

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4e
Date of Meeting July 12, 2016

DATE: May 17, 2016
TO: Ted Fick, Chief Executive Officer
FROM: James Schone, Director, Aviation Business Development
James Jennings, Senior Manager, Aviation Properties
SUBJECT: Gate Gourmet Sixth Amendment to Lease

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute the Sixth Amendment to Lease No. 000042, substantially as drafted and attached, with Gate Gourmet, Inc. at Seattle-Tacoma International Airport.

SYNOPSIS

Gate Gourmet (“GG”), one of three flight kitchens that supplies airlines at Seattle-Tacoma International Airport with catering services for aircraft operations, is requesting a small expansion to their flight kitchen premises (built at tenant’s sole cost) to accommodate a significantly increased need for catering truck parking, driven largely by the significant growth of their key customer Delta Air Lines. This lease amendment would increase annual rent to the Port by \$4,857.

BACKGROUND

The Port entered into a lease for construction, operation and maintenance of a flight kitchen facility with United Air Lines, Inc. for premises located at 2755 S. 163rd Street in the city of SeaTac, under a lease agreement dated January 8, 1989 (“Lease”), which expires July 31, 2029. This Lease was assigned to Gate Gourmet Inc. through a Conditional Consent to Assignment dated May 24, 1993. The Lease has been amended five times to increase the amount of rent payable under the Lease in accordance with 5-year rental adjustments, as well as to decrease the premises to allow for the construction of the South 160th Loop Project by 11,525 square feet in 2006.

GG supplies Delta Airlines with in-flight catering services for aircraft operations utilizing the flight kitchen premises that are the subject of this Lease. As a result of Delta’s significant growth, GG has invested approximately \$5M in building improvements over the last 2 years, and has had to increase their catering truck fleet substantially to meet Delta’s service needs. These additional trucks have exceeded the capacity of the parking capabilities of GG’s current leased premises, and have created a safety hazard by routinely blocking the fire lane on the west side of

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Lessee's premises. Additionally, GG has significantly increased their staffing to support Delta's growth, and their employee parking lot is insufficient for this increased demand.

GG's leased site is quite constrained, as it is bound on the east side by the Washington Memorial Park Cemetery, on the south side by the Port's lease with ATZ Inc. for the Doug Fox Parking lot, on the west side by the Northern Airport Expressway, and on the north side by the Port's Water Tower field offices (see Exhibit A). Without impacting adjacent uses, the only viable option for expansion of premises to accommodate the increased catering truck parking for GG is the partial use of the expanded landscape buffer between their current premises and the Northern Airport Expressway. Port staff has reviewed the proposed improvements and has determined there should not be an impact to the Airport roadways. The impacted buffer zone is in alignment with federal and state roadway standards. In addition, as part of their improvements, GG will be required to restore the roadway landscape buffer per the Port's landscape standards.

The entire GG site is likely to be impacted prior to the lease's expiration in 2029 by the recommendations being considered under the Port's Sustainable Airport Master Plan, though Aviation Planning has forecast this impact at beyond 5 years. Thus, staff has negotiated with GG that the improvements to be made to the premises added by this Sixth Amendment will be fully amortized by December 31, 2021 so that the Port shall not incur additional lease buyout costs in the event the lease is terminated after December 31, 2021, but in advance of the lease's natural expiration of July 31, 2029.

The last internal audit of the GG contained a recommendation that staff clarify the gross sales definition within the lease at the next available opportunity. As such, that language clarification has been incorporated into this amendment.

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FINANCIAL IMPLICATIONS

Financial Analysis and Summary

Key risk factors	Risks that may affect performance and financial returns, as displayed below, include: -Schedule delays in approval of this amendment may delay rent payments. -SAMP will likely require demolition of the existing GG premises at some point in the future, but per Aviation Planning, not likely within the next 5 years (at which these requested improvements would be fully amortized), but likely in advance of the lease's scheduled expiration in 2029.
Business Unit (BU)	Commercial Properties
Effect on business performance	Lease payments are assumed to begin 7/18/16. Annual lease payments for expanded premises of \$4,856.92, which is subject to adjustment 6/1/2019.
CPE Impact	N/A

Lifecycle Cost and Savings

The improvements to be made in this expansion area will be constructed by GG and will continue to be owned and maintained by GG throughout the term of their lease.

STRATEGIES AND OBJECTIVES

- This project supports the Century Agenda goal of:
 - Advancing this region as a leading tourism destination and business gateway through meeting the region's air transportation needs at Seattle-Tacoma International Airport for the next 25 years and encouraging the cost-effective expansion of domestic and international passenger and cargo service.
- This project supports the Aviation Division's goal of:
 - Operating a world class airport by anticipating and meeting the needs of our tenants and passengers.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do not allow tenant to expand Premises.

Additional Cost: \$0

Pros:

- Does not increase amount of Port's potential buyout of Lessee improvements if lease is terminated prior to December 31, 2021.

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- Maintains expanded landscape buffer between GG and the Northern Airport Expressway.

Cons:

- Does not afford GG any increased capacity for truck or employee parking to satisfy stated needs.
- Does not assist tenant in solving a safety issue at their premises (blockage of fire lane).
- No additional lease revenue.

This is not the recommended alternative.

Alternative 2) – Allow tenant to expand premises to the north by relocating Port Engineering Water Tower Offices.

Additional Cost: \$1,150,000, plus \$536,000 annually.

Pros:

- Does not increase amount of Port's potential buyout of Lessee improvements if lease is terminated prior to December 31, 2021.
- Maintains expanded landscape buffer between GG and the Northern Airport Expressway.
- Responds to tenant's full request, allowing them to reconfigure parking within their expanded footprint, gaining parking for both catering trucks and employee vehicles.
- Most potential additional lease revenue: \$95,457.56 per year (82,291 SF @ \$1.16/sf/yr.)
- No construction adjacent to the Northern Airport Expressway.

Cons:

- Port would incur significant relocation/lease costs of approximately \$1,150,000 to demo existing engineering trailers at the water tower site and outfit leased office spaces for Port occupancy, as well as \$536,000 in annual lease payments to accommodate displaced water tower staff.
- There is no project, budget or site identified for this potential relocation.
- It would take a significant amount of time to identify and get approval of required budget, site (if one could even be identified) and construction of improvements which would not meet the tenants urgent capacity needs.

This is not the recommended alternative.

Alternative 3) – Allow tenant to expand Premises to the west by infilling a portion of the landscape buffer between GG's existing premises and the Northern Airport Expressway.

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Additional Cost: \$0, presuming no need to buyout improvements for early termination prior to December 31, 2021. If lease is terminated prior to December 31, 2021, then the Port would be required to reimburse GG for the unamortized portion of the \$119,000 that GG will expend to construct their improvements in the expansion area.

Pros:

- Does not impact adjacent lease areas/Port offices.
- Satisfies tenant's most urgent need for additional catering truck parking.
- Rectifies consistent safety violations of blockage of the fire lane.
- Port receives additional revenue of \$4,856.92 per year, subject to adjustment June 1, 2019, and every 5 years thereafter, in accordance with the terms of the Lease.

Cons:

- Port may have to pay back some of Lessee's improvement costs if the Lease is terminated prior to December 31, 2021, though there is a low likelihood of needing to do this.
- Does not provide additional GG employee vehicle parking area.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- Exhibit A: Site Plan
- Exhibit B: Sixth Amendment to Lease Agreement and associated support documents

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None