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COMMISSION

AGENDA MEMORANDUM Item No. 8i

ACTION ITEM Date of Meeting July 23, 2024

DATE : July 16, 2024

TO: Stephen P. Metruck, Executive Director

FROM: Jeffrey Wolf, Director, Aviation Commercial Management

Khalia Moore, Senior Manager, Airport Dining & Retail

SUBJECT: SmarteCarte International Arrivals Facility (IAF) Luggage Cart Operation Contract Increase Request

Amount of this request: \$11,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a purchase order with SmarteCarte to continue to provide passenger amenity operations within the International Arrivals Facility (IAF) including luggage cart operations and the potential to add porter services as needed.

EXECUTIVE SUMMARY

- In November 2020, Commission approved the execution of an agreement with SmarteCarte which included the proposed purchase of 1,100 luggage carts for the IAF and provide recirculation of those carts to a designated area adjacent to the passenger access areas within the IAF building. The total Commission approved amount at that time was \$3,250,000.
- Recirculation includes the collection and return of luggage carts from various areas at the airport- primarily the parking garage- and return to the IAF for subsequent availability and use by incoming international passengers.
- The initially negotiated contract with SmarteCarte was for five (5) years ending in 2026 with an annual contract amount of \$650,000 per year for a total of \$3,250,000. As a part of the COVID relief process, all contracts were given term extensions, and an additional one-year term extension was given to SmarteCarte extending the term to December 31, 2027.
- The initial contract amount was calculated during the height of the pandemic and the international passenger forecast projected a slower international passenger rebound than ultimately was experienced at SEA which led to higher usage of luggage carts than initially projected.

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- The initial contract scope was limited regarding recirculation requirements supporting the IAF as operations within the building were to be handled by another Port 3rd party contractor. Prior to the opening of the IAF, the SmarteCarte contract scope was expanded as it was identified that the other Port 3rd party contractor did not have the capacity to manage any level of IAF luggage cart recirculation operations.
- The Port initiated negotiations with SmarteCarte to amend and restate the contract adding the additional scope of IAF luggage cart recirculation with service beginning upon the facility opening on April 19, 2022.
- The Port renegotiated the contract from a flat annual fee (with the initial annual base amount of \$650,000 per year) to a variable fee based on the number of recirculated carts with the initial rate set at \$2.95 per recirculated cart (with an annual CPI adjustment.) Port staff negotiated the lowest possible rate given the time sensitive necessity for the IAF operations.

The initial approved contract amount of \$3,250,000 to supplement being able to provide international passengers with free luggage carts upon arrivals has now been exhausted. This request will allow for continued operations of luggage cart recirculation through the expiration of the SmarteCarte contract scheduled for December 31, 2027. As part of contract expiration, staff will evaluate overall luggage cart services at SEA and consider updated agreement scope and terms at that time.

JUSTIFICATION

Post-COVID, SEA has continued to demonstrate dynamic rebounds in both domestic and

international passenger traffic passing through the terminal. Accordingly, luggage cart usage within the IAF has been extremely high, and funds associated with the recirculation have been quickly depleted. This funding request considers projected international passenger growth and CPI adjustments over the remainder of the contract term (12/31/2027).

This agreement is critical in providing passengers with continued premium luggage cart service and a standard amenity expected for international passengers at airports across the country.

Approval of this request allows SEA to continue to provide international passengers use of the luggage carts without a fee as their first introduction and welcome to SEA and Seattle/Washington State/the United States.

Diversity in Contracting

Port staff will continue working with SmarteCarte in looking to find possible WMBE partners for the domestic cart operations.

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Don't execute purchase order with SmarteCarte for IAF recirculation operations.

Cost Implications: No new additional cost (note: payments for April and May totaling \$543,892 have been accrued and is anticipated to be paid as part of new approved purchase order. In addition, June invoice will also be accrued as the amount is not yet known.)

Pros:

(1) Minimizes future costs to the Port for luggage cart services in the IAF, so decreased incremental costs added to the IAF rate base.

Cons:

(1) SmarteCarte would cease luggage cart service in the IAF. This is not feasible operationally and is poor customer service, as international arrival passengers typically have more luggage and bulky parcels to transport out of the facility upon arrival.

(2) The Port will still be required to pay the outstanding balance for the months of service that have continued since the previous purchase order was exhausted (March 2024).

This is not the recommended alternative.

Alternative 2 – Similar to the fee charged to domestic use of luggage carts, allow SmarteCarte to implement a fee for international passenger use of carts and pay the Port 15% of all revenues.

Cost Implications: Most likely no additional costs to the Port in the future.

Pros:

(1) Would eliminate or offset the costs to the Port associated with recirculation of luggage carts.

Cons:

(1) Upfront costs would still be required to install infrastructure for the cart rack collection system which will impact passenger flow in the IAF for cart layout within the IAF. The Port would also still need to pay accrued invoices for previous recirculation costs.

(2) The international arriving passenger experience would be extremely degraded as international customers would be required to purchase (rent) carts upon entry into SEA.

This is not the recommended alternative.

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Alternative 3 – Execute purchase order with SmarteCarte for IAF cart recirculation operations.

Cost Implications: \$11,000,000

Pros:

(1) Given the expansive size of the IAF, this option maintains passenger luggage cart recirculation services and allows for continued free use of carts by international

passengers arriving in the IAF through 2027.

(2) Opportunity to pilot an expansion of services to include potential porter services within the IAF.

Cons:

(1) Incremental annual operating expense added to the International Rate Base for this service over the remaining contract years.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Annual Budget Status and Source of Funds

The chart below depicts the projected annual spend through the remaining contract term based on 2023/2024 actuals, enplanement models as of June 2024, Q2 accruals, and assumed annual CPI adjustment. The projected total of approximately \$10.4 million is the basis of this funding request of \$11 million allowing for additional funds based on potential increased passenger numbers in the future.

FY 2023 FY 2024 FY 2025 FY 2026 FY 2027

Recirculated Carts 680,885 703,974 733,075 797,286 885,603

Invoice Total \$ 2,150,871 \$ 2,330,399 \$ 2,514,828 \$ 2,817,155 \$ 3,223,096

Apr to Dec'24* 2025 2026 2027

Projected annual spend \$ 1,808,703 \$ 2,514,828 \$ 2,817,155 \$ 3,223,096

Total \$ 10,363,782 *Includes accrued \$543,892 for Apr/May 2024 outstanding invoices; Jun invoice pending.

The annual cost of recirculation services under this agreement will be included in the annual operating budget for SEA, charged to the Federal Inspection Services (FIS) cost center which is recovered from airlines using the International Arrivals Facility.

Future Revenues and Expenses

- The SmarteCarte agreement will continue to generate revenue to the Port through domestic cart rental fees of \$8 per use with the Port paid 15% of annual gross sales, as well as massage chairs rental fees of \$5 per use with the Port paid 25% of annual gross sales per the Lease and Concessions agreement.
- The annual cost of the IAF luggage carts will be paid by the IAF cost center and recovered through airline fees in the IAF rate base for international carriers.

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ATTACHMENTS

None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

November 17, 2020– The Commission authorized the Executive Director to execute an agreement with SmarteCarte to provide luggage carts and massage chair passenger services at Seattle Tacoma International Airport (SEA). This agreement included a Port paid fee of Six Hundred Fifty Thousand (\$650,000) Dollars adjusted annually for SmarteCarte to provide and maintain eleven hundred (1,100) carts within the new International Arrivals Facility (IAF).

November 3, 2009 – Commission authorized the request for the Chief Executive Officer to execute an Amendment to the Lease and Concessions Agreement of SmarteCarte, Inc. at Seattle Tacoma International Airport that would extend the term for an additional 5-year period as provided in the current agreement, under new negotiated terms.

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