

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 5b
Date of Meeting November 5, 2013

DATE: October 25, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
D. Michael Ehl, Director, Aviation Operations
James Jennings, Manager, Aviation Properties
SUBJECT: Second Amendment to Fuel System Lease Agreement with SeaTac Fuel Facilities LLC

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute the Second Amendment to Fuel System Lease Agreement with SeaTac Fuel Facilities LLC, substantially in the form attached, to (1) reflect addition of hydrant pits associated with airline realignment at Seattle-Tacoma International Airport, and (2) increase the rental rate associated with the lease in accordance with the terms of the lease.

SYNOPSIS

Due to the airline realignment at the Airport, the gate aircraft parking layouts were changed. On Concourses A, B, and D, and the South Satellite, the changes required that the fuel hydrant system be expanded to include additional pits to ensure the continued safe fueling of aircraft. The Second Amendment to the Lease with SeaTac Fuel reflects the addition of these 14 hydrant pits to the fuel system (5 pits on Concourse A, 6 pits on Concourse B, 1 pit on Concourse D, and 2 pits on the South Satellite) in exchange for reimbursement of the costs of these fuel system improvements. It also documents the rental rate adjustment due June 1, 2012, pursuant to the terms of the lease.

BACKGROUND

The Port leased the fuel tanks and the to-be-constructed underground hydrant system to SeaTac Fuel (a consortium of airlines operating at the Airport) beginning May 14, 2003. The fuel system allows fuel to be delivered to aircraft through an underground pipeline system, rather than by fuel trucks. To finance the improvements to the hydrant system, the Port issued special facility bonds. The lease calls for facilities rent payments from SeaTac Fuel to cover the repayment of the special facility bonds. The proceeds of the special facility bonds were fully utilized on the initial construction of the hydrant system, thus the system improvements needed as a result of the airline realignment projects required alternate financing. These improvements include the addition of 14 hydrant pits and underground piping to accommodate aircraft fueling

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based on the updated plane parking layouts of gates on Concourses A, B, and D and the South Satellite that were necessitated by the realignment of airlines at the Airport.

The lease allows for future extensions of the fuel hydrant system with mutual agreement. In exchange for the Port constructing the improvements, SeaTac Fuel agrees to reimburse the construction cost (\$2,285,208) over the life of the improvement (300 months), or the remaining lease term (244 months), whichever is less, with a 6% amortization of the costs, which equates to \$16,233.15 per month, retroactive to April 1, 2013.

Additionally, Paragraph 4.1(b)(ii) of the lease calls for re-adjustment of the base rent every five years. The adjustment was due June 1, 2012. The parties have agreed on the base rent, which is based on the Port's land appraisal and will be charged retroactive to that date. The negotiation of this amendment has covered more than 18 months, largely due to the complexities associated with added fuel system scope in Airline Realignment and cargo projects, as well as the refinancing of the original fuel system bonds, which were completed in June 2013.

LEASE SUMMARY COMPARISON

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

	Current Lease Terms	Proposed Amended Lease Terms
Term	5/14/2003 – 7/31/2033	Unchanged
Premises (Square Feet)	464,842	Unchanged
Monthly Rent	\$42,610.52	\$49,389.46
Additional Rent	0	\$16,233.15

FINANCIAL IMPLICATIONS

The Port will receive as additional rent \$16,233.15 per month calculated as a rate of return of 6% on the construction costs invested to extend the hydrant system.

This amendment will also increase the annual base rent (land rent) payments due under the lease to \$592,673.55, an increase of \$81,347.35 per year.

The rents received under this lease roll up as aeronautical revenues within the Airfield Commercial Area, a compensatory cost center.

STRATEGIES AND OBJECTIVES

This action supports two Century Agenda objectives. The additional fuel pits added to the fuel system help the Airport meet the region's air transportation needs by making aircraft fueling around the gates quick and efficient. These pits also help reduce air pollutants and carbon emissions from the fuel trucks that would otherwise be required to refuel aircraft.

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do nothing. This would exclude the fuel hydrant system improvements from the lease, effectively making them unusable, as well as forego the rent increase due the Port under the lease. This is not the recommended alternative.

Alternative 2) – Amend the lease, adding the additional hydrant pits required as part of the airline realignment project and adjusting the rent per the previously agreed-upon base rent adjustment terms. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Attachment 1 - Second Amendment to Fuel System Lease
- Attachment A – Site Plan

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- May 14, 2013 - the Port Commission passed Resolution No. 3504, authorizing the sale and issuance of Special Facility Revenue Refunding Bonds.
- January 24, 2012 - the Port Commission authorized advertisement and execution of a construction contract for the Exterior Gate Improvements project (C800472) at Seattle-Tacoma International Airport in the amount of \$2,613,000 as part of a larger package of airfield projects.
- September 12, 2011 - the Port Commission received a summary briefing on the Airport Realignment Program at Seattle-Tacoma International Airport.
- June 14, 2011 - the Port Commission authorized design of the Exterior Gate Improvements-Airline Realignment project (C800472) at Seattle-Tacoma International Airport in the amount of \$499,000.
- February 22, 2011 - the Port Commission was shown a summary listing of realignment projects and authorized Planning for Terminal Realignment in the amount of \$713,000.
- January 25, 2011 - the Port Commission was given an overview of the airline realignment and authorized design and construction of the Concourse D Common Use Expansion Project (C800455) in the amount of \$4,250,000. The Commission was also briefed on the Airline Realignment Program as part of this item.
- September 28, 2010 - the Port Commission was given a summary briefing of the upcoming 2011 capital improvement plan that included the airline realignment program elements.
- The Port Commission has approved one previous lease amendment for land rental rate adjustment.