

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5b

ACTION ITEM

Date of Meeting October 5, 2010

DATE: August 18, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: James R. Schone, Director, Aviation Business Development
James Jennings, Manager, Aviation Properties

SUBJECT: Amendment to Transportation Security Administration/General Services
Administration Main Lease

ACTION REQUESTED:

Request for authorization for the Chief Executive Officer to amend the existing Main Lease #000307 ("Lease") of the Transportation Security Administration (TSA), represented and negotiated by the General Services Administration (GSA), extending the Lease term for three (3) years, for a total estimated rent over the term of the extension of \$2,886,439.

SYNOPSIS:

The TSA manages passenger security checkpoint operations and baggage security at the Seattle-Tacoma International Airport (Airport) with approximately 700 employees. As a result, the TSA is a significant tenant within the terminal building. The lease areas are comprised of office and break room spaces scattered throughout the Airport and the TSA will be a long-term lessee of the Airport. This request for a lease amendment will extend the lease and enable the TSA to make improvements (carpet, partition walls, communications, etc.) within certain areas of their leased spaces using federal funds.

BACKGROUND:

On November 1, 2002, GSA/TSA signed a five (5) year Lease for office space and break rooms (see Exhibit A) at the Airport. The lease was put into holdover status in late 2007 as the GSA/TSA continued their deliberations on their long-term lease requirements. Once it became clear that the Port and the TSA/GSA would not be able to agree on the funding for these long-term lease requirements, Port staff requested and the Commission authorized an extension to the existing lease on May 12, 2009, covering the period of holdover and expiring on October 31, 2010. This extension was intended to provide the GSA/TSA adequate time to develop their long-term lease requirements, develop a construction schedule, and acquire funding for necessary improvements to be negotiated into a new lease. Unfortunately, the TSA/GSA have

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made little progress towards any of the previously discussed tenant improvements. So it is not in the Port's best interest to create a new lease, which per GSA standards, would likely transfer additional facility requirements and associated costs to the Port; these facility requirement liabilities are TSA/GSA's responsibility in the current Lease.

Therefore, TSA/GSA are not prepared to negotiate a new long-term lease, and have mutually agreed that an extension to the current Lease for three (3) additional years is the preferred approach. This would give TSA/GSA additional time to continue to develop their long-term lease requirements, as well as plan and develop necessary tenant improvements. The proposed extension would continue the existing Lease terms, most importantly their acceptance of the existing spaces "as-is". Once TSA/GSA develops their long-term plans and improvements, a new lease can be negotiated factoring in these developments.

There have been 19 prior amendments to the Lease for various reasons. Numbers 18 and 20 are the amendments relating to the Lease term and rental rates.

Scope of Agreement:

	Basic Lease	18th Amendment	20th Amendment
Term/Effective Date:	Five (5) years, Nov. 1, 2002 through Oct. 31, 2007.	Three (3) years, Nov. 1, 2007 through Oct. 31, 2010.	Three (3) years, Nov. 1, 2010 through Oct. 31, 2013
Options:	None	None	None
Use:	Provide break rooms and operational offices for TSA.	No change.	No change.
Total Annual Rent:	\$732,925	\$962,146.32	\$962,146.32

FINANCIAL IMPLICATIONS:

Since the Port substantially increased the TSA/GSA rent in the 18th Amendment, the Port is proposing to continue to collect \$962,146.32 of annual rent from TSA/GSA as part of this Lease extension. We believe this approach is justified because the conditions of the offices being leased are still yet to be improved. If circumstances change, per the underlying agreement, the Port has the ability to modify rental rates each year on April 1 or other Port designated effective date.

ENVIRONMENT AND SUSTAINABILITY:

This project has no specific impacts to the Port's environmental goals.

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STRATEGIC OBJECTIVES:

This Lease supports the Port's strategy to "Ensure Airport Vitality" by facilitating the TSA's ability to securely move tens of thousands of passengers daily in a safe and efficient manner. The TSA personnel require offices and break room in support of their efforts to carry out the mission of U.S. Department of Homeland Security.

BUSINESS PLAN OBJECTIVES:

The extension of the TSA/GSA Lease supports Business Development's non-airline revenue objectives through maintaining close to one million dollars of non-airline revenue.

TRIPLE BOTTOM LINE SUMMARY:

This Lease extension will ensure continued rent revenues annually for the next three (3) years. The TSA will be able to better serve the Airport and its customers through the continued leasing of on-site airport office space for employee support. The TSA is a significant Airport employer and economic driver for the region.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

Alternative 1: Execute an amendment to extend the Lease for a period of three (3) years. **This is the preferred alternative.**

Alternative 2: Allow Lease to go into holdover. Although this would not be financially different than Alternative 1, it would not be consistent with good management practices, and would not allow for amendments to accommodate operationally driven changes in premises over the next few years. This is not the preferred alternative.

Alternative 3: Negotiate a new lease. At this time, staff does not think a new lease is in the Port's best interest for multiple reasons. First, the TSA/GSA would like a long-term lease, but has been unable to plan and quantify their required level of tenant improvements and related Port investment. Second, the Port is not willing to use the federal government standard GSA forms for "as-is" space because of their stringent federal requirements typically used for new construction. This is not the preferred alternative.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Exhibit A: Breakdown of Leased Premises.

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PREVIOUS COMMISSION ACTION:

On May 12, 2009, the Port Commission authorized Amendment # 18, which was an extension to the existing TSA/GSA Main Lease, covering a period of holdover and expiring October 31, 2010.