

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**

**Item No.** 6d

**Date of Meeting** February 9, 2010

**DATE:** January 15, 2010

**TO:** Tay Yoshitani, Chief Executive Officer

**FROM:** James R. Schone, Director, Aviation Business Development  
Jolene Culler, Senior Property Manager, Aviation Properties

**SUBJECT:** Concession Agreement between the Port of Seattle and the Rental Car Companies

**ACTION REQUESTED:**

Request for Port Commission authorization for the Chief Executive Officer to execute Concession Agreements between the Port of Seattle and the Rental Car Companies.

**SYNOPSIS:**

The Rental Car Companies are expected to begin operations in early 2012 from the Consolidated Rental Car Facility (CRCF) located at Seattle-Tacoma International Airport (Airport). The framework for the business deal between the Port and the Rental Car Companies includes both a Lease Agreement that was presented to and approved by Commission on May 13, 2008, and a Concession Agreement (Exhibit A) that is being presented today. While the Lease Agreement is focused on lease terms and operational rules for the facility, and the financial obligations associated with those terms and rules, the Concession Agreement focuses on the rights granted to the Rental Car Companies to operate from the facility and the fees that they will pay for these rights. The Concession Agreement has a term of ten (10) years and at the completion of each 10 year period during the thirty (30) year life of the lease, it will be open for renegotiation.

**BACKGROUND:**

For the past eleven (11) years, the Port has pursued the development of a CRCF at the Airport. This facility is intended to support all Airport-related rental car operations at one location, thereby providing a more efficient and equal but competitive operating environment for the rental car companies. The location chosen for this facility is an approximately 23-acre site bounded by International Boulevard (State Route 99), State Route 518, and South 160th Street. The long project development period has been due to numerous stops and restarts related to the economic impacts of the September 11, 2001 terrorist attacks, the completion of legislative action to secure project funding, and the potential relocation of Southwest Airlines operations to King County International Airport.

## **COMMISSION AGENDA**

T. Yoshitani, Chief Executive Officer

January 15, 2010

Page 2 of 5

There are currently thirteen rental car companies operating at the Airport. Five of these companies (Alamo, Avis, Budget, Hertz, and National) are full-service companies and have facilities located on the first and second floors in the main garage, as well as customer service counters on the baggage claim level in the terminal. These five companies represent 80-85 percent of the total Airport rental car market. Four companies (Advantage, Dollar, Enterprise, and Thrifty) are limited-service companies and only have customer service counters on the baggage claim level in the terminal. These limited-service companies transport their customers to their off-site facilities via courtesy vehicles. There are also four smaller companies (Century Auto Sales, U-Save, Seattle Car Rental, and Fox) who operate as off-site companies and do not have facilities at the Airport. These off-site companies transport their customers to their off-site facilities via courtesy vehicles. For fiscal year 2009, the rental car operations generated approximately \$56.5 million in non-aeronautical revenues. Approximately \$34.5 million is operating revenue derived from concession fees, space rent and land rent. The remaining \$22 million is non-operating revenue derived from the Customer Facility Charge (CFC) of \$5.00 per transaction day and the associated interest earnings, that was initially authorized by the Commission on February 1, 2006.

In May 2008, the Lease Agreement was presented to and approved by the Commission with the understanding that the Concession Agreement would be presented following a competitive bid process to determine the location of each company in the facility and the Minimum Annual Guarantees (MAG's).

In July 2009, the Port began the competitive bid process, and on January 4, 2010, all of the full and limited service companies currently at the Airport submitted their bids in the form of a MAG to secure their space in the facility. One company new to the Seattle market, E-Z Rent A Car, submitted a bid for the Small Operator Area. This leaves two Small Operator Areas available for future new Small Operator entrants.

The bid process required companies with similar market shares to bid for similarly sized blocks of space within the facility. This ensured that the large companies were only bidding for the larger blocks and the small companies were only bidding for the smaller blocks. While the overall sizes of the blocks for each of the market shares was similar, the locations differed with some locations being more desirable than others. The companies that bid the highest got to pick their space first, and then the next highest bidder got to pick their space, and so on.

At this time, all companies have been notified of the space they will get if the Commission approves the Concession Agreement. Once the Concession Agreement is executed, the rental car companies will begin the design and construction of their tenant improvements for their exclusive use areas.

## **COMMISSION AGENDA**

T. Yoshitani, Chief Executive Officer

January 15, 2010

Page 3 of 5

### **SCOPE OF AGREEMENT:**

#### **Term/Effective**

##### **Date:**

Lease Agreement is effective upon signing by both parties.  
Commencement date is currently anticipated to be approximately April, 2011, through the last day of the thirtieth (30<sup>th</sup>) year unless the financing requires a longer term.

Concession Agreement term is ten (10) years from the first day of the first full month following the opening date of the facility (currently anticipated to be first quarter 2012).

#### **Grant of Concession/**

##### **Premises:**

Right to operate a Rental Car Concession at the CRCF at the Airport subject to all the terms and conditions of the Lease Agreement.

##### **Concession Fees:**

The combined MAG for all companies for the first year of the Concession Agreement is \$21,546,420. For the second and subsequent years, the MAG shall be an amount equal to eighty five percent (85%) of the total amount paid or payable by concessionaire to the Port for the previous Agreement Year or the MAG for the first Agreement Year, whichever is greater.

The Concessionaire will pay to the Port the higher amount of a percentage fee equal to ten percent (10%) of Gross Revenues or their MAG.

**Security/Insurance:** Subject to all the terms and conditions of the Lease Agreement.

### **STRATEGIC OBJECTIVES:**

This Concession Agreement supports the Port's strategy to "Ensure Airport and Seaport Vitality" by increasing available public parking and providing improved facilities for all rental car companies.

### **FINANCIAL IMPLICATIONS:**

In 2009/2010, the combined MAG for all companies is \$20,487,384. Based on the bids received, the combined MAG for all companies will be \$21,546,420 when the operation of the CRCF commences in 2012. The Concessionaire will pay to the Port the higher amount of a percentage fee equal to ten percent (10%) of Gross Revenues or their MAG. For the second and subsequent years, the MAG will be an amount equal to eighty five percent (85%) of the total amount

## **COMMISSION AGENDA**

T. Yoshitani, Chief Executive Officer

January 15, 2010

Page 4 of 5

(whether by MAG or percentage fees) paid the previous year or the MAG for the first agreement year, whichever is greater.

### **ECONOMIC IMPACTS:**

This project continues to support the long term positive economic impacts of the Airport by increasing available public parking and supporting growth in rental car operations.

In support of the Port's Small Business Initiative, the Port is providing the small rental car companies (companies with less than two percent (2%) market share) a distinct small operator area in the customer service building lobby and the floor from which they will operate.

### **ENVIRONMENTAL SUSTAINABILITY/COMMUNITY BENEFITS:**

The CRCF was designed and built as a green building following LEED guidance. The consolidated clean busing system will reduce roadway congestion and emissions. Port staff will be working with the rental car companies to explore ways to further green the operation of the facility.

### **TRIPLE BOTTOM LINE SUMMARY:**

The development of the CRCF provides a long-term solution for rental car operations at the Airport. The region will continue to receive the economic benefit of the Airport rental car market. In addition, with the completion of the environmental review efforts, no adverse environmental or community impacts were identified.

### **PROJECT SCHEDULE:**

The project is scheduled to be completed in first quarter 2012. At that time, all rental car companies operating at the Airport will operate from the new CRCF.

### **ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:**

- Proceed with the approval of the Concession Agreement as structured. The Port and the rental car companies followed the agreed upon bid process and the resulting bids and space allocations are reflective of this fair and competitive process. **This is the recommended alternative.**
- Reject the Concession Agreement bids and re-do the bid process. If this alternative is selected, the CRCF will not be able to open in the first quarter of 2012 as the rental car companies would be unable to complete their tenant improvements in time for the opening of the CRCF. This alternative is not recommended.

## **COMMISSION AGENDA**

T. Yoshitani, Chief Executive Officer

January 15, 2010

Page 5 of 5

### **PREVIOUS COMMISSION ACTION:**

The following list of previous Commission actions include only those related to the business aspects for the project.

- May 24, 2005, the Commission heard the first reading of Resolution No. 3542 which imposed a Customer Facility Charge (CFC) on customers of rental car companies accessing the Airport for the purposes of financing, designing, constructing, operating, and maintaining a consolidated Rental Car Facility.
- June 14, 2005, the Commission passed Resolution No. 3542 which imposed a CFC on customers of rental car companies accessing the Airport for the purposes of financing, designing, constructing, operating, and maintaining a consolidated Rental Car Facility.
- April 30, 2007, the Commission authorized \$1,800,000 for a five-year Cost Advancement Agreement for technical consulting services to support the Rental Car Companies (RACs) in their deliberations with the Airport.
- May 13, 2008, the Commission authorized execution of the Lease Agreement between the Port of Seattle and the Rental Car Companies will operate from the Rental Car Facility.
- June 10, 2008, the Commission heard the first reading of Resolution No. 3599 to amend and restate Resolution No. 3542 and authorizing Port staff to raise the CFC to a level sufficient to pay the Port's obligations under the Lease Agreement and satisfy the bond obligations.
- June 24, 2008, the Commission passed Resolution No. 3599.
- October 14, 2008, the Commission approved the use of Airport funds to provide temporary funding of the CRCF to allow for continuation of the project construction.
- December 15, 2008, the Commission suspended construction of the CRCF.
- May 12, 2009, the Commission was briefed on the CRCF Financing Plan.
- June 30, 2009, the Commission lifted the suspension on the construction of the CRCF.
- July 28, 2009, the Commission approved the establishment of a 7.4% interest rate on a Port Investment to partially fund the costs with the design and construction of the CRCF.
- October 13, 2009, the Commission authorized the execution of an amendment to the current Rental Car Lease and Concession Agreement to extend the lease term for the Rental Car Companies operating at the Airport until the opening of the CRCF and to modify the MAG.

### **ATTACHMENTS:**

Exhibit A - Rental Car Concession Agreement