



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 8d

**ACTION ITEM**

**Date of Meeting** December 10, 2019

**DATE:** December 3, 2019  
**TO:** Stephen P. Metruck, Executive Director  
**FROM:** James Jennings, Interim Director, Properties and Airline Affairs  
Wayne Grotheer, Director, Aviation Project Management  
**SUBJECT:** Delta Airport Communications Center (ACC) Relocation Tenant Reimbursement Agreement (TRA) (CIP #C801146)

**Amount of this request:** \$3,356,000  
**Reimbursement amount:** \$2,370,000  
**Total estimated project cost:** \$5,000,000

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to (1) execute a tenant reimbursement agreement in the amount of \$2,370,000 with Delta Air Lines Inc. for both design and construction of a new airline-specific airport communications center at Seattle-Tacoma International Airport and the design only of nearby restroom improvements and (2) expend \$986,000 of non-tenant reimbursement port costs associated with this project. The total request is \$3,356,000 out of a total project estimate of \$5,000,000.

**EXECUTIVE SUMMARY**

Delta Air Lines Inc. (Delta) requires additional space to relocate and modernize their airline specific Airport Communications Center (ACC) at the Airport. The ACC is the backbone and control center for Delta’s airport operation. Delta’s current facility located on the ramp level of the South Satellite is undersized and no longer suitable for its growing operation. This project will develop unused outdoor space on the ramp level of Concourse B into additional enclosed lease space. This build-out is eligible for port reimbursement. Delta will not be reimbursed for tenant improvements including equipment fit-out for this space. This project will also design improvements to nearby restrooms, currently in poor condition, and used by Delta’s workforce and other users. This work is also eligible for port reimbursement. Authorization to reimburse Delta for the construction of these nearby restroom improvements will be requested separately once design of those improvements is complete.

This project was not included in the 2020 – 2024 capital budget and plan of finance. The budget will be transferred from the Aviation Aeronautical CIP Reserve resulting in no net change to the Aviation capital budget.

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### **JUSTIFICATION**

There is not enough existing leasable space available at the airport to meet Delta’s growing operational requirements without constructing new space. This project further supports the Century Agenda goal to meet the region’s air transportation needs through cost effective expansion at the Airport by providing additional leasable space in a currently unoccupied area. This allows Delta to operate their ACC more efficiently and provides the port with additional lease revenue.

Authorization of most TRAs has occurred at a point where both the tenant and the port have agreed on a reimbursement amount, typically determined far enough into design (undertaken at the tenant’s risk) that remaining risks to scope or cost growth are minimized and covered by project budget contingency. As the need for improvements to the restrooms adjacent to the Delta ACC project was raised late during the development of this TRA, seeking sufficient design of these restrooms in order to authorize this full amount of the TRA was not possible without delaying the construction of the ACC; therefore, only a design authorization is being sought at this time, and a construction component of this TRA to cover the restrooms will be brought forward at a later date.

### ***Diversity in Contracting***

The goals and objectives of relevant policy directives have been communicated to Delta for guidance on Project Labor Agreements (PLAs), apprentice hiring, and women- and minority-owned business enterprise (WMBE) utilization on tenant and tenant reimbursement construction projects. Delta has been encouraged to incorporate these goals and objectives into their bid documents and will work with the port’s Diversity in Contracting Department as needed to support this opportunity.

### **DETAILS**

This project will construct approximately 1,500 square feet of new leasable shell space on the ramp level of Concourse B under a TRA with Delta for its design and construction. Delta will improve this new shell space and combine it with existing adjacent lease space to satisfy their total ACC size needs. The existing lease space is currently occupied and requires Delta to relocate two tenants at its own cost. The project does not trigger building code requirements to provide additional restroom capacity; however, Delta and the port have agreed to improve four restrooms nearby that are in poor condition for Delta’s workforce and other users under this TRA. To expedite this project, Delta has begun design at its own risk for this project.

The non-tenant reimbursement portion of the project budget covers port staff costs, overhead costs, and project contingency.

### ***Scope of Work***

The project scope will design and construct new leasable space for use by Delta, and includes though strictly not limited to, such items as:

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- (1) Demolition of existing exterior wall and pavement within the footprint of the new construction
- (2) New concrete foundation slab and exterior sidewalk
- (3) New exterior wall, doors and glazing
- (4) New interior wall, ceiling, lighting and floor finishes
- (5) Expansion of the fire suppression deluge system
- (6) New heating, ventilation, and air conditioning (HVAC) system including temporary roof-top air handling unit and associated duct work to ramp level
- (7) Necessary life/safety and other utility infrastructure connection points to the lease line
- (8) Design of improvements to existing restrooms

**Schedule**

*Activity*

Design start by Delta	2019 Quarter 2
Commission design and construction authorization required for TRA execution	2019 Quarter 4
Construction start for the ACC element	2020 Quarter 1
In-use date for the ACC element	2020 Quarter 4
Construction authorization for restroom element	TBD

**Cost Breakdown**

	This Request	Total Project
Planning and Design Phase	\$483,000	\$483,000
Construction and Closeout Phase	\$2,873,000	\$4,517,000
<b>Total</b>	<b>\$3,356,000</b>	<b>\$5,000,000</b>

**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** – Construct approximately 3,460 square feet of new lease space on the ramp level of Concourse B under the concourse level between Gates B6 and B8 to accommodate Delta’s projected space requirements for their ACC. Improve four nearby ramp-level restrooms in poor condition for Delta’s workforce and other users.

Cost Implications: \$7,832,000

Pros:

- (1) Fully satisfies Delta’s additional lease space requirement for the ACC
- (2) Satisfies Century Agenda objectives for cost-effective expansion of domestic and international service

Cons:

- (1) Infrastructure deficiencies on Concourse B require costly stand-alone HVAC solutions for this location
- (2) Gates surrounding this location are preferentially leased by Southwest Airlines who would be negatively impacted by this project

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This is not the recommended alternative.

**Alternative 2** – Postpone Delta’s request for the new office lease space until the port can construct the infrastructure upgrades necessary to support the buildout of additional space on Concourse B ramp level.

Cost Implications: \$0

Pros:

- (1) Defers capital investment and lessens future tenant reimbursement for costs expended for the proposed temporary HVAC roof-top air handling unit required to serve the new ACC buildout

Cons:

- (1) Does not allow the Delta ACC to accommodate additional capacity for at least 5 years
- (2) Delta would need to consider moving this critical function to an off-site location, as the current location only provides 33% of their projected space requirement
- (3) Does not satisfy Century Agenda objectives

This is not the recommended alternative.

**Alternative 3** – Construct approximately 1,500 square feet of new lease space adjoining existing lease space on the Concourse B ramp level between Gates B3 and B5 to accommodate Delta’s projected space requirements for their ACC. Improve four nearby ramp-level restrooms in poor condition for Delta’s workforce and other users.

Cost Implications: \$5,000,000

Pros:

- (1) Fully satisfies Delta’s additional lease space requirement for the ACC
- (2) Lower cost option than Alternative 1
- (3) Gates in this location are preferentially leased by Delta and construction will only impact their operations
- (4) Satisfies Century Agenda objectives for cost-effective expansion of domestic and international service

Cons:

- (1) Infrastructure deficiencies on Concourse B require costly stand-alone HVAC solutions for this location
- (2) Requires relocation of existing tenants (costs of this are borne solely by Delta, however).

***This is the recommended alternative.***

**FINANCIAL IMPLICATIONS**

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**Cost Estimate/Authorization Summary**

	Capital	Expense	Total
<b>COST ESTIMATE</b>			
Original estimate	\$5,000,000	\$0	\$5,000,000
<b>AUTHORIZATION</b>			
Previous authorizations	\$50,000	0	\$50,000
Current request for authorization	\$3,356,000	0	\$3,406,000
Total authorizations, including this request	\$3,406,000	0	\$3,406,000
Remaining amount to be authorized	\$1,594,000	\$0	\$1,594,000

This project was not included in the 2020-2024 capital budget and plan of finance. The budget will be transferred from the Aeronautical Reserve CIP (C800753) resulting in no net change to the Aviation capital budget. The funding sources will include the Airport Development Fund and future bonds.

**Financial Analysis and Summary**

Project cost for analysis	\$5,000,000
Business Unit (BU)	Terminal Building
Effect on business performance (NOI after depreciation)	NOI after depreciation will increase due to inclusion of capital (and operating) costs in airline rate base
IRR/NPV (if relevant)	N/A
CPE Impact	\$0.01 in 2021

**Future Revenues and Expenses (Total cost of ownership)**

The project creates new lease space for Delta. The port will receive terminal rent of more than \$500,000 per year. New assets will be included in the port’s maintenance asset management system and are standard building systems and components with 15- to 20-year life expectancies.

**ADDITIONAL BACKGROUND**

The project is not required by building code to provide additional restroom capacity. The port and Delta have recently agreed to improve two women’s and two men’s restrooms nearby in poor condition for Delta’s workforce and other users, under this TRA, in a combined good faith effort to mitigate complaints and reduce maintenance calls. The restroom improvements are a new addition to Delta’s ACC project scope and the design is not yet available. Reimbursement of design costs to Delta for the restroom improvements are included with this funding authorization request. Once the design has defined the restroom improvements and construction costs are better known, authorization for construction funding will be requested and the TRA will be amended. Delta will include the restroom improvements as a construction change order to their ACC project upon commission’s approval and amended TRA.

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**ATTACHMENTS TO THIS REQUEST**

- (1) Presentation slides

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

None