

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

**COMMISSION AGENDA**  
**ACTION ITEM**

**Item No.** 5a  
**Date of Meeting** November 27, 2012

**DATE:** November 15, 2012

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

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

**SUBJECT:** Ratification of Lease Agreement and Concession Agreement between the Port of Seattle and Payless Car Rental

**Amount of This Request:** N/A

**Source of Funds:** N/A

**Est. State and Local Taxes:** N/A

**Est. Jobs Created:** 60

**Est. Total Project Cost:** N/A

**ACTION REQUESTED:**

Request Port Commission ratification of a lease agreement with a 30-year term and a concession agreement with a 10-year term between the Port of Seattle and Payless Car Rental, as described in the attached executed agreements.

**SYNOPSIS:**

On May 17, 2012, the Consolidated Rental Car Facility (CRCF) opened at Seattle-Tacoma International Airport (Airport) on the corner of International Boulevard (State Route 99), and South 160<sup>th</sup> Street. This facility supports all Airport-related rental car operations at one location, thereby providing a more efficient and equal, yet competitive, operating environment for the rental car companies. All rental car companies sign a lease agreement, focused on lease terms and operational rules for the facility and associated financial obligations, and a concession agreement, focused on the rights granted to the rental car companies to operate from the facility and associated fees, as part of their business deal with the Port.

Staff is seeking Commission ratification of the lease agreement and the concession agreement that the Port signed with Payless Car Rental (Payless) on April 6, 2011. The lease term is 30 years, and the lease expires on May 31 2042. The concession agreement term is 10 years, and it expires on May 31, 2022. Payless began operating when the CRCF opened on May 17, 2012. When the Commission authorized staff to execute lease and concession agreements in 2008 and 2010, Port staff believed that the authorizations covered agreements with all future operators as well. However, upon later review, staff realized that the grant of authority for executing the

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concession agreement was not as explicit as that for the lease agreement. As a result, Port staff decided to seek Commission ratification of the Payless lease and concession agreements.

### **BACKGROUND:**

Following a competitive request for qualification (RFQ) process in 2008, and a competitive bid process in 2010, eleven rental car brands were approved to operate at the CRCF. The selection process was based on their concession bid, company financial strength, rental car operations experience, and Seattle Airport market share.

In the Seattle Airport market, approximately 98% of the rental car market is comprised of 10 companies that have greater than two percent market share. In order to accommodate rental car companies new to the Seattle market or existing companies with less than two percent market share, the facility was designed with a shared occupant Small Operator Area (SOA).

Prior to designing the space, Port staff asked the current off-Airport operators if they were interested in operating from the facility. None of them were. Staff also researched other airports that had existing SOAs to determine how they were working. Based on this research and recognition that there could never be certainty about the exact number of small company operators to expect, the SOA was designed and built with space for three small operators, with the understanding that it could be expanded when space in the facility is reallocated at the 10-year mark. The tenant improvements in the SOA were built by the Port, and the small operators reimburse the cost of the capital improvements via a separate rent payment. Port staff continues to work with the existing off-Airport operators to make sure they, and any new entrant, can operate off-site if they want to be in the market, but not in the CRCF.

In the initial RFQ process, E-Z Rent A Car submitted qualifications to operate from the SOA and their lease and concession agreements were approved by the Commission. Then, in February 2011, Payless Car Rental submitted their qualifications to be considered for one of the two remaining spots within the SOA. The qualifications were evaluated on the same basis as in the original RFQ process. At that time, staff, believing that they had been granted the authority to execute lease and concession agreements with additional rental car companies wanting to operate at the Airport, approved the agreements with Payless Car Rental. Subsequently, staff realized that the authority granted by the Commission to staff for executing the original concession agreements in 2010 was not as explicit regarding staff authority to execute future concession agreements as compared to the authority granted by the Commission to staff for executing future lease agreements when they authorized the original lease agreements in 2008. As such, staff is returning to Commission for ratification of the lease and concession agreements with Payless Car Rental in connection with the request for approval of a new lease and concession agreement with Sixt Rent A Car.

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### **SCOPE OF AGREEMENT:**

#### **Term/Effective**

**Date:** Lease Agreement and Concession Agreement were executed on April 6, 2011, and they began operating when the CRCF opened on May 17, 2012. The lease term expires 30 years after June 1, 2012 (the First Agreement Year), and the Concession Agreement term is 10 years from June 1, 2012.

**Premises:** The CRCF is located on approximately a 23-acre site at the northwest corner of South 160<sup>th</sup> Street and International Boulevard in the City of SeaTac. The structure consists of five levels with a rectangular footprint. The area of each level of the CRCF is approximately 400,000 square feet. Levels 1 through 4 provide space for vehicles that are ready for rental and for those vehicles being returned (Ready/Return Area). Each level has a Quick Turn Around (QTA) facility used for fueling and washing vehicles.

The fifth level consists of: 1) approximately 180,000 square feet of uncovered parking space not intended for rental activity; 2) an enclosed Customer Service Building (CSB) consisting of storefronts for the rental car companies; 3) consolidated busing drop-off and pick-up and staging areas; 4) restrooms, offices, storage, and utility spaces; 5) elevator and escalator cores; and 6) service, taxi drop off, short term parking and off-site shuttle drop-off and pick-up areas.

**Use:** Provide rental cars to Airport customers.

**Rent:** Per an appraisal secured on July 14, 2006, the land valuation was set at \$40.00 per sq. ft. with an 8.5% rate of return equating to \$3.40 per sq. ft. or approximately \$3.4 million in annual rent. The value of the site is adjusted annually by the Seattle/Tacoma/Bremerton Consumer Price Index (CPI) for the previous year by a minimum of one percent or a maximum of five percent. One additional fair market value adjustment based on an appraisal at year 16 with future annual adjustments subject to same CPI minimums and maximums as described above.

#### **Improvements by the Port:**

The Port provided the tenant improvements in the CSB for the small operators and recoups the costs through additional rent.

**Renewal Option:** None.

**Maintenance:** Lessee is responsible for day-to-day maintenance except for major maintenance and extraordinary repairs in excess of \$300,000, which are paid for with customer facility charges. Major maintenance is defined as a repair that extends the useful life of an asset for more than three years, or

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the replacement of existing assets that are at the end of their useful life, both with a total value equivalent to the Port's capitalization policy, currently \$25,000.

**Utilities:** Lessee's responsibility.

**Security:** New entrants will provide 50 percent of the minimum allowable bid.

**Insurance:** General liability with single limit coverage of \$5 million and automobile liability with single limit coverage of \$5 million.

**Grant of Concession:** 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 minimum annual guarantee (MAG) for the SOA is \$59,000.00 per year, and this is what Payless Car Rental submitted as their first year MAG. For the second and subsequent years, the MAG shall be an amount equal to 85 percent of the total amount paid or payable by the 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 10 percent of gross revenues or their MAG.

### **FINANCIAL IMPLICATIONS:**

The concessionaire will pay to the Port the higher amount of a percentage fee equal to 10 percent of gross revenues or their MAG of \$59,000.00. For the second and subsequent years, the MAG will be an amount equal to 85 percent of the previous agreement year's total paid or payable amount. The revenues associated with this lease are included in the 2013 operating budget.

### **STRATEGIC OBJECTIVES:**

The CRCF and the associated lease and concession agreements support the Port's Century Agenda objective to meet the region's air transportation and tourism needs at the Airport for the next 25 years by: 1) increasing available public parking in the main Airport garage (through the move of the rental car companies who were operating on Floors 1 and 2 to the CRCF); 2) resolving the capacity constraints that existed for the five rental car companies that operated from the garage; 3) improving facilities for all rental car companies; 4) reducing roadway congestion by moving rental car returns off the North Airport Expressway and decreasing the number of shuttles the rental car companies have to make to their off-site facilities; and 5) providing a convenient, alternative, and LEED-Silver-certified location in which customers rent cars and rental-car employees work.

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### **ENVIRONMENTAL SUSTAINABILITY:**

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.

### **BUSINESS PLAN OBJECTIVES:**

This lease supports the Airport's strategy to maximize non-aeronautical net operating income by increasing available public parking and supporting growth in rental car operations.

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

The development of the CRCF provides a long-term solution for rental car operations at the Airport that provides the region with the economic benefit of the Airport rental car market, ensures that there are no adverse environmental or community impacts, and supports the Port's small business initiative by providing the small rental car companies (companies with less than two percent market share) a distinct SOA in the customer service building lobby and the first floor from which they will operate.

### **ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:**

- Ratify the Lease Agreement and Concession Agreement with Payless Car Rental. The Port and the rental car companies negotiated terms that reflect our mutual interests as well as a suitable financial return to the Port. **This is the recommended alternative.**

Staff does not believe that there is a viable option to ratification of the lease agreement and concession agreement. As noted, staff previously believed it had the authority to execute these agreements and did, in fact, execute them. As a result, Payless has been operating from the CRCF since May 17, 2012. A failure to ratify the agreements could subject to the Port to legal action by Payless.

### **OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:**

- Copy of Rental Car Facility Lease Agreement.
- Copy of Rental Car Facility Concession Agreement.

### **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:**

- May 13, 2008, the Commission authorized execution of lease agreements with the majority of the existing rental car companies.
- February 9, 2010, the Commission authorized execution of the concession agreements with the majority of rental car companies.