PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	6a
Date of Meeting	May 27, 2014

DATE: April 22, 2014

TO: Tay Yoshitani, Chief Executive Officer

FROM: James Jennings, Manager, Aviation Properties
Jolene Culler, Senior Property Manager, Aviation Properties

SUBJECT: Second Reading and Final Passage of Resolution No. 3691 declaring Port of Seattle Passenger Loading Bridges at gates N3, N7, N8, N9, N10, N11 and N14 as surplus and authorizing their sale to Alaska Airlines.

Sale Price including Tax:	$832,256.94	**Destination of Proceeds:**	Airport Development Fund (ADF)
Est. State and Local Taxes:	$72,204.94	**Est. Jobs Created:**	N/A
Net Proceeds to the Port:	$760,052.00		

ACTION REQUESTED

Request Second Reading and Final Passage of Resolution No. 3691: A resolution of the Port Commission of the Port of Seattle declaring certain personal property surplus (Port of Seattle Passenger Loading Bridges (PLBs) N3, N7, N8, N9, N10, N11, and N14 and related spare parts) for Port of Seattle purposes; authorizing its sale to Alaska Airlines; and authorizing the Chief Executive Officer to execute all documents related to such sale.

SYNOPSIS

As part of the overall Passenger Loading Bridge (PLB) strategy, the Port of Seattle wants to eventually own all PLBs at Seattle-Tacoma International Airport with the exception of those PLBs located at the North Satellite. Historically, there has been a mix of Port and airline owned PLBs, but over time, both the airlines and the Port have concluded that unless the airline has a large number of preferentially leased gates, as is the case with Alaska, it makes better economic and operational sense for the Port to own and maintain the PLBs.

Today, the Airport has a number of Port and airline owned PLBs that no longer align with current airline gate assignments and usage. At any given gate, without a clear ownership strategy, the agent working the gate can be confused as to whether to call their airline, another airline, or the Port if they have a maintenance issue with the PLB. To address this confusion, the Port has developed a PLB strategy, which is supported by the airlines, whereby the Port owns virtually all of the PLBs with the exception of those at the North Satellite.

This strategy meets the Port's objective to have clear ownership methodology and flexibility for gates where there is the likelihood for change, while accommodating Alaska's desire to own and control a large number of the PLBs on the gates they will be leasing. In order to achieve this objective, the North Satellite PLBs need to be declared as surplus to facilitate the sale to Alaska.

The Port and the airlines support the overall PLB ownership strategy. Should Commission authorize the sale to Alaska of the seven Port PLBs (N3, N7, N8, N9, N10, N11, N14) at this second reading and final passage of the resolution, staff will get a written commitment from Alaska for purchasing the three remaining Alaska owned PLB's located outside of the North Satellite at gates C9, D4, D10, and provide a status update at the second reading of this resolution. The goal is to have the purchase and sale happen simultaneously once staff has certainty that Commission is supportive of the sale to Alaska.

BACKGROUND

A PLB is a piece of equipment that connects the terminal building concourse or satellite to the aircraft to enable the safe and efficient loading and unloading of passengers without stairs or exposure to inclement weather. Historically, airlines primarily owned and maintained PLBs, but over the past couple of decades the Port has been strategically purchasing the PLBs as opportunities become available. These opportunities occurred as a PLB reached the end of its useful life, when a tenant moved or merged, or when a tenant requested the Port to purchase or replace the PLB. Port ownership and control of PLBs provides for greater flexibility with gate moves and a more consistent level of service for the Airport's changing customer base. The Port desires more flexibility and control because of the dynamics associated with leases and gate assignment changes. These gate changes happen due to mergers, flight schedule changes, operational relocations, and the annual gate allocation that is imbedded in the current Signatory Lease and Operating Agreement (SLOA III).

PROJECT JUSTIFICATION AND DETAILS

The Port currently owns 54 of the 74 PLBs at the Airport, and has a maintenance team on site 24/7 to provide routine and emergency repair response. If the overall PLB strategy is fully realized, the Port will own 57 PLBs out of the 71 Airport PLBs, excluding any NorthSTAR project impacts. The incremental cost of maintaining PLBs improves with an increased number of PLBs the Port owns and maintains. Airlines, especially smaller ones, have realized that the burden of maintaining a single or small number of PLBs at a non-hub airport doesn't always make financial sense, and their ability to mobilize contracted services for repair and maintenance typically is limited to standard business hours, compared to the Port's 24/7 on-site resources.

With the historical "opportunistic" purchase approach, the Airport has ended up with a sporadic ownership portfolio that no longer aligns with current airline gate assignments and usage. At any given gate, without a clear ownership strategy, the agent working the gate can be confused as to whether to call their airline or the Port if they have a maintenance issue with the PLB. In one specific example, Alaska owns a PLB on Concourse D, where it does not lease the gate, but it is preferentially leased by another carrier (Jet Blue). This has been a source of conflict and confusion because when the PLB needs repairs, Jet Blue needs to call Alaska Airlines (their competitor) to repair the PLB, not the Port. So the Port has developed a strategy to remedy this situation, and improve airport operations by eliminating confusion over who owns the responsibility to maintain and repair the PLBs.

Given the current mix of airline and Port owned PLBs, the Port has a desire to provide a more logical ownership structure that meets both airline and the Port interests and demands. The majority of airlines want the Port to own and maintain their PLBs, but during the most recent signatory airline negotiation process, Alaska indicated a desire to own their own PLBs because of the size of their operation at Sea-Tac. So the proposed strategy that has been developed, and negotiated with Alaska, is for the Port to own all PLBs at the Airport apart from the North Satellite. The Port is comfortable with this split of ownership because any future change that may necessitate multiple carriers operating from Alaska leased gates, would likely affect gates at Concourse C before the North Satellite. This negotiated agreement aligns with the Port's objective to have a clear ownership methodology and flexibility for gates where there is the likelihood for change, while appeasing Alaska's desire to own and control a large number of the PLBs on the gates they will be leasing. The Port is accepting of Alaska's ownership of their own PLBs at the North Satellite because they have minimal prospect for change.

FINANCIAL IMPLICATIONS

To determine the appropriate value for the PLBs, a third party company, Airport Mechanical Services, Inc. with headquarters in Enumclaw Washington, provided an assessment of value as follows:

PLB	**Fair Market Value Assessment 2014**	**Sales Tax 9.50%**	**TOTAL Sale Price**
N3	$1.00	$0.10	$1.10
N7	$290,000.00	$27,550.00	$317,550.00
N8	$1.00	$0.10	$1.10
N9	$63,850.00	$6,065.75	$69,915.75
N10	$76,000.00	$7,220.00	$83,220.00
N11	$165,100.00	$15,684.50	$180,784.50
N14	$165,100.00	$15,684.50	$180,784.50
TOTAL SALE	**$760,052.00**	$72,204.94	$832,256.94

The sale of the North Satellite PLBs for $832,256.94 includes Washington State Sales tax, and the sale proceeds of $760,052.00 will go into the Airport Development Fund. If Commission supports the overall PLB strategy, the follow-on purchase of the three Alaska PLBs will be $234,900 plus sales tax, for a total purchase price of $257,215.50.

The net book value of the seven PLBs exceeds the fair market value by approximately $289,000. The Port will recognize a non-cash accounting loss on the sale of the assets of this amount. Port staff has determined that there are two key reasons for these differences. First, the depreciation curve on a newer loading bridge is steeper on the front end compared to a straight line deprecation method required by Accounting (similar to driving a new car off the lot). Specifically, N7 is newer in comparison to all the other bridges, therefore has the largest gap between fair market value and net book value. Additionally, N3 and N8, which are 1985 Mitsubishi bridges (with a fair market value of $1), were booked for a longer life than what was appropriate (20 years) when purchased from United in 2003.

STRATEGIES AND OBJECTIVES

This sale supports the Port's Century Agenda objective of meeting the region's air transportation needs and encouraging the cost-effective expansion of domestic and international passenger and cargo service. It also supports the Aviation Division's strategic goal of operating a world class airport through meeting the needs of our tenants and improving operational efficiencies throughout the Airport.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do nothing. Alaska and the Port would continue to own multiple PLBs on Concourses C and D and at the North Satellite. This would not remedy any of the maintenance confusion and gate flexibility limitations. This is not the recommended alternative.

Alternative 2) – Remove all 7 Port owned PLBs from the North Satellite, and allow Alaska to remove their 3 PLBs from Concourses C and D and have each party endeavor to exchange or replace as needed. Because of the increased costs due to PLB relocations, schedule conflicts, operational impact, and lack of support from Alaska, this is not the recommended alternative.

Alternative 3) – Surplus and sell the 7 Port owned PLBs on the North Satellite to Alaska, and once approved, buy the 3 remaining Alaska owned PLBs on Concourses C and D. Other Airport PLB needs will be handled under existing Port PLB projects under separate Commission authorizations. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Attachment 1 - Resolution No. 3691
- Attachment 2 - Diagram of PLB Locations

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None