



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6k

ACTION ITEM

Date of Meeting October 22, 2019

DATE: October 14, 2019

TO: Stephen P. Metruck, Executive Director

FROM: Laurel Dunphy, Director Airport Operations
Daniel Zenk, Senior Manager Airport Operations

SUBJECT: VIP Hospitality Inc. Contract Amendment to Extend Services

Amount of this request: \$ 3,337,000

Total estimated contract amount: \$17,420,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a contract amendment with VIP Hospitality, Inc., to support international passenger and baggage processing by increasing the contract amount by \$3,337,000 for a total contract value of \$17,420,000 and by extending the term of services for an additional year through December 31, 2020.

EXECUTIVE SUMMARY

VIP Hospitality provides staffing support to facilitate international passenger throughput and expedite baggage processing in the airport's South Satellite. The contract for these services expires December 31, 2019. The proposed amendment would extend the Centralized International Support Services CISS/VIP Hospitality Inc. contract term for one year (12 months) to allow flexibility in staffing levels during the transition period from the South Satellite to the new International Arrivals Facility (IAF). This added transition time allows experienced staff to provide seamless customer service and federal agency coordination during activation, potential phased start-up, and then initial operations in the new facility.

A competitive process to acquire support services for the IAF will be conducted in 2020, after the customer service and operational uncertainties of the new IAF facility are better known.

JUSTIFICATION

Due to the growth of international passenger traffic in combination with existing constrained facilities and operational/customer service needs, the Port has required VIP Hospitality to increase the number of employees to support passenger and baggage processing in the existing Federal Inspection Services (FIS) facility. A contract extension and funding authorization increase will assist the Port with providing staffing level flexibility and continuity of operations through the end of 2020. The operational transition between the old FIS facility and the

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opening of the new International Arrivals Facility (IAF) poses many customer service and operational unknowns and challenges. Due to the uncertainty of required contract service staffing levels, Port staff is requesting a 12-month extension of the VIP Hospitality contract to assist with the evolving facility transitional needs while opening new IAF in 2020.

Seattle-Tacoma International Airport (SEA) is one of the fastest growing international gateway airports in the country. Between 2013 and 2018, the number of international passengers grew by 52 percent, from 3.6 million to 5.4 million. In 2018, the total airport passengers grew by 6.2 percent, to approximately 50 million annual passengers and becoming the eighth busiest airport in North America. Between 2014 and 2019, the airport has added 10 new international airlines and 10 new international service destinations. In 2019, there will be 24 airlines serving 29 international destinations, and the airport will open a new 450,000 square foot IAF building in 2020. With the new IAF, achieving a goal of less than a 75-minute minimum connect time (MCT) for the airlines should be attainable.

In 2015, immediately following the award of the contract to VIP Hospitality, international traffic grew much faster than the anticipated contract budget projections.

In 2016, at the Port's request to improve customer experience, VIP Hospitality continued to add staff to the passenger processing and baggage handling areas. From contract inception to today, VIP increased staff from approximately 18 to over 35 employees during peak hours. This is due to existing facility constraints and the volume of passengers required to be processed, the increase in the number passengers being held in the International Corridor and on aircraft. In 2018 approximately 15 percent of total international flights were held in the International Corridor, resulting in customer complaints.

Over the past year, the Port has also increased its emphasis on improved communication between VIP staff and passengers, particularly given the congested situation in the FIS. VIP has embraced this focus with the addition of customer service-focused management, participation in the Port's WE ARE SEA customer service training and a collaborative partnership with a newly assigned Pathfinder position focused on customer service quality assurance in the FIS.

Since 2015, the Port has used the services of VIP Hospitality to assist in the facilitation of the following:

1. Passenger Services - customer service, foreign language interpretation, crowd control, queue management, holding flights and passengers for processing, access control and assisting passengers with CBP documents and new automated passport control technologies.
2. Baggage Services - repositioning baggage at international carousels to maximize capacity, assisting passengers with placing baggage on recheck belts, recirculating baggage carts, and manually handling baggage too large to fit through conveyor belt systems.

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These services significantly increase passenger processing rates through passport control and assist passengers/airlines by efficiently moving baggage through the facility. Without these services, delivery of passenger assistance and baggage handling would be inefficient and uncoordinated.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Initiate the request for proposal (RFP) process to award a new contract to provide centralized passenger and baggage support services for airline passengers during the transition from old South Satellite (FIS) to the new IAF

Cost Implications: \$18,700,000 over a 5-year period, assuming similar rates to existing contract

Pros:

- (1) Establishes a new contract for Centralized International Support Services (CISS)
- (2) Addresses potential audit concerns by not extending an existing 5-year contract
- (3) Provides staff for long-term facility needs and customer service expectations

Cons:

- (1) Certainty around the staffing needs is difficult to determine because the demands of the new IAF are not known
- (2) Timing of the RFP process will result in a short-term contract extension for existing services
- (3) Does not provide continuity of service during facility transition
- (4) Degradation of customer service due to inexperienced/untrained staff and operational unknowns
- (5) Uncertainty about a contractor being able to provide the appropriate number of staff and seamless customer service in a timely manner

This is not the recommended alternative.

Alternative 2 – Amend existing contract to cover remaining 2019 contract terms and execute a CPO-5 policy waiver to extend the existing CISS/VIP Hospitality contract for a 2-year period ending December 31, 2021. A new RFP would be issued in 2021 for a January 1, 2022, start date.

Cost Implications: \$7,500,000

Pros:

- (1) Provides continuity of service during transition from old SSAT (FIS) to the new IAF
- (2) Provides the appropriate level of experienced and trained staff
- (3) Will minimize the level of uncertainty of operational and customer service requirements through the transition from old SSAT (FIS) to the new IAF building
- (4) Will assist activation team in identifying operational efficiencies
- (5) Supports CBP/airlines with operational effectiveness and efficiencies

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Cons:

- (1) Higher risk of an audit finding for extending contract value beyond typical audit parameters
- (2) Will delay the ability for outside contract companies to bid for services

This is not the recommended alternative.

Alternative 3 – Amend existing contract to cover remaining 2019 contract term and issue a policy waiver to extend authorization of the existing CISS/VIP Hospitality contract for a 1-year period. Procure a new contract in 2020 for a January 1, 2021, start date.

Cost Implications: \$3,337,000

Pros:

- (1) Provides continuity of service and a seamless customer service transition during transition from old SSAT (FIS) to the new IAF
- (2) Provides the appropriate level of experienced and trained staff
- (3) Will minimize the level of uncertainty of operational and customer service requirements through the transition from old SSAT (FIS) to the new IAF building
- (4) Will assist activation team with discovering operational efficiencies
- (5) Supports CBP/airlines with operational effectiveness and efficiencies

Cons:

- (1) Risk of an audit finding for extending contract value beyond typical audit parameters
- (2) Will delay the ability for outside contract companies to bid for services

This is the recommended alternative.

FINANCIAL IMPLICATIONS

<i>Commission Request for Additional VIP Contract Purchasing Authority</i>		
Current Contract Authority (2015-2019)		\$11,920,000
2019 Additional Contract Authority Needed (November-December)		\$ 568,000
2020 Contract Authority Needed		\$ 3,337,000
Additional contract authorization requested (used only if needed)		\$ 1,595,000
Total Cost Contract Authority Needed		\$17,420,000

Once extended, the total contract amount will be \$17,420,000 for a term of six years; original contract amount was \$12,660,000 for a five-year period.

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Annual Budget Status and Source of Funds

The anticipated cost of this contract for 2020 is included in the preliminary 2020 operating budget. As such, the funding source is the Airport Development Fund. All costs under this contract will be charged to the FIS cost center and recovered from the airlines that use the FIS facility.

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

September 30, 2014 – The Commission authorized execution of a contract for Centralized International Support Services in the Federal Inspection Services (FIS) Facility at Seattle-Tacoma International Airport for up to five years (2015-2019) for an estimated amount of \$8,700,000.