

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6c

ACTION ITEM

Date of Meeting March 12, 2013

DATE: February 22, 2013

TO: Tay Yoshitani, Chief Executive Officer

FROM: James R. Schone, Director, Aviation Business Development
Jeff Wolf, Manager, Aviation Business Development and Analysis

SUBJECT: Doug Fox Parking Lot Lease Approval

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to execute a lease, substantially as drafted in the attached Exhibit 1, with ATZ Inc. (ATZ), for a term of five (5) years, with two, five (5)-year extension options, upon mutual agreement between the Port and ATZ, for operation of the parking facility commonly known as the Doug Fox Parking Lot (Doug Fox) located north of 170th Street and east of the North Airport Expressway in the City of SeaTac.

SYNOPSIS:

The Port owns two public parking facilities at the Airport. One is the large on-site Airport garage adjacent to the main terminal building that provides immediate direct walking connection to the ticketing and bag claim areas. The second is Doug Fox, an “off-site” surface parking lot operation on South 170th Street that is approximately ¼ mile from the Airport, which allows the Port to provide parking to more price-conscious travelers. Shuttle bus service is provided to the main terminal garage and travelers have a short walk into the terminal building (see Exhibit 2). In 2004, the Port signed a 5-year lease with ATZ for operation of this facility. In September 2009, the Port signed a new 2-year lease with ATZ that included a 1-year option to extend. The current lease for operation of the facility has been in month-to-month holdover since October 2012 and is set to expire on March 31, 2013.

In early 2012, in anticipation of lease expiration, Airport staff identified the need for necessary improvements to critical infrastructure at the facility, including storm drainage repair and pavement repair and replacement. In an effort to enhance revenues to the Port, staff also identified upgrade opportunities that included new lighting, new signage, and a new building. Construction for storm drainage improvements was approved by the Commission on February 14, 2012, and design funds for pavement repair, lighting, signage, and a new building were approved by Commission on May 22, 2012.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

February 22, 2013

Page 2 of 10

Following Commission approval of design funds for the recommended improvements, Airport staff conducted a competitive bid process through a public request for proposal (RFP) process during the summer of 2012. As a result of this process, staff selected ATZ as the winning bidder and entered into lease contract negotiations. On May 22, 2012, staff communicated to Commission that the expected commencement date of the new contract was anticipated to be no later than February 1, 2013. However, due to extended negotiations with the selected operator, primarily involving the impact of the potential construction project on the operation of the facility during the summer of 2013, the commencement date for the new lease with ATZ will be April 1, 2013. The terms of the lease have been enhanced to include a minimum annual guarantee, which was not a term of the previous lease, and a higher base concession fee, both of which are beneficial to the Port.

In conjunction with this request for lease execution authorization, a separate request for construction funding for the previously recommended improvements in the amount of \$5.1 million is being presented (CIP #C800451). The financial implications of the new lease with ATZ and the associated construction project for facility repair and upgrade is positive. The overall net present value (NPV) of the project, including new lease terms and construction costs, is \$5.7 million with an associated rate of return of 13% and a payback of 6 years.

BACKGROUND:

The Airport auto parking market is highly competitive with two key differentiating characteristics being distance from the Airport and available services. No other parking facility is as close to the main terminal building as the Airport garage, which is owned and operated by the Port. Customers who utilize the Airport garage do not have to ride a shuttle van to the Airport, and can simply walk across the skybridge into the terminal. All other parking lots and garages are “off-site” and utilize a shuttle van to carry their customers to the terminal. Available services at some of the off-site facilities include: covered parking, valet parking, auto detailing and amenities such as restaurants and retail shops.

In addition to the Airport garage, the Port owns the Doug Fox Parking Lot. This property is currently operated as a surface parking lot for Airport parking by a third party lessee, ATZ. Doug Fox Parking is the current brand name affiliated with the facility. The Doug Fox name originated as a result of an earlier lease to an independent operator who also ran a former well-known local travel agency by the same name. The lot has been utilized primarily for Airport parking since its development well over 20 years ago. It is an uncovered surface lot and like all other off-site parking facilities, the operator utilizes a shuttle van to bring customers to and from the Airport. However, it has an advantage of being relatively close to the Airport with a convenient approach from the North Airport Expressway (NAE). The lot provides the Airport with a facility that competes in the off-site market where prices are lower, while the Airport garage commands higher rates based on the value of proximity to the terminal.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

February 22, 2013

Page 3 of 10

Revenues generated at the Doug Fox Parking Lot peaked in 2006 at \$5.8 million with concession and lease revenue to the Port of \$3.2 million. Revenues and fees paid to the Port dropped during the following years, reaching a low point in 2011 at \$4.6 million and \$2.2 million, respectively. In 2012, both revenues and fees paid to the Port were relatively flat compared to 2011, with only slight increases over 2011 levels. Outside of recession-based causes, Port staff believe that there are three main factors that contributed to the drop in revenues.

First, operations at the facility were significantly affected beginning in 2006 with the construction of the NAE Relocation Project. A significant portion of the southwest corner of the facility was taken out of service to accommodate the new elevated roadway, resulting in the elimination of 154 parking stalls (approximately 9% of the then-total stalls). In addition, the new elevated roadway significantly reduced visibility of the lot by blocking the line of sight of the entrance and building located at the south end of the facility, primarily for customers travelling along South 170th Street. Moreover, prior to the construction of the new elevated roadway, an on-ramp allowing customers quick and easy access to the northbound lanes of the NAE existed. However, this was eliminated to accommodate the new roadway.

Second, the overall Airport parking market has seen a significant enhancement in new and existing parking facilities over the last several years. The level of service provided by local and national parking operators in the Airport parking market has increased dramatically, including the construction of multi-level, structured parking facilities along International Boulevard that offer a variety of services as well as retail and food establishments.

Third, many physical components of the facility, including the pavement, the building located at the south end of the facility, the on-site lighting, and the stormwater collection system are at a point in their lifecycle that, in order to continue being functional and operational, now require investment.

In anticipation of the end of the lease with ATZ in 2009, Port staff commissioned a study by Heartland Consulting to evaluate alternative uses of the Doug Fox property. The results showed that an office complex, hotel, or combination thereof would be viable. However, industrial use was not, primarily because of traffic and access issues. The main challenge identified with the viable alternative uses was the timing of such development. The analysis showed that these opportunities would not be viable for at least another ten years. The hotel was viable in the shorter term but there are potentially better locations to serve the Airport. This study was updated and validated in 2011 by HDR Engineering.

In addition to the property evaluations performed by Heartland and HDR Engineering, staff evaluated the option of closing the facility to attract Doug Fox customers to the Airport parking garage. However, as the Doug Fox Lot serves the more price-conscious traveler, simply closing the lot would not attract those customers to the Airport garage but would more likely drive them to other off-site lots, depriving the Airport of substantial income. Based on these factors, Port

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

February 22, 2013

Page 4 of 10

staff made the determination that the best near-term use of this property is as an off-site parking facility.

Prior to expiration of the Port's lease and concession agreement with ATZ Inc. on September 30, 2009, a new two-year lease was negotiated with the possibility for a one-year option. The purpose for this new lease was twofold: 1) to resolve all claims related to the impact of the NAE construction on the lessee and 2) to provide sufficient time to determine the appropriate investments to make in the facility given the decision to keep its use in parking. In 2011, the one-year option was executed, extending the agreement termination date to September 30, 2012. The agreement included a month-to-month holdover clause for a maximum of six months, thus allowing for the termination of the agreement to be extended to March 31, 2013.

Staff investigated various improvements to the facility focused on addressing the three factors listed above affecting performance. Substantial input was received from parking colleagues at other airports as well as from the Port's own parking consultant, Leigh Fisher. As a result of this investigation, on May 22, 2012, staff recommended proceeding with pavement repair and upgrade, a new and improved lighting system, new signage to improve visibility of the facility, and a new building. These improvements were in addition to the previously Commission-authorized construction of a new storm drainage system on February 14, 2012.

Similar to the storm drainage upgrade, pavement in many locations at the facility is failing. Without this investment, sections of the facility will increasingly need to be closed off due to safety concerns regarding the pavement. The lighting system at the facility will be upgraded to offer a more safe and secure environment, as well as improve the overall visibility and aesthetics of the facility.

Arguably the most important upgrade to enhance visibility and marketability of the facility will be new signage. To determine the most appropriate signage plan, Port staff undertook a collaborative effort with the City of SeaTac to develop an overall upgraded signage system that is expected to significantly benefit the facility while adhering to mutually acceptable guidelines consistent with the Interlocal Agreement (ILA) between the Port and City. Elements of the new signage system include: a new sign placed along the side of the southbound lanes of the NAE just south of the return-to-terminal loop overpass that will guide drivers to exit at 170th Street for economy parking; signs along the 170th Street off-ramp will be updated to include guidance for economy parking to the east; and a new monument sign located across from the entrance to the facility on the south side of South 170th Street targeted towards drivers travelling eastbound on that street. In addition, a new 22-foot free-standing sign will be located on the property that is targeted towards northbound travelers on the NAE. A depiction of the new signs and their locations are included in Exhibit 3.

The current building at the facility was originally constructed to support a travel agency operation, branded Doug Fox Travel. However, the facility has evolved into an Airport parking operation with no travel agency functions. The current design and configuration of the building

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

February 22, 2013

Page 5 of 10

does not support parking operations in a manner consistent with other parking facilities in the Airport parking market. In addition, the current building is two to five years from the end of its useful life. The proposed new building will be significantly more functional for a parking operation, as well as much more cohesive with the overall aesthetics and marketability of the facility.

Following Commission approval of design funds in May 2012, staff initiated a public RFP process in the summer in anticipation of the expiration of the current lease agreement with ATZ in September 2012. Based on the evaluation criteria and scoring methodology contained within the RFP, ATZ was the only responder that met the minimum qualifications. In evaluating ATZ's response, staff determined that it was a strong proposal and decided to enter into contract negotiations during the fall of 2012. Since that time, the design process for the construction project and lease negotiations with ATZ have been moving forward concurrently. Staff transitioned the current contract with ATZ into month-to-month holdover in September 2012 with a new expiration date set for March 31, 2013.

ATZ is a locally-owned and operated business that has over 30 years of experience managing parking operations in the local airport market. In its history managing the Doug Fox lot, ATZ has expanded the operation from a travel agency and parking operation, including moving to an exclusive focus on parking as well as several expansions to the facility throughout the years. In addition, ATZ successfully maintained the operation during the construction of the NAE beginning in 2006, which was a significant disruption to the facility with major impacts, including installation of a permanent elevated overpass at the entrance to the Doug Fox lot.

Staff believes the resulting proposed lease includes enhanced terms to the Port with a quality operator of the facility. The new agreement includes a minimum annual guarantee (MAG) that escalates over the five (5)-year term, beginning at \$1.5 million in year one and ending at \$2.8 million in year five. The first year MAG is lower compared to the final four years of the contract due to the anticipated impacts from the construction project on parking operations at the facility. The current agreement does not have a MAG. In addition, the base concession fees paid by ATZ are higher in the new, proposed agreement with a beginning percentage of 55% of gross receipts escalating to 63% of gross receipts in year five. The current agreement requires 54.5% to be paid to the Port (with the possibility of higher percentages paid to the Port if higher gross receipts are achieved.) Finally, the new lease requires that ATZ not own, operate, or have a financial interest in any other parking operation within a 3-mile radius of the Airport. The current lease does not include this requirement. Additional details on new and old lease terms are stated below.

Lease Summary and Financial Analysis:

Below is a comparison of the key business terms of the current lease and new, proposed lease. The full version of the new, proposed lease is attached as Exhibit 1:

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

February 22, 2013

Page 6 of 10

	Current Lease	New, proposed 5-year lease										
Term	Two (2)-years from 10/1/2009 through 9/30/2011	Five (5)-years										
Extension	Yes. One, one (1)-year option at Port's sole discretion (executed)	Yes. Two, five (5)-year extensions based on mutual agreement between Port and ATZ										
Holdover	Yes. Month-to-month, for no more than six (6) months	Yes. Month-to-month, for no more than six (6) months										
MAG (Minimum Annual Guarantee)	None	Year 1: \$1.5 million Year 2: \$2.5 million Year 3: \$2.6 million Year 4: \$2.7 million Year 5: \$2.8 million										
Concession Fee(s)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Concession fee to Port</th> <th style="text-align: center;">Gross Receipts</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">54.5%</td> <td style="text-align: center;">from \$0 to \$4.8 million, plus</td> </tr> <tr> <td style="text-align: center;">70%</td> <td style="text-align: center;">from \$4.8 million to \$5.25 million, plus</td> </tr> <tr> <td style="text-align: center;">72%</td> <td style="text-align: center;">from \$5.25 million to \$6.6 million, plus</td> </tr> <tr> <td style="text-align: center;">75%</td> <td style="text-align: center;">over \$6.6 million.</td> </tr> </tbody> </table>	Concession fee to Port	Gross Receipts	54.5%	from \$0 to \$4.8 million, plus	70%	from \$4.8 million to \$5.25 million, plus	72%	from \$5.25 million to \$6.6 million, plus	75%	over \$6.6 million.	Year 1: 55% Year 2: 60% Year 3: 61% Year 4: 62% Year 5: 63%
Concession fee to Port	Gross Receipts											
54.5%	from \$0 to \$4.8 million, plus											
70%	from \$4.8 million to \$5.25 million, plus											
72%	from \$5.25 million to \$6.6 million, plus											
75%	over \$6.6 million.											
Separate shuttle access to terminal per-trip fee	Yes, based on cost recovery	No										
Non-compete (ability to have interest in another local parking operation)	Not included in contract	Included in contract										

As part of the February 14, 2012, request for design and construction funding for the stormwater drainage repair work, the associated financial analysis assumed that by upgrading the drainage system, the current revenues generated at the facility would be maintained. However, no new, incremental revenues were anticipated as part of that analysis.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

February 22, 2013

Page 7 of 10

The financial analysis associated with the additional design funds requested on May 22, 2012, assumed new, incremental revenues associated with the construction of the additional project elements based on staff's expectation that with new, enhanced pavement, lighting, signage and a new building, revenues would be enhanced.

The financial analysis and justification associated with this request again includes only the new, incremental revenue generated from the facility with implementation of all the project elements, including the cost of the previously approved drainage work. This was done to create a conservative financial analysis showing all costs associated with the project, both previously approved by Commission and those related to this request, as well as new revenues anticipated from an enhanced surface parking facility. In addition, since the May 22, 2012, communication to Commission, staff has been able to better refine the parking activity assumptions throughout the lease term and extensions associated with the facility improvements. The updated assumptions included significant input and review from ATZ as well as review by Leigh Fisher Associates, a parking consulting firm currently under contract with the Port of Seattle.

CIP Category	Revenue/Capacity Growth
Project Type	Business Expansion/New Business Development
Risk adjusted Discount rate	8%
Key risk factors	<ul style="list-style-type: none">• Construction risks: the project may encounter unexpected delays due to unforeseen issues, such as contaminated soils, which may increase the cost of the project and/or cause schedule delays.• Financial risks: general economic conditions will impact the parking market and if general economic declines occur in the future, future incremental revenues may fall short of forecasts.• A timeframe of 15 years was included in the financial analysis, covering the initial five-year lease and two (2) five-year extensions. There is risk associated with a potential future conversion of the property to non-parking use, and lease terms associated with future extensions.
Project cost for analysis	\$5.1 million
Business Unit (BU)	Landside

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

February 22, 2013

Page 8 of 10

Effect on business performance	The financial analysis assumes that with construction of the project improvements at the facility, annual revenues to the Port will increase. Current revenues to the Port are approximately \$2 million to \$2.5 million per year. Within five years of implementation of the improvements, annual revenues are anticipated to increase by close to \$1 million, totaling \$3.5 million. Within ten years, additional revenues are anticipated at \$2 million, bringing the annual total to around \$4.5 million.
IRR/NPV	NPV: \$5.7 million IRR: 13% Payback: 6 years
CPE Impact	None

STRATEGIC OBJECTIVES:

This project aligns with the Port's Century Agenda strategy of advancing the region as a leading tourism destination and business gateway. Upgrading the Doug Fox Parking Lot for Airport travelers helps meet the objective of meeting the region's air transportation needs at Sea-Tac Airport for the next 25 years and encourage the cost-effective expansion of domestic and international passenger and cargo service. In addition, a result of this project will be the ability of the Airport to increase a current non-aeronautical revenue stream.

ENVIRONMENTAL SUSTAINABILITY:

Environmental sustainability elements related to this project are described in the associated project memo.

BUSINESS PLAN OBJECTIVES:

Approval of this lease authorization request in conjunction with associated upgrade project will contribute to achievement of the Airport's business plan objective of "maximizing non-aeronautical net operating income" by generating increased non-aeronautical revenues.

TRIPLE BOTTOM LINE SUMMARY:

The project supports economic development by investing in an upgraded parking lot to serve the public's parking needs at the Airport. Environmental sustainability principles will be employed consistent with Port policy. Also, procedures set forth in the Port's new Small Contractors and Suppliers Program and other small business participation opportunities in support of the Century Agenda goals will be used when applicable in the project contracting process in coordination with the Office of Social Responsibility.

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

February 22, 2013

Page 9 of 10

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Alternative 1 – Do nothing. Do not authorize execution of the new lease with ATZ and do not approve this construction funding request. The current lease, with holdovers, will expire March 31, 2013. Port staff would negotiate an amendment to the current lease with ATZ in order to prepare a revised RFP for a new lease for operation of the facility. In addition, staff would not implement any improvements to the facility. Without required repairs to the facility, continued wear and tear would eventually cause the facility to shut down. The new negotiated lease would likely include significantly lower revenue amounts to the Port due to the poor condition of the facility. It would be uncertain how long the facility could be operated under the current conditions. This is not the recommended alternative.
- Alternative 2 – Similar to Alternative 1 above, do not authorize execution of the new lease and do not approve this construction funding request. The current lease with ATZ would expire March 31, 2013. Staff would negotiate an amendment to the current lease and prepare an RFP for a new lease for operation of the facility. In addition, staff would not implement any improvements to the facility. Instead, invest this budget into the Airport garage and develop a low-cost parking product on two floors of the garage recently vacated by the rental car companies. This alternative would cannibalize the ability of the garage to charge premium parking rates on floors just above the low-cost product. This is not the recommended alternative.
- Alternative 3 – Authorize execution of the new lease but only invest in critical infrastructure needs with a lower project cost, such as pavement and lighting, and do not invest in signage and a new building. This alternative would allow for improvement to critical facility systems, thus marginally enhancing the level of customer service. However, this alternative is not recommended as the facility will continue to be less competitive due to its poor visibility to customers, and lower level of customer service compared to other facilities in the Airport parking market. In addition, this alternative would only defer the required investment in the building as the current building has an estimated life of two-to-five years. Although there would be some new incremental revenues, implementing the full array of improvements as part of Alternative 4 would generate much larger incremental revenues. Implementing partial improvements under Alternative 3 would probably result in lost construction and cost efficiencies compared to Alternative 4. Also, the new lease with ATZ would need to be renegotiated to reflect the reduced investment in facility upgrades. This is not the recommended alternative.
- Alternative 4 – Authorize execution of a new lease with ATZ and invest in improvements to the facility, including new pavement, new lighting, new signage, and a new building. This alternative will lead to a better customer experience and enhanced revenues due to an upgraded parking facility that is more competitive in the Airport parking market. **This is the recommended alternative.**

COMMISSION AGENDA

Tay Yoshitani, Chief Executive Officer

February 22, 2013

Page 10 of 10

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Exhibit 1 – Proposed draft Lease and Concession Agreement
- Exhibit 2 – Doug Fox Project Site Location
- Exhibit 3 – New Doug Fox signs and locations

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- February 14, 2012 - Commission approved funding for design and construction in the amount of \$1,028,000 to install a new stormwater drainage system by September 30, 2012.
- May 22, 2012 – Commission approved 1) increasing the project scope by adding lot resurfacing, lighting, building, and road signage work elements; and 2) proceeding with project design.