



COMMISSION
AGENDA MEMORANDUM

Item No. 6a

ACTION ITEM

Date of Meeting February 14, 2017

DATE: January 26, 2017
TO: Ted Fick, Chief Executive Officer
FROM: Michael Ehl, Director, Airport Operations
James Jennings, Senior Manager, Aviation Business Development
SUBJECT: Lease and Use Agreement with Seattle-Tacoma Airline Consortium

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a Lease and Use Agreement between the Port of Seattle and the Seattle-Tacoma Airline Consortium (STAC) for the use of Port equipment to support the increase in aircraft operations not able to be accommodated at passenger-loading-bridge-equipped gates at Seattle-Tacoma International Airport.

EXECUTIVE SUMMARY

With the anticipated loss of aircraft gates associated with the construction of the International Arrivals Facility (IAF) and the North Satellite Expansion (NorthSTAR), along with the continued growth in passenger traffic, the need to accommodate some flights at remote aircraft parking locations, or "hardstands," at the Airport is anticipated to increase in 2017. To better accommodate these increased hardstand operations, the airlines are forming a consortium (STAC) to manage all Sea-Tac hardstand operations beginning in 2017. A Lease and Use Agreement is needed to clearly define financial, operational, and maintenance responsibilities associated with the lease of Port hardstand equipment to STAC.

JUSTIFICATION

Passenger traffic at Sea-Tac Airport continues to break records, seeing significant increases since November 2013. With passenger traffic growth most recently up 8 percent from 2016 as compared to 2015, Sea-Tac is now the 9th busiest airport in the U.S. In addition to the airline passenger and operational growth, there is an increased shortage of gates due to construction of capital projects, creating the need for some aircraft to park in remote parking areas away from the terminal during peak periods. These "hardstand operations" require passengers to be bused to remote aircraft parking areas for the loading/unloading of passengers, and the airlines have responded by forming STAC to provide a seamless multi-airline operation that will provide the movement of passengers to all remotely parked aircraft.

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DETAILS

Limited voluntary airline hardstand operations began in the summer of 2015 to allow the carriers the opportunity to evaluate and prepare for the advent of future mandatory, high volume hardstand requirements. Continued overall growth has resulted in increased hardstand activity during the summer of 2016. Since the 2015 inception of hardstand operations, nine airlines carrying more than 24,000 passengers on over 290 flights have utilized hardstands for either arrivals or departures from Sea-Tac.

In order to accommodate the emergent Sea-Tac hardstand operation in advance of the airlines' formation of STAC, the Port has put in place several interim measures to accommodate hardstand operations. First, the Port has proactively procured needed buses and passenger loading/unloading equipment, and recently received the Port Commission's authorization in September 2016 to procure additional equipment in preparation for anticipated activity increases in 2017. Second, Port bus drivers have been providing interim passenger transportation to remote aircraft parking positions during this period; however, these activities have translated into less than 1% of current Port bus driver hours.

Airport staff forecasts that the hardstand peak demand could eventually increase to 11-13 simultaneous operations in the 2018-19 timeframe. In recognition of the airlines' intent to control and maintain their individual customer service and operational standards by providing hardstand services, approval of this lease and use agreement will allow STAC to maintain airline responsibility and control of passengers in this increasingly complex passenger operation.

BASIC LEASE TERMS

- STAC will lease Port owned hardstand equipment for a 10-year lease term with two, one-year extensions.
- STAC will be responsible for coordinating with Port and airline operational schedules.
- The Port will continue ownership and maintenance of all hardstand equipment.
- STAC will pay the Port a monthly amount that is calculated as part of the Port's budget process and is equal to 1/12 of 100% of the forecast capital and O&M costs for the Port's ownership and maintenance of hardstand equipment, with a year-end reconciliation.

SCHEDULE

Commission Authorization
Anticipated start-up of STAC hardstand operation

February 2017
April 2017

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Port continues to own, operate, staff, and maintain its equipment to support hardstand operations.

Pros:

1. A lease and use agreement would not be needed.
2. Port would have more influence in hardstand passenger experience.

Cons:

1. The Port's continued performance of hardstand operations would render STAC obsolete, as it was formed to perform this service.
2. This alternative puts Port staff in the middle of the airlines' operation, which is not desirable for either the airlines or the Port as the level of activity increases significantly.
3. The Port does not have any resources budgeted in 2017 to support an expanded hardstand operation.

This is not the recommended alternative.

Alternative 2 – STAC purchases hardstand equipment from the Port, allowing them to own, operate, staff, and maintain all equipment needed to support hardstand operations.

Pros:

1. STAC would be completely responsible for hardstand operations and associated equipment.
2. Port would not need to increase maintenance staff to support hardstand operations.

Cons:

1. STAC does not have the required capital resources or procurement time to acquire the needed hardstand equipment for the 2017 operation.
2. It would be difficult, if not impossible, for STAC to contract on-site maintenance to support hardstand operations' equipment because of scarce space, maintenance providers, and capable facilities.

This is not the recommended alternative.

Alternative 3 – Port owns and maintains all hardstand equipment, but leases equipment to STAC to staff and operate hardstands.

Pros:

1. The Port has the capital and procurement processes in place to acquire the necessary equipment in time for the expanded 2017 hardstand operation.
2. The Port will be able to control the condition of the equipment and ensure appropriate maintenance, which better ensures a good customer service experience.
3. The Port can currently expand and assimilate the required maintenance of hardstand equipment into existing Aviation Maintenance shops and facilities.

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- 4. Airlines maintain comprehensive operational responsibility for their passengers once they exit the terminal.

Cons:

- 1. Shared responsibilities will require coordination between the Port and STAC’s operation.
- 2. Require a lease and use agreement between the Port and STAC to define financial and operational roles and responsibilities.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

The Port establishes an Aeronautical Equipment Use fee based on an annual budgeted amount, including an annual reconciliation to actual, that recovers the Port’s actual capital costs (debt service if bond funded, amortization if cash funded), maintenance, operation, or other costs associated with the Aeronautical Equipment provided that such costs are not also assessed under the terms of a Signatory Lease and Operating Agreement (SLOA). The costs will be coded to the Apron cost center and the Aeronautical Equipment Use Fee revenues will be credited to the same cost center with net zero impact to the Apron revenue requirement in SLOA.

Anticipated Aeronautical Equipment Use Fee Costs

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Equipment Amortization	\$352,780	\$1,273,331	\$2,117,312	\$2,117,312
Wages and Salaries without Bus Drivers	\$124,588	\$ 128,326	\$ 132,176	\$ 136,141
Equipment Maintenance	\$ 27,990	\$ 50,671	\$ 52,191	\$ 53,757
Aeronautical Equipment Use Fee	\$505,358	\$1,452,328	\$2,301,678	\$2,307,209

Equipment amortization will increase as additional equipment is placed into service to accommodate increased hardstand operations in 2018 and 2019.

ATTACHMENTS TO THIS REQUEST

Draft Lease and Use Agreement

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

September 27, 2016 - Purchase of Hardstand Equipment (CIP #C800838) for Seattle-Tacoma International Airport