



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6b

ACTION ITEM

Date of Meeting January 9, 2018

DATE: January 2, 2018

TO: Dave Soike, Interim Executive Director

FROM: James Jennings, Senior Manager, Aviation Properties
Wayne Grotheer, Director, Aviation Project Management

SUBJECT: Delta Inflight Services Tenant Reimbursement Agreement (CIP #C800883)

Amount of this request: \$1,116,000

Total estimated project cost: \$1,196,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to: execute a Tenant Reimbursement Agreement with Delta Air Lines, Inc. for \$975,000 of this total under the Airport’s AV-2 Policy for the design and construction of a project to prepare for occupancy approximately 4,000 square feet of office space in the main terminal at Seattle-Tacoma International Airport and \$221,000 for non-tenant reimbursement Port costs associated with this project. This request seeks a single Commission authorization to reimburse Delta for design and construction and for non-tenant reimbursement costs associated with the project, a total of \$1,196,000.

EXECUTIVE SUMMARY

This project will develop currently unoccupied space on the second floor of the original Airport Administration Building, adjacent to the Main Terminal Mezzanine, for use by the Delta Air Lines (Delta) Inflight Services Group using a Tenant Reimbursement Agreement (TRA) between the Port and Delta. This will allow Delta to locate all of their Inflight Services staff in one space and convert a currently unleaseable area in this location to leaseable space. By using a TRA, design and construction can be completed as one project with one team, ensuring Delta will be able to complete the work on their preferred timeline. The space currently occupied by Delta’s Inflight Services group will be returned to the Port for possible future development as a common-use club.

JUSTIFICATION

This project supports the Century Agenda goal to meet the region’s air transportation needs at the Airport by providing additional leaseable space in a currently unoccupied area. This allows Delta to operate their Inflight Services more efficiently and provides the Port with additional revenue. It also supports the Aviation Division priority of financial performance by developing space in existing buildings rather than constructing new facilities.

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DETAILS

This project will prepare for occupancy approximately 4,000 square feet of raw un-leasable shell space on the second floor of the original Airport Administration Building, one level up from the Ticketing Level, using a Tenant Reimbursement Agreement with Delta for its design and construction. Delta is additionally improving another approximately 4,400 square feet of adjacent existing office space, which will be built out by Delta as a tenant expense project for their Inflight Services Group. The total of the two spaces will create an 8,400 square foot Inflight Services office to support Delta’s expanding flight attendant group. This work is possible because of the completion of the CTE Stairs project. Once Delta’s Inflight Services group has moved, the space they are vacating on the Mezzanine level of the South Satellite will be returned to the Port for future development.

Scope of Work

Approximately 4,000 square feet of this location is in a raw condition because it has been partially demolished during previous projects including regulated materials abatement. This project’s scope therefore includes the following:

- (1) Additional demolition as required
- (2) Additional regulated materials spot abatement as required
- (3) Basic wall, ceiling, and floor finishes per Port standard
- (4) Necessary life/safety and other infrastructure connection points to the lease line

Schedule

Activity

Preliminary Design start	2017 Quarter 3
Commission design and construction authorization	2018 Quarter 1
Construction start	2018 Quarter 1
In-use date	2018 Quarter 3

Cost Breakdown

	This Request	Total Project
Design	\$81,000	\$81,000
Construction	\$1,115,000	\$1,115,000
Total	\$1,196,000	\$850,000

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Leave the space vacant and do not build it out into leasable space

Cost Implications: \$0 from the Port. The estimated cost of the project, \$1,196,000, would be avoided.

Pros:

- (1) No capital funding costs are associated with this alternative

Cons:

- (1) Leaving this space unimproved would keep the area un-leasable and would not address the crucial need for additional leasable space.
- (2) Would not realize the revenue from Delta for leasing this, and adjacent space not subject to reimbursement by the Port, of approximately \$1.27M annually.
- (3) Does not provide Delta a key operational resource they are requesting

This is not the recommended alternative.

Alternative 2 – The Port build out this space to leasable condition without using a TRA, Delta would then make their tenant improvements (TIs) after the Port’s improvements were completed.

Cost Implications: \$1,394,000

Pros:

- (1) Would not require a TRA between the Port and Delta
- (2) Port would receive approximately \$1.27M in annual revenue from the lease of this, and adjacent space not subject to reimbursement by the Port.
- (3) Frees up space on Mezzanine level of South Satellite for development as common use club
- (4) More control related to Port project costs due to direct control of project by Port staff

Cons:

- (1) Would require two separate projects. Port would construct improvements to make the space leasable, then Delta would make their tenant improvements, which would likely require them to remove portions of the Port’s original project scope
- (2) More costly than Alternative 3
- (3) Would take approximately 28 months to complete, missing Delta’s preferred occupancy date by 22 months.

This is not the recommended alternative.

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Alternative 3 – Build out this space to leasable condition through a single construction project, with a TRA with Delta to reimburse the Port’s leasable improvements portion.

Cost Implications: \$1,196,000

Pros:

- (1) Allows Delta to move their Inflight group on their preferred occupancy timeline
- (2) Port would receive approximately \$1.27M in annual revenue from the lease of this, and adjacent space not subject to reimbursement by the Port.
- (3) Frees up space on Mezzanine level of South Satellite for development as common use club
- (4) Less costly than other alternatives to build out the space

Cons:

- (1) Because Delta is proceeding at risk with the design, there is a possibility that Port standards may not be fully incorporated into the design until much later in the review and approval process
- (2) Less control on Port project scope and costs due to Delta completing leasable space improvements

This is the recommended alternative.

FINANCIAL IMPLICATIONS

<i>Cost Estimate/Authorization Summary</i>	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$5,289,000	\$0	\$5,289,000
Previous changes – net	(\$4,093,000)	0	(\$4,093,000)
Revised estimate	\$1,196,000	0	\$1,196,000
AUTHORIZATION			
Previous authorizations	\$80,000	0	\$80,000
Current request for authorization	\$1,116,000	0	\$1,116,000
Total authorizations, including this request	\$1,196,000	0	\$1,196,000
Remaining amount to be authorized	\$0	\$0	\$0

Annual Budget Status and Source of Funds

The Delta Inflight Services Relocation (CIP #C800883) was included in the 2018-2022 capital budget and plan of finance at \$5,289,000. The scope of work has changed to a tenant reimbursement and the decrease in budget was transferred to the Aeronautical Allowance (CIP #C800753), resulting in no net change to the capital budget. The funding source for this project will be Airport Development Fund (ADF).

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Financial Analysis and Summary

Project cost for analysis	\$1,196,000
Business Unit (BU)	Terminal Building
Effect on business performance (NOI after depreciation)	NOI after depreciation will increase
IRR/NPV (if relevant)	N/A
CPE Impact	Less than \$0.01 in 2018

Future Revenues and Expenses (Total cost of ownership)

Leasing the 8,400 square feet of space will generate in excess of \$1.2 million per year based on the 2018 terminal rents.

ATTACHMENTS TO THIS REQUEST

None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None

