

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5c

ACTION ITEM

Date of Meeting March 26, 2013

DATE: March 18, 2013

TO: Tay Yoshitani, Chief Executive Officer

FROM: Wayne Grotheer, Director, Aviation Project Management Group
James Schone, Director, Aviation Business Development
James Jennings, Manager, Aviation Properties

SUBJECT: Mezzanine Tenant Relocation (CIP# C800560)

Amount of This Request: \$335,000

Source of Funds: Airport Development Fund

Est. State and Local Taxes: \$95,500

Est. Jobs Created: NA

Est. Total Project Cost: \$1,750,000

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to design the Mezzanine Tenant Relocation project in an amount not to exceed \$335,000 out of a total estimated project cost of \$1,750,000.

SYNOPSIS:

Commission authorization is requested to proceed with design of the Mezzanine Tenant Relocation project that will relocate Airport Jobs, Port Credit Union and Port Sign Shop tenants at Seattle-Tacoma International Airport (Airport). Relocating these non-airline tenants will provide needed office space for new and existing airlines at the south end of the terminal.

BACKGROUND:

An essential element of an airline's operation at the Airport is office space located pre-security to support the airline's ticketing functions. The proximity of this office space to the ticket counters is highly important for operational efficiency. The Airport has limited pre-security office space to support current and future airline needs.

Aviation Business Development recently completed a study of office space in the main terminal building. This study highlighted the scarcity of suitable space, particularly on the south end where there is increased demand associated with the international ticket counters, gates and baggage systems. This demand has been created by a relocation of airlines to the south end of the main terminal as part of the recent airline realignment moves. Additionally, there are two major projects for Delta Airlines and United Airlines that are converting office space on the ticketing level to ticket counter capacity, thereby decreasing the amount of office space on the south end.

This project has been developed to meet the increased demand for airline office space at the south end of the main terminal building at a time when office space on the ticketing level is

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decreasing. This project will relocate three non-airline tenants from 4,500 square feet of space on the south end of the mezzanine level (one level above ticketing) to locations in the main terminal building suitable to them yet less desirable for airlines. This space is anticipated to accommodate the office space needs of approximately 3-4 airlines.

This capital project originally had a much higher budget amount (\$5 million). This budget included supporting infrastructure for a relocation of the USO (also located in the vicinity of these other non-airline tenants), but it has been reduced significantly to support only the relocation of Airport Jobs, the Port Credit Union and the Port Sign Shop. It is anticipated that the remaining scope associated with the USO will come to Commission separately as part of a lease agreement in the near future.

This project was included in the 2013-2017 capital budget and plan of finance.

PROJECT JUSTIFICATION:

There is limited pre-security office space on the south end of the terminal to support current and future airline needs. As referenced in the Century Agenda, it is anticipated that the Airport will continue to see strong international growth, including the likely addition of new international carriers in the not too distant future. Additionally, airline realignment, Delta Air Lines flow-through ticket counter project (Zone 3), and United Airlines ticket counter push-back (Zone 2), have created a net reduction of approximately 8,500 square feet of airline office space on the south end of the terminal. Lastly, the Airport has received requests from existing tenants who have not been able to acquire the desired level of office space to support their airline operations. In an effort to respond to these current and emerging airline office space needs, the Port is proposing to relocate three non-airline tenants (Airport Jobs, Port Credit Union and the Port Sign Shop) who are currently occupying valuable office space on the south end of the mezzanine, to locations that are better suited for non-airline functions.

Project Objectives:

- Create available pre-security office space for current and future airline needs on the south end of the terminal.
- Relocate non-airline tenants' office space and provide like-for-like accommodations for those tenants who will be relocated.

PROJECT SCOPE OF WORK AND SCHEDULE:

Scope of Work:

- Reconfigure and provide needed infrastructure to the north mezzanine for the relocation of the Airport Jobs Office.
- Reconfigure and provide needed infrastructure to the central mezzanine for the relocation of the Port Credit Union.
- Reconfigure and provide needed infrastructure to the central mezzanine for future revenue as a tenant space.
- Reconfigure and provide needed infrastructure to the Concourse A ramp area to relocate the Port Sign Shop.

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- Prepare the vacated Airport Jobs office for two new tenants by reconfiguring and splitting the space into two office spaces.

See Attachment A illustrating the tenant relocations.

Schedule:

Commission Design Authorization	March	2013
Begin Design	April	2013
Commission Authorization for Construction	September	2013
Advertise Construction Contract	September	2013
Begin Construction	November	2013
Project Completion	June	2014

FINANCIAL IMPLICATIONS:

<i>Budget/Authorization Summary:</i>	Capital	Expense	Total Project
Original Budget	\$5,000,000	\$0	\$5,000,000
Budget Decrease/Transfer	\$3,250,000	\$0	\$3,250,000
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$335,000	\$0	\$335,000
Total Authorizations, including this request	\$335,000	\$0	\$335,000
Remaining budget to be authorized	\$1,415,000	\$0	\$1,415,000
Total Estimated Project Cost	\$1,750,000	\$0	\$1,750,000

<i>Project Cost Breakdown:</i>	This Request	Total Project
Construction	\$0	\$1,070,300
Construction Management	\$128,000	\$256,800
Design	\$107,000	\$107,000
Project Management	\$100,000	\$199,000
Permitting	\$0	\$21,400
State & Local Taxes (estimated)	\$0	\$95,500
Total	\$335,000	\$1,750,000

Budget Status and Source of Funds:

This project was included in the 2013-2017 Capital Budget and Plan of Finance as a business plan prospective project, CIP #C800560 with a budget of \$5,000,000. A total of \$3,250,000 will be transferred to a new CIP to fund future infrastructure for USO relocations that are no longer part of this CIP. The funding source will be the Airport Development Fund.

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Financial Analysis and Summary:

CIP Category	Renewal/Enhancement
Project Type	Infrastructure Upgrade & Customer Service
Risk adjusted discount rate	N/A
Key risk factors	N/A
Project cost for analysis	\$1,750,000
Business Unit (BU)	Terminal
Effect on business performance	Will reduce NOI after depreciation
IRR/NPV	N/A
CPE Impact	CPE will increase by \$0.01 in 2014, but no change to business plan forecast as this project was included.

Lifecycle Cost and Savings:

The lifecycle cost and savings of this project will be determined as an element of design. Annual Operating and Maintenance Costs should be equal to or less than present costs.

STRATEGIC OBJECTIVES:

This project promotes the Port's Century Agenda objective of meeting the region's air transportation needs at Sea-Tac Airport for the next 25 years by adding capacity for office space within the existing main terminal building. As the Port strives to develop new business and serve 45 to 60 million passengers annually, including doubling the number of international flights, it is important to provide office space near airline ticketing operations so the airlines can conduct business efficiently.

BUSINESS PLAN OBJECTIVES:

This project supports the Aviation Division's strategic goal of "Anticipating and meeting the needs of our tenants, passengers, and the region's economy." It facilitates better use of mezzanine office space by locating airline offices closer to their operations and relocating current tenants to spaces more suitable to their needs, as well.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative 1

Do nothing. Existing airlines will continue to operate in less than desirable conditions and new carriers will not have office space available or in a location that is necessary to an efficient airline operation. This is not the recommended alternative.

Alternative 2

Increase the footprint of the main terminal, creating new pre-security office space. This is an expensive alternative and real estate outside the terminal footprint is very limited and potentially not available. This is not recommended.

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Alternative 3

Relocate non-airline tenants, such as Airport Jobs, the Port Credit Union and the Port Sign Shop, that reside on the south end of the main terminal mezzanine to other less-congested locations in the Airport to create more office space for airlines. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Attachment A: Illustration of tenant relocations.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- None