

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5e

ACTION ITEM

Date of Meeting December 11, 2012

DATE: December 3, 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: United Airlines Tenant Improvements (Expense) and Convert Ticket Zone 2 Pushback (CIP #C800491)

Amount of This Request: \$14,482,120 **Source of Funds:** Airport Development Fund
and existing revenue bonds

Est. State and Local Taxes: \$812,840 **Est. Jobs Created:** 256

Est. Total Project Cost: \$16,047,390

ACTION REQUESTED:

Request Port Commission authorization for the Chief Executive Officer to: (1) authorize \$14,018,890 of tenant reimbursement budget associated with the design and construction of the Zone 2 ticket counter pushback, ramp offices and United Club in support of the United Airlines (United) tenant project; (2) execute a tenant reimbursement agreement with United for this purpose under the Airport's AV-2 Policy; and (3) authorize an additional \$2,028,500 for tenant project support. The total estimated Port cost of this project is \$16,047,390.

SYNOPSIS:

This project allows for growth in the number of passengers using the Airport without expanding the footprint of the terminal. It will also improve the efficiency of the ticketing and check-in process.

As part of the Airline Realignment, United Airlines will be relocating its aircraft gate operations from the North Satellite to Concourse A in May, 2013. In conjunction with the gate moves, United will also be moving its ramp operations offices to Concourse A and its ticket counters and back offices from its current location at Zone 7, south to Zone 2. Further, United will convert an existing unleased airline VIP club on Concourse A to a United Club and improve data connectivity to its leased gate lobby check in podiums.

Because the increased traffic load that United will bring could impact crowding in Zone 2, the Airport and United have agreed to use this opportunity to construct ticket counters in a "pushback" configuration to increase ticket lobby space for better queuing and passenger flow in

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this area. This ticket counter “pushback” project was approved by the airlines through a majority-in-interest vote on September 28, 2012.

United will complete this construction before summer 2013 under both a tenant reimbursement agreement for the pushback and memorandum of understanding for the realignment work. This project was included in the 2013-2017 capital budgets as a business plan prospective project.

BACKGROUND:

With ongoing airline consolidation and a goal to maximize utilization of our existing facilities, the Airport is exercising the One-Time Reallocation provision in the current Signatory Lease and Operating Agreement. The reallocation will require a number of modifications associated with the airlines, which will relocate their gate and ticket counter operations to effectively operate in their new locations. With the Port initiating the Airline Realignment moves, the burden of cost falls largely on the Port; however, it is anticipated that United will pay for portions of their relocation costs associated with facilities to accommodate its merger with Continental Airlines.

Of the airlines involved in the Airline Realignment, Alaska Airlines and United Airlines have chosen to complete tenant improvements as tenant projects to be reimbursed by the Port. Alaska completed its work earlier this year.

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 Objectives:

- Support the timely relocation of airlines.
- 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 facilities for airlines being relocated to new ticket counters, ramp offices and club space.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

In order to prepare for the primary scope of work that will be completed by United, the Port will first undertake two enabling projects:

- Regulated Material Management abatement (authorized September 11, 2012) of portions of the Zone 2 ticketing counters and offices.
- The relocation of American Airlines, Frontier Airlines and JetBlue Airlines ticket counters and offices to the Zone 5 ticketing area as part of the Airline Realignment (authorized July 10, 2012).

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

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- The Port will perform additional phased regulated materials abatement of the current United ticket counters and offices.
- United will complete demolition and build out of the new pushback ticketing counters including baggage conveyor system modifications, remodel existing ramp offices, remodel an existing VIP club to a United Club and add data connectivity to Gate A6 – A14, 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 United. It is anticipated that United will expend an amount greater than \$2,000,000 of its own funding not reflected in the project budget shown below. The Port will provide oversight of the work performed by United's contractor.

SCOPE OF AGREEMENT:

Proposed Effective Date:

November 2012

Use:

Authorization to construct approximately 3,200 square feet of ticket office spaces and ticketing area; 24,354 square feet of ramp offices and 6,154 square feet of the United Club and associated items for reimbursement.

POS Expense Reimbursement:	\$ 10,568,150
POS Capital Reimbursement:	\$ 3,450,740
Total Reimbursement Budget:	\$ 14,018,890
POS Tenant Project Support Cost:	\$ 2,028,500 (expense and capital)
Total Project Estimated Cost:	\$ 16,047,390 (expense and capital)
Previous Authorizations:	<u>(\$ 1,565,270)</u>
Total Request for Authorization:	\$ 14,482,120

Schedule:

Activity	Dates
Airline Majority In Interest Approval	September 28, 2012
Commission Authorization	December 11, 2012
Construction of Two Enabling Projects	December 2012 – May 2013
Phased Regulated Materials Abatement	November 2012 – February 2013
United Ticketing/Ramp and Club Complete	May 2013
United Operations Move	May 2013
Move ANA and Construct Counter	September 2013
Project Complete	November 2013

FINANCIAL IMPLICATIONS:

<i>Budget/Authorization Summary:</i>	Capital	Expense*	Total Project
Original Budget	\$5,500,000	\$0	\$5,500,000
Budget (Decrease)	\$(1,517,460)	\$0	\$(1,517,460)

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Revised Budget	\$3,982,540	\$0	\$3,982,540
Previous Authorizations	\$0	\$1,565,270	\$1,565,270
Current request for authorization	\$3,982,540	\$10,499,580	\$14,482,120
Total Authorizations, including this request	\$3,982,540	\$12,064,850	\$16,047,390
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$3,982,540	\$12,064,850	\$16,047,390

* The Expense portion of this project is part of the \$23,285,000 budget for Airline Realignment Tenant Improvements, of which \$9,937,255 had been previously authorized, and of which \$2,848,165 will remain for future Airline Realignment project work.

<i>Project Cost Breakdown:</i>	This Request	Total Project
Construction (United)	\$11,934,660	\$11,934,660
Construction Management (Combined)	\$1,694,620	\$1,694,620
Design (United)	\$0	\$909,270
Project Management (Port)	\$0	\$656,000
Permitting (United)	\$40,000	\$40,000
Estimated State & Local Taxes (United)	\$812,840	\$812,840
Total	\$14,482,120	\$16,047,390

Budget Status and Source of Funds:

The Conversion of Zone 2 Ticket Lobby to Pushback Concept project was included in the 2013-2017 capital budgets as a business plan prospective project (CIP #C800491) with a budget of \$5,500,000. The funding source is from the Airport Development Fund and existing bond proceeds.

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	\$3,982,540 capital, \$12,064,850 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, no change.

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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 objective to meet the region's air transportation needs at Sea-Tac Airport for the next 25 years by adding capacity to the ticket lobby, thereby supporting future growth within the existing terminal space.

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 pushed back design supports the Airport's business plan strategies to:

- Anticipate and meet 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 pushback 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.

The Port will work with United Airlines to encourage the greatest level of small business participation.

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ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative 1: Remodel the existing ticket counters to a “flow-through” design, build new ramp offices and United Club as a tenant project completed by United. Because of the proximity of security checkpoint queuing immediately behind the ticket counter, a flow-through traffic pattern would not work properly. This alternative is not recommended.

Alternative 2: Remodel the existing ticket counters to a “pushback” configuration, build new ramp offices and United Club as a tenant project completed by the Port. The Port could not now complete the project in the allotted timeframe. This alternative is not recommended.

Alternative 3: Remodel the existing ticket counters to a “pushback” configuration, build new ramp offices and United Club as a tenant project completed by United. This will support the Airline Realignment Tenant Improvement Program. *This is the recommended alternative.*

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

On September 11, 2012, the Port Commission authorized Airline Realignment Tenant Improvements in the amount of \$730,000 to execute a construction contract for regulated materials management for Zone 2 Ticket Counters and Offices and execute a contract for moving services.

On July 10, 2012, the Port Commission authorized Airline Realignment Tenant Improvements in the amount of \$4,243,400 to advertise and execute a construction contract and use of Port Crews for Airline Tenant Improvements – Airline Realignment.

On July 10, 2012, the Port Commission authorized CUSE construction at ticket counters and gates, and seating in the amount of \$1,887,000.

On June 26, 2012, the Port Commission was provided an update briefing with the NorthSTAR budget restructuring.

On June 26, 2012, the Port Commission authorized additional budget of \$400,000 to add two fuel pits (C800472).

On April 24, 2012, the Port Commission authorized Airline Realignment Tenant Improvements in the amount of \$225,000 for regulated materials management.

On April 10, 2012, the Port Commission authorized additional budget to enter into a construction contract for airfield improvements including Exterior Gate Improvements – Airline Realignment (C800472).

On March 27, 2012, the Port Commission authorized design and construction of gate B1 and B11 jet bridges as elements of Passenger Loading Bridge Replacement Project- Airline Realignment (C800467) in the amount of \$1,570,000.

On January 24, 2012, the Port Commission received a briefing on the Airport Realignment Program.

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On January 24, 2012, the Port Commission authorized construction of Exterior Gate Improvements – Airline Realignment (C800472) in the amount of \$2,613,000.

On January 24, 2012, the Port Commission authorized design for CUSE at Ticket Counter/Gates & Seating (C800473) in the amount of \$484,000.

On December 6, 2011, the Port Commission authorized construction of Baggage Handling System (BHS) Improvements – C22 BHS Connection to C1/C1-MK1 Replacement (C800382) at the Airport in the amount of \$3,604,000.

On December 6, 2011, the Port Commission authorized design of the Miscellaneous Building Improvements – Airline Realignment (C800475) at the Airport in the amount of \$1,721,000.

On December 6, 2011, the Port Commission authorized design of the Airline Tenant Improvements – Airline Realignment (expense) at the Airport in the amount of \$3,776,000.

On November 22, 2011, the Port Commission was provided with a verbal preliminary briefing of December 6, 2011, items with a diagram.

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 the Airport.

On June 14, 2011, the Port Commission authorized design of the Exterior Gate Improvements – Airline Realignment project (C800472) at the Airport in the amount of \$499,000.

On June 14, 2011, the Port Commission authorized design of the Airport Signage – Airline Realignment project (C800474) at the Airport in the amount of \$238,000.

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 the first phase of the Passenger Loading Bridge Replacement – Airline Realignment Project (C800467) including design, purchase, and execution to replace, refurbish and relocate PLBs at Concourse D.

On February 22, 2011, the Port Commission was shown a summary listing of realignment projects and authorized Planning for Terminal Realignment in the amount of \$713,000.

On January 25, 2011, the Port Commission was briefed on several projects that are part of the overall airline realignment program and which required a single Commission authorization in order to meet the realignment schedule. The first part of the realignment program was authorized by the Commission on this date under the Concourse D Common Use Expansion Project (C800455).

On September 28, 2010, the Port Commission was given a summary briefing of the upcoming 2011 capital improvement plan that included the airline realignment program elements.

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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.