

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6b

ACTION ITEM

Date of Meeting June 5, 2012

DATE: May 29, 2012

TO: Tay Yoshitani, Chief Executive Officer

FROM: Wayne Grotheer, Director, Aviation Project Management Group
James R. Schone, Director, Aviation Business Development
Mike Ehl, Director, Airport Operations

SUBJECT: South Satellite Concessions Project (CIP #C800412) and South Satellite
Additional Gate Lobby Project (CIP #C800466)

Amount of This Request: \$3,115,700

Source of Funds: Airport Development Fund

Est. State and Local Taxes: \$195,600

Est. Jobs Created: 27

Est. Total Project Cost: \$3,879,700

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to:

A: For CIP #C800412, (1) advertise for construction bids and execute construction contracts and (2) execute contracts to purchase furnishings and casework for the South Satellite Concessions Project at Seattle-Tacoma International Airport (Airport). This authorization is for \$2,185,700 of a total estimated project cost of \$2,535,700; and,

B: For CIP #C800466, (1) advertise for construction bids and execute construction contracts and (2) execute contracts to purchase furnishings and casework for the South Satellite Additional Gate Lobby Project at the Airport. This authorization is for \$930,000 of a total estimated project cost of \$1,344,000.

The total combined authorization request for both projects is for \$3,115,700 of a total combined estimated project cost of \$3,879,700.

SYNOPSIS:

The South Satellite, which was first constructed in the early 1970s, and improved most recently in the 1980s, is antiquated and unable to adequately serve the needs of the traveling public. In the past three years, the number of domestic and international airlines using the South Satellite has increased dramatically, and the facility needs to expand passenger seating, duty free/retail shopping and food and beverage to meet the increased demand. These two combined projects represent together a rare opportunity to accomplish a number of desirable outcomes for the Port

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and the millions of annual passengers at the South Satellite and solve two critical deficiencies in the current space allocation.

The two projects will upgrade the use and experience of the west end of the South Satellite by removing inadequate seating capacity in gate holdrooms used by international carriers and replacing it with 1,500 square feet of new passenger seating in a more pleasant environment and providing reconfigured space for a new full-service restaurant and a new duty free/retail operator to build out to their own requirements. By demolishing underutilized restrooms and an unused former smoking lounge and re-purposing the space to meet current needs, these improvements will enhance customer service and increase non-airline revenues by expanding usable space for operations and concessions. While the costs are segregated into two CIPs to clearly distinguish the aeronautical costs from the non-aeronautical costs and to provide clarity on the cost/benefit justification for each, the projects are inextricably linked and will be managed as one. Both projects were included in the 2012-2016 capital budget and plan of finance.

BACKGROUND:

In the past three years, both international and domestic operations at the South Satellite have increased dramatically. In mid-2009, Delta Air Lines consolidated operations to the South Satellite in a merger with Northwest Airlines. This change, along with welcome additions to direct international service, is causing a strain on the ability of the South Satellite to adequately serve both airlines and their passengers. The west end of the South Satellite gate lobby area is used by international carriers such as Asiana Airlines, Korean Air, Hainan Airlines, Emirates Airlines, EVA, British Airways and Icelandair. Challenges presented by the increased passenger volumes include inadequate gate lobby capacity, inadequate food and beverage service and a lack of duty free/retail shopping expected by travelers at a large, international airport.

The west end of the concourse level of the South Satellite will be reconfigured to create a new, efficient space for both airline and retail operations. The project entails modification to the gate lobbies adjacent to Gates S10, 11, 12, 15 and 16, as well as the creation of two new concessions locations. The project would create one large contiguous hold area for wide-body gates S10 – S16. This configuration adds nearly 1,500 square feet of seating capacity and allows for more efficient and comfortable use of the space by passengers. (See Exhibit A)

New duty free/retail and food and beverage concessions will serve a growing number of travelers, as well as capture the new revenue opportunities available to the Port. A slightly expanded duty free location, with a broader storefront façade and better visual sight line, is expected to increase revenues. The anticipated growth in international traffic will benefit from a duty free offering that meets passenger expectations. Food and beverage service is an even more pressing need as there is a current shortage of capacity to serve increased passenger levels. Existing South Satellite restaurants have no available footprint for expansion. (The new full service restaurant will be part of a food and beverage Request for Proposal in 2013 and is not expected to open until 2014.)

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Operational Benefits Analysis:

- Currently, the floor plan of the west end of the South Satellite is divided into small “pockets” of space created by an unusable former smoking lounge, and underutilized restrooms. All of these conditions result in a lack of efficiency and passenger comfort for seating or standing.
- Gate lobby capacity at the South Satellite is constrained. The International Airline Transportation Association (IATA) rates airport gate lobby capacity (grade A to E: A is best, E is worst) based on the square footage available per passenger. The proposed new space will be rated a grade “C” for passenger to square foot ratio, compared to a grade “E” rating for most of the current divided holdrooms.

Airlines gain greater ability to board passengers efficiently by moving the gate podiums in direct proximity to the passenger loading bridge doors.

A new escalator is being installed under another project to resolve safety and reliability concerns. This project would eliminate the interference of the new escalator with the current nearby duty free store. One entrance to the existing duty free store has already been rendered useless by the escalator installation and passenger throughfare in front of the store is blocked.

Concessions Benefits Analysis:

When evaluating any space for potential concession use, a number of considerations are taken into account. These considerations include: impact on operations, projected revenue to the Port, impact on other concessions, as well as passenger and airline expectations. Specific to the South Satellite, these considerations included:

Impact on Operations

For passenger holdroom capacity, the South Satellite is undersized for current demand. Without creating new usable space, concession space cannot be added at the expense of operations space. The project increases existing usable space for operations, thus allowing for the addition of concession space.

Revenue to the Port (percentage rent/anticipated sales)

Percentage rent revenue to the Port varies for retail (10 to 14%), service (13 to 15%) and food service uses (12 to 18%). The highest percentage rent in the South Satellite is projected to be in the duty free store. As a reference point, the current duty free contract garners 18-20% of gross sales from all duty free sales to the Port. Also, a full-service restaurant which serves alcohol (as included in this plan) would pay a higher percentage rent than a quick serve/fast food outlet without alcohol. Improved offerings coupled with enplanement activity will bolster concessions sales and revenue to the Port.

Existing Concession Capacity

Adequate concession capacity does not exist in the South Satellite, which reduces the concern of new concessions cannibalizing existing offerings. As a means of comparison, the North Satellite has 6,832 square feet of food service capacity to support approximately 3 million annual enplanements (2.27 square feet/1000 enplanements). The South Satellite has 4,170 square feet of

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food service capacity to support about 2.5 million enplanements (1.67 square feet/1000 enplanements). On this measure, the South Satellite has 26% less restaurant capacity than the North Satellite. With an eye towards expanded international service, enplanements also are expected to continue to grow at the South Satellite.

Customer Expectations/Feedback

Customers will complain only a fraction of the time after a negative experience. Nonetheless, complaints to airlines, concessionaires and the Airport about long lines and/or a lack of food service in the South Satellite are fairly commonplace. The long dwell times for international passengers, coupled with the remoteness of the satellite, place particular strain on the capacity of existing concessions.

Airline Expectations/Feedback

Air carriers expect airports to provide a variety of services to passengers in the dwell time prior to boarding. In the year since Delta's main operations moved to the South Satellite, airline representatives have voiced their concern about the lack of adequate food service in the satellite, which strains the meal availability aboard the aircraft. Additionally, carriers with international service expect that the Airport will offer sufficient retail, news/gift and duty free to meet their customers' pre-boarding needs.

Based on these criteria, and the financial analysis, Port staff believes that adding capacity in the two categories of concessions (duty free/ retail, and restaurant), along with improving the operational standard of the facility, is the highest and best use of the overall space.

The new 3,600 square foot duty free store would not be large by industry norms, but it would be larger than the current space and more able to accommodate most duty free operators "store within a store" merchandising for luxury brand goods and cosmetics, as well as effective showcasing of duty free tobacco and alcohol. In combination with a new updated space, Port staff believes that the duty free store can increase sales to at least \$10 million in its first full year of operation as compared to \$8.5 million in 2011. At the current percentage rent level (18%), this represents more than \$270,000 in additional revenue to the Port. Staff expects that the current duty free/specialty retail tender will garner a higher rent offer than 18%.

The new South Satellite restaurant would mirror the configuration of the North Satellite with its newer 1,774 square foot restaurant (Bigfoot Food & Spirits). In 2011, this North Satellite restaurant achieved \$3 million in sales without cannibalizing sales at the other full-service restaurant. A full-service restaurant commands a higher percentage rent than a fast food concept, roughly 15.5%. This suggests that the South Satellite restaurant, assuming an appealing concept and skilled operator, should be able to achieve sales of approximately \$2.2 million in its first full year, providing about \$340,000 in new revenue to the Port.

PROJECT JUSTIFICATION:

Project Objectives:

- Add approximately 1,500 square feet of useable additional passenger gate lobby space at Gates S10, S11, S12, S15 and S16

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- Improve the passenger flow by removing glass panels, reconfiguring podiums and improving the circulation in this area
- Improve airline operations by placing gate podiums closer to the doors
- Provide an improved location for duty free/retail offerings to serve passenger needs and increase revenue to the Port
- Provide another food and beverage location to serve passenger needs and increase revenue to the Port

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

The two combined projects will modify the gate lobbies at Gates S10, S11, S12, S15 and S16 in order to improve operational efficiency and reduce passenger crowding. The projects will relocate gate podiums, demolish underutilized restrooms, construct a new duty free shell space, demolish the existing duty free store, upgrade the finishes throughout the gate lobby areas, modify existing infrastructure to accommodate the change in use, and create a food and beverage shell for future build out by a tenant. The South Satellite Concessions project also includes scope for regulated materials remediation and demolition of exit stairs. These last two components will be charged to expense.

Schedule:

Commission authorization for Bid	June 2012
Advertise	June 2012
Award	August 2012
Notice to Proceed	September 2012
Open New Duty Free	June 2013
Construction Complete	October 2013
Open new Food and Beverage	February 2014

Additional time for final tenant build-out of the duty free and food and beverage locations are included in the schedule.

FINANCIAL IMPLICATIONS:

The total estimated cost of both projects is \$3,879,700, and is divided between CIP #s C800412, C800466, and expense as shown below:

<i>Budget/Authorization Summary: C800412</i>	Capital	Expense	Total Project
Original Budget	\$1,872,739	\$326,261	\$2,199,000
Budget Increase	\$147,461	\$189,239	\$336,700
Updated Budget	\$2,020,200	\$515,500	\$2,535,700
Previous Authorizations	\$350,000	\$0	\$350,000
Current request for authorization	\$1,670,200	\$515,500	\$2,185,700
Total Authorizations, including this request	\$2,020,200	\$515,500	\$2,535,700
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$2,020,200	\$515,500	\$2,535,700

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<i>Project Cost Breakdown:</i>	This Request	Total Project
Construction	\$1,540,400	\$1,540,400
Construction Management	\$303,000	\$303,000
Design	\$0	\$262,000
Project Management	\$180,200	\$268,200
Permitting	\$16,500	\$16,500
State & Local Taxes (estimated)	\$145,600	\$145,600
Total	\$2,185,700	\$2,535,700

Budget Status and Source of Funds:

The capital budgeted for this scope of work was included in the 2012-2016 capital budget and plan of finance under CIP# C800412 in amount of \$1,872,739. The capital budget increase of \$147,671 will be transferred from the Non-aeronautical New Projects Allowance CIP (C800152), a business plan prospective project, resulting in no net change to the Aviation capital budget. The expense component consists of \$440,000 for regulated materials remediation and \$75,500 for demolishing the exit stairs. The 2012 Operating Budget included \$387,000 for the regulated materials remediation. The additional expense of \$128,500 will be absorbed within the division contingency or savings from other regulated materials projects. The funding source will be the Airport Development Fund.

Financial Analysis and Summary:

The financial analysis below is based **only** on the costs directly associated with the new concessions.

CIP Category	Revenue/Capacity Growth		
Project Type	Business Expansion		
Risk adjusted discount rate	9%		
Key risk factors	Delay in realized revenues due to construction or other schedule delays. Achieving sales targets.		
Project cost for analysis	Duty free: \$1.47 million Food and beverage: \$1.07 million Total \$2.54 million		
Business Unit (BU)	Aviation Business Development/Concessions		
Effect on business performance	New duty free revenues (first full year): \$416,000/year New food and beverage revenues (first full year): \$340,000/year		
IRR/NPV	Duty Free: NPV \$800,000 Payback 5 years IRR 12%	Food/beverage: NPV \$1.1M Payback 5 years IRR 15%	Total: NPV \$1.9M Payback 5 years IRR 13%
CPE Impact	N/A		

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Lifecycle Cost and Savings:

The project will not install outside wall finishes to the concessions shells, but rather place this responsibility on the future tenant as part of their architectural design.

<i>Budget/Authorization Summary: C800466</i>	Capital	Expense	Total Project
Original Budget	\$1,257,000	\$0	\$1,257,000
Budget Increase	\$87,000	\$0	\$87,000
Updated Budget	\$1,344,000	\$0	\$1,344,000
Previous Authorizations	\$414,000	\$0	\$414,000
Current request for authorization	\$930,000	\$0	\$930,000
Total Authorizations, including this request	\$1,344,000	\$0	\$1,344,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$1,344,000	\$0	\$1,344,000

<i>Project Cost Breakdown:</i>	This Request	Total Project
Construction	\$820,000	\$820,000
Construction Management	\$52,000	\$145,000
Design	\$0	\$159,000
Project Management	\$0	\$162,000
Permitting	\$8,000	\$8,000
State & Local Taxes (estimated)	\$50,000	\$50,000
Total	\$930,000	\$1,344,000

Budget Status and Source of Funds:

The budgeted cost for this scope of work was included in the 2012-2016 capital budget and plan of finance under CIP# C800466. The budget increase of \$87,000 will be transferred from the Aeronautical New Project Allowance CIP (C102165), a business plan prospective project, resulting in no net change to the Aviation capital budget. The funding source will be the Airport Development Fund.

Financial Analysis and Summary:

CIP Category	Revenue/Capacity Growth
Project Type	Business Expansion
Risk adjusted discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$1,344,000
Business Unit (BU)	Terminal
Effect on business performance	Increase NOI
IRR/NPV	N/A
CPE Impact	Less than \$.01, but no change to business plan forecast as this project was included.

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Lifecycle Cost and Savings:

Material and fixture choices were made during design to minimize forthcoming replacement costs as part of a greater refurbishment of the facility.

STRATEGIC OBJECTIVES:

- Provide a first class customer service experience and comfort to the traveling public with adequate gate lobby space and the quality concession offerings expected in a large international airport
- Offer the expected facilities in order to retain and attract new air service critical to the economic vitality of the Puget Sound region
Maintain the current employment of approximately 70 duty free shop employees as well as create the potential for new jobs in the future duty free store
Create employment opportunity for up to 35 new food and beverage workers in the future full-service restaurant
Provide the Port with critical non-airline revenue to support the maintenance and development of the Airport for the benefit of both residents and visitors

ENVIRONMENTAL SUSTAINABILITY:

Upgrades will be constructed using carefully chosen materials, considered for lifecycle sustainability, including energy efficient LED lighting and durable finish surfaces.

BUSINESS PLAN OBJECTIVES:

These projects support a strategic objective to operate a world-class airport that can attract and keep direct international air service to the Puget Sound region.

The projects also support the strategic goal of maximizing non-aeronautical operating income.

TRIPLE BOTTOM LINE SUMMARY:

These projects will increase the long-term ability of the Airport to serve a growing number of both passengers and airlines. Long-term vitality of the Airport benefits the regional economy, the local environment and the nearby communities. The projects will improve customer service, increase non-airline revenues, and generate new jobs for concessionaires.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

1. Make no modifications to the South Satellite. The South Satellite is an antiquated facility that does not meet the current needs of the traveling public, and cannot be expected to support future growth in passenger traffic. This is not the recommended alternative.
2. Modify the existing duty free store to accommodate the new escalator, which has blocked one entrance and eliminated passenger thoroughfare in front of the store. Modifying the existing duty free to mitigate the impact of the new escalator would reduce the size of the store (by pushing the storefront back approximately six feet) to approximately 2,900 square feet. The current 3,400 square foot duty free store is considered small by industry comparison. A small duty free store would limit the Airport's ability to meet passenger demand for duty free and retail merchandise. It also would cause the duty free operator to

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work out of temporary units during construction. Significant loss of sales would result from this alternative. B) Remove only the restrooms but do not install the upgrades or create the new space for a restaurant. While removing the restrooms creates new square footage, it is not made available in such a configuration as to be fully useful for passenger needs. This is not the recommended alternative.

3. For alternative #3 above, move forward with one CIP but not the other. While the scope of work is divided into two CIPs in order to segregate the aeronautical and non-aeronautical components, the two projects are inextricably linked and will be managed as one project. This is not the recommended alternative.
4. Move forward with the construction of the South Satellite Concessions and Additional Gate Lobby Projects. A) Construct a new duty free shell space to maximize revenue potential and improve passenger service. Build a shell space for a future 1,500-square foot full-service restaurant. B) Demolish the restrooms and provide upgrades to the gate lobby space that will help alleviate overcrowding for passengers and provide a more comfortable experience prior to boarding. Complete this work in a phased manner that allows for the current duty free store to continue to serve passengers and generate revenue while the new shell space is being built. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Exhibit A: Power Point

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- November 2, 2010 – Commission authorized the execution of an IDIQ professional services contract for design services in the amount of \$400,000 in support of anticipated capital improvement projects related to South Satellite Concession and Gate Lobby Projects at Seattle-Tacoma International Airport. No funding was associated with this authorization.
- January 25, 2011 – Commission authorized both design services and the use of Port crews in support of the Additional Gate Lobby Project at the Seattle-Tacoma International Airport (CIP # C800466). This authorization was for \$414,000 of a total estimated project cost of \$1,257,000.
- March 8, 2011 – Commission authorized design services in support of the South Satellite Concession Project (CIP # C800412) at Seattle-Tacoma International Airport. This authorization was for \$350,000 of a total estimated project cost of \$2,199,000.
- March 27, 2012 – Staff briefing about plans for interim concessions leasing (2012 – 2014), including Requests for Proposal for a new duty free operator and new full-service restaurant.