

Airline Rates and Charges Resolution

First Reading

April 23, 2013



Port 
of Seattle®

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History of Negotiation and Resolution Development, 2011-2013

- 12/11 – 5/12:** Negotiations with airlines re new lease
- 6/12-8/12:** At airlines' request, developed preliminary outline of Resolution and airline impacts
- 8/12-10/12:** Pursued one-year or holdover lease agreement to facilitate continued full negotiations
- 10/12:** Alaska Airlines asserted legal requirement that Port must set rates by Resolution, per federal policy guidelines
- 10/12-2/12:** Port staff preparation of Resolution (with expectation of possible legal challenge)
- 2/12:** Alaska Airlines indicates preference for lease
- 2/12-4/13:** Continued discussion of possible lease terms

FAA Rates & Charges Policy

- In the absence of a lease, airports must follow Federal Aviation Administration (FAA) policy in establishing rates for airline use of airport
 - Rates must be “reasonable” and “not unjustly discriminatory”
 - Port can charge fairly allocated costs of SEA facilities airlines use
 - Port can retain all non-airline revenue
 - Port can retain full control of capital program
 - Port will bear vacancy and enterprise risk

Key Provisions of Resolution

- Rates retroactive to January 1, 2013
- Rates established for multiple cost centers to ensure that airlines appropriately pay for costs of facilities they use
 - Instead of single airfield fee, will segregate movement, apron and commercial areas
 - Instead of single terminal rate calculation, separate cost centers for ticketing, gates, FIS/AIF, bag make-up facilities, etc.

Key Provisions of Resolution

- Airlines rates established to fully – but only -- recover costs of aeronautical cost centers
 - Operating costs associated with aeronautical facilities and services
 - Debt service coverage of 1.30x debt service
 - Amortization of Port cash investments since 1992
- Port assumes risk of vacant aeronautical and non-aeronautical space

Need for Current Commission Action

- Still hope negotiations will yield new lease
- However, lengthy lease execution process requires action soon to complete by year-end
 - Legal drafting
 - Space exhibit finalization
 - Airline legal and management review
 - Lease execution
- Holdover 2012 rates recover \$30+ million less than 2013 costs

Need for Current Commission Action

- Commission passage of Resolution (First and Second Reading) authorizes staff to:
 - Calculate rates and charges in accordance with the Resolution.
 - Take appropriate steps to implement provisions of Resolution
- If negotiations are unsuccessful, Commission adoption ensures Port's ability to be fully compensated for 2013 costs