



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8b

ACTION ITEM

Date of Meeting February 27, 2024

DATE : February 2, 2024

TO: Stephen P. Metruck, Executive Director

FROM: Kyra Lise, Director, Real Estate Development
Rick Duncan, Director, AV Business & Properties

SUBJECT: SeaTac Office Center (STOC) Changes in Port Lease and CAM Expenses

Amount of this request: \$700,000

Total Estimated Lease Costs: \$9,818,285

Previously authorized Lease Costs: \$9,118,285

Incremental Lease Costs Requested: \$ 700,000

ACTION REQUESTED

Request Commission authorization for \$700,000 in additional funds to support costs associated with the current approved Port of Seattle’s lease and occupancy of the SeaTac Office Center (AKA International Place). These funds have already been approved within the 2024 Budget and now require additional Commission authorization to increase the authorized funding for contract payments through the remainder of the current lease term.

EXECUTIVE SUMMARY

Since 2015, the Port of Seattle has leased approximated 47,000 sf of office space (non-contiguous) at SeaTac Office Center (AKA International Place) an office property opposite the SEA Terminal property currently owned by STOC OWNER, LLC. The office and related parking supply leased by the Port has supported various Aviation related capital projects, mainly for Airport Building Department, Aviation Project Management, Port Construction Services, Central Procurement Office, Engineering teams and Port contractors. This leased location allows the Port to provide a flexible, near-terminal accommodation for employees and contractors supporting AV project delivery, in particular IAF and related capital upgrade projects for the Terminal. The original lease term was for 5 years and included provisions for both rent on a per square foot basis as well as Common Area Maintenance (CAM) costs of which the Port was responsible for its pro-rata share.

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The Port has authorized rent and CAM expenditures at STOC over the years in various annual budgets and has also renewed and modified the original the lease terms under various amendments; currently under a 7th amendment to the original 2015 lease.

The funding requests for this lease previously authorized by Commission were based on historic estimations of annual increases in CAM expenses, modelled parking utilization based on historic parking usage, and leased space premises durations based on capital project schedules. Actual inflation impact on CAM expenses in recent years have exceeded historic averages and as a result actual annual pro-rata CAM expenses over recent years have exceeded the estimates in the previous Commission funding authorizations. In addition, actual parking utilization by Port users of this leased office space have exceeded initial estimates, and leased premises for some capital projects have been extended due to changes in project schedules – notably the IAF timeline. All these factors have contributed to the need to request an increase in total contract funding for this lease.

This request for \$700,000 is a one-time request to increase the total authorization for lease contract payments through the remaining term of the current lease. Without the additional \$700,000 funding increase, contractual lease payments will deplete the remaining authorized funding in March 2024 – well before the end of our existing lease terms which continue through August 31st of 2024.

JUSTIFICATION

This authorization request allows the Port to meet its existing obligations under the STOC office lease for CAM expenses, leased premises, and incremental parking utilization. Per the terms of the lease, CAM expenses are not capped but represented real costs of Port occupancy. Over the years of this lease, the Port pursued some time extensions in leased space within the building, as well as a modest increase in additional parking usage. This incremental funding authorization request will enable the Port to pay current lease obligations through the remaining term of the existing lease.

Diversity in Contracting

No new contracting opportunity applies to this request.

DETAILS

ALTERNATIVES AND IMPLICATIONS CONSIDERED

As this authorization deals with complying to the terms and conditions of an already executed contract, the STOC lease, there are no alternatives that will allow us to exit the lease obligations without legal and financial consequences to the Port. Section 3 of the lease broadly requires us to pay for our pro-rata share of the operating costs of the building; common area utilities and maintenance costs, insurance, janitorial expenses and so forth. Section 18 of the lease puts us in default of the lease contract if we do not pay according to its terms. We do not offer any

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alternative that would put us in default of the lease. If we were to continue non-payment, the STOC ownership not only could successfully pursue full payment of the current terms in a court of law, but the Port may also engender additional monetary damages to compensate the landlord.

Alternative 1 – Negotiate with the STOC building ownership for an extension of time to pay the lease.

Cost Implications: \$700,000

Pros:

- (1) Would provide the Port more time to socialize the obligation of lease payments among the departments who are obliged to pay for this lease expense.

Cons:

- (1) The Port intends to continue its occupancy of the STOC property past the current term provision under a new lease. Were we to delay payment, this might sour ongoing discussions of the Port's new lease.
- (2) Property owners may still require immediate payment of the existing terms of the lease, even if building management were to agree to wait for payments, and could trigger additional costs due to default.
- (3) Delayed payment may further complicate accounting for payment internal to the Port and trigger a bad audit finding.

This is not the recommended alternative.

Alternative 2 – Authorize funds to meet the obligations due per the lease terms.

Cost Implications: \$700,000

Pros:

- (1) Allows us to meet our financial and contractual obligations per our existing lease.
- (2) Allows us to continue our relationship with STOC management in good order.

Cons:

- (1) There are no additional potential risks associated with this recommended alternative.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Authorization History

The total of all previous authorizations related to this existing STOC lease agreement is \$9,118,285.

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This includes the initial authorization in July 2015 of \$1,995,285 for a four-year lease agreement for International Arrivals Facility (IAF) Program Management office space, an additional authorization in November 2017 of \$6,829,000 to add additional space for the Capital Development Department (CDD) and Central Procurement Office (CPO) Major Works Department through August 2024, and an additional authorization of \$294,000 from the Executive Director in August 2023 to add supplemental parking stalls for the Employee Parking cost recovery program over one year.

PRIOR AUTHORIZATION HISTORY	
Initial Authorization – April 2015	\$1,995,285
Additional Authorization – November 2017	\$6,829,000
Additional Authorization – August 2023	\$294,000
Cumulative Authorizations	\$9,118,285

Authorization Request

Based on an analysis of remaining expense obligations anticipated through the August 31, 2024 end of this lease agreement, we are expected to require additional funding beyond the \$9,118,285 already authorized - by a minimum of \$673,717. To ensure that we will not require further authorization before the end of this lease period, we are requesting total additional one-time Commission authorization of \$700,000 to sufficiently cover this shortfall.

AUTHORIZATION REQUEST	
Previous Authorizations	\$9,118,285
Current Request for Authorization	\$700,000
Total Authorizations, Including this Request	\$9,818,285
Remaining Amount to be Authorized	\$0

The table below shows the key elements that contributed to this \$673,717 shortfall – the gap between the \$9,118,285 previously authorized and a \$9,792,002 minimum anticipated need.

SUMMARY OF VARIANCES (Cumulative through 2024)	
Cumulative Authorizations	\$9,118,285
Plus: Higher Operating & Common Area Maintenance Charges	\$388,834
Plus: Longer Duration of Rented Space for IAF	\$173,357
Plus: Supplemental Parking Spaces Used by Port Employees	\$92,484
Plus: Other Miscellaneous Costs	\$19,043
Minimum Anticipated Need through August 31, 2024	\$9,792,002
Plus: Additional Contingency Included in this \$700,000 Request	\$26,283
Total Authorizations, Including this Request	\$9,818,285

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The single largest contribution to this higher anticipated funding need is from Operating and Common Area Maintenance charges, which have increased faster than originally contemplated due to a much higher inflationary environment than initially estimated. The estimates from 2017 assumed a 2.0% annual growth rate for these charges, while several years included actual increases between 5% and 10% that have compounded over time.

The next largest contributor was a longer duration of space usage for the IAF Program Management, as the timeline for substantial completion of the project extended further than initially planned.

During the COVID-19 pandemic, there was also a greater demand for parking stalls that exceeded the quantity assigned in our lease agreement, resulting in supplemental parking charges incurred.

Annual Budget Status and Source of Funds

Approving this request will have no incremental impact to the 2024 Budget. All space rent, operating expense, common area maintenance expense, and parking expense have already been anticipated and captured in the 2024 Budget that was adopted in November 2023. This funding request is needed to allow contractual lease payments under the remaining lease term, with no additional expense in this year's operating budget.

ATTACHMENTS TO THIS REQUEST

- (1) Lease (Fully Executed, dated 7-1-2015; this is the main body of the current lease agreement which currently has 7 amendments in it's current form, however all lease issues referenced in this authorization are contained herein.)

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

August 1, 2023 – The Executive Director approved, under delegated authority, a \$294,000 amendment to the existing STOC lease agreement for the lease of additional parking stalls for employee parking through August 31, 2024

November 14, 2017 – The Commission authorized the Executive Director to approve a lease amendment for office space for two additional departments to move into the SeaTac Office Center (STOC) for \$6,829,000

October 24, 2017 – The Commission was briefed on a proposal to execute a lease amendment for office space for two additional departments to move into the SeaTac Office Center (STOC) for \$6,829,000

April 28, 2015 – The Commission was briefed on, and authorized, a request to execute a four-year lease agreement to provide office space for the IAF Program Management Group in the SeaTac Office Center (STOC) for \$1,995,285