



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 8f

**ACTION ITEM**

**Date of Meeting** April 27, 2021

**DATE:** April 16, 2021

**TO:** Stephen P. Metruck, Executive Director

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

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

<b>Amount of this request:</b>	\$6,180,000	
<b>Total estimated project cost*:</b>	\$71,400,000	*

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

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to (1) authorize \$6,180,000 of design budget including a reimbursement to Delta Air Lines, Inc., for the design of the Concourse A Building Expansion for Lounges project at Seattle-Tacoma International Airport; and, (2) execute a Tenant Reimbursement Agreement (TRA) with Delta for this purpose under the Airport's AV-2 Policy.

**EXECUTIVE SUMMARY**

This project includes a building expansion towards the end of Concourse A, to predominately house a new passenger lounge for Delta Air Lines and provide additional expansion space for the Port of Seattle common-use Club at SEA lounge. This project is expected to meet existing (pre-COVID-19) passenger demand for Delta, as they intend to vacate their existing lounge at the South Satellite.

To achieve this, Delta desires to design and construct an approximately 47,000 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), via a TRA with the Port. It is expected that 24,500 SF of the space will be leased directly by Delta Air Lines for their lounge.

**JUSTIFICATION**

Delta has requested to construct approximately 25,000 square feet to provide additional lounge premises to accommodate their passenger demand that is anticipated to shift from the South Satellite to Concourse A due to the opening of the IAF and the conversion of Concourse A gates from domestic only operations to gates that are capable of accommodating international operations. The Port currently does not have sufficient space to meet this demand. Thus, to

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satisfy this request for additional leased space, (which coincides with the Port's Century Agenda Goal # 2 to advance this region as a leading tourism destination and business gateway) 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 that will be useful 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 both be less expensive, as well as faster, than the two-step process of the Port constructing the shell, and then Delta constructing their tenant improvements.

***Diversity in Contracting***

The project team met with the Port's Diversity in Contracting Department and the Tenant Reimbursement Agreement with Delta will include mutually agreed WMBE aspirational goals.

**DETAILS**

The budget range is based on the 30% design cost estimate provided by Delta for tenant reimbursable shell and core construction costs. The budget includes Port soft costs, Delta's design and project management costs for the TRA, art, and project contingency. After the 60% design and cost estimate and TRA negotiations are completed, staff will return to Commission to request authorization for construction.

The project 30% design was completed in March 2020 at Delta Air Lines' risk, with the plan to request Commission authorization after 90% design and Delta's receipt of contractor bids that will better inform the maximum cost for the project. When the COVID-19 pandemic drastically impacted passenger travel, the project was put on hold by Delta.

Now, Delta is ready to resume design work, provided the Commission authorizes design funding to reimburse them for design costs under a TRA. At the 60% design milestone, the Port intends to negotiate a TRA cost split and maximum gross construction price with Delta. Presuming agreement, staff would then seek additional Commission construction authorization and an amendment to Delta's TRA for the final reimbursement value.

***Scope of Work***

- This expansion includes approximately:
  - 24,500 SF for a new Delta passenger lounge, including 2,300 SF of shell space for future expansion
  - 7,600 SF of shell space for a future expansion of the neighboring Port of Seattle common-use lounge
  - 7,200 SF of vertical circulation, including stairs, elevators, mechanical space

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- 7,600 SF of support areas for mechanical, electrical, plumbing and fire protection systems
- The project also includes:
  - 1,200 SF of reconfigured existing space on the concourse level to accommodate a new lounge entrance and associated revisions to the adjoining restrooms and Airport Dining and Retail spaces
- The project (and Delta’s current cost estimate) do not currently include scope to account for two key unknowns that would ultimately increase the scope and final cost of this project. Both unknowns require Delta to progress their design beyond the current 30% level, so require this Commission authorization to further define. It is important to recognize, that if either of them comes to fruition, they will result in an increase in the final project cost estimate.
  - The existing Concourse A hot and chilled water piping system might need to be expanded by this project to increase capacity. This will be better understood after field investigation is completed when the design process is restarted, and it might be added to the project scope.
  - The mezzanine level of the proposed expansion may be increased by approximately 3,000 sf to match the footprint of the Delta lounge space above with no overhang. This is not currently in the project scope but may be added after the design process is restarted to ensure the Port receives its desired scope out of the Delta run project.

**Schedule**

*Activity*

Design start (Started in 2020 at Delta’s Risk)	2020 Quarter 1
Design Restart	2021 Quarter 2
Commission construction authorization	2021 Quarter 4
Construction start	2022 Quarter 1
In-use date	2023 Quarter 2

**Cost Breakdown**

	This Request	Total Project
Design	\$6,180,000	\$9,300,000*
Construction	\$0	\$62,100,000*
Total	\$0	\$71,400,000*

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

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**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** – Do not proceed with this project.

Cost Implications: \$120,000

Pros:

- (1) Lowest cost alternative.

Cons:

- (1) Fails to satisfy tenant’s desired expansion premises.
- (2) Fails to address deficiency in lounge premises on Concourse A to support flights that will be accommodated there due to opening of the International Arrivals Facility.

This is not the recommended alternative.

**Alternative 2** – The Port designs and constructs the shell expansion of the building, and then Delta would subsequently construct their tenant improvements.

Cost Implications: Higher than alternative 3 (specific amounts not disclosed due to ongoing negotiations).

Pros:

- (1) Port controls the design/construction process.
- (2) Does not require negotiating a fairly complex TRA agreement with Delta.

Cons:

- (1) Process likely to be slower, and more expensive, than Alternative 3 because landlord work would need to be completed and turned over prior to tenant improvements being able to be constructed.
- (2) Requires more Port project management and construction management resources than are currently available.
- (3) Does not take advantage of the Port’s TRA policy that allows for a more efficient single contractor design and construction process.

This is not the recommended alternative.

**Alternative 3** – Allow Delta to design and construct the shell expansion space, as well as their tenant improvements under a Tenant Reimbursement Agreement between the Port and Delta.

Cost Implications: \$71,400,000

Pros:

- (1) Likely to be the lowest cost, and fastest, delivery method for this project.
- (2) Puts less demand on limited Port project management and construction management resources.
- (3) More efficient design and construction process (using a single designer and contractor) through a TRA, versus both the Port and Delta hiring separate designers and contractors

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that would need to coordinate and could end up tearing out some elements of recently constructed base building facilities.

**Cons:**

- (1) More costly than not constructing the additional space.
- (2) Requires negotiating a fairly complex TRA agreement with Delta.

***This is the recommended alternative.***

**FINANCIAL IMPLICATIONS**

***Cost Estimate/Authorization Summary***

<b>COST ESTIMATE*</b>	<b>Capital</b>	<b>Expense</b>	<b>Total</b>
Original estimate	\$60,000,000*	\$0*	\$60,000,000*
Previous changes – net	\$11,400,000*	\$0*	\$11,400,000*
Revised estimate	\$71,400,000*	\$0*	\$71,400,000*
<b>AUTHORIZATION</b>			
Previous authorizations	\$120,000	\$0	\$120,000
Current request for authorization	\$6,180,000	\$0	\$6,180,000
Total authorizations, including this request	\$6,300,000	\$0	\$6,300,000
Remaining amount to be authorized	\$65,100,000	\$0	\$65,100,000

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

***Annual Budget Status and Source of Funds***

This project, CIP C801205, was included in the 2021-2025 capital budget and plan of finance with a budget of \$60,000,000. A budget increase of \$11,400,000 was transferred from the Aeronautical Reserve CIP (C800753) resulting in zero net change to the Aviation capital budget. The funding source will be future revenue bonds.

***Financial Analysis and Summary***

Project cost for analysis	\$71,400,000*
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)	Non-airline Incremental NPV of \$2.6M, 8 years payback
CPE Impact	\$.20 in 2024

***Future Revenues and Expenses (Total cost of ownership)***

Once occupied, maintenance of exclusive premises is the responsibility of the lessee to maintain the spaces. In addition, these premises are planned to be leased to signatory airline. The final

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billable lease area is dependent on exactly how the space is built and how much space is consumed.

**ATTACHMENTS TO THIS REQUEST**

- (1) Presentation slides

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

None