terminal units when the current leases expire in 2015. Given the known higher operating costs, due to the lack of sufficient freight elevator capacity, it is likely that future bids for these units will reflect these higher operating costs. A reduction in the concession fee (revenue to the Port) of 1 to 2% from each operator would cause the financial comparison between these two alternatives to favor installing the new freight elevators. There is also the safety risk associated with concession employees having to carry product up the stairs and across public areas of the Airport when one or both of the service elevators are shut down for repairs. This risk will only increase as the concessions business grows in the coming years with enplanement growth, which increases the need for moving more product from the Central Load Dock to storage units and into retail units to meet the needs of the traveling public. These risks are such that the recommended alternative, considering all costs and benefits related to not only finances, but also operational and safety aspects, is to install two new freight elevators.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

March 25, 2011

Page 8 of 8

ECONOMIC IMPACTS:

The viability of concession operations at the Airport is critical to sustaining the more than 1,300 jobs in the concessions program. The proposed new freight elevators feed the majority of the main terminal and would support these concessions jobs as well as jobs in other categories such as janitorial and construction.

ENVIRONMENTAL SUSTAINABILITY/COMMUNITY BENEFITS:

Efficient elevator systems in the Central Terminal will allow the Port to continue its aggressive pursuit of increased recycling and composting by providing more reliable service to the Airport's main collection areas for this material. The project design will consider energy efficiency in selection of machinery to operate the elevators.

The passenger airlines have generally reduced their on-board meal offerings. As a result, travelers have come to depend upon purchasing food prior to boarding aircraft. Providing adequate concession supplies for travelers may depend to a large extent upon these elevators as passenger traffic grows in the coming years.

TRIPLE BOTTOM LINE SUMMARY:

This project will provide tangible improvements to concession operations. The new freight elevators will allow goods to be reliably delivered to the concession storage areas and safely and efficiently retrieved by the concessions tenants when needed. Reduced load dock vehicular "wait time" will result in increased load dock safety, and moderately decreased air emissions and decreased fuel consumption.

PREVIOUS CONCESSIONS COMMISSION ACTION:

None

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Exhibit A – Central Terminal Elevator System

Exhibit B – Main Terminal Post-Security Freight Elevator Capacity

Exhibit C – Concessions Supply Route into Terminal

Attachment A– PowerPoint