

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	6c
Date of Meeting	May 17, 2016

DATE: May 9, 2016
TO: Ted Fick, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Wayne Grotheer, Director, Aviation Project Management Group
SUBJECT: Airport Dining & Retail Infrastructure Modifications – Central Terminal (CIP #C800638)

Amount of This Request:	\$5,120,000	Source of Funds:	Airport Development Fund, Future Revenue Bonds
Est. Total Project Cost:	\$13,953,000		
Est. State and Local Taxes:	\$821,000		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to advertise and execute a construction contract related to the Airport Dining and Retail Infrastructure – Central Terminal project at Seattle-Tacoma International Airport for an amount not-to-exceed \$5,120,000 for a total estimated project cost of \$13,953,000.

SYNOPSIS

In order to provide adequate dining and retail service to meet the growth in passenger volume and demand at Seattle-Tacoma International Airport which in turn will support growth in business and small business opportunities, jobs, and non-aeronautical revenues, the Airport Dining and Retail (ADR) program must make a number of changes to current ADR unit configuration and the infrastructure that is supporting these units. This project is part of that program and continues the efforts to redevelop the airport dining and retail experience specifically for the units in the airport's Central Terminal. The infrastructure modification work required to support the ADR Master Plan for the Central Terminal consists of creating new vertical circulation to serve the unleased mezzanine spaces and modifying existing mechanical, electrical, communications, and other utility infrastructure as necessary to support the final use for each space at the concourse level.

We anticipate a forthcoming budget increase request and an additional job order contract advertisement and execution request prior to the expiration of the current job order contract.

BACKGROUND

Leases for 90 percent of the Airport's restaurant, retail and passenger services locations expire between mid-2015 and mid-2017. Port staff has been developing the ADR Master Plan to

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

May 9, 2016

Page 2 of 8

address increased passenger demand, best use of limited square footage and facility changes driven by terminal expansion while creating a more manageable number of lease expirations during any year for the next redevelopment cycle. This request is the second construction authorization required to complete the ADR program. The first was for a job order contract to complete individual unit utilities, except for the Central Terminal units under this current request.

When originally designed, the Central Terminal included the option to provide future mezzanine level restaurants. Now that demand forecasts support their development, vertical conveyance is needed to provide direct customer access to these locations. The existing leasable tenant restaurant spaces on the south side of the Central Terminal do not have efficient floor plans. This project reconfigures these spaces for improved functionality and efficiency. Some utilities are being replaced as part of this project. For instance, the existing cooking exhaust ductwork does not meet airport standards. The work consists of base-building modifications that will outlast the tenancy of any specific tenant. Therefore it would not be appropriate to consider this work as a tenant improvement.

In order to maintain an acceptable level of passenger service, the tenant lease for the large restaurant in the Central Terminal needs to be extended through September 2018 so that it can remain operational while the south end restaurants are closed during the first phase of construction. These Central Terminal tenant spaces will be part of ADR Lease Group 3. Construction will be done in phases over a two-year period in order to allow some of the dining concessions to be operational in the Central Terminal to serve passengers while others are closed for construction. The first phase of Port construction is scheduled to start in Q2 2017 and the last phase of tenant construction is scheduled to complete in Q2 2019.

The ADR program has experienced delays and scope and cost increases. Staff anticipates returning to the Port Commission in June to provide more detail and request a budget increase. The current job order contract is also expected to expire prior to the completion of work and will require further authorization in the future as well.

PROJECT JUSTIFICATION AND DETAILS

The redevelopment of the ADR program over the next several years aims to maximize the economic and community benefit of offerings to the travelling public. In 2015, the ADR program generated \$271 million in gross sales with \$44.77 million paid to the Port as rent and concession payments. More importantly, the program supports over 1,800 jobs. Based on forecasts of anticipated passenger demand for dining, retail and passenger services over the next ten years, a redeveloped program with a fully maximized use of available square footage will enable growth of ADR gross sales resulting in higher revenues to the Port and an increase in local employment opportunities.

In order to achieve this growth, the Airport must expand dining and retail capacity throughout the terminal and also change the uses of some existing units to meet specific demand. All identified changes in use as well as the development of new locations have been evaluated and

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

May 9, 2016

Page 3 of 8

have been projected to increase sales by better meeting passenger demand for products and services.

In order to prepare eight Central Terminal locations for development by tenants in subsequent stages of the ADR Master Plan, this project will reconfigure unit utilities. Without reconfiguration, new tenants would be required to connect to building utilities outside of their lease lines, which is not what is common practice for malls or industry standard for airports. Existing cooking exhaust systems serving tenant spaces leak when they are being cleaned and this requires additional attention and clean-up during maintenance activities. These cooking exhaust systems will be replaced to meet code and airport standards.

Project Objectives

The objectives of this project include:

- Develop new or currently unused space or repurpose existing dining and retail space to better meet passenger demand and generate additional revenue
- Reconfigure existing space to allow more efficient operations and assure the greatest capacity to serve passenger needs
- Maximize the overall use of space in order to achieve the optimal mix of offerings in the Central Terminal.
- Ensure that necessary utility points of connection and other required infrastructure are in place for each unit to support operations
- Carefully scheduling work that could impact customer service, revenue generation and airline operations in the terminal

Scope of Work

- Installation of two public-use elevators connecting concourse level to the mezzanine level of the Central Terminal
- Installation of two sets of public-use stairs serving the same purpose as the elevators
- Relocation of partition walls delineating tenant spaces on the concourse level
- Reconfiguration of mechanical, plumbing and electrical and communications infrastructure systems in existing tenant spaces to facilitate subsequent tenant development.
- Replacement of existing cooking exhaust ductwork.

Schedule

Activity	End
Design	Second Quarter 2016
Commission Authorization for Construction	Second Quarter 2016
Equipment Fabrication	First Quarter 2017
Construction	Fourth Quarter 2018

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

May 9, 2016

Page 4 of 8

FINANCIAL IMPLICATIONS

<i>Budget/Authorization Summary</i>	Capital	Expense	Total Project
Original Budget	\$10,900,000	\$0	\$10,900,000
Previous Budget Adjustments	\$6,453,000	\$0	\$6,453,000
Budget transfer	(\$3,400,000)	\$0	(\$3,400,000)
Revised Budget	\$13,953,000	\$0	\$13,953,000
Previous Authorizations	\$8,833,000	\$0	\$8,833,000
Current request for authorization	\$5,120,000	\$0	\$5,120,000
Total Authorizations, including this request	\$13,953,000	\$0	\$13,953,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$13,953,000	\$0	\$13,953,000

<i>Project Cost Breakdown</i>	This Request	Total Project
Design	\$0	\$2,616,000
Construction	\$4,708,000	\$10,516,000
State & Local Taxes (estimated)	\$412,000	\$821,000
Total	\$5,120,000	\$13,953,000

Budget Status and Source of Funds

This project, C800638, was included in the 2016 – 2020 capital budget with an estimated cost of \$13,953,000. On October 28, 2014, the commission authorized \$2,800,000 for design and approved the transfer of \$3,400,000 to the Checked Baggage Optimization project, C800612, (for scope relating to the elevators that will be constructed as a part of that project) and a revised budget of \$13,953,000. The sources of funds will include the Airport Development Fund and future revenue bonds.

Return on Investment

Most investments at the Airport are intended to directly support airline operations. The investments outlined in this proposal indirectly support airline operations by providing needed products and services to their customers as well as visitors to the Airport. However, the benefit to airline customers is only the beginning of a cycle of business activity ultimately benefiting the Airport with a healthy return on investment along with considerable positive impact on the community beyond the Airport. This impact comes through businesses locally procuring the products they need to support their business and by way of increased employment both in the short-term for design and construction jobs, as well as the long-term with at least 30 to 60 new permanent jobs.

The Net Present Value of these investments has been analyzed over a period of 20 years. Generally, these investments represent permanent changes to the facility in order to support commercial use of terminal space. The increased revenues generate a Net Present Value of over

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

May 9, 2016

Page 5 of 8

\$20 million. Over the course of the next 20 years, staff does not believe that further major infrastructure investments will be needed in the Main Terminal to support the projected growth in program revenues.

The Airport Dining and Retail master plan includes gross sales assumptions for each anticipated location for food service, retail and passenger services which have been used as the baseline for the future return on investment. These sales assumptions through 2036 include elements for enplanement growth and sales per enplanement growth. Enplanement assumptions are derived from the most recent enplanement forecasts produced for the Sustainability Master Plan in September 2014.

Financial Analysis and Summary

CIP Category	Capacity/Revenue Growth
Project Type	Business Redevelopment and Expansion
Risk adjusted discount rate	7.5%
Key risk factors	<ul style="list-style-type: none">• Coordination with other construction projects• Delays in improved base building HVAC and electrical capacity to support expansion• Delays in needed leasing activity
Project cost for analysis	\$17,353,000 (full cost of project)*
Business Unit (BU)	Non-Aeronautical (Airport Dining and Retail)
Effect on business performance	NOI after depreciation will increase
IRR/NPV	15%/\$21 million*
CPE Impact	No direct impact. However, potential reduction in CPE due to increased revenue sharing

*From October 2014 request

Lifecycle Cost and Savings

Long-term operating costs will be minimized by incorporating newer more energy-efficient equipment and components. Specifically, the project will install new traction elevators rather than hydraulic elevators in order to meet the Port's mechanical design standards for operational cost and optimum utilization of energy. Maintainability will be improved by installation of additional access openings for new cooking exhaust ductwork. These will improve existing conditions to current industry standards, and improve maintainability for forthcoming tenant food preparation areas. These Port standards support environmentally sustainable development and conservation.

There will be incremental maintenance costs associated with the Port-owned mechanical, water, communication, and electrical utilities added to the lease line of each unit.

STRATEGIES AND OBJECTIVES

This project supports the Port's Century Agenda goal to "advance the region as a leading tourism destination and business gateway" by providing an extraordinary customer experience at the

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

May 9, 2016

Page 6 of 8

Airport and also is an important contributor to the Port's goal to grow jobs by 100,000 by 2025. The project also supports the Aviation Division's strategies of operating a world-class international airport and maximizing non-aeronautical net operating income. The pursuit of this redevelopment is consistent with specific guidance principles articulated by the Commission for the Airport Dining and Retail program in a motion approved in February 2012 and reiterated in a motion approved in November 2014.

ENVIRONMENTAL RESPONSIBILITY AND COMMUNITY BENEFITS

The ADR program generates enormous benefit for the Airport and the broader community. One of the most significant direct benefits of a prosperous and growing dining and retail program is the number of jobs that the program makes possible. Currently, there are approximately 1,800 people directly employed by the businesses in the airport's dining and retail program. An analysis conducted as part of the Airport Dining and Retail Master Plan forecasts that the program can grow job opportunities by as much as 40% by 2025, presuming that investments are made in order to expand square footage where possible, and to make more efficient use of the square footage currently utilized by the program. ADR businesses also generate benefit for local businesses outside of the airport by way of procuring products from local vendors, providing product placement opportunities for those local vendors as well as providing mentorship opportunities.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Status Quo – Do not install elevators and stairs, do not reconfigure partition walls and do not modify infrastructure systems.

Cost Implications:

- \$765,000 project cost (spent to date)
- Total revenue over a 20 year period remains approximately \$54,000,000

Pros:

- Avoid incurring construction cost

Cons:

- Does not support ADR Master Plan for new lease spaces
- Does not increase dining level of service for passengers
- Inefficient layout of concession units
- Existing mechanical and other infrastructure in the Central Terminal are inadequate for current and projected demand because cooking exhaust ductwork is out of compliance with building code and Port standards
- Tenant construction projects will potentially cause disruption of utility service, business operations and passenger service to adjacent tenants
- Costs already incurred for design and project management services would need to be expensed

This is not the recommended alternative.

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

May 9, 2016

Page 7 of 8

Alternative 2) – Install elevators and stairs in the first year. After the mezzanine restaurant opens, close and reconfigure the partition walls and infrastructure systems of the concourse level spaces.

Cost Implications:

- \$7,400,000 project cost
- Total revenue over a 20 year period increases to approximately \$67,000,000

Pros:

- Provides an increased level of service by allowing concourse quick-serve restaurants to remain open while mezzanine restaurant is built out
- Provides an increased level of service by providing an additional restaurant in the Central Terminal
- Provides an increased level of revenue by providing an additional restaurant in the Central Terminal

Cons:

- Increased construction cost for the project for additional contractor mobilizations.
- Increased costs to redesign the project for additional phasing and two construction bids
- Delays the ADR Master Plan for new lease spaces at concourse level
- Delays optimization of dining level of service for passengers
- The new elevators will obstruct some of the existing concourse level restaurant spaces while they are trying to remain in operation
- Existing cooking exhaust ductwork in some of the tenant spaces will remain out of compliance with building code and Port standards for a longer period

This is not the recommended alternative.

Alternative 3) – Install elevators and stairs, reconfigure partition walls and modify infrastructure systems

Cost Implications:

- \$6,927,000 project cost
- Total revenue for a 20 year period increases to approximately \$67,000,000

Pros:

- Supports the ADR Master Plan
- Increases dining concessions level of service for passengers
- Existing mezzanine spaces that are currently unleased will be transformed into revenue-producing tenant spaces and the passenger level of service will be improved by the additional restaurant options that become available
- Concourse level tenant space revenue will increase as a result of the project improvements
- Reconfigures existing tenant restaurant spaces on the south side of the Central Terminal for improved functionality/efficiency

COMMISSION AGENDA

Ted Fick, Chief Executive Officer

May 9, 2016

Page 8 of 8

- Existing cooking exhaust ductwork will be brought into compliance with Building Code and Port facility standards
- Tenant construction work will be possible without disrupting utility connections and operations of adjacent tenant restaurant spaces
- Elevators/Stairs are required to create access to mezzanine areas so that they can be leased to restaurant tenants and provide an improved level of service for passengers

Cons:

- Some of the dining operations will be closed while the project is in construction
- In order to maintain an acceptable level of passenger service, the tenant lease for the large restaurant in the Central Terminal needs to be extended through September 2018 so that it can remain operational while the south end restaurants are closed during the first phase of construction.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- Slide presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- December 8, 2015 – Request for Lease Group 2 Authorization
- November 24, 2015 Request for Airport Dining and Retail Lease Group Authorization
- August 4, 2015 Request for Airport Dining and Retail Group Lease Authorization
- April 6, 2015 – Airport Dining and Retail Infrastructure JOC Construction
- February 24, 2015 – Airport Dining and Retail Outreach and Leasing Plans Briefing
- December 9, 2014 – Phasing Proposal for Hudson Group Leased Units
- December 9, 2014 – Phasing Proposal for HMSHost Leased Units
- December 9, 2014 – Amendment to Lease and Concession Agreement Anton Airfoods
- November 25, 2014 – Airport Dining and Retail Quality Jobs Motion/Guidance
- November 11, 2014 – Airport Dining and Retail Quality Jobs Briefing
- October 28, 2014 – Airport Dining and Retail Infrastructure Modifications Design
- September 30, 2014 – Drivers for Phasing Plan Decisions Briefing
- May 27, 2014 – Airport Dining and Retail Master Plan Briefing
- April 22, 2014 – Terminal Utility Upgrades Design Services Contract
- September 11, 2012 – Airport Concessions Master Plan Update Briefing
- March 27, 2012 – Interim Concessions Leasing Briefing
- February 14, 2012 – Commission Motion Concerning the Airport Concessions Program
- December 13, 2011 – Aviation Concessions Program Principles and Practices
- July 26, 2011 – Procurement for Concessions Planning and Leasing Services