



**COMMISSION
AGENDA MEMORANDUM**

Item No. 10c

ACTION ITEM

Date of Meeting December 14, 2021

DATE: December 3, 2021

TO: Stephen P. Metruck, Executive Director

FROM: Jeff Moken, Interim Director AV Business & Properties
Wayne Grotheer, Director Aviation Project Management

SUBJECT: Concourse A Building Expansion for Lounges (CIP #C801205)

Amount of this request: \$72,200,000

Total estimated project cost: \$78,500,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) authorize construction of the Concourse A Building Expansion for the Lounges project at Seattle-Tacoma International Airport by Delta Air Lines, Inc; (2) authorize reimbursements to Delta for construction under the Tenant Reimbursement Agreement previously authorized by the Commission on April 27, 2021; and (3) utilize Port crews for construction and support. The total cost of this request is \$72,200,000 of an estimated total project cost of \$78,500,000.

EXECUTIVE SUMMARY

This project constructs a building expansion towards the end of Concourse A, to predominately house a new passenger lounge for Delta Air Lines, Inc. (Delta) and provide additional space for the Port of Seattle common use lounge: The Club at SEA. This project is expected to meet existing (pre-COVID-19) passenger demand for Delta, as they have vacated their existing lounge at the South Satellite. This project also supports Century Agenda Goal #2 to advance this region as a leading tourism destination and business gateway.

To achieve this, Delta has designed and desires to construct an approximately 52,000 square foot (SF) building expansion at the east side of Concourse A, across from Gate A11 and directly south of the International Arrivals Facility (IAF), using a Tenant Reimbursement Agreement (TRA) with the Port. Approximately 36,000 SF of the new space will be leasable, including the space that will be directly leased by Delta for their lounge.

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JUSTIFICATION

Delta has requested to construct a new lounge on Concourse A. The purpose is to accommodate existing passenger demand that is anticipated to shift from the South Satellite to Concourse A due to the opening of the IAF. The Port currently does not have sufficient space to meet this demand. Thus, to satisfy this request for additional leased space, the Port would either (i) need to build the shell space itself, and then have Delta subsequently design and construct their own tenant improvements, or (ii) allow Delta to design and construct the building addition under a TRA. In addition, this proposed expansion will create additional space for future expansion of the Port's common-use lounge on Concourse A, which would provide needed capacity to support pre-COVID passenger levels, as well as anticipated capacity that will shift from South Satellite to Concourse A as a result of the completion of the IAF project. Proceeding with having Delta design and construct the improvements is likely to be both less expensive and faster, than the two-step process of the Port constructing the shell, and then Delta constructing their tenant improvements. In April 2021, Commission authorized the design of this project using a TRA with Delta. Today's request is the next step in completing this project and continuing the use of the TRA with Delta.

Diversity in Contracting

The Port collaborated with Delta and has included in the TRA a WMBE goal of 10%, an apprentice hiring goal of 15%, a women apprentice hiring sub-goal of 12%, a minority apprentice hiring sub-goal of 21%, and a priority worker goal of 20% for the construction contractor. Delta has stated that they will strive to exceed these goals.

DETAILS

The budget is based on the construction costs provided by Delta for tenant reimbursable shell and core construction costs, plus sales tax, Port soft costs, Delta's design, and project management costs for the TRA, art, and project contingency. The budget contingency for construction risks is included in Delta's construction costs and Delta will be responsible for any construction costs that exceed the established contingency. The Port has included contingency for any potential owner scope changes. The Port and Delta entered into the Tenant Reimbursement Agreement authorized by Commission on April 27, 2021 in August 2021 for design phase costs only. If this Commission request is authorized, the Port will issue an updated reimbursement letter that includes the construction costs and a new total of \$62.6M. The Port prepared an independent estimate to compare against the Delta estimate, reconciled differences found, and confirmed its reasonableness. The Port will review invoices submitted by Delta for reimbursement on a monthly basis.

The project has been identified as a Tier two project under the Port's Sustainable Evaluation Framework. The project team analyzed concepts to reduce energy and carbon emissions, along with other initiatives to reduce solid waste, promote public transportation, and support employees. The team also calculated the total cost of ownership for the different sustainability concepts. The project will implement (1) triple-glazed electrochromic façade ("smart glass"); (2) all electric appliances (no natural gas); (3) low-flow water fixtures in the Delta lounge; (4) signage

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for public transportation options; (5) an employee breakroom; and (6) three new electric vehicle charging stations. The sustainability work and recommendations were reviewed by the Commission Sustainability, Environment and Climate Committee on November 18, 2021.

During design, several changes have impacted the project budget. The Port increased the size of the mezzanine level of the proposed expansion by approximately 4,400 SF to match the footprint of the Delta lounge space above, to optimize the placement and view opportunities of the Port common use lounge. To minimize construction impacts, the project will move an existing Port maintenance shop to a new remodeled location. A prime consideration has been the need to keep the Port common use lounge open during construction. To that end, the project will provide temporary amenities like restrooms to replace those areas of the existing lounge that will be impacted by the construction of this project. These changes have increased the project budget by \$7.1 million.

Delta will be responsible for the cost and construction of the interior buildout of their lounge within the new building shell. The Port’s common use lounge interior buildout will be completed by the Concourse A Port Shared Use Lounge project.

Scope of Work

- Construct a building addition of approximately 52,000 SF that will provide shell space for two lounges and associated building systems.
- Reconfigure existing spaces to provide additional leasable office area, an entry foyer, a replacement restroom, and vertical circulation.
- Renovate an airport building to house the relocated Aviation Maintenance Department Passenger Loading Bridge shop that is being displaced by this project. The expense cost to move the shop is included in the budget.
- Provide temporary restrooms for the Port common use lounge to keep the lounge operational during construction of the building expansion.

Schedule

Activity

Commission design authorization	2021 Quarter 2
Design start	2021 Quarter 2
Construction start	2022 Quarter 1
In-use date	2023 Quarter 3

Cost Breakdown

	This Request	Total Project
Design	\$0	\$6,300,000
Construction	\$72,200,000	\$72,200,000
Total	\$72,200,000	\$78,500,000

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not construct the building expansion at the southeast side of Concourse A using a TRA between Delta and the Port.

Cost Implications: \$6.3 million

Pros:

- (1) This is the lower cost alternative.

Cons:

- (1) Passenger lounge spaces will not be expanded to accommodate anticipated return of pre-COVID demand.
- (2) This alternative will not support Delta’s new gates on Concourse A.
- (3) The expanded lounges (Delta’s and the Port’s common use) will not provide passengers an alternative to waiting for flights in crowded hold rooms.
- (4) The expended cost to design this project would need to be expensed.

This is not the recommended alternative.

Alternative 2 – Construct the building expansion on Concourse A, using a TRA between Delta and the Port.

Cost Implications: \$78,500,000

Pros:

- (1) Passenger lounge spaces will be expanded to accommodate anticipated return of demand.
- (2) Location of the lounge on Concourse A will support Delta’s new gates on Concourse A.
- (3) The expanded lounges (Delta’s and the Port’s common use) will provide passengers an alternative to waiting for flights in crowded hold rooms.

Cons:

- (1) This is the higher cost alternative.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary

	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$60,000,000*	\$0	\$60,000,000*
Previous changes – net	\$11,400,000*	0	\$11,400,000*
Current change	\$7,050,000*	\$50,000	\$7,100,000*
Revised estimate	\$78,450,000*	\$50,000	\$78,500,000*
AUTHORIZATION			
Previous authorizations	\$6,300,000	\$0	\$6,300,000
Current request for authorization	\$72,150,000	\$50,000	\$72,200,000

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Total authorizations, including this request	\$78,450,000	\$50,000	\$78,500,000
Remaining amount to be authorized	\$0	\$0	\$0

* Cost estimate is based on Delta Air Lines cost estimate, not a Port of Seattle estimate

Annual Budget Status and Source of Funds

This project, CIP C801205, was included in the 2022-2026 capital budget and plan of finance with a budget of \$71,400,000. A budget increase of \$7,050,000 was transferred from the Aeronautical Reserve CIP (C800753) resulting in zero net change to the Aviation capital budget. The funding source will include the Airport Development Fund and future revenue bonds. This project was submitted to the airlines for Majority-In-Interest approval due on December 7, 2021.

Financial Analysis and Summary

This project is an investment in additional terminal space that is intended to be used for both aeronautical and non-aeronautical purposes. As a hybrid project, the financial analysis looks at the projects as both a standalone non-aero investment and a terminal investment that flows through airline rates and charges.

Aeronautical Rate Base Impacts

Airline Rates and Charges	2024		
	Aero	Non-aero	Total
	(\$000s)		
Rentable sqft without Conc A sqft	76.78%	23.22%	100%
Rentable sqft WITH Conc A sqft	76.89%	23.11%	100%
Project cost	\$ 60,317	\$ 18,133	\$ 78,450
Incremental Revenues WITHOUT Conc A sqft	\$ 4,973	\$ 1,504	\$ 6,477
Terminal distribution	6.82		6.82
Incremental Revenues WITH Conc A sqft	4,980.94	1,503.89	6,484.82
Incremental Debt Service	4,977.90	1,496.45	6,474.35
Incremental Amortization	2.61	0.79	3.40

With the Concourse A expansion, the net terminal square footage distribution has a minor impact on the analysis as the existing project space allocation is reasonably close to the existing allocations.

The table above shows that before Concourse A expansion, 76.78% of the terminal costs are allocated to the aeronautical rate base, which equates to incremental revenue of \$4,973,000. After adding the incremental square footage of this project, the percentage of terminal costs increases to 76.89%; this reflects a \$7,000 increase to Aeronautical revenue. Thus, in 2024 the net impact of the Concourse A expansion project is to contribute \$4,978,000 in incremental revenue to the aeronautical rate base.

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Terminal rents are established based on the total cost center costs. The project would be completed in Q3 2023. The full year of debt service and equity amortization begin in 2024. The incremental terminal rent would be \$3.45 and CPE of \$0.20 in 2024.

Non-aeronautical Investment Analysis

The purpose of this section is to demonstrate that the Port has a compelling business case as a non-aero investment. The non-aeronautical investment includes both the cost of new space included in this authorization request and cost of the interior build-out and furnishings (\$24.7 million) included in CIP C801207

The table below shows the allocation of capital costs based on rentable square footage. For non-aero purposes, 18.17% of the rentable square footage, equating to \$14.2 million in capital cost, establishes the basis of the non-aero portion of the project. The lower part of the table identifies an incremental revenue increase of \$4.2 million in 2027. This new revenue, attributed to the airport lounge generates the positive Net Present Value of \$4.1 million, which signifies a good investment. Given that the existing space is currently generating revenues, the NPV is netted against a base case (do nothing).

Non-aero Investments	Non-aero	Aero	Total
Concourse A rentable sqft	6,499	29,264	35,763
Concourse A rentable sqft %	18.17%	81.83%	
\$ in 000s			
Base Building, C801205	\$ 14,265	\$ 64,235	\$ 78,500
Furnishings, C801207	\$ 24,726	\$ -	\$ 24,726
Total Capital	\$ 38,991	\$ 64,235	\$ 103,226
Non-Aero Analysis			
Payback (years from opening)	8		
NPV (through 2043)	\$ 46,190		
NPV Incremental to Base	\$ 4,140		
	2023	2027	
Incremental Non-aero Revenue	\$ 1,808	\$ 4,294	
Incremental Non-aero O&M	\$ (711)	907	
Net Operating Income	\$ 2,519	\$ 3,387	

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Future Revenues and Expenses (Total cost of ownership)

The tenants would pay operating and maintenance annual costs in their space since maintenance of exclusive premises is the responsibility of the lessee. Those costs are not included in the amount shown below. This project provides 29,264 square feet of aeronautical rentable space, as well as 6,499 square feet of rentable non-aeronautical space.

Facility elements outside of or supporting the exclusive premises, such as custodial services, domestic water, power, and HVAC will generate some additional demand for Aviation Maintenance services, and those annual operating and maintenance costs for the new space are estimated to be \$340,000, according to the cost breakdown below:

Custodial services	\$275,000
Facilities services	30,000
Electrical systems	18,000
Mechanical systems	17,000

ATTACHMENTS TO THIS REQUEST

- (1) Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- (1) April 27, 2021 – The Commission authorized design and execution of a TRA for this project.