



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8e

ACTION ITEM

Date of Meeting April 13, 2021

DATE: February 22, 2021

TO: Stephen P. Metruck, Executive Director

FROM: James Jennings, Director AV Business & Properties
Wayne Grotheer, Director Aviation Project Management

SUBJECT: Main Terminal Space Conversions Phase 2 (CIP #C801055)

Amount of this request: \$400,000

Total estimated project cost: \$3,500,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) construct a single office as the second phase of the Main Terminal Space Conversion project at Seattle-Tacoma International Airport, and (2) utilize Port of Seattle crews and Small Works on-call contracts to perform construction work. The amount requested is \$400,000 of the total project estimate of \$3,500,000.

EXECUTIVE SUMMARY

Seattle-Tacoma International Airport (SEA) has limited pre-security office space ready and available for new entrant airline tenants. When completed, this multi-phased, Main Terminal Space Conversion project will house up to six new tenants. The first phase completed two spaces in 2019 and 2020, now occupied by Singapore Airlines and Qatar Airlines, respectively. This request is to construct a single office as the second phase, adding to two offices completed in the first phase. A future Commission request would be required to complete additional offices for a third phase of the Main Terminal Space Conversion project. If completed in the future, Phase 3 would add several new offices to the mezzanine second floor, along with required egress and restroom improvements.

JUSTIFICATION

This project supports critical objectives of the Port's Century Agenda to meet the region's air transportation needs at the airport and encourage the cost-effective expansion of domestic and international passengers and cargo service. This provides SEA with much needed leasable space to meet the needs of our growing airline partners. It also supports the Aviation Division's financial performance by increasing occupancy of leasable space without constructing new facilities.

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SEA has added at least one new international route annually over the past decade. Although the pandemic has significantly slowed current international traffic levels, having at least one office available for lease is a best practice, as there is not adequate time to complete improvements once an international airline announces new services.

Diversity in Contracting

Work performed will draw from existing executed Small Work rosters and/or performed in-house with Port Construction Service crews. The Small Works roster offers opportunity for women-and minority business enterprise (WMBE). As such, no additional aspirational goal will be set for this construction project.

DETAILS

The second phase space to be constructed is located on the ticketing level near passenger Security Checkpoint 3. Construction will include electrical, lighting, data, heating and ventilation, and standard office finishes to provide an office suitable for future occupancy. This construction will be completed using a combination of Port Construction Services crews and Small Works contractors.

Scope of Work

Phase 2 Construction of Ticketing level space:

- (1) Modify heating, ventilation and air conditioning (HVAC), electrical, communications and lighting system.
- (2) Construct basic interior including finished walls, ceilings and flooring.

Schedule

Activity

Second Phase Construction Start	Q2 2021
Second Phase In use date	Q4 2021

Cost Breakdown

	This Request	Total Project
Design	\$0	\$720,000
Construction	\$400,000	\$2,780,000
Total	\$400,000	\$3,500,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Stop the entire project. Do not construct the second phase (ticketing) and cease further work on the third phase (second floor).

Cost Implications: \$0 further cost (approximately \$350,000 of cost to date would be expensed)

Pros:

- (1) Vacant space could be re-designed for another purpose in the future.
- (2) Remaining budget could be re-allocated.

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Cons:

- (1) No new spaces would be available for any new entrant the short term.
- (2) Would not meet Port Century Agenda Objectives.

This is not the recommended alternative.

Alternative 2 – Construct the second phase (ticketing) and continue evaluation work on the third phase (second floor).

Cost Implications: \$400,000

Pros:

- (1) One new tenant space will be ready by end of 2021.
- (2) Remaining budget could be re-allocated.

Cons:

- (1) No second-floor code improvements would be made by this project.
- (2) Further new tenant spaces would not be created and may impact new entrants in 2022 or 2023.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

<i>Cost Estimate/Authorization Summary</i>	Capital	Total
COST ESTIMATE		
Original estimate	\$2,515,000	\$2,515,000
Previous changes – net	\$985,000	\$985,000
Revised Estimate	\$3,500,000	\$3,500,000
Art (Transfer to Art CIP)	(\$7,000)	(\$7,000)
Revised Total	\$3,493,000	\$3,493,000
AUTHORIZATION		
Previous authorizations	\$1,465,000	\$1,465,000
Current request for authorization	\$400,000	\$400,000
Total authorizations, including this request	\$1,865,000	\$1,865,000
Remaining amount to be authorized	\$1,635,000	\$1,635,000

Annual Budget Status and Source of Funds

This project (CIP C801055) was included in the 2021-2025 capital budget and plan of finance with a budget of \$3,500,000. \$3,000 has been transferred into the Art Pool (C102066) with an additional \$4,000 to be transferred pending this request. The funding source would be Airport Development Fund (ADF) and revenue bonds. The previous change cost increase shown in the table above was driven by the need to provide more office space to new airline tenants.

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Financial Analysis and Summary

Project cost for analysis	\$3,500,000
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	Less than \$0.01 in 2022

Future Revenues and Expenses (Total cost of ownership)

Once occupied, maintenance of exclusive premises is the responsibility of the lessee, thus freeing the Port of our current obligation to maintain the space. In addition, these premises are currently leased to signatory airlines at the rate of \$177.17 per square foot per year. The final billable lease area is dependent on exactly how the space gets divided, and how much space is consumed to create a shared access vestibule (which would not be leased premises).

ADDITIONAL BACKGROUND

Preliminary design work on the project’s third phase has uncovered building code deficiencies and additional study is underway to determine the impact of these deficiencies.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

February 26, 2019 – The Commission authorized design of all phases and construction of first phase.