

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6a

ACTION ITEM

Date of Meeting May 14, 2013

DATE: May 8, 2013

TO: Tay Yoshitani, Chief Executive Officer

FROM: Mark Reis, Managing Director, Aviation

SUBJECT: Second Reading and Final Passage of Resolution No. 3677, as amended:
Establishing a rates and charges methodology and other policies for the use of
facilities at Seattle-Tacoma International Airport

ACTION REQUESTED:

Request Second Reading and Final Passage of Resolution No. 3677, as amended: A Resolution of the Port Commission of the Port of Seattle establishing a rates and charges methodology and other policies for the use of facilities at Seattle-Tacoma International Airport; and further authorizing the Managing Director, Aviation Division to calculate Airline rates and charges in accordance with said methodology, and implement all other provisions of this Resolution; and further authorizing the Managing Director, Aviation Division to suspend the implementation of Resolution No. 3677, as amended in the event Port staff and the Airlines reach agreement prior to July 1, 2013, on an airline lease, and operating agreement which would, at a later date, be presented to the Commission for approval.

SYNOPSIS:

From January 1, 2006, through December 31, 2012, airline rates and charges were established by agreement with the signatory airlines of the Signatory Lease and Operating Agreement (SLOA). Beginning in early 2012, Port staff and airline representatives met regularly to negotiate a new agreement. The negotiations were not successful and a new agreement was not reached. In the absence of an agreement, airports are permitted to establish rates and charges consistent with policy established by the Department of Transportation. Consistent with this policy, staff has consulted with airline representatives to develop the rates and charges methodology incorporated in Resolution No. 3677, as amended.

Upon approval of this resolution, Port staff will have the authority to notify airlines of the new rates to be implemented in 2013 if negotiations over a new lease agreement are not successful. When implemented, the rates will be retroactive to January 1, 2013. The rates established by this resolution will generate approximately \$4.2 million less airline revenue to the Port than budgeted in 2013, but the same amount as presented to the Commission at the 2013 budget update on April 2, 2013.

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BACKGROUND:

Port staff distributed to the airlines a draft resolution and rates on December 11, 2012. We met with the airlines on December 13 to present the proposed rate methodology. On January 10, 2013, we again met with the airlines to hear their questions and concerns. We received written comments from Alaska Airlines, Southwest Airlines, United Airlines and Federal Express. On February 7, Port staff sent the airlines by letter a summary of proposed revisions in the draft resolution (along with detailed exhibits of the rate calculations, etc.). On February 15, we received comments from Alaska Airlines and Southwest Airlines.

Based on airline input, the Port revised key elements of the rate setting approach resulting in lower costs to the airlines and lower revenues to the Port.

Since First Reading, there has been one minor amendment to the Resolution. In Article 7.4, relating to payment of VIP lounge percentage fees, the percentage payable to the Port for the sale of alcoholic beverages has been reduced from 18% to 10%. The change is based on a commitment to the Washington State Liquor Control Board to reduce the percentage fee to 10% or less to avoid being considered a “party in interest” and therefore at risk for the airline VIP liquor licenses. It is estimated that this reduction in the percentage fee will reduce the Port’s concession revenues by approximately \$500 per month.

The language in the resolution that has been amended is included below. The two changes are underlined:

7.4 Payment of VIP Lounge Percentage Fees. On or before the fifteenth (15th) day of each calendar month, each Airline shall pay to the Port the following percentage fees on the sale of all alcoholic beverages or other beverages, and any related food service items sold at or within the VIP Lounge: ten percent (10%) of the Gross Revenues received by the Airline from beer and wine sales, ten percent (10%) of the Gross Revenues received by the Airlines from all liquor sales and fourteen percent (14%) of the Gross Revenues received by the Airline from all other (if any) sales incurred during said preceding month.

FINANCIAL IMPLICATIONS:

The rates and charges policies established under this resolution will affect airline revenues only (e.g., landing fees, terminal rents paid by airlines). Implementing this resolution will result in lower 2013 airline revenues to the Port than were included in the 2013 budget. In the absence of better assumptions, the 2013 budget was based on a continuation of SLOA. SLOA could only be extended by agreement with the airlines.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Alternative 1: Continue to negotiate in 2013 to obtain a new agreement. Negotiations were effectively terminated in October 2012 when Alaska Airlines, as Chair of the Airlines Airport

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Affairs Committee for Sea-Tac, requested that the Port develop rates and charges by resolution. Since that time, Alaska Airlines has paid its 2013 invoices “under protest.”

- Alternative 2: Negotiate a one-year extension to SLOA to give more time to negotiate a new agreement. This alternative was rejected by the airlines.
- Alternative 3: Maintain 2012 rates for 2013. Airline rates are set to recover costs. For 2013, airline costs are increasing due to the airline realignment within the terminal, increased debt service on existing bonds, and general cost increases for salary, benefits and wages. Also, 2012 rates were set below cost recovery for 2012 due to a surplus from 2011. In addition, the airlines have claimed that the continuation of the SLOA rate methodology in 2013 is not allowable since the agreement expired at the end of 2012.
- Alternative 4: Approve a resolution to set rates and charges while continuing to negotiate a new lease agreement. The rates set by resolution will be retroactive to January 1, 2013. This appears to be the only alternative at this time. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Resolution No. 3677, as amended

Exhibits A – J related to rates and charges

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

On April 23, 2013, Commission conducted First Reading for Resolution No. 3677.