

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>5d</u>
Date of Meeting	<u>September 24, 2013</u>

DATE: September 16, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
James Jennings, Manager, Aviation Properties
SUBJECT: Seventh Amendment to Ground Lease with AMB/AFCO Cargo SEA LLC

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a Seventh Amendment to Ground Lease with AMB/AFCO Cargo SEA LLC (“Lessee”), substantially in the form attached, to reflect a reduction of leased premises in lieu of the lease termination that was authorized by the Commission on September 25, 2012.

SYNOPSIS

The Cargo 2 Hardstand Expansion Project that was approved by the Commission on September 25, 2012, impacts the premises that are the subject of this lease. In accordance with the terms of the lease, staff advised the tenant the Port would be terminating the lease in advance of its natural expiration effective October 3, 2013. Given that the project does not affect the entirety of the premises that are the subject of the lease, Lessee requested the Port amend the lease to reduce the premises, rather than executing a full lease termination. With Commission approval, we will amend the lease, which will decrease the Port’s required lease buyout amount, as well as maintain the revenue stream associated with the rent from the remaining premises.

BACKGROUND

On September 25, 2012, Commission approved the Cargo 2-West Hardstand Expansion Project (CIP #C800247) to support the Port’s accommodation of larger cargo aircraft on order by our tenants, such as the 747-8F aircraft, in accordance with the Port’s Century Agenda goal of tripling air cargo volume within 25 years. This approval included the termination of the lease with AMB/AFCO Cargo SEA LLC in accordance with the lease’s early termination provision that stipulated the lease may be terminated with one year’s notice for a major capital improvement. On October 2, 2012, Port staff issued a notice of termination for the lease, effective at 12:01 a.m. on October 3, 2013.

Upon receipt of the termination notice, Lessee requested an amendment to retain the portions of the premises not impacted by the project. Port staff and Lessee negotiated in this regard, and are proposing to amend the lease to: (1) reduce the premises, (2) expand the Port’s secondary user rights to the Cargo 1 Hardstand area (Lease Area B on the attached Exhibit A-3), and (3)

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memorialize the Port's payment of \$544,432.51 to buy out Lessee's interest in the portions of the premises being deleted.

LEASE SUMMARY COMPARISON

Below is a comparison of the key business terms of the current lease and amended lease.

	Pre Termination Lease Terms	Current Lease Terms	Proposed Amended Lease Terms
Term	12/1/1987 – 11/30/2017, plus two (2) 5-year renewal options	N/A	No change
Square Footage	446,457 SF + 37,643 SF easement	0 SF	226,837 SF + 37,682 SF easement
Annual Rent	\$595,557	\$0	\$314,467
Buyout	N/A	\$1,196,097	\$544,433

FINANCIAL IMPLICATIONS

Revenue to the Port – The current lease premises contributes \$595,557 of annual revenue to the Port. Under the amended lease, the future premises will contribute \$314,467 of annual revenue to the Port for the remaining four years of the lease. This continued partial stream of revenue was not anticipated, so will be reflected as an increase in anticipated future revenue.

Buyout of Lease Improvements – The Commission originally authorized up to \$1,580,000 to buyout the lease as part of its approval of the Cargo 2-West Hardstand Expansion Project (C800247), but with the revised partial premises reflected in this amendment, the Port's buyout payment will be \$544,432.51. This is a savings of \$1,035,567.49 in anticipated capital project costs.

STRATEGIES AND OBJECTIVES

Authorizing staff to execute this amendment supports the Port's Century Agenda objective of tripling air cargo volume to 750,000 metric tons by positioning the Airport to be able to adequately serve larger cargo aircraft.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do nothing. The Lease will terminate as of October 3, 2013, in accordance with prior Commission action. This would require an additional \$651,664 of the previously authorized buyout budget and leave the Port subject to an unknown revenue stream. This is not the recommended alternative.

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Alternative 2) – Authorize staff to execute the Seventh Amendment to Ground Lease. This will result in a lease buyout amount lower than what has been authorized, as well as maintain a portion of the existing revenue stream from this lease. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Seventh Amendment to Ground Lease
- Diagram of revised leasehold (Exhibit A-3 pages 1 and 2)
- Diagram of Existing leasehold

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- September 25, 2012 – Commission authorized staff to terminate this lease in support of the Cargo 2 Hardstand Expansion Project.