

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4k
Date of Meeting February 23, 2016

DATE: January 11, 2016
TO: Ted Fick, Chief Executive Officer
FROM: W. Allan Royal, Manager, Real Estate Development
SUBJECT: Second Addendum to the Amended and Restated Second Development Agreement with the City of Des Moines

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute an addendum to the Development Agreement the POS has with the City of Des Moines surrounding development of Des Moines Creek Business Park. This amendment is needed so the Federal Aviation Administration headquarters project can break ground on construction this Spring.

SYNOPSIS

The Commission entered into a Development Agreement with the City of Des Moines to facilitate development of the Des Moines Creek Business Park. The proposed addendum allows the FAA headquarters site to comply with layout and specific General Services Administration (GSA) requirements. As the property owner, any modifications to the City's development plan must be approved by the Port.

BACKGROUND

At the October 28, 2014, meeting, the Commission authorized execution of the first addendum to the Amended and Restated Second Development Agreement with the City of Des Moines (City) to enable the initial development of the Des Moines Creek Business Park. The original master plan design for the site was done speculatively. The new developer has requested acceptable changes that require this plan amendment.

The development agreement addresses the roles, responsibilities, and obligations between the Port, as the owner of the business park site, and the City as the permitting authority. Panattoni, as the developer, has assumed the Port's obligations under the development agreement as provided for in the option agreement.

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This second addendum is needed in order to conform the Master Plan, short plats, street designs and other design issues specifically related to the development of the Federal Aviation Administration's Headquarters building. These changes will allow the property to comply with layout and specific General Services Administration (GSA) requirements. The building will be approximately 300,000 square feet and be home to 1,600 to 1,700 employees.

The proposed second addendum vacates Tract E, provides for alternative landscaping to accommodate GSA security requirements, revises the Master Plan, and dedicates a new internal circulation road. All of these changes are needed to comply with GSA design standards.

PROJECT JUSTIFICATION AND DETAILS

The original master plan was created prior to the Federal Aviation Administration Headquarters proposal was published. The action requested provides the modifications necessary to comply with the unique security and layout requirements detailed in the General Services Administration's solicitation. Without this amendment, the present master plan does not comply with FAA requirements and the final agreement would not be completed.

Project Objectives

Amend the master plan agreement with the city of Des Moines to accommodate the Federal Aviation Administration Headquarters.

- Design an alternative interior street alignment.
- Vacate one street internally.
- Modify landscape requirements to meet security requirements.

Scope of Work

Amend the master plan and modify the short plat accordingly.

Schedule

The ground lease will be before Commission for approval in April 2016. This amendment needs to be in place before the lease is executed. The city council of Des Moines has already approved the amendment on January 21, 2016.

FINANCIAL IMPLICATIONS

The development plan of action envisioned a three-phase construction over six years. The plan was designed to accommodate the lease absorption ability of such a large project. The action being taken affects both Phase 2 and Phase 3, which means Phase 2 is developed on time but Phase 3 will be in development two years ahead of schedule and Port rental income will begin well ahead of the original anticipated schedule.

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STRATEGIES AND OBJECTIVES

The location of a key federal agency will attract other users who frequently work with the Federal Aviation Administration. They will act as an anchor tenant for other development in the area. The influx of 1,600 to 1,700 new customers to the area will provide significant benefits to the local community. In addition to the attraction of a large, Class-A building, there are also enhancements of the trails and walkways in the area. The developer is striving for LEED Gold on both the building and interior.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do not approve the requested modifications to the Second Addendum.

PROS:

- There are no reasonably viable reasons to deny the request.

CONS:

- This action would make GSA reconsider the award for the Federal Aviation Administration headquarters and potentially move to one of the alternative sites that were proposed.
- The loss of the FAA Headquarters would cause the developer to seek other deals, which causes a considerable loss of time. The developer would not exercise their option to lease now but could wait as long as 2018. The delay, based upon the estimated rent numbers, would cost the Port approximately \$800,000 in lost revenue because of the potential loss of the tenant and the developer not exercising their option until required in 2018, losing 2 years of ground lease income. This is not the recommended alternative.

Alternative 2) – Approve the Second Addendum as proposed.

PROS:

- This will allow the developer to proceed with its planning and permitting process required to start the construction of the office building.
- The Port will receive approximately \$400,000 a year in land rent starting in 2017, due to this part of the ground lease being optioned 2 years earlier than originally scheduled.
- 1,600 to 1,700 FAA employees will be located in the city of Des Moines.

CONS:

- There are no known objections to the approval. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Attachment 1 – Second Addendum to the Amended and Restated Second Development Agreement
- Slide presentation

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PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- October 28, 2014 – The Commission authorized the execution of the First Addendum to the Amended and Restated Second Development Agreement.
- June 10, 2014 – The Commission authorized execution of an option agreement and related ground lease agreements with Panattoni Development Company Inc. or an affiliated entity; and (2) an amended and restated second development agreement with the City of Des Moines.