COMMISSION
AGENDA MEMORANDUM | Item No. | 6f

ACTION ITEM | Date of Meeting | November 14, 2017

DATE: November 7, 2017

TO: Dave Soike, Interim Executive Director

FROM: Ralph Graves, Senior Director, Capital Development
Jeffrey Brown, Director Aviation Facilities and Capital Programs

SUBJECT: Capital Development Department (CDD), and Central Procurement Office (CPO) Major Works Department move to the SeaTac Office Center (CIP #C800982)

Total Authorization Request:	$9,057,000
Estimated Project Cost:	$2,145,000
Estimated Lease Cost:	$6,829,000
Estimated Expense Cost:	$83,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) execute a lease amendment for office space for the Capital Development Department (CDD) and Central Procurement Office (CPO) Major Works Department to move into the SeaTac Office Center (STOC) for $6,829,000 and (2) execute contracts to purchase office furniture, and design and install communications infrastructure to support business needs for $2,228,000.

EXECUTIVE SUMMARY

This project will lease additional office space in the STOC where the International Arrivals Facility (IAF) project team currently holds a lease. This additional office space is needed to accommodate growth in both the Aviation Division and CDD because there is no additional capacity in the Airport Office Building (AOB) to accommodate anticipated staff growth over the next five years.

Beyond the need to accommodate growth, the additional leased space allows CDD and related departments to reorganize staff areas by project team versus traditional departmental lines. This reorganization of staff will facilitate greater efficiency in project delivery and communication for the capital program that continues to expand at Sea-Tac. The action requested includes costs for communications design and construction, office furniture, and relocation of staff to support business needs.

Staff is working on the development of a long-term plan to accommodate the increased staff growth for Aviation and CDD. A follow-on study is budgeted in 2018, and is anticipated to be completed in Q4 of 2018. This follow-on study will develop the Aviation Division and CDD's longer term staff growth forecast, which will help determine the long-term sizing of a future facility. The study will also include a sighting study, as well as determine if a purchase, new development, or continued lease of office space is the best approach going forward.

JUSTIFICATION

The AOB is at capacity with the existing furniture and footprint and cannot accommodate projected staffing growth. Projected building occupancy growth for employees and consultants is estimated at an average of 30 people per year over the next five years, but does not yet fully factor in projects anticipated to be part of the Sustainability Airport Master Plan (SAMP). Beginning in January 2018, there will be new employees who will not have an available desk or office. Temporary and shared spaces will need to be set up to accommodate the growth until a proposed solution can be implemented later in the year.

In early 2017 an office space study was conducted for the Aviation Division to determine how to accommodate 5-year projected staffing growth in the AOB. Based on the study, and per the direction of Aviation and CDD leadership, we determined the best option to meet the needs of the projected growth was to move a large group of people out of the building and into an expanded leased space in STOC.

Moving CDD and CPO would provide the opportunity to co-locate project teams. Project teams will occupy space in STOC as well as the off-site offices currently being used by these work groups including the West Side Office, Water Tower Office, and Logistics Office. Grouping project teams allows them to work more collaboratively and efficiently.

SCOPE OF AGREEMENT

Landlord:	STOC LLC
Tenant:	Port of Seattle
Term/Effective Date:	A term of seventy two (72) months to commence on May 1, 2018, or upon completion of tenant improvements and receipt of a Certificate of Occupancy.
Termination Option:	The Port may elect to terminate the lease after year five, which would require the repayment of any unamortized improvements, plus two months' rent. The cost of early termination is estimated at $443,705.
Use:	General Office and Project Management Administration
Area:	Expansion premises is 24,424 rentable square feet (RSF) of the fourth floor of Building III at the SeaTac Office Center (17900 International Blvd.

S, Seattle, WA, 98188). The original lease for the IAF Project is 22,302 RSF and the total combined premises are now 46,726 RSF.

Rental: Rental rate scheduled is based on a triple net lease.

Months 01 - 12 @ $16.12/RSF/yr. = $32,809.57/month

Months 13 - 24 @ $16.62/RSF/yr. = $64,715.51/month

Months 25 - 36 @ $17.12/RSF/yr. = $66,662.43/month

Months 37 - 48 @ $17.62/RSF/yr. = $68,609.34/month

Months 49 - 60 @ $18.12/RSF/yr. = $70,556.26/month

Months 61 - 72 @ $18.62/RSF/yr. = $72,503.18/month

Tenant Improvements: Landlord shall provide a tenant improvement allowance up to $1,111,854.

Operating Expenses & Real Estate Tax Costs:

Landlord currently estimates operating expenses at $9.04 per RSF for a total annual cost of $220,725. With an estimated increase of 2% per year, the total for six years of operating expenses is $2,410,802. The total estimated lease value includes operating expenses.

Security Deposit: Not required.

Parking: Two hundred thirty four stalls are included in the lease rate, five stalls provided per 1,000 RSF leased.

Scope of Work

Capital

(1) Design and install communications infrastructure in the STOC
(2) Purchase and install furniture in STOC

Expense

(1) Use Port Engineering Design staff to design minor modifications to the West Side Office and Logistics Office, including communications infrastructure
(2) Purchase new and use existing furniture to make modifications to the West Side Office and the Logistics Office
(3) Use Port Construction Services and Maintenance to construct modifications and reconfigure office furniture in the West Side and Logistics Offices
(4) Physical Relocation

Schedule

Commission authorization	2017 Fourth Quarter

Design start	2017 Fourth Quarter
Construction start	2018 First Quarter
In-use date	2018 Second Quarter

Cost Breakdown

	This Request	Total Project
Lease Amendment	**$6,829,000**	**$6,829,000**
Capital		
• Design	$272,000	$272,000
• Furniture and Communications Infrastructure	$1,873,000	$1,873,000
Capital Total	**$2,145,000**	**$2,145,000**
Expense		
• Design	$17,000	$17,000
• Furniture ,Communications and modifications to West Side Office and Logistics Offices	$39,000	$39,000
• Relocation fees	$27,000	$27,000
Expense Total	**$83,000**	**$83,000**
Total	**$9,057,000**	**$9,057,000**

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Densify AOB to accommodate growth

Cost Implications: $12,021,000

Pros:
(1) All current departments within the AOB stay in the AOB
(2) Provides room for 2-3 years of growth

Cons:
(1) Each floor would need to be vacated for 1-2 months during construction
(2) Facilities & Infrastructure Library is eliminated and the contents are redistributed into open areas and consolidated
(3) New cubicle and conference room furniture will be required
(4) All costs would occur in one year
(5) Based on information received from the Aviation staffing study conducted subsequent to the AOB office space study, this option is not viable to accommodate 5-year growth.

This is not the recommended alternative.

Alternative 2 – Purchase an existing building to accommodate growth

Cost Implications: Unknown

Pros:

(1) Could potentially offer greater long-term value and flexibility to the Port's capital investment
(2) Could provide a longer term solution to office growth needs
(3) Would be a Port-owned asset

Cons:

(1) Timing associated with acquisition of building could not meet the immediate need
(2) No location proximate to the Airport is currently available for sale
(3) Cost associated with a potential purchase is unknown

This is not the recommended alternative.

Alternative 3 – Construct a new building to accommodate growth

Cost Implications: Unknown

Pros:

(1) Could potentially offer greater long-term value and flexibility the Port's capital investment
(2) Would provide a longer term solution to office growth needs
(3) Would be a Port owned asset

Cons:

(1) Timing could not meet the immediate need
(2) Port owned real estate is limited and would require a siting study (currently included in study budgeted in 2018)
(3) Minimum time frame to implement a construction solution would be five to six years

This is not the recommended alternative.

Alternative 4 – Lease additional space in STOC to accommodate growth. Would require the relocation of Capital Development Departments located at the AOB and the Central Procurement Office – Major Works Department located at the Logistics Office.

Cost Implications: $2,228,000 Capital and Expense, $6,829,000 Lease

Pros:

(1) Provides the opportunity to collocate project teams at STOC, Water Tower, Westside and Logistics office locations
(2) CPO – Major Construction Department will be collocated with their major customer, CDD
(3) Can be implemented in 2018 and should meet the anticipated five year need for space in the AOB

(4) Provides more reasonable phasing for relocations within the AOB
(5) Costs spread out over 6 years
(6) Provides ability to further expand if merited with additional lease opportunity

Cons:
(1) Added travel time to and from Airport and between office locations for staff
(2) CDD staff will be spread throughout more locations than at present
(3) Does not create a long-term Port asset

This is the recommended alternative.

FINANCIAL IMPLICATIONS (non-lease)

Cost Estimate/Authorization Summary	Capital	Expense	Total
COST ESTIMATE			
Original estimate	$2,145,000	$83,000	$2,228,000
AUTHORIZATION			
Previous authorizations	$0	$0	$0
Current request for authorization	$2,145,000	$83,000	$2,228,000
Total authorizations, including this request	$2,145,000	$83,000	$2,228,000
Remaining amount to be authorized	$0	$0	$0

Annual Budget Status and Source of Funds for Capital

The capital amount of $2,228,000 for this project, CIP #C800982, was not included in the 2017-2021 capital budget and plan of finance. This amount will be transferred from the Aeronautical Allowance CIP (#C800753) resulting in no net change to the Aviation capital budget. The expense portion of this project - lease costs and relocation fees, will be included in the operating budget for 2018 and beyond. The annual costs of rent and operating expense will be allocated to capital projects through projects overhead allocations. The funding source for the capital costs will be the Airport Development Fund.

Financial Analysis and Summary for Capital

Project cost for analysis	$2,228,000
Business Unit (BU)	Division-wide
Effect on business performance (NOI after depreciation)	NOI after depreciation will decrease
IRR/NPV (if relevant)	N/A
CPE Impact	$0.03 in 2018

ATTACHMENTS TO THIS REQUEST

(1) Draft lease amendment

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None