

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>3c</u>
Date of Meeting	<u>September 8, 2015</u>

DATE: September 3, 2015

TO: Port of Seattle Commission
Ted Fick, Chief Executive Officer

FROM: Mike Merritt, Commission Chief of Staff

SUBJECT: Forum on Seattle-Tacoma International Airport's International Arrivals Facility (IAF), Wrap-Up and Next Steps

SYNOPSIS

Introduction

The Port of Seattle is developing a new International Arrivals Facility at Seattle-Tacoma International Airport (STIA) to replace the outmoded arrivals hall in the South Satellite constructed in early 1970s to meet the demands of growing international air travel.

The airport staff started planning and design of the IAF in 2008 with the engagement of the airlines. Earlier this year, as the Port moved toward engaging a firm to finalize design and construct the project, several of the airlines raised concerns about the overall cost and proposed funding plan of the IAF. While the airlines support the need for improvements to the arrivals facility, the issues identified by the airlines included:

- Significant increases in cost estimates for the IAF
- The proposed location and plan
- Financing elements, particularly the significant use of the Passenger Facility Charges (PFCs) for the new IAF
- Allocation of gates among international airlines and the need to upgrade the aging South Satellite
- Concerns relating to airline engagement throughout initial project programming.

As a result, on May 26, 2015, the Port Commission initiated a 90-day review of the IAF. For this review, the Commission directed staff to utilize outside experts to both verify the earlier programming work and to review the financing plan and sought additional input from all airlines serving Sea-Tac Airport. The Commission expressed its intent to move forward with the IAF

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program and noted that this 90-day process would be “a pause” to ensure the planning and design would proceed based on learnings gained during the pause period.

As part of the May 26 action, directed staff to model a preliminary funding plan for the facility that would result in rates and charges competitive with comparable airports, a judicious use of airport cash, and avoid creating competitive advantage or disadvantages among airline tenants.

Outside Experts Hired to Review

Staff initiated work and engaged two airline-industry finance experts to review the port’s proposed funding approach and to provide the Commission with an overview of financing models of IAFs around the country and in particular the use of PFCs as a funding mechanism. Staff also identified accomplished airport planning and programming experts to perform an review of the various studies accomplished to date and provide their own analysis.

Airline Participation

Over 40 airline representatives attended the July 14 and July 28 Commission meetings and participated in follow-up meetings with the Port CEO, Airport Director, and staff on July 15 and July 29 respectively. As a result of these meetings, over 110 questions were answered by airport staff. In addition, staff created a SharePoint site accessible to airlines to enable their review of those answers along with the original planning and design documentation.

As the 90-day period was in its final month, the Commission held a round table discussion with both domestic and international airline property representatives. During the discussion, each airline was able to voice their primary concerns and they answered several questions from commissioners. All the airlines expressed their appreciation of the open process, many which noted its unprecedented nature. International foreign-flag airlines noted appreciation for two primary things:

1. The airport decision to make the Concourse A gates common use, and
2. A need to fully renovate the aging South Satellite.

One airline suggested studying the idea of towing aircraft as a way to eliminate the need for building the IAF – staff has subsequently studied the idea, found it to not be feasible, discussed results with the airline, and posted results for all airlines to view. Multiple airlines commented on funding while noting that those decisions rest with the Commission.

Continuing Collaboration with Airlines

While the original 90-day period expired, similar collaborative work with the airlines will continue throughout the IAF validation process, an effort which began on July 20 and will continue through November. Six meetings have been scheduled to allow ample opportunity for airline technical input as the validation process moves forward.

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Next Steps

The validation process will narrow multiple design configuration alternatives to a single recommendation which will enable the IAF team to produce a target budget and schedule. This information leads to the first of two major authorization requests to the Commission.

1. **December 2015** when staff intends to bring forward a significant request for authorization to initiate full design; mobilization, accomplish enabling construction activities such as utilities, moving facilities out of the footprint of the construction area, materials ordering, and early major construction work of the facility.
2. **Second quarter of 2017** when the design-builder has progressed enough (approximately 60% design) to provide a guaranteed maximum price for consideration by the Commission.

The current estimated cost of the project is \$608 million which requires a Majority-In-Interest (MII) ballot to be sent to the airlines for their consideration. If the MII (defined as (1) airlines with 55% of airline payments to the airport, and (2) 55% of signatory airlines) vote is against the project, then the project would be delayed by 6 months. It is staff's recommendation and intention to mail the ballot in September to ensure that the delay period does not in turn cause the project to be delayed, the impact of which could cause inflationary construction costs estimated at \$7.8 million. It is an important priority to keep costs down wherever possible, a fiscal responsibility to King County constituents and the airline partners. Initiating the balloting process during this recommended timeframe significantly aids the project in terms of schedule and cost.

BACKGROUND

Program History

From 2008 to April 2015 the staff convened twenty-one meetings with the Airline Airport Affairs Committee (AAAC) in which the IAF was discussed. An additional eighteen meetings were held with the international station managers association from 2012 to April 2015.

In February 2008, airport staff met the AAAC to discuss the growing congestion at the existing Federal Inspection Services area within the South Satellite (SSAT) where international arriving passengers arrive for passport screening by U.S. Customs and Border Protection and other screenings by US Agriculture, etc. Airport staff and the AAAC met again twice in 2009 on the same subject. The AAAC received reports about international passenger growth, and were presented ideas of how to alleviate the corresponding congestion within the South Satellite.

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During 2010 and 2011, communications intensified within the AAAC group as demonstrated by discussion occurring at essentially every meeting throughout the two year period.

- Those discussions centered on finding ways to solve the congestion by trying to expand within the satellite to provide short-term and medium term-relief.
- In addition, during that period, the airlines were asked if they would consider adjusting their flight schedules to lessen peak needs. The airlines were clear that they did not want to change their current flight schedule which affects their wider network or to limit their future scheduling possibilities.
- The airlines ultimately determined that expenditures within the SSAT were unwise as compared to embarking on a permanent longer term solution outside the SSAT.
- It was also determined that growth in international Federal Inspection Service (FIS) passengers would exceed the capacity of the mid-term project before it could be completed.

Portions of this work with the airlines were brought to the Port Commission in 2010 and 2011 via three briefings regarding the situation and thinking about the alternatives.

Definition Work

In the following years, definition work for the IAF got underway to define the basic parameters of the program that would be necessary to meet the long term needs. Coordination work with the AAAC occurred twice in 2013 and four times in 2014. In addition four added meetings were held in October and November of 2014 to specifically focus on related costs of various elements within the IAF programming layout. Coordination with the Airline Station Managers occurred fourteen times in the two year period. Briefings and Action requests to the Commission happened five times in 2013 and 10 more times in 2014.

During this multi-year period, staff began briefing the Commission regarding the needs to serve growing international traffic. From 2010-2014, staff briefed the Commission fourteen times. The Commission passed nine action items relating to the IAF from 2013-2015, including the authorization of design-build methodology, issuing the Request for Proposal (RFP), and executing the contract with the design-build team.

LEARNINGS FROM THE COMMISSION DIRECTED 90-DAY REVIEW

Finance Plan:

Staff has outlined a potential funding plan for the IAF that would rely on a combination of Port cash, revenue bond proceeds and Passenger Facility Charges. This is only a preliminary plan and would be subject to future revisions and final approval near the end of construction period in 2019.

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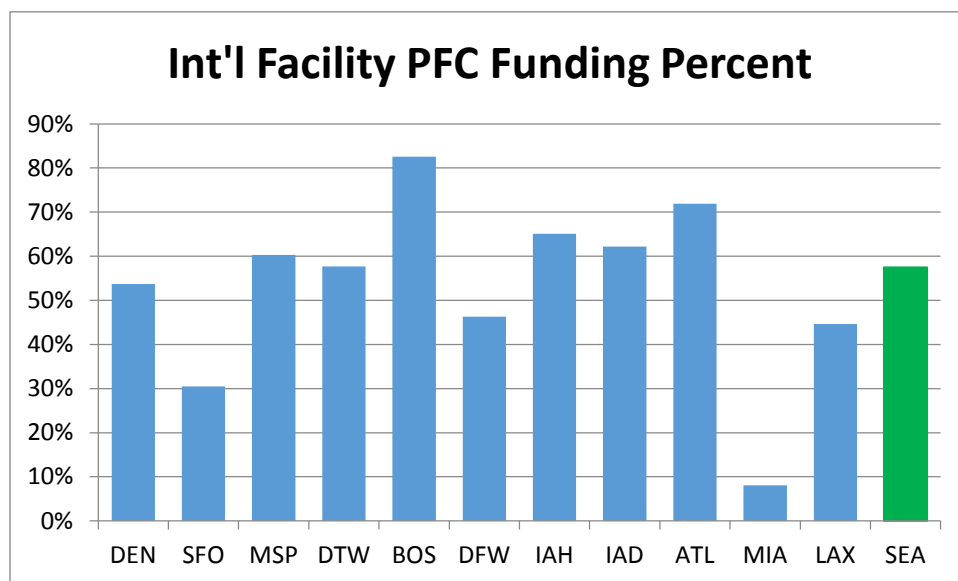
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Funding Sources and Use of PFC Revenues (millions)						
	Funding Sources	Percent of Total	Use of PFCs for IAF			Effective percent of IAF costs paid with PFCs
			Construction Costs	Pay Debt Service	Total PFCs	
Port Cash	\$ 200	33%				
PFCs to fund project costs	\$ 100	16%	\$ 100			
Revenue bond proceeds	\$ 308	51%		\$ 250		
Total funding sources	\$ 608	100%	\$ 100	\$ 250	\$ 350	57.6%

Staff initiated work and identified two finance experts to review use of PFC's as a funding mechanism, and to review practices of other airports in financing their IAFs to gauge whether Seattle's approach is consistent with industry practice. One expert works primarily for airports, and one works primarily for airlines. Both were given the same objectives and asked to work together since data from both airports and airlines would be valuable. Professional service contracts were put in place, and the finance experts began their research and analysis. Testimony occurred on July 14 and July 28. The results of their testimony included two primary points noted below:

1. The percentage of PFCs proposed by STIA to fund the IAF fell within the middle range of 11 other airports that have built international facilities within the last twenty years.



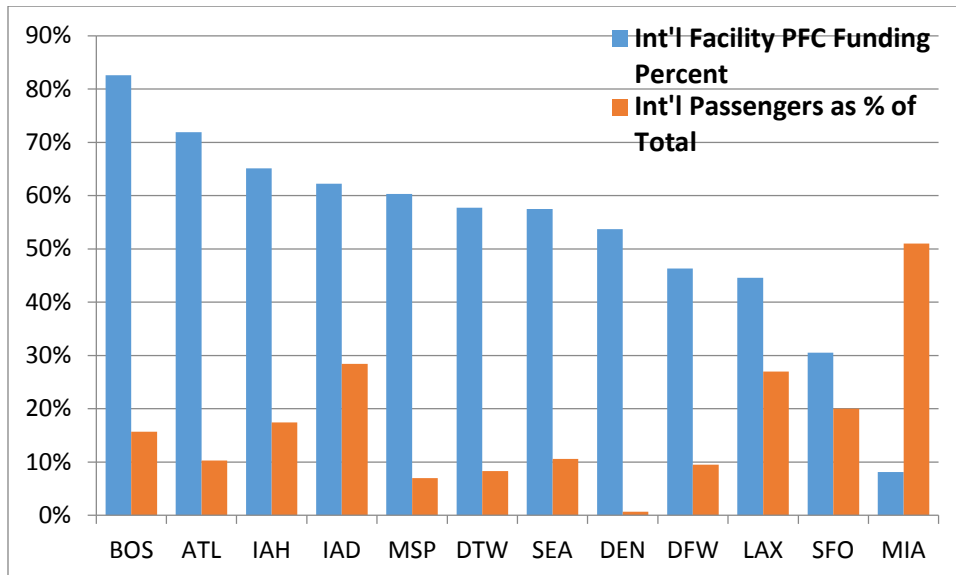
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2. The percentage of PFCs used to fund international facilities across the country typically exceeds the percent of international passengers to total passengers. Again STIA's proposed use of PFC's is in appropriate alignment with other airports.



The use PFCs is an important principle in keeping the international arrival charge at a competitive price compared to peer-airports when the IAF opens. A point was made by the finance experts that although FAA approves the projects that are eligible to receive PFC's, it is the airport's governing board that gets to choose what level of PFC's to use.

IAF Project Programming

Staff also identified recognized airport programming experts. Each expert was given the same briefing materials by the Airport Planning Department regarding the various studies accomplished to date. The experts had discussions with each other to assure full understanding, but set about creating independent presentations to the commission with their own recommendations of what else a final designer might investigate more fully or add to the scope. The experts testified on July 28 to the Commission that the amount of planning that staff has accomplished was thorough and done to a better level of rigor than in many airports. One also noted that based upon his experience an airport should not expect to achieve full agreement of every airline since they have varying needs and competitive positions. Their suggestions centered mostly around future flexibility and their suggestions have been given to the design builder and are now being considered in the Validation Phase of the project that will yield at a target budget and schedule in December.

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Airline Engagement

Over 40 airline representatives attended the July 14 and July 28 public meetings and participated in follow-up meetings with the Port CEO, Airport Director, and staff on July 15 and July 29 respectively. On July 29 an additional afternoon meeting was held to allow Alaska, Delta, Southwest, and United Airlines to seek information and ask questions. The airlines listed many questions for the airport staff to investigate and respond. As a result of these meetings over 110 questions were answered by airport staff and the answers along with the original planning and design documentation were posted to a SharePoint site that both the airlines and airport could access to keep up with the rapid pace of information exchange.

Technology and Pre-clearance

During the course of the process the several airlines also expressed interest in ensuring the IAF would incorporate new technology for processing arriving passengers and would reflect potential expansion of pre-clearance of passengers for entry to the US at foreign airports. The airlines sought an evaluation of how those potential changes could affect the design of future arrivals facility improvements. Federal Customs and Border Protection (CBP) attended the July 28 Commission meeting and testified about the crowding in the small spaces today, that added kiosks and staff scheduling has occurred, and that they plan to make Sea-Tac Airport's IAF a flagship in the industry in terms of technology. They will upgrade to the latest technology in a manner that exceeds their current design guidelines, a direction from CBP Commissioner Gil Kerlikowske.

Regarding pre-clearance, the CBP leaders also testified to this aspect. Foreign airports pay for the entire cost of facilities and 90 percent of the CBP staff to be stationed there. Facilities have not been built and will take many years to do so in several of the future market airports. Port staff also examined the future foreign markets that staff believes new international flights to Sea-Tac Airport will originate from over the next five-plus years, and determined that while overall preclearance may help alleviate some pressure for gates at a new IAF, it would not diminish demand enough to warrant not building a new IAF. An added consideration might be that if a terrorist or a major political event happens at one of those locations, one cannot predict whether those foreign preclearance locations would remain open.

Concerns of International Foreign Flag Airlines:

Also during the course of the 90-day review, the foreign flag carriers saw their two main concerns addressed. First, they requested that they be able to use the future wide body gates on Concourse A that would connect to the IAF because they would be the closest to the processing facility. The airport confirmed new common use gating criteria that will enable any international carrier to have access to Concourse A gates within a set of protocols. Second, the foreign flag

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carriers stated in testimony to Commission that the South Satellite facility was not up to par with Concourse A and the future North Satellite that will be fully occupied by Alaska Airlines. Certain international airlines described the South Satellite concourse as “the least best” STIA concourse, “third world,” “cramped,” etc. The Commission noted the airlines’ concern about the 46-year-old South Satellite and as a result staff has added the start of the renovation of the South Satellite to the coming 5 year capital plan for approval this year.

Alternatives Analysis that led to the current IAF site and layout plan

Alaska Airlines questioned how earlier design alternatives were winnowed to lead to the current IAF site and layout plan. The Airport offered two meetings for Alaska to help them understand the multi-year history of the planning process and how the scoring of alternatives was determined. Alaska was able attend meetings on August 5 and August 31, 2015. As a side note the three independent airport programming experts testified on July 28 to Commission that they believed the planning process that ultimately sited the IAF was “holistic,” a “thorough examination,” the “due diligence exceeded industry norms,” and “well thought out and very comprehensive”.

Gating Challenges and Towing Potential

As the 90-day period was in its final month, the Commission held a round table discussion noted above with both domestic and international airline property representatives. During the discussion, airlines were able to voice concerns and they answered several questions from commissioners.

During the roundtable discussion, Alaska Airlines suggested a less costly approach could be expansion and improvement of the existing federal inspection facility at the South Satellite. Since the South Satellite would lack the space to park wide-body aircraft at times of peak demand, Alaska Airlines raised the possibility of towing aircraft off the international gates. While Alaska was not proposing this as a firm alternative, it did suggest that it would be worthy of analysis to see if possible. As a result, airport staff has done further demand analysis which determined that the South Satellite does not have enough wide body aircraft gates to meet demand even if aircraft are towed off when there is ample time between arrival and departure. As part of that demand analysis, staff found other gates on adjacent concourses would be full with domestic aircraft during the day. As a result the towing operation would require the use of a large number of remote hardstands for aircraft repositioning.

In addition, towing slows other aircraft movements across the ramp which creates congestion, and approximately 130 aircraft are already towed daily at the airport. It is noteworthy that at the August 11 roundtable conversation the airlines expressed mixed views of towing.

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The Airline Technical Representatives (ATR), which are two consultants employed to participate in the design process on behalf of the airlines, conducted a review of this information. They prepared a report to Alaska Airlines stating that construction of the proposed new IAF is preferable a South Satellite option. The ATR concluded a South Satellite option would be more difficult to phase and construct, and would take longer to build, will have greater impacts on arrivals operations during construction, and falls short of the number of needed aircraft parking locations. It was noted that the cost of a South Satellite option could be slightly less than the proposed design.

The report has been posted on the airline SharePoint site for all airlines to review. The airport has also requested that the ATR's perform an independent review of the work that includes updated programming and design document information and then report out to the airlines. Southwest Airlines noted during the round table discussion that they would gain assurance once the ATR had analyzed the programming information and had reported out.

Delta commented that "if you don't have capacity you cannot grow." British Airways said "they chose to not put an A380 in Seattle" because of gating, congestion at peak, and arrival charge. Similarly Lufthansa indicated that they lose passengers to other West Coast gateways such as Vancouver, B.C. and San Francisco because of Seattle's congestion.

NEXT STEPS

As was expressed during the August 11 airline roundtable, the 90-day review was a helpful process for the airlines to answer questions and concerns, as well as refresh everyone, including the Port Commission and senior leadership, on the history behind evolution of the IAF program. The involvement of an ATR has proved to be invaluable and as a result, airport staff included support from an ATR as a part of their 2016 budget request.

The review has provided extensive opportunity for airlines and staff to better understand concerns and issues related to project design and funding. Outside experts affirmed the sound planning behind the design, and that the preliminary funding plan elements fall within the norm of approaches used by other peer airports.

Four leading international airlines – Delta, British Airways, Lufthansa and Hainan Airlines – have all indicated their support for the project.

As noted earlier, however, Alaska Airlines and other domestic airlines have expressed concern about the cost of the project and that the funding plan, in their view, places a disproportionate share of the IAF costs on their passengers. The funding plan will be subject to further review by the airlines and the Port Commission as the project progresses, guided by the key objectives contained in the May 26.

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As the validation process continues, airport staff will continue to engage our airline partners and report regularly to the Port Commission. Six more meetings have been scheduled with the airlines so they can view the progress of the IAF validation in person.

Mailing the IAF voting ballot to the airlines in September maintains the IAF schedule and avoids cost growth due to delay and inflation.

ATTACHMENTS TO THIS BRIEFING

- none

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- August 11, 2015, Forum on Seattle-Tacoma International Airport's IAF: Airline Roundtable
- July 28, 2015, Forum on Seattle-Tacoma International Airport's IAF: Financing, Planning, and Technology
- July 14, 2015, Forum on Seattle-Tacoma International Airport's IAF: Introduction Financing, Planning, and Technology
- June 23, 2015, Discussion of an IAF 90-day public outreach effort Authorization to negotiate and execute a design-build contract with a design-build team and commence contract validation period for the IAF Program
- May 26, 2015, Approval of a motion providing guidance for modeling funding of the Airport 5-year Capital Improvement Program.
- April 28, 2015 – Service Agreement for Commissioning Services
- April 28, 2015 – Request Authorization to Execute Lease Agreement with SeaTac Ventures 2010 LLC for IAF Program Management Office Space near Sea-Tac International Airport
- February 24, 2015 – Service Agreement for IAF Consultant Program Leader
- January 27, 2015 – IAF Funding Plan
- January 27, 2015 – IAF RFP Advertisement
- January 13, 2015 – IAF Update
- December 2, 2014 – IAF Scope and Budget Update
- October 28, 2014 – IAF Q3 Quarterly Briefing
- August 19, 2014 – IAF Q2 Quarterly Briefing
- August 5, 2014 – IAF RFQ Advertisement

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- July 22, 2014 – IAF Progress Briefing
- June 10, 2014 – IAF Update and Quarterly Briefing
- May 6, 2014 – IAF Project Delivery Briefing
- April 22, 2014 – Capital Program Briefing
- March 11, 2014 – IAF Master Planning authorization
- February 25, 2014 – IAF Program Briefing
- November 19, 2013 – International Arrivals Facility Construction Management, testing and inspection; surveying and locating and safety service agreements
- July 23, 2013 – International Arrivals Facility Project & Program Support; and Price Factor Design-build Methodology authorization
- July 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing
- July 9, 2013 – Alternative Public Works Contracting Briefing
- April 9, 2013 – Sea-Tac Airport International Arrivals Facility Briefing
- June 26, 2012 – Briefing on Airport Terminal Development Challenges at Seattle-Tacoma International Airport
- June 14, 2011 – International Air Service Growth and Future Facility briefing.
- February 2, 2010 – Briefing on South Satellite Passenger Growth and Facility Considerations, Delta's Proposed Airline Lounge and Other Possible Future Aviation Projects