



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6e

ACTION ITEM

Date of Meeting February 26, 2019

DATE: February 15, 2019

TO: Stephen P. Metruck, Executive Director

FROM: James Jennings, Senior Manager, Aviation Properties
Wayne Grotheer, Director, Aviation Project Management
James R. Schone, Director, Aviation Commercial Management

SUBJECT: Airport Main Terminal Space Conversion (CIP #C801055)

Amount of this request: \$1,337,000

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

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) proceed with design for all phases of the Main Terminal Space Conversions project at Seattle-Tacoma International Airport, (STIA) (2) construct Phase 1 of the project, and (3) use Port crews and small works contracts for construction. The amount requested under this authorization is \$1,337,000 out of a total estimated project cost of \$3,500,000.

EXECUTIVE SUMMARY

The purpose of this project is to convert, and upgrade vacant spaces located in the pre-security area at the Airport on the Ticketing, Mezzanine, and Second Floor levels. The offices affected meet an immediate need and accommodate anticipated new entrant airlines.

With the growth in passenger traffic at the airport, there is a need to provide additional leasable support space for existing tenants and new tenants. Vacancy levels are critically low in many areas, especially pre-security. As demand continues to grow for tenant, contractor, and Port needs throughout the airport, finding ways to quickly maximize leasable area within the terminal is needed.

This project was included in the 2019 – 2023 capital budget and plan of finance with an estimated cost of \$2.515 million. The cost increase was driven by the need to provide more office space to new airline tenants.

JUSTIFICATION

This project supports critical objectives of the Port's Century Agenda to meet the region's air transportation needs at the Airport for the next 25 years and encourage the cost-effective

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expansion of domestic and international passengers and cargo service. This provides STIA 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.

Diversity in Contracting

For the immediate construction of Phase 1, staff anticipates a significant proportion of small works contract work to be completed by small businesses which include woman and minority businesses. For Phase 2, Women and Minority Business Enterprise (WMBE) aspirational goals will be established by the Diversity in Contracting Department.

DETAILS

This project will be completed in two phases. The first phase will address an immediate need to construct two office spaces for two new entrant airlines on the mezzanine level of the main terminal. These spaces will be designed and constructed by this request. Additional space on the Ticketing and Second Floor levels will be designed with a request for construction of these spaces to follow in a future Commission request.

The work includes sub-dividing spaces where required, modifying heating, ventilation and air conditioning (HVAC), electrical, communications and lighting systems, completing interior finishes including ceilings and flooring, and installing Port standard telecommunications demarcation packages.

The first space will be constructed in an expedited manner to provide two offices by Q2 2019, which is needed to support recently announced service by two new Airlines. The remaining spaces are needed to be able to respond to anticipated growth and will follow a more traditional timeline.

Scope of Work

The project scope of work includes the following:

- (1) Sub-dividing the existing vacant areas where required to provide manageably sized offices meeting airline needs and Port standards
- (2) Modifying heating, ventilation, and air conditioning (HVAC), electrical, communications and lighting systems
- (3) Constructing basic interior finishes including finished walls, ceilings, and flooring
- (4) Installing a Port standard telecommunications demarcation package for new tenants
- (5) Prepare related amenities as necessary or required by code

Office furnishings, equipment, and any discretionary tenant improvements will be provided by the tenant and are not included in this project scope.

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Schedule

Activity

Complete construction of first two spaces	Q2 2019
Anticipated construction authorization for remaining work	Q4 2019
Complete remaining construction	Q4 2020

Cost Breakdown

	This Request	Total Project
Design	\$720,000	\$720,000
Construction	\$710,000	\$2,780,000
Total	\$1,430,000	\$3,500,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Build out all spaces to leasable condition through a single design and construction project

Cost Implications: \$3,500,000

Pros:

- (1) The Port would complete all the spaces to a leasable condition as a single action.
- (2) The Port would be able to take full advantage of the new Diversity in Contracting program with this construction contract.

Cons:

- (1) Would take approximately 28 months to design, bid and construct, which would not meet the needed occupancy schedule.

This is not the recommended alternative.

Alternative 2 – Build out Phase one to provide two of the requested office spaces immediately and start the design for the other spaces now.

Cost Implications: \$1,430,000

Pros:

- (1) This alternative will provide the new entrant international airlines key operational resources they are requesting on the timeframe they require.
- (2) Completing the design for the entire scope will expedite the process to complete the remaining spaces, in the hopes that they can be constructed to meet the anticipated airlines start-up schedules.
- (3) The Port would receive revenue from the lease of these spaces sooner than the other alternatives.

Cons:

- (1) For the immediate construction scope, the Port would use Port crews and small works contracts and therefore not able to use the Port’s Diversity in Contracting program.

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This is the recommended alternative.

FINANCIAL IMPLICATIONS

<i>Cost Estimate/Authorization Summary</i>	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$2,515,000	\$0	\$2,515,000
Current change	\$985,000		\$985,000
Revised estimate	\$3,500,000		\$3,500,000
AUTHORIZATION			
Previous authorizations	\$93,000	\$0	\$93,000
Current request for authorization	\$1,337,000	\$0	\$1,337,000
Total authorizations, including this request	\$1,430,000	\$0	\$1,430,000
Remaining amount to be authorized	\$2,070,000	\$0	\$2,070,000

Annual Budget Status and Source of Funds

Main Terminal Space Conversions (CIP #C801055) was included in the 2019-2023 capital budget and plan of finance at \$2,515,000. A budget increase of \$985,000 was transferred from the Aeronautical Allowance which will have no impact to the plan of finance. The project will be funded with the Airport Development Fund and revenue bonds.

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
IRR/NPV (if relevant)	N/A
CPE Impact	Less than \$0.01 in 2021

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 \$183.03 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).

ATTACHMENTS TO THIS REQUEST

Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None