

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**

**Item No.** 6a

**ACTION ITEM**

**Date of Meeting** June 4, 2013

**DATE:** May 28, 2013

**TO:** Tay Yoshitani, Chief Executive Officer

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

**SUBJECT:** ATZ Lease Approval for Doug Fox Parking Lot

**ACTION REQUESTED:**

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

**SYNOPSIS:**

The Port owns an “off-airport” surface parking lot on South 170<sup>th</sup> Street that is approximately ¼ mile from Seattle-Tacoma International Airport. This facility, commonly known as the Doug Fox Parking Lot, is leased to and operated by ATZ. The firm provides shuttle bus service for its customers to the courtesy vehicle plaza in the main garage, from where travelers have a short walk into the terminal building (see Exhibit 2). In 2004, the Port signed a five-year lease with ATZ for operation of this facility. In September 2009, the Port signed a new two-year lease with ATZ that included a one-year option to extend. The current lease for operation of the facility has been in month-to-month holdover since October 2012 and will expire on September 30, 2013.

In early 2012, in anticipation of lease expiration, Airport staff identified the need for improvements to critical infrastructure at the facility, including improving the storm drainage system and pavement renewal 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. Design and construction for storm drainage improvements was approved by the Commission on February 14, 2012, and an increase of design funds for pavement repair, lighting, signage, and a new building were approved by Commission on May 22, 2012. Staff then conducted a public, competitive request for proposal (RFP) process during the summer of 2012. Although a number of local and national firms expressed interest, only two proposals were submitted and only one of those – submitted by ATZ – met the minimum proposal amounts

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required by the Port. As a result, staff carefully reviewed ATZ's proposal and, after determining it was favorable to the Port, selected ATZ as the winning bidder and entered into lease contract negotiations. The terms of the proposed lease 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 (CIP #C800451) will also be considered at this meeting. The financial implications of the new lease with ATZ and the associated construction project are positive. The overall net present value (NPV) of the project, including new lease terms and construction costs, is \$4.8 million with an associated internal rate of return of 13% and a payback of 7 years.

### **BACKGROUND:**

The Port owns the property known as 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 lot has been utilized primarily for Airport parking since its development well over 20 years ago. It is an uncovered surface lot and like other off-airport parking facilities, the operator utilizes a shuttle bus 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 NAE. The lot provides the Airport with a facility that competes in the off-airport market where prices are lower, while the Airport garage commands higher rates based on the value of proximity to the terminal.

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 two-fold: 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 to improve its marketability and competitiveness. 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. The agreement was amended on March 29, 2013, to extend the holdover period until September 30, 2013.

On May 22, 2012, Commission authorized proceeding with design for pavement renewal and replacement, a new and improved lighting system, new signage to improve visibility of the facility, demolition of the existing building 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.

Following Commission approval of design funds, staff initiated a public RFP process in anticipation of the expiration of the current lease agreement with ATZ in September 2012.

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Based on the evaluation criteria and scoring methodology contained within the RFP, ATZ was the only responder that met the minimum qualifications. ATZ is a locally-owned and operated business that has over 30 years of experience managing parking operations in the local airport market. In evaluating ATZ's response, staff determined that it was a strong proposal and entered 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.

The resulting proposed lease includes enhanced terms to the Port with a quality operator of the facility. For example, the current agreement does not have a minimum annual guarantee (MAG). The new agreement includes a MAG that escalates over the five-year term, beginning at \$1.5 million in year one and ending at \$2.8 million in year five. The first year MAG and percentage fees paid to the Port were intentionally negotiated 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 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). In addition, the new lease requires that ATZ not own, operate, or have a financial interest in any other parking operation within a three-mile radius of the Airport. The current lease does not include this requirement. Finally, the commencement date of the new lease will be October 1, 2013. This date was selected to align the impacts of construction on the operation and potential profitability of the site with the accommodation provided in the first year of the lease terms.

### **Response to the Public Testimony at the March 5, 2013, Commission Meeting:**

This proposed lease for the Doug Fox Parking Lot and associated capital projects were scheduled for presentation to the Commission at its March 5, 2013, meeting. For a variety of reasons, Commission consideration of the lease was postponed. However, there was public testimony at the meeting regarding the lease. This testimony included concerns about four topics related to the RFP and the resulting proposed lease with ATZ. Those concerns and the rationale for the decisions made by Port staff regarding these topics are as follows:

#### 1) Length of the lease term with ATZ:

The proposed base term of the lease with ATZ is five years. Also, included in the lease are two five-year options to extend the lease. The options to extend the lease require mutual consent. The initial lease term along with the options were established for several reasons. Staff anticipates that there will be a higher and better use for this property at some point within the next 10 to 15 years, and the Port desires to maintain as much flexibility as possible regarding that potential future use. The three successive five-year increments (with the latter two exercisable only on mutual consent) provides the Port periodic windows within which to again examine alternative uses while continuing to derive important non-aeronautical revenue from this site while surface parking remains the preferred use. In addition, the requirement for the Port's

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consent to exercise either of the options provides the Port with additional flexibility to negotiate with a different parking operator or conduct another RFP for a parking operator if there is need to do so.

### 2) “Bundling” of the ground transportation service charge by the operator of the Doug Fox facility:

The Port generally imposes fees on off-airport parking and hotel operators to recover costs associated with the use of airport assets, such as roadways, equipment, shelters, etc. For 2013, the fee for operators of courtesy shuttles from off-airport parking locations is \$1.83 per vehicle trip. However, the amount varies from year-to-year and has ranged from a low of \$1.25 per trip to a high of \$3.13 per trip over the past five years. In order to reduce the likelihood that proposers would hedge their financial proposals to the Port due to the risk of variability in these ground transportation fees, the Port elected to “bundle” the ground transportation fee into the percentage fees paid by an operator to maximize the amount proposers would be willing to pay for the combined right to operate the parking lot and access the Airport. While the Port will continue to calculate the “burden” placed on its ground transportation facilities by ATZ and appropriately account for that when establishing the fees for other ground transportation operators (i.e., the cost will *not* be shifted to other operators), the RFP was clear that the concession fee was to compensate for both the right to operate the lot and to access the Airport.

While some operators impose a surcharge on their customers in an attempt to recoup the expense associated with accessing the Airport, this is *not* required by the Port. Indeed, the Port assesses its ground transportation fees on vehicle operators per vehicle trip – not per passenger or per customer. While ATZ will, under the terms of the new lease, no longer separately pay ground transportation fees, no other parking operator pays a concession fee (ranging from 55% to 63% over the initial five-year term) to the Port.

This “bundling” of ground transportation fees currently exists within other classes of ground transportation services. For example, the Seattle-Tacoma International Limousine Association, which provides on-demand limousine service and Puget Sound Dispatch dba Yellow Cab, which provides on-demand taxi service, both pay large minimum annual guarantees and additional percentage or trip fees without separately paying cost-recovery ground transportation fee amounts. In addition, this methodology, as noted above, has no impact on the calculation of the access fees charged to any other ground transportation provider. The trips from all of these operators will be included in the Port’s cost-recovery model and allocated based on their proportionate use of assets and resources.

### 3) Exclusion of firms with other parking operations within three miles of the Airport:

Given the highly competitive nature of the parking market around the Airport, staff believes that it is best to have an operator solely focused on making this facility as successful as possible. To the extent that the operator of the Doug Fox Lot also had management or ownership responsibilities for a facility that could be considered a competitor to the Doug Fox Lot, there

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would be questions about which facility was receiving priority in marketing and operations. The exclusion eliminates any question about the priorities of the operator of the Doug Fox Lot.

#### 4) Revenue to the Port diminished due to the structure of the RFP:

A statement was made that the structure of the RFP, specifically the language that excluded other firms from bidding if they would operate a competing facility within three miles of the Airport, led to lower bids than what would have been expected otherwise. This assertion is unsubstantiated; however, as stated in the third item above, staff believes that having an operator whose sole focus within the Airport parking market is the Doug Fox Lot is still in the best interest of the Port.

#### Lease Summary and Financial Analysis:

	<b>Current Lease</b>	<b>New, proposed 5-year lease</b>
<b>Term</b>	Two (2)-years from 10/1/2009 through 9/30/2011	Five (5)-years
<b>Extension</b>	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
<b>Holdover</b>	Yes. Month-to-month, for no more than six (6) months	Yes. Month-to-month, for no more than six (6) months
<b>MAG (Minimum Annual Guarantee)</b>	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
<b>Concession Fee(s)</b>	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.
<b>Separate per-trip fee for shuttle access to terminal</b>	Yes, based on cost recovery	No
<b>Non-compete (ability to have interest in another local parking operation)</b>	Not included in contract	Included in contract

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The financial analysis and justification associated with this request 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.

<b>CIP Category</b>	Revenue/Capacity Growth
<b>Project Type</b>	Business Expansion/New Business Development
<b>Risk adjusted Discount rate</b>	8%
<b>Key risk factors</b>	<ul style="list-style-type: none"><li>• 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.</li><li>• Financial risks: general economic conditions will impact the parking market and if general economic declines occur in the future, incremental revenues may fall short of forecasts.</li><li>• A timeframe of 15 years was included in the financial analysis, covering the initial five-year lease and two 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.</li></ul>
<b>Project cost for analysis</b>	\$5.1 million
<b>Business Unit (BU)</b>	Landside
<b>Effect on business performance</b>	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, revenues are anticipated to increase by approximately \$2 million, bringing the annual total to around \$4.5 million.
<b>IRR/NPV</b>	NPV: \$4.8 million IRR: 13% Payback: 7 years
<b>CPE Impact</b>	None

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### **STRATEGIC OBJECTIVES:**

This lease and associated improvements align with the Port's Century Agenda strategy of advancing the region as a leading tourism destination and business gateway.

### **ENVIRONMENTAL SUSTAINABILITY:**

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

### **ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:**

- Alternative 1 – 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 September 30, 2013. Port staff would negotiate an amendment to the current lease with ATZ in order to have sufficient time to prepare a revised RFP for a new lease for operation of the facility. Without proposed repairs to the facility, continued wear and tear would eventually lead to the shutdown of the facility. The new negotiated lease would likely include significantly lower revenue to the Port due to the poor condition of the facility. This is not the recommended alternative.
- Alternative 2 – 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

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estimated life of two-to-five years. 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 3 – Authorize execution of a new lease with ATZ and invest in proposed improvements to the facility. 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.**

### **OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:**

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

### **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.
- March 5, 2013 – Commission postponed consideration of the Doug Fox Parking Lot Lease.