

This document is a text-only reovery of the original PDF file. Any graphics that were in the original PDF are not included here. If you need the original document, please contact the Commission Clerk at the Port of Seattle.

COMMISSION

AGENDA MEMORANDUM Item No. 8o

ACTION ITEM Date of Meeting September 13, 2022

DATE: August 9, 2022

TO: Stephen P. Metruck, Executive Director

FROM: Lance Lyttle, Managing Director, Aviation Division

Jeff Moken, Interim Director, Aviation Business and Properties

SUBJECT: Two-year Term Extension for the 2018 – 2022 Signature Lease and Operating Agreement (“SLOA”) IV Between the Port and the Airlines Operating at Seattle-Tacoma International Airport

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a two-year extension to SLOA IV, extending the termination date from December 31, 2022, to December 31, 2024.

EXECUTIVE SUMMARY

The Port of Seattle owns and operates the Seattle-Tacoma International Airport and has the authority to grant to Airlines certain rights and privileges concerning the occupancy and use of the Airport. Airlines that desire to occupy or use certain Airport premises and facilities and to acquire from the Port certain rights and privileges in connection with its use of the Airport enter into a mutual agreement known as the Signatory Lease and Operating Agreement. The currently executed agreement – SLOA IV – terminates on December 31, 2022. The Port and Airline negotiation committee have met since Fall of 2021 to consider future revisions to SLOA IV. However, due to uncertainty over long-term capital programs, ongoing economic impact and business recovery from COVID-19, along with SLOA IV’s general effectiveness, the Port and Airline negotiation committee reached agreement to maintain the current SLOA for an additional two years.

DETAILS

The general scope and content of SLOV IV extension remains unchanged with exception to the following adjustments triggered by or related to change in expiration date:

1. “Expiration Date” adjusted to December 31, 2024.
2. 4.3.3 Add Common Use Gate caps for 2023 (22 Gates) and 2024 (22 Gates).
3. 6.3.1 MII: pro rata increase to Management Reserves from \$150MM to \$210MM.

Template revised January 10, 2019.

COMMISSION AGENDA – Action Item No. _8o_ Page 2 of 3

Meeting Date: September 13, 2022

4. 6.4 MII: pro rata increase to Discretionary Projects from \$30MM to \$42MM.
5. 8.18.2 Annual adjustment to actual for final year of agreement. Substitute “2024” for “2022”
6. 8.19.3 Revenue sharing. Add 2023 and 2024 to list of years with no revenue sharing.
7. 8.5.5 Gate definition. Substitute “2024” for “2022”.
8. 4.4 & 4.5 Gate preference. Stating mutual agreement during FY 2023 and FY 2024 for 67 preferential gates.
9. Update contract requirements - SLOA Section 17 Update - FAA required contract clauses to conform to current requirements.

Schedule

Commission Approval – September 13, 2022

Airline Approval – November 13, 2022

Lease Amendment Effective – January 1, 2023

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Negotiate SLOA V

Pros:

- (1) Holistic revision and amendments to areas of unique or mutual interest.
- (2) Agreement on a new lease provides level of certainty for both the Port and the Airlines through the term of the new agreement.

Cons:

- (1) Insufficient time to conduct a thorough review and obtain necessary approvals.

(2) Mutual agreement would be difficult to achieve due to COVID-19's state of recovery that both the airlines and Port are experiencing.

This is not the recommended alternative.

Alternative 2 – Reject approval of SLOA IV extension and implement rates in accordance with Resolution 3677, as amended.

Pros:

- (1) Port has complete control of the assignment of gates.
- (2) Capital approval involves consulting with airlines, but there is no majority-in-interest (MI) vote.

Cons:

- (1) Failure to reach agreement indicates airport and its major airline customers are not in alignment.
- (2) Rate methodology does not offer economies of scale to benefit airlines with multiple flights per day (most fees are based on a per-use basis), consequently, the largest airlines, including the hub airlines, tend to oppose this.

Template revised June 27, 2019 (Diversity in Contracting).

COMMISSION AGENDA – Action Item No. _8o_ Page 3 of 3

Meeting Date: September 13, 2022

(3) While the rate methodology incorporated into Resolution 3677, as amended, was designed to conform to federal Department of Transportation requirements and thus withstand a legal challenge, airlines at SEA could mount a legal challenge.

This is not the recommended alternative.

Alternative 3 – Approve SLOA IV Two-Year Extension

Pros:

- (1) Maintains a consistent number of preferential gates at 67 which yields operational control, predictability, and continuity for both the Port and Airlines.
- (2) Permits the Port and Airlines to maintain a seamless and effective contractual agreement from a governance perspective.
- (3) Allows for sufficient time to negotiate SLOA V and thus address or resolve areas of unique interest.
- (4) Provides additional time for the Port and Airlines to recover from COVID-19 and associated impacts to commercial business plans and operations.

Cons:

- (1) Will require a two-year delay on addressing and resolving areas of unique interest.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

None. The Port and Airlines will follow all existing lease provisions that have a financial impact.

ATTACHMENTS TO THIS REQUEST

None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

February 27, 2018 – The Commission authorized SLOA IV

Template revised June 27, 2019 (Diversity in Contracting).