

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5f

Date of Meeting December 6, 2011

DATE: November 28, 2011

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Ehl, Director, Airport Operations
Wayne Grotheer, Director, Aviation Project Management Group

SUBJECT: Airline Realignment Tenant Improvements (Expense) for Seattle-Tacoma International Airport.

Amount of This Request: \$3,776,000

Source of Funds: Airport Development Fund

Total Project Cost: \$23,285,000

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to authorize design of the Airline Tenant Improvements – Airline Realignment (CIP # C800475) at Seattle-Tacoma International Airport (Airport). This authorization is for \$3,776,000. The currently estimated total expense cost of the airline realignment is \$20 – 30 million, and the overall estimated total expense and capital cost is \$58 – 72 million.

SYNOPSIS:

This authorization is one of many that are necessary for the one-time realignment of air carrier operations that will take place at the Airport in coming years. The realignment was driven by the merger of major carriers and the consolidation needs of Alaska Air Group necessitating the repositioning of aircraft, gate holdrooms, and ticketing positions throughout the Airport. The air carriers involved in the realignment program are pursuing an aggressive schedule in which they propose to complete many of the moves by early 2013. The airlines have requested that the Port of Seattle take over and complete design and construction of airline tenant improvements as part of the Airline Realignment. The design work will be accomplished by the consultant hired for the Airline Realignment Tenant Improvements and Ticket Counter Design services IDIQ contract.

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BACKGROUND:

With ongoing airline consolidation interests and a goal to maximize utilization of our existing facilities, the Airport has issued intent to exercise the One-Time Reallocation provision in the current Signatory Lease & Operating Agreement. The reallocation will require a number of modifications associated with the airlines who will relocate their gate and ticket counter operations, to effectively operate in their new locations. The realignment was driven by the merger of major carriers and the consolidation needs for Alaska Air Group which necessitated the repositioning of gates, holdrooms, and ticketing positions throughout the Airport.

Airline Realignment consists of seven (7) CIPs that include all capital improvements to be constructed by the Port in order to relocate the subject airlines. Initially, the airlines intended to self perform the Tenant Improvements (TI) related to the relocations. They are now requesting that the Port complete the airline TI work. The work consists of design and construction of new tenant space for eight airlines including: AirTran, Continental, American, Frontier, Hawaiian, jetBlue, United, and Virgin America.

PROJECT JUSTIFICATION:

The work planned under this project represents a critical component in supporting the broader airline relocation effort while also providing improved operational efficiency throughout the airport.

PROJECT STATEMENT AND OBJECTIVES:

Design remodeled airline offices, operations areas, and customer service facilities as part of the Airline Realignment. Project objectives include:

- Support the timely relocation of airlines.
- Removal of regulated materials as required.
- Enable the Airport to gain more flexibility to maximize the use of Ticket Counters.
- Reduce the cost to airlines as they relocate within the existing terminal facilities.
- Provide 'like for like' facilities for airlines being relocated to new ticket counters.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

The work consists of design of new tenant space for eight (8) airlines including: AirTran, American, Continental, Frontier, Hawaiian, jetBlue, United, and Virgin America.

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Schedule:

| | |
|--------------------------------------|----------------|
| Start Design | January 2012 |
| Complete Design | June 2012 |
| Commission Authorization to Bid Work | June 2012 |
| Start Construction | September 2012 |
| Complete Construction | December 2013 |

FINANCIAL IMPLICATIONS:

Budget/Authorization Summary:

| | | |
|--|--------------|--|
| Original Budget | \$23,285,000 | |
| Revised Budget | \$23,285,000 | |
| Previous Authorizations | \$0 | |
| Current request for authorization | \$3,776,000 | |
| Total Authorizations, including this request | \$3,776,000 | |
| Remaining budget to be authorized | \$19,509,000 | |

Project Cost Breakdown:

This Request

| | |
|-----------------------------------|--------------------|
| Construction Costs | \$0 |
| Sales tax | \$0 |
| Outside professional services | \$2,276,000 |
| Construction Cost (RMM) Expense | \$0 |
| Aviation PMG and other soft costs | \$1,500,000 |
| Total | \$3,776,000 |

BUDGET STATUS AND SOURCE OF FUNDS:

This total of \$23.3 – 30 million of operating costs will be spread over four years: 2011 – 2014. The airport included \$3.0 million in the 2011 operating budget and \$8.2 million in the 2012 operating budget. The remaining costs will be incurred in 2013 and 2014. All of the costs will be incorporated into airline rates and charges and recovered through terminal rents. As such, the funding source will be the Airport Development Fund.

FINANCIAL IMPLICATIONS:

For 2012, the budgeted \$8.2 million in operating costs associated with terminal realignment will increase passenger airline costs per enplaned passenger (CPE) by \$0.49.

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ENVIRONMENTAL SUSTAINABILITY/COMMUNITY BENEFITS:

We will consider sustainable materials and practices during design.

TRIPLE BOTTOM LINE SUMMARY:

This project is being performed at the request of our customer airlines. It will benefit the traveling public and the environment through consolidated airlines and efficient operations.

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:

Alternative 1 – Port proceeds with design for airline ticket counters, offices, and gate areas. **This is the recommended alternative.**

Alternative 2 – Each airline independently performs their individual tenant improvements. Scope and schedule will be difficult to manage with 8 separate airlines. The expedited schedule will likely be compromised. This is not the recommended alternative.

Alternative 3 – A single airline performs all tenant improvements on behalf of the other airlines. No single airline has agreed to oversee the tenant improvements. Scope, schedule, and reimbursements will be difficult to manage. This will result in more coordination required and more cost. This is not the recommended alternative.

Alternate 4 – Do nothing. The airline realignment cannot be executed. This is not the recommended alternative.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Attachment A: November 22, 2011, oral prebrief visual aid slide and tenant space renovations map.

PREVIOUS COMMISSION ACTION:

On September 27, 2011, the Port Commission authorized execution of an IDIQ contract for Airline Realignment Tenant Improvements and Ticket Counter Design services totaling \$10,000,000.

On September 12, 2011, the Port Commission received a summary briefing on the Airport Realignment Program at Seattle-Tacoma International Airport.

On June 14, 2011, the Port Commission authorized 1) design of the Airport Signage – Airline Realignment project at Seattle-Tacoma International Airport (Airport). This authorization is for \$238,000 of a total project cost of \$646,000, and 2) execute a professional services Indefinite Delivery Indefinite Quantity contract for signage design services totaling \$400,000 for four (4)

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years in support of upcoming capital improvement projects, including the Airport Signage – Airline Realignment project at the Airport (CIP #C800474).

On June 14, 2011, the Port Commission authorized Exterior Gate Improvements – Airline Realignment at Seattle-Tacoma International Airport. This authorization is for \$499,000 out of a total project estimated cost of \$2,650,000 (CIP #C800472).

On March 1, 2011, the Port Commission authorized design and some construction of the Baggage Handling System (BHS) Improvements - C22 BHS connection to C1/C1-MK1 Replacement /TC3 Replacement (C800382) in the amount of \$1,731,000

On February 22, 2011, the Port Commission authorized design and some construction for the Passenger Loading Bridge Replacement Project - Airline Realignment (C800467) in the amount of \$6,700,000

On February 22, 2011, the Port Commission authorized Planning for Terminal Realignment in the amount of \$713,000.

On January 25, 2011, the Port Commission authorized design and construction of the Concourse D Common Use Expansion Project (C800455) in the amount of \$4,250,000. Commission was also briefed on the Airline Realignment Program as part of this item.

On June 8, 2010, the Port Commission authorized execution of an IDIQ contract for the Terminal Development Strategy Campus Planning Services IDIQ in the amount of \$1,300,000.