COMMISSION
AGENDA MEMORANDUM
ACTION ITEM

Item No.	8d
Date of Meeting	April 16, 2019

DATE: April 5, 2019

TO: Stephen P. Metruck, Executive Director

FROM: James Schone, Director Aviation Commercial Management
James Jennings, Senior Manager Aviation Properties
W. Allan Royal, Property Manager

SUBJECT: ATZ Lease Amendment for operation of the Doug Fox Parking Lot

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute an amendment substantially in the form attached hereto (Attachment 2) to the lease with ATZ, Inc., for a term of three years and two one-year options, for operation of the parking facility commonly known as the Doug Fox Parking Lot located north of South 170th Street and east of the Northern Airport Expressway in the City of SeaTac.

EXECUTIVE SUMMARY

The Port owns an "off-airport" surface parking lot on South 170th Street that is approximately ¼ mile from Seattle-Tacoma International Airport (Airport). This property, commonly known as the Doug Fox Parking Lot, is leased to and operated by ATZ, a local, small business. In 2012, Port staff issued a request for proposals (RFP) for operation of this property as a park-and-ride operation. ATZ was the sole responder to meet the minimum requirements of the solicitation. On July 9, 2013, the Commission authorized the Chief Executive Officer to execute a lease with ATZ for a term of five years with two five-year options.

The proposed action does not contemplate an open solicitation but a condition to exercise the option under the terms of the lease. The language in the lease requires that ATZ and the Port negotiate, in good faith, the terms for all option periods and that if both parties are in agreement on the proposed terms, Port staff is to seek Commission approval. Based on the requirements in the initial lease, ATZ and Port staffs have been negotiating the terms for the first 5-year option period as the initial term is nearing expiration, in June 2019. The proposed terms include revised concession rent, revised minimum annual guarantees, an exclusion from gross revenues of advertising expenditures up to $120,000 per year and a clause for how both parties will handle disruption to this business caused by closure of the primary access routes to and from this property.

A major consideration in the negotiations was the Sustainable Airport Master Plan (SAMP) that includes construction of a second terminal building on the Doug Fox Parking Lot beginning in 2025. The current SAMP implementation plan schedule estimates that roadway work to expand the airfield through relocation of the southbound lanes of the Northern Airport Expressway (NAE) will likely impact access to the Doug Fox Parking Lot in 2024 and as early as 2023. Construction phasing for SAMP projects will be refined as projects move through more detailed planning and design. Given the inherent uncertainty of construction phasing at this current level of planning and project definition where a prudent tenant would view the deal as only a three year deal with certainty, Port staff believes that the best use of this property in the near-term is continued use as a parking facility and that the best financial return to the Port is via an amendment to the current lease with ATZ. This lease is expected to generate over $16 million in non-aeronautical revenue during the proposed five-year term of this option period.

JUSTIFICATION

The Doug Fox Parking Lot has been used primarily for airport parking since its development well over 30 years ago. Although it is an "off-airport" site, the property has the advantage of being relatively close to the Airport with a convenient approach for customers from the Northern Airport Expressway as well as convenient access to the Airport for the operator's shuttle vans bringing customers to and from the Airport (Attachment 1). The lot provides the Airport with a facility that competes in the off-airport parking market where prices are lower, while the Airport's main parking garage commands higher rates based on the value of its proximity to the terminal.

On May 22, 2012, the Commission authorized proceeding with design for pavement renewal and replacement, a new and improved lighting system, new signage to improve visibility of the facility, demolition of the existing building, and construction of a new building on this property referred to as the Doug Fox Parking Lot Services Upgrade Project. These improvements were in addition to a new drainage system for the property that was authorized by the Commission on February 14, 2012.

Following those Commission actions, Port staff initiated a public RFP process for an operator of the improved facility in anticipation of the expiration of the then-current lease with ATZ in September 2012. The RFP was advertised broadly in various local, national, and industry-specific publications. However, ATZ was the lone respondent that met the minimum qualifications. ATZ is a locally-owned and operated small business that has over 30 years of experience managing parking operations in the local airport market. The Commission approved a lease with ATZ on July 9, 2013, that included a five-year term as well as two five-year options.

In September 2014, ATZ submitted a claim for harm suffered from changes to the construction schedule for the Doug Fox Parking Lot Service Upgrade Project. Later that fall, an audit identified that ATZ had failed to complete the divestiture of its ownership in another parking facility located within three miles of the airport within the timeframe granted to it by the Port, as was required by the RFP issued in 2012. On June 9, 2015, the Commission approved the first amendment to the lease with ATZ that incorporated revised terms negotiated between ATZ and the Port to account for the negative impacts of the delayed construction of the Doug Fox

Parking Lot Services Upgrade Project and that reflected both parties roles in these delays as well as the delayed divestiture by ATZ.

The first five years of this lease have produced significant revenues to the Port, exceeding the minimum annual guarantee (MAG) each year as noted in the table below.

MAG, Revenue and % Rent to the Port during the Initial Five-year Term

	Year 1*	Year 2	Year 3	Year 4	Year 5 (est.)
MAG Revenue	$ 1,500,000	$ 2,500,000	$ 2,600,000	$ 2,700,000	$ 2,800,000
Revenue	$ 3,868,595	$ 2,605,671	$ 2,980,925	$ 3,177,945	$ 3,300,000
% Rent	55%	60%	61%	62%	63%

* Year 1 of ATZ agreement was extended to a total of 21 months to accommodate for tenant relief

During this period, ATZ has been a responsible tenant of the Port. An audit was conducted by the Port's Internal Audit staff in 2017 with no findings. The Washington State Department of Revenue conducted an audit in 2017 with no findings. The tenant is in compliance with all other aspects of their lease including use of alternative fuel shuttles, vehicle idling plan, small business reporting and annual consultation with Port environmental staff on possible improvements.

The proposed terms of this amendment are:

TERM: Three-year term with two 1-year options auto-renewed unless ATZ declines within 120 days prior to commencement of the option year.

MAG	CONCESSION RENT
○ Year 1 – $2,000,000	58%
○ Year 2 – $2,000,000	58%
○ Year 3 – $1,500,000	58%
○ Year 4 – $1,500,000	57%
○ Year 5 – $1,500,000	56%

The lower concession rents and MAGs as proposed by ATZ are the result of two factors: 1) the greater uncertainty in the coming years about the demand for airport parking due to the rapid growth in use of transportation network companies (TNCs) i.e., Uber, Lyft, and Wingz and car-share companies as well as the potential for autonomous vehicles and 2) higher operating costs relative to five years ago.

Marketing Exclusion from gross receipts - $120,000/year

The purpose behind this exclusion is that the current high concession fee serves to dis-incentivize the tenant from advertising. As an example, if the tenant spends $1 on advertising and revenues grow by $1.50 as a result of that advertising, the tenant has to pay an additional $0.87 (58 percent of the $1.50) to the Port. In this example, the tenant spent $1.87 ($1 for advertising and $0.87 in concessions fee) and only gained $0.63 in revenue. The proposed exclusion of up to $120,000 per year in advertising expenditures is intended to encourage the tenant to grow the business through more aggressive advertising and/or marketing.

In a worst-case scenario, if there were no increase in revenues as a result of the increased advertising, the actual revenue reduction to the Port from the exclusion to gross revenues would be the amount the tenant spent on advertising times the applicable concession fee payable to the Port. As an example, if the tenant spent the full $120,000 allowed in one year and there was no discernable increase in revenues, the actual revenue reduction to the Port would be $120,000 x 58% or $69,600). ATZ has projected revenue to the Port of approximately $16.3 million over the five years of the agreement with this provision incorporated into the new lease (see table below). ATZ has requested that this provision be effective upon the date this lease amendment is executed by both parties.

Doug Fox Parking Revenue Projections
5 Year with estimated 3% annual regional growth

Revenues shown are net of tax

	Total Gross Rev	Less Marketing Excl	Adjusted Gross Rev	Concession Rent	Net Rev
2018/2019	$ 5,300,344				$ 3,339,217
2019/2020 (Year 1)	$ 5,459,353	$ (120,000)	$ 5,339,353	58%	$ 3,096,825
2020/2021 (Year 2)	$ 5,623,134	$ (120,000)	$ 5,503,134	58%	$ 3,191,818
2021/2022 (Year 3)	$ 5,791,827	$ (120,000)	$ 5,671,827	58%	$ 3,289,660
2022/2023 (Year 4)	$ 5,965,583	$ (120,000)	$ 5,845,583	57%	$ 3,331,982
2023/2024 (Year 5)	$ 6,144,551	$ (120,000)	$ 6,024,551	56%	$ 3,373,749
	$ 28,984,448	**$ (600,000)**	**$ 28,384,448**		**$ 16,284,033**

- **Early Termination Notice by the Port of Seattle if the property is needed for other Airport uses**
  - If the Port elects early termination for other Port uses, by written notice to ATZ, the notice triggers "wind-down" period of the lease, which includes suspension of the MAG for the last four months.
  - The percentage concession fee for the last four months that the business is operating on the property will be 45, 30, 10, and 10.
  - There is no other cost to the Port for this Early Termination Notice besides the reduced concession fee and elimination of the MAG.

- **In the event of an "Access Disruption Event"**
  Definition – A continuing inability to use the southbound Northern Airport Expressway Air Cargo Road on-ramp or South 170th Street off-ramp. This does not include unplanned closures caused by such things as accidents, broken water mains etc., or other events that impact the business of the Doug Fox Parking Lot.

- The inability to utilize either ramp shall mean: unable to be utilized by ATZ or their customers for more than 10 hours per 24-hour day (midnight to midnight) during any 10 days of any 30-day period.
- ATZ will be responsible for documenting these closures and after reaching five days during a 30-day period that meets the above definition; ATZ will notify the Port about this milestone and provide documentation of the events for Port to verify. Approximately 80 percent of the customers using this facility utilize the Northern Airport Expressway southbound off-ramp to South 170th Street for access to the facility.
- Upon ATZ's notification and documentation to the Port that the full 10 days have occurred in the 30-day period, ATZ and the Port will begin negotiations for relief for a period of 120 days. During negotiations, there will be no MAG and the concession fee will be 50 percent of the then applicable rate.
- If an agreement is not reached in the 120-day period, the lease will terminate 3 months later. The percentage concession rent for this final three-month period will be 30, 10 and 10 (the same as the last three months of the "wind-down" period noted above) and no MAG.

- **Effective date:**
  - The amendment would be effective July 1, 2019, except for the advertising expenditure exclusion provision, which would be effective May 1, 2019.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 - Issue a request for proposals for a new operator

Cost Implications: None

Pros:

1) This tests the market for the value of the property as a commercial parking facility

Cons:

1) Given the relatively short term (most likely five years, potentially three), it is unlikely that a new operator would be willing to make the investment required to market and operate the facility. The major capital invest and startup process includes:
   - Significant first year start-up costs of $2.44M or more, based upon the research conducted for airport self-operating scenario.
   - Ramp up and marketing in year one would produce less dollar volume in revenue until brand is established.
2) In the 2012 RFP there was a requirement to divest any other park and ride business within five miles of this location. There was a real concern that an established operator could manipulate the market to enhance their other businesses. This concern is still there which means that all local major park and ride operations would probably not respond for this deal assuming the Port keeps this restriction

This alternative is not recommended.

Alternative 2 - The Port operates the parking facility as it does the Main Parking Garage (i.e., Port staff would be used to run the entire operation)

Cost Implications:

- One-time cost of $440,000 for installation of revenue control system
- Approximately $1.8 million annual costs for staffing of cashiers and drivers
- Approximately $300,000 annual costs for shuttle leases and fuel/maintenance costs
- Unknown additional costs associated with branding and marketing of the facility

Pros:

1) The Port has direct control of the property
2) This would provide an economy lot option for the Airport's parking program
3) This has the potential to generate more income than Alternative 1 or 2, assuming that the Port is able to achieve the same level of gross revenues as forecasted by ATZ. However, there is significantly more risk.

Cons:

1) The Port would have to invest in the revenue control system
2) The Port would need to lease or buy shuttle vans and hire drivers with uncertainty regarding length of time required for procurement of busses and hiring of drivers
3) The Port would need to invest in branding and marketing the facility
4) There are significant risks associated with achieving the same level of financial return as Alternative 1

This alternative is not recommended.

Alternative 3 - Issue a request for proposals for a firm to operate this parking facility under a management contract

Cost Implications: Similar costs for the revenue control system but with potentially lower costs for operating the facility compared to Alternative 3. Further work would be necessary to understand represented labor concerns if this is the preferred alternative

Pros:

1) This would likely be easier and quicker to set up than Alternative 3
2) This has the potential to generate more income than Alternative 1 or 2, assuming that the Port is able to achieve the same level of gross revenues as forecasted by ATZ. However, there is significantly more risk.

Cons:

1) The Port would have to invest in the revenue control system ($440,000)
2) The Port would request that the firm provide the shuttle vans (at Port cost)
3) The Port would need to invest in branding and marketing the facility
4) There are significant risks to operationalizing this alternative and to the financial forecast

This alternative is not recommended.

Alternative 4 - Port changes the use of either some portion of or the entire facility (1,400 stalls) to airport tenant employee parking, similar to that of the North Employee Parking Lot (NEPL) and operates the facility with Port staff or via a consortium run by the airlines.

Cost Implications:

- One-time cost of $440,000 for installation of revenue control system
- Approximately $1.8 million annual costs for staffing if done by the Port
- Approximately $300,000 annual costs for shuttle leases and fuel/maintenance costs if done by the Port
- Unknown additional costs associated with signage updates

Pros:

1) It would significantly expand the capacity for airport tenant employee parking beyond the 4,100 spaces available today in the NEPL and provide room for additional growth (airlines operating at the Airport are currently requesting 900 additional stalls)

Cons:

1) This would involve a significant loss of non-aeronautical revenue as employee parking is charged on a cost recovery basis unless the airlines were willing to compensate the Airport for this loss of non-aeronautical revenue.
2) Using current revenue estimates with the proposed terms as negotiated with ATZ, the Port would lose approximately $3 million per year in non-aeronautical revenue
3) If this facility were to be operated with the busses and drivers currently serving NEPL, there would be a significant impact to the level of service (i.e., timeliness of arrivals and departures)
4) If new busses and drivers were to be used for operation of this facility, there is uncertainty regarding the length of time required for bus procurement and hiring of drivers
5) If operated by an airline consortium, there may be labor implications
6) If a decision were made to allocate a portion of the lot for employee parking while retaining the remainder for commercial parking, there would be significant operational complexity

This alternative is not recommended.

Alternative 5 - Request Commission approval for a new lease and concession agreement with ATZ based on terms negotiated with ATZ as noted below:

Cost Implications: None

Pros:

1) The Port enjoys a high level of non-aeronautical revenue from the property (approximately $16.3 million over five years)
2) The term length works within the time-frame limitations of the SAMP
3) There is no interruption of service for those customers who currently use the Doug Fox Parking Facility

4) There is no new capital or expense requirement of the Port
5) This supports a local small business

Cons:

1) This does not test the market for other operators
2) This does not allow for alternative uses for the site during this five-year period

This is the recommended alternative.

FINANCIAL IMPLICATIONS

This agreement is expected to generate over $16 million in revenue to the Port over the 5-year term.

ATTACHMENTS TO THIS REQUEST

(1) Presentation slides
(2) Lease amendment

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

March 26, 2019, the Port Commission tabled the action until all Commission members are present.

December 11, 2018 – Lease amendment was on the agenda for consideration but was deferred.

June 9, 2015, the Port of Seattle Commission authorized the ATZ Lease Amendment for the Doug Fox Parking Lot.

April 14, 2015, the Port of Seattle Commission received a briefing and request to authorize the Amendment but decided to defer the decision.

January 6, 2015, the Port of Seattle Commission authorized (1) an additional $427,000 to complete the construction of the Doug Fox Site Improvements project for a total authorization of $6,930,000, and (2) the Chief Executive Officer to execute change orders to extend the construction duration by up to 180 days to complete changed work associated with the operations building.

December 9, 2014, the Port of Seattle Commission was presented but deferred taking action to authorize the Chief Executive Officer to amend the lease with ATZ for the operation of the Doug Fox Parking Lot to extend the term nine months, defer increases in the concession fee and Minimum Annual Guarantee, and provide other modest relief for operational impacts and delays caused by construction of the Doug Fox Parking Lot Services Upgrade Project.

December 2, 2014, the Port of Seattle Commission was presented, but deferred taking action to authorize (1) additional $427,000 to complete the construction of the Doug Fox Site Improvements project for a total authorization of $6,930,000, and (2) the

Chief Executive Officer to execute change orders to extend the construction duration by up to 180 days to complete changed work associated with the operations building.

October 8, 2013, the Port of Seattle Commission authorized the Chief Executive Officer to execute a major public works construction contract with the low responsive and responsible bidder for an additional $1,385,000 for a total authorization of $6,503,000.

July 9, 2013, the Port of Seattle Commission authorized the Chief Executive Officer to: (1) advertise, award, and execute a major public works contract for the Doug Fox Site Improvements project; and (2) execute a Developer Extension Agreement with the Valley View Sewer District for an additional $3,322,000, for a total authorization of $5,118,000.

July 9, 2013, the Port of Seattle Commission authorized the Chief Executive Officer to execute a lease with ATZ, Inc., for a term of five years with twofive5-year extension options upon mutual agreement.

June 4, 2013, the Doug Fox Site Improvements project was presented to the Port Commission but no final action was taken.

March 5, 2013, the Port Commission postponed consideration of the Doug Fox Site Improvements project.

May 22, 2012, the Port Commission authorized the Chief Executive Officer to: (1) increase the scope of the Doug Fox Site Improvements project to include resurfacing, lighting, building, and road signage; (2) to execute utility agreements; and (3) to complete the design of the project for an additional $768,000, for a total authorization of $1,796,000.

February 4, 2012, the Port Commission authorized the Chief Executive Officer to complete the design and to utilize Port Construction Services crews for the construction of the Doug Fox Site Improvements project in the amount of $1,028,000.