

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6c

ACTION ITEM

Date of Meeting August 14, 2012

DATE: August 6, 2012

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Ehl, Director, Airport Operations
Wayne Grotheer, Director, Aviation Project Management Group
James Jennings, Manager, Aviation Properties, Aviation Business Development

SUBJECT: Conversion of Zone 3 Ticket Lobby to Flow-Through Concept (CIP #C800492)

Amount of This Request: \$12,779,000 **Source of Funds:** Airport Development Fund
and existing bond proceeds

Est. State and Local Taxes: \$762,471 **Est. Jobs Created:** 222

Est. Total Project Cost: \$13,125,000

ACTION REQUESTED:

Request Port Commission authorization for the Chief Executive Officer to: (1) authorize \$10,145,200 of tenant reimbursement budget associated with the design and construction of a new flow-through ticketing area for Delta Air Lines and Virgin America Airlines at Seattle-Tacoma International Airport; (2) execute a tenant reimbursement agreement with Delta for this purpose under the Airport's AV-2 Policy; (3) authorize \$2,663,800 of non-tenant reimbursement budget for regulated materials abatement; and (4) authorize the use of Port crews to construct a new Virgin America airline ticket office and remodel spaces for two other offices that must be relocated to accommodate this project. This request seeks a single Commission authorization to proceed with design, abatement, and construction. The total estimated cost of this project is \$13,125,000. The Port's portion of the total project is \$10,145,200.

SYNOPSIS:

This project will remodel the existing Delta and Virgin America ticket counters (see Attachment A) to a "flow-through" concept similar to the Alaska Airlines ticket lobby. Ticket counters would be arranged to allow passengers to "flow through" the lobby to drop baggage and walk directly to the security checkpoints as opposed to going around the existing counters. This project was approved by a majority-in-interest vote of the airlines on July 20, 2012.

New airline ticket offices would be constructed elsewhere for Delta and Virgin America to allow for this new arrangement. Two other tenants would be relocated as well. All of these offices must be built out and occupied before the ticket counter remodel can begin. Construction would be phased to allow current airline operations to continue.

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Delta would complete this construction before summer 2013 under a tenant reimbursement agreement. The existing US Airways ticket counter and ticket office will not be altered by this project, although converting it to the flow-through concept has been accounted for in the overall design. This project was included in the 2012-2016 capital budget as a business plan prospective project.

This project needs to be completed before the height of next summer's high traffic season. The consequences of delay will result in a high risk for traffic gridlock in the ticket lobby. For this reason, staff requests a single authorization for design and construction.

BACKGROUND:

Delta and Northwest merged in 2008 and combined ticketing operations to their current location in the early 2010. That summer the Airport experienced severe crowding in the Delta ticket lobby. Sea-Tac Airport has one of the narrowest ticket lobbies among all major U.S. airports, made worse by protruding escalators from the garage skybridges. Crowds waiting for ticketing at one airline's lobby can easily interfere with passengers trying to walk to other airlines.

To address this congestion for the short term, Delta undertook some minor alterations of the ticket lobby but recognizes these fixes are insufficient for the long term. Since 2010 Delta has increasingly positioned Seattle-Tacoma International Airport as one of its major international gateways, adding new nonstop service to Beijing, Osaka, Paris, and Amsterdam. In view of Delta's plans to increase its service to the Seattle market, both Delta and the Port began investigating ways to reduce overcrowding and make improvements that will last well into the future.

In 2009, Alaska Airlines had remodeled their ticket counters to "flow-through" ticketing islands, thereby reducing a growing congestion problem in their ticket lobby. After examining different options, Delta and the Port agreed that converting the Delta ticket counter to a "flow-through" layout similar to Alaska's was the preferred solution. Computer modeling of the proposed solution by the Airport's Planning Department has demonstrated a significant improvement to customer service.

Delta would like to complete the majority of the remodel of their ticket counter before next summer's high traffic season. Delta has obtained internal approvals to begin this remodel and has started design. Delta has requested to complete this work as a tenant project under a tenant reimbursement agreement similar to the one used earlier for its SkyClub project at the South Satellite. Since much of the construction will take place in Delta's leased spaces, and since it must be completed by next summer, Port staff has agreed to their request to build much of the project per the Port's AV-2 Tenant Reimbursement Guidelines. Staff will work with Delta to ensure the Port's values are reflected in this construction project, such as setting appropriate small business goals. Delta is also expected to spend an estimated \$2,500,000 of Delta's own capital funds in support of this project.

PROJECT JUSTIFICATION:

The work planned under this authorization will reduce congestion and gridlock in the Delta and Virgin America ticket lobbies, support projected increases in passenger traffic, and provide improved overall circulation, operational flexibility, and efficiency at the Airport.

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Project Objectives:

- Decrease passenger saturation in the Delta ticket lobby queues by approximately two-thirds of today's peak numbers of passengers per hour (from 620 to 216 passengers/hour).
- Increase the passenger level of service rating (from IATA Level of Service F – System Failure to A – Excellent).
- Passenger service is not significantly impacted by construction next spring.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

To prepare for the primary scope of work, four 'enabling projects' will take place under the first phase of this CIP to make way for the flow-through reconfiguration:

- Port crews in conjunction with small works contractors will build out new ticket office space for Virgin America in vacant space next to Checkpoint #3 in the center of the terminal building. Funding of \$115,000 for design for this element of work was transferred from CIP #C800475 on May 7, 2012.
- The Port will relocate two other tenants that are currently occupying space behind the Delta ticket counter to new offices elsewhere in the Main Terminal. These costs will be shared between the Port and Delta.
- Delta will build out new ticket office space behind the Delta ticket counter in vacant space and surplus Port space.

Following the ticket office relocations, subsequent phases of work include the following:

- The Port will perform phased regulated materials abatement of the current Delta and Virgin America ticket offices and other affected offices.
- Delta will perform phased demolition and build out of the new flow-through ticketing islands and complete baggage conveyor system modifications, flooring, ceiling, lighting, ticket counters, signage, mechanical and electrical modifications, temporary facilities, and miscellaneous improvements.

The costs for the remodel work will be shared between the Port and Delta. The Port will provide oversight of the work performed by Delta's contractor.

The regulated materials abatement, demolition, and subsequent construction work is being phased to minimize impacts to operations in the Main Terminal Ticket Lobby area during regular and peak travel periods.

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SCOPE OF AGREEMENT:

Proposed Effective Date:

August 13, 2012

Use:

Authorization to construct approximately 3,000 square feet of ticket office space, 1,800 square feet of ticketing area and associated items for reimbursement.

POS Capital Reimbursement: \$ 9,486,259

POS Tenant Project Support Cost: \$ 658,941

Total Reimbursement Budget: \$ 10,145,200

Schedule:

Activity	Dates
Airline Majority In Interest Approval	July 20, 2012
Commission Authorization	August 14, 2012
Construction of Four Enabling Projects	September 2012 – November 2012
Phased Regulated Materials Abatement	November 2012 – April 2013
Open Virgin America ticketing half-island	March 2013
Open first Delta ticketing island	June 2013
Open second Delta ticketing island	August 2013
Project Complete	October 2013

FINANCIAL IMPLICATIONS:

<i>Budget/Authorization Summary:</i>	Capital	Expense	Total Project
Original Budget	\$32,000,000	\$0	\$32,000,000
Budget (Decrease)/Increase	\$(20,493,000)	\$1,347,000	\$(19,146,000)
Revised Budget	\$11,507,000	\$1,347,000	\$12,854,000
Previous Authorizations (including May 7, 2012 CIP transfer and RMM preliminary design funding)	\$346,000	\$0	\$346,000
Current request for authorization	\$11,432,000	\$1,347,000	\$12,779,000
Total Authorizations, including this request	\$11,778,000	\$1,347,000	\$13,125,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$11,778,000	\$1,347,000	\$13,125,000

Project Cost Breakdown:

	This Request	Total Project
Tenant reimbursement less taxes (Delta)	\$8,893,788	\$8,893,788
Estimated tenant reimbursement taxes (Delta)	\$592,471	\$592,471
Tenant Project Support (Port)	\$658,941	\$658,941
Construction (Port)	\$1,977,000	\$1,977,000
Construction Management (Port)	\$273,900	\$273,900
Design (Port)	\$157,500	\$157,500
Project Management (Port)	\$48,900	\$394,900

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Permitting (Port)	\$6,500	\$6,500
Estimated State & Local Taxes (Port)	\$170,000	\$170,000
Total	\$12,779,000	\$13,125,000

Budget Status and Source of Funds:

The Conversion of Zone 3 Ticket Lobby to Flow-Through Concept project was included in the 2012-2016 capital budget as a business plan prospective project (CIP #C800492) with a budget of \$32,000,000. The budget reduction of \$20.4 million has been transferred to Aeronautical New Projects (C102165). The funding source is from the Airport Development Fund and existing bond proceeds.

The current budget represents a decrease over the \$32 million conceptual budget approved in the original plan of finance. The original estimate amount was established using historical cost per square foot data derived from the Alaska ticket counter project. The Delta project differs in that it has a smaller footprint, will build out significantly less office space and has a much less complicated baggage system than the Alaska project, thus it will cost less.

Financial Analysis and Summary:

CIP Category	Ticketing Strategy
Project Type	Capacity
Risk adjusted discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$11,788,000 capital, \$1,347,000 expense
Business Unit (BU)	Terminal
Effect on business performance	NOI after depreciation
IRR/NPV	N/A
CPE Impact	\$0.07 CPE in 2015, this project was included in the capital budget and plan of finance.

Lifecycle Cost and Savings:

Airport maintenance of new electrical and mechanical systems installed under this scope of work is not expected to change from present levels. New lighting and mechanical components will be more energy efficient and will initially result in reduced general maintenance requirements.

STRATEGIC OBJECTIVES:

This project promotes the Port's Century Agenda preliminary goal to make Sea-Tac Airport the West Coast "Gateway of Choice" for international travel by improving traffic flow through the ticket lobby of our largest international carrier, thereby supporting future international routes and destinations.

By providing improved traffic flow in the Delta and Virgin America ticket lobbies, this project supports the Port's business strategies to:

- Ensure Airport vitality by providing airlines with reliable and efficient services.
- Meet the region's air transportation needs at the Airport for the next 25 years.

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ENVIRONMENTAL SUSTAINABILITY:

This project allows for growth in passenger numbers without growing the building. This will reduce impacts to the environment surrounding the Airport. Improving the electrical, air distribution, and lighting systems in this area will enable the Port to achieve increased energy efficiency.

In addition, removing asbestos containing material from the Airport helps the Port provide a healthy and safe environment for employees, tenants, consultants, contractors, and the general public.

BUSINESS PLAN OBJECTIVES:

The renovation of this portion of the ticket lobby to a flow-through design supports the Airport's Strategies and Objectives, namely:

- Anticipating and meeting the needs of our tenants, passengers, and the region's economy by providing the airlines with improved facility efficiency, passenger processing, and flexibility. The proposed flow-through design for this portion of the ticket lobby provides for more efficient use of the Airport's existing resources.
- Become one of the top ten customer service airports in the world by 2015 by creatively reconfiguring and managing our existing assets to minimize inconvenience and delays to the traveling public.

TRIPLE BOTTOM LINE SUMMARY:

Using a design proven to decrease congestion and increase passenger through-put will enable the Port to provide a facility today to meet the traffic projections of the future without having to make major expansions.

This project will improve the experience of the traveling public by improving the efficiency of the ticketing and check-in process.

This project also demonstrates the Port's commitment to environmental stewardship and sustainability by replacing outdated and uneconomical infrastructure and systems with modernized and more energy efficient equipment.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

1. Remodel the existing ticket counters for Delta and Virgin America to a "flow-through" configuration as a tenant project completed by Delta. This will provide a long-term solution for increased passenger processing and will meet Delta's goal of having it ready in time for next summer's traffic. ***This is the recommended alternative.***
2. Do nothing or postpone the conversion to a flow-through concept. This will promote further overcrowding and congestion not only in this area but in the adjoining areas as well. Previous modifications to the Delta ticket lobby have only partially alleviated the congestion in the lobby area that is projected to continue to increase as airlines add new routes and passenger volumes increase in the Main Terminal ticket lobby area. This alternative is not recommended.

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3. Partial or full counter pushback: This provides larger queuing space in the lobby but does not increase passenger processing rates. This increased cost will remedy the queue congestion in the short-term, but lacks a long-term solution. This alternative is not recommended.
4. Remodel the existing ticket counters as per Alternative 1 using Port resources. This alternative would take longer to complete and not satisfy Delta's goals of having a solution ready in time for next summer's traffic. This alternative is not recommended.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Attachment A – Computer Slide Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

December 6, 2011 – Commission authorized Airline Realignment Miscellaneous Building Improvements project (CIP #C800475) including the Virgin America ticket office design.