

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5b

ACTION ITEM

Date of Meeting September 11, 2012

DATE: August 30, 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

SUBJECT: Airline Realignment Tenant Improvement Program - Reimbursement for Alaska Airlines for Seattle-Tacoma International Airport (Expense WP 104756)

Amount of This Request: \$1,179,000 **Source of Funds:** Airport Development Fund

Est. State and Local Taxes: \$79,230 **Est. Jobs Created:** 17

Est. Total Project Cost: \$23,285,000

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to authorize \$1,179,000 of tenant reimbursement budget associated with the relocation of Alaska Airlines from Concourse D ramp spaces to Concourse C as part of the Airline Realignment Tenant Improvement Program and to execute an airline reallocation agreement with Alaska Air Group. The total estimated project cost for the entire realignment is \$23,285,000.

SYNOPSIS:

This authorization is one of several that are necessary for the one-time realignment of air carrier operations that will take place at the Airport, which were undertaken at the request of the airlines. 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 Tenant Realignment Tenant Improvement Program are pursuing an aggressive schedule in which they propose to complete many of the moves by early 2013.

This project is for the remodel of 6,971 square feet of existing airline spaces consisting of offices on the mezzanine of Concourse C and concourse level of Concourse D to support the Airline Realignment Tenant Improvement Program in order to vacate space within Concourse D for future occupancy of other airlines. This work will be performed under an airline reallocation agreement, which was created at the request of the airlines to allow them to construct their reallocation project. Funding for this project was included in the 2012 operating budget, and costs will be incorporated into airline rates and charges and recovered through terminal rents.

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The direct reimbursement to Alaska Airlines is \$834,000, and the Port's support costs are \$345,000 for a total of \$1,179,000

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. The realignment was driven by the merger of major carriers and the consolidation needs for Alaska Air Group that necessitated the repositioning of gates, holdrooms, and ticketing positions throughout the Airport.

This authorization covers the reimbursement for tenant relocation and improvements for Alaska Air Group in the Airline Realignment Tenant Improvement Program. This work is not part of the NorthSTAR program. United Airlines has also elected to proceed with design and construction as a tenant reimbursement. Future authorization will be sought for United Airlines work.

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 in Airline Relocation Tenant Improvement Program.
- Relocate Alaska's Ramp offices from Concourse D to accommodate relocated airlines.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

This project is for the remodel of 6,971 square feet of existing airline office space consisting of offices on the mezzanine of Concourse C and concourse level of Concourse D to support the Airline Realignment Tenant Improvement Program.

Schedule:

Design (by Alaska):	1 st Qtr 2012 to 2 nd Qtr 2012
Construction (by Alaska):	3 rd Qtr 2012 to 4 th Qtr 2012
Completion:	3 rd Qtr 2012 to 4 th Qtr 2012

Alaska has been slow to work the Port's Airline Reallocation Agreement through their legal system, so are now at the point of being able to sign it. Recognizing this delay, they have consciously been willing to move forward on construction at their risk to keep the project on schedule.

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SCOPE OF AGREEMENT:

Use: Authorization to remodel 6,971 square feet of offices on the mezzanine level of Concourse C, and concourse level of Concourse D to support the Airline Realignment Tenant Improvement Program in order to vacate space within Concourse D for other Airlines.

Direct Reimbursement: The total project is currently estimated at \$834,000.

Port Project Support Costs: \$345,000

Total Reimbursement Budget: \$1,179,000

FINANCIAL IMPLICATIONS:

<i>Budget/Authorization Summary:</i>	Capital	Expense	Total Project
Original Budget	\$0	\$23,285,000	\$23,285,000
Previous Authorizations	\$0	\$9,207,255	\$9,207,255
Current request for authorization	\$0	\$1,179,000	\$1,179,000
Total Authorizations, including this request	\$0	\$10,386,255	\$10,386,255
Remaining budget to be authorized	\$0	\$12,898,745	\$12,898,745
Total Estimated Project Cost	\$0	\$23,285,000	\$23,285,000

Budget Status and Source of Funds:

This total of \$23,285,000 of operating costs will be spread over four years: 2011 – 2013. The Airport included \$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.

Lifecycle Cost and Savings:

The annual operating and maintenance costs will decrease to maintain the new systems and finishes.

STRATEGIC OBJECTIVES:

This project promotes the Port's business objectives to "Ensure Airport and Seaport Vitality" and "Be a Catalyst for Regional Transportation Solutions by realigning Airport users with Airport resources and improving operational efficiencies throughout the Airport.

ENVIRONMENTAL SUSTAINABILITY:

Sustainable materials and practices have been incorporated into the project design; including low volatile organic compound (VOC) paint, sealants and adhesives, using recycled content and recyclable carpet, and reuse of existing materials and equipment. The design of the mechanical system meets the Washington State Energy Code.

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BUSINESS PLAN OBJECTIVES:

This project supports the Airport's strategic goal of operating a world-class international airport by anticipating and meeting the needs of our tenants and passengers and by managing our assets to minimize the long-term total cost of ownership by improving efficiencies.

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 AND THEIR IMPLICATIONS:

Alternative 1 – Do not authorize the budget or agreement required, which could result in Alaska cancelling the tenant project, forcing the airline to remain where they are and hindering the realignment project schedule. This is not the recommended alternative.

Alternative 2 – Do nothing. The airline realignment cannot be executed. This is not the recommended alternative.

Alternative 3 – Authorize the Chief Executive Officer to authorize \$1,179,000 of tenant reimbursement budget associated with the Airline Realignment Tenant Improvements for Seattle-Tacoma International Airport and to execute a tenant reimbursement agreement with Alaska under the Airport's AV-2 policy. This approach helps fulfill the airlines' request for relocation of operations and facilitates completion of several moves by early 2013. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

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).

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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.

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 indefinite delivery, indefinite quantity (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

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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.

On July 9, 2010, the Port Commission was notified that the CEO would enter into a 5-year sole-source contract with JBT AeroTech for the procurement of PLBs and PLB components.

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.