King County International Airport

Lease Framework Working Group

Findings and Recommendations

FINAL REPORT

November 2016

This page intentionally left blank

Table of contents

Appendices

Prepared by: Ryan Orth, EnviroIssues
Contributions: Michael Hodgins, BERK Consulting
KCIA Project Manager: Gary Molyneaux

Executive Leadership Committee
Randall Berg, Director, King County International Airport
Harold Taniguchi, Director, King County Department of Transportation
Anthony Wright, Director, King County Facilities Management Division

LFWG members
Bill Ayer, Hangar tenant
H. Eugene (Gene) McBrayer, Hangar tenant
Ben Humbert, Long-term lease tenant
Chuck Kegley, Long-term lease tenant
Kevin Hoffmann, Long-term lease tenant
Richard (Rick) Lentz, Airport Roundtable
Rosemary Brester, Airport Roundtable
Thomas Ysasi, Airport Roundtable
Bill Greene, King County Department of Transportation
Mike Colmant, King County International Airport
Gary Molyneaux, King County International Airport
Tom Paine, King County Facilities Management Division
Ian Taylor, King County Prosecuting Attorney's Office
Beth Mountsier, King County Council Central Staff
Lise Kaye, King County Council Central Staff

This page intentionally left blank

Introduction

The King County International Airport (KCIA) Lease Framework Working Group (LFWG) was convened to conduct a policy review of the current lease framework as well as identify and evaluate possible opportunities and alternatives to make improvements. From the LFWG charter:

> *The Working Group will conduct a policy review of the current lease framework as well as identify and evaluate possible opportunities and alternatives to improve the leasing framework alignment with the Airport's Strategic Plan goals. The review will include, but will not be limited to, policies related to pricing and lease terms, exclusive rights, arbitration rights and procedures, investment credits and/or amortization of tenant investments, and assignment and transfer rights. These issues will be discussed over a series of meetings and identify alternatives, if applicable and feasible, in the form of potential policy or code changes.*

LFWG members met 13 times between August 2015 and October 2016. At their first meeting, the group requested an initial focus on policies for hangars and tie-downs. The group identified an interim set of consensus recommendations for hangar leases, before turning to long-term ground lease policies and recommendations.

This report summarizes the range of policy questions considered by the LFWG, key findings from presentations and group discussions, and a list of focused consensus recommendations to improve future leasing practice at KCIA.

Lease policy framework

LFWG members have explored the following policy-level questions around the distinct hangar and long-term leases:

Hangar lease policy questions

- What opportunities exist to support general aviation through hangar leases or policies?
- What legal and policy conditions must be considered when proposing improvements to KCIA's existing short-term lease program?
- What is KCIA's business model, including the detail of revenues, operating costs and capital improvement costs?
- Should a fair market value influence hangar rent process? What criteria are considered in setting a market rent?
- Is the goal for hangars to be fully occupied, or will KCIA accept some level of vacancy? What would be an acceptable vacancy rate?
- Should general aviation policy provide for discounts or subsidies?

Long-term lease policy questions

- Are there opportunities to change the appraisal review process to improve the cost and effort associated with the current three-year reappraisal cycle?
- How can the rate adjustment process be updated to complement changes to the reappraisal process, maintain certainty for tenants and the airport, and help avoid unexpected rate increases?
- Are the lengths of term available through the current county code adequate to meet current and future airport and tenant investment needs?

- Are countywide code-driven investment requirements adequate to address the market for airport leases? How do the county code and policies accommodate proposals for mid-term investments? How will improvements recently completed be accounted for in new leases?
- How do county code and KCIA/FMD policy address the award of leases? What are the county's commitments to retaining long-term tenants?
- What tools are available to the county and long-term tenants in negotiating leases that balance their interests?
- What opportunities exist to support general aviation through long-term lease policies?

This report documents LFWG consensus recommendations for hangar and ground leases (leases longer than five years). Recommendations have undergone review and approval by the Executive Leadership Team (DOT Director Harold Taniguchi, FMD Director Anthony Wright and KCIA Director Randall Berg).

LFWG hangar lease key findings and recommendations

LFWG members were presented background information to address relevant policy questions and group requests, provided in the form of reference documents, presentations and discussion guides. Detailed discussion of this information is available in meeting materials and summaries.

The following key findings are drawn from LFWG discussion and drive the hangar-focused recommendations:

- The viability of light general aviation at KCIA is critically important. KCIA has experienced the loss of businesses and services specifically catering to the light general aviation community. Many light General Aviation (GA) services remain available, provided by the Fixed-Base Operators (FBOs) and off-airport service providers. Policies are needed to support and maintain a healthy light GA community at KCIA.
- KCIA's key products include airfield access and rental real estate; the airport needs to effectively manage these businesses to achieve its broader policy and economic development goals as expressed in the Airport Master Plan and Strategic Business Plan, as well as the County Strategic Plan.
- Changes in monthly rental agreement rents for hangars over the past 15-18 years have generally tracked with the regional economy and commercial real estate markets. Increases were not made between 1997 and 2003, after which moderate annual increases to hangar rents across all classes were made, with total increases over this seven-year period ranging from 24 to 31 percent in the Executive hangar classes and from 45 to 54 percent in the T-hanger classes. Additional annual increases were made between 2005 and 2008, with total Large Executive hangar rents increasing by 17 percent over this period and T-hangars (including both small and large) increasing between 17 and 30 percent. Small Executive hangar rents were significantly reduced in 2007 due to the problems in the national economy and the changing dynamics in the light GA industry. The 2009 and 2012 appraisals predictably reflected declining regional commercial property values during the recession, and as a result the long-term leases and monthly rental agreements (MRAs) were not adjusted from 2008 levels. Conversely, the 2015 appraisal reflected the national/regional economic recovery and associated increase in comparable property values, with a recommended ground lease rate increase of 19 percent from \$1.60/ft2 to \$1.90/ft2, resulting in rental rate increases (13 to 19 percent in the Small T-hangars and SW Large T-Hangars, 51 percent in the Midfield Large T-Hangars, 95 percent in the Small Executive hangars and 47 percent in the Large Executive hangars).

- King County Code currently exempts agreements of less than one year from appraisal requirements but requires that rents be based on "terms and conditions that are in the best interest of the county" and follow an open and understandable methodology.
- The Airport has relied on the Fair Market Value (FMV) evaluation as a part of the methodology for determining rates. Charging fair market value is consistent with FAA policy on airport fees. FAA requires KCIA to treat all similarly situated tenants equally and to set rates so the airport is financially self-sufficient.
- Hangar rates are informed by an independent appraisal, and are not driven by airport business costs or capital investments.
- The previous waitlist policy has made it difficult to fill vacancies in a timely manner. Applicants were notified sequentially, with individual opportunities and timeframes to respond to an opening, undergo risk review, and sign a lease. This configuration led in some cases to long periods before a vacancy could be filled. The waitlist, if improved, can be a viable indicator of demand.
- Unauthorized subleases undermine the integrity of the waitlist.
- Greater airport communication, predictability and opportunities for input will benefit tenants and the county.
- The potential benefits of a discount for longer lease terms on hangar MRAs are currently outweighed by the complexity of implementation, the required change to King County Code and diversion from KCIA policy that seeks to end the use of discounts outside of FAA policy guidance.

The following recommendations focus on hangar lease policies and address a set of inter-related policy framework elements, including the determination of rates, administration of a waitlist, management of vacancies and lease terms.

Several LFWG hangar recommendations are being implemented immediately:

2016 hangar rates and appraisal peer review

- LFWG members agreed that hangar rate increases resulting from the 2015 appraisal were significant as compared to the previous six-year period, even when considering options for phasing in the rates, as well as a shared concern for potential effect on light general aviation users. A decision on additional rate increases for MRAs within several classes of hangars, originally scheduled to take effect January 1, 2016, will continue to be deferred until a review of the appraisal process is completed (see related recommendation under *Appraisal process*, below). The findings and conclusions of the review appraisal methodology process were provided to the LFWG and are being communicated and discussed through the Airport Roundtable.

Waitlist policy

- LFWG members suggested, and the Airport agreed, that the waitlist process should be immediately updated to improve the airport's MRA leasing practices. A revised waitlist policy has been put into practice (see attached policy), including the following features:
    - Actively collect the current $10 annual renewal fee; increase the annual renewal fee to $50 to remain on the waitlist (would require a change to King County Code)
    - Pre-process new applicants through risk management to shorten the time to work through the waitlist
    - Confirm aircraft ownership status

- Disallow unauthorized subleases and better define lease and assignment policies relating to LLCs and instances of fractional ownership
- Streamline the waitlist process:
  - Notify everyone on the waitlist, regardless of class of hangar, that a space is available
  - Anyone who is interested has 14 days to respond that they want the unit
  - Highest-placed individual on the waitlist who responds goes to the agreement stage; provide up to 30 days for signature
  - If there is a problem, then KCIA can negotiate with the next-highest-placed individual that responded

Commercial rental rate

- LFWG members agreed that while the primary purpose of KCIA's hangars is light GA aircraft storage, there are some commercial activities whose presence on Boeing Field can enhance and support the overall environment for light GA aircraft owners. A new policy permits the Airport Director the option to offer certain commercial aviation businesses a commercial rental rate for a KCIA hangar that seeks to better align the value of the space (Rates & Charges) with the intended commercial use (see attached policy).

LFWG hangar recommendations include:

Monthly hangar pricing

- ***<u>Base rates for hangars</u>*: Per County code, the FMD Director, as advised by the Airport Director, has the discretion to periodically adjust monthly rental agreement hangar and tie down rates in line with business objectives and market conditions.**
- ***<u>Use of appraisal to inform monthly hangar rents</u>*: At the discretion of the Airport Director, an independent appraisal should continue to be used to periodically bring an independent assessment of market value for monthly rental agreement hangars and tie-downs.** *When an appraisal is conducted, it should include, but not be limited to, a <u>standard set of comparable and competitive airports</u>, the majority of which are in the Pacific Northwest and are geographic alternatives for current and prospective KCIA tenants, as well as information concerning vacancy rates, turnover, and waitlists at KCIA and comparable airports. The County has the authority to determine rates that are in the best interest of the County and, as such, is not bound by the appraisal results in setting hangar prices, including rates that are lower than the appraised at fair market value.*
- ***<u>Potential for rent reductions</u>*: *In a case where the appraisal determines that the market rate for hangars is lower than current rates, the FMD Director, as advised by the Airport Director, has the discretion to retain current rates or to lower rates, based on what is believed to be in the best interest of the County.***
- ***<u>Use of Airport Roundtable:</u> When the FMD Director, advised by the Airport Director, proposes hangar rate changes, they will share this decision as well as the intended process and scope of appraisal through the Airport Roundtable.***

Appraisal process

- *<u>Peer review of appraisal</u>*: ***A review by an independent certified appraiser should be used to assess if the appraisal methodology meets appraisal industry standards and practices, as well as supports the appraisal results***. *The independent review process will have the benefit of a* *summary of the questions and concerns of airport tenants and others, gathered through engagement with the Airport Roundtable. This step will be undertaken when proposed rate increases exceed five percent per annum for the review period (since the last appraisal).*

- ***Frequency of appraisal*: Appraisals of hangars and tie-downs should continue to occur on a three-year cycle, ensuring a more regular market review to minimize the risk of significant rate adjustments between reviews.**
- ***Phasing-in new increased market rates*: Depending on the results of the appraisal, hangar rates may be phased based on the following guidelines**:
    - *There will be at least 12 months between rate adjustments in any proposed phasing plan.*
    - *Individual rate increases will be capped at a maximum of 20 percent for any rate change. Market rate adjustments above the cap will be automatically phased-in.*
    - *Where the market rate increases are less than the cap, the Airport Director, in consultation with FMD, will retain the discretion to consider phasing in rate increases based on policy or market considerations.*
    - *Phasing periods of two or three years may be proposed, depending on the size of the overall increase and other policy or market considerations.*
    - *In all cases, the objective will be to achieve the determined market rate by the end of the market review period (proposed to be three years).*
- ***Adjustments between appraisals*: The Airport Director may propose rate adjustments prior to the next appraisal review***. Any such adjustments should take into account any price changes for comparative regional airport markets, and not exceed the Seattle-Bremerton Consumer Price Index (CPI-U) or other appropriate index.*

Vacancies

- ***Vacancy limit*: KCIA should be managing its hangar business to optimize revenue and occupancy***. As such, property management decisions will be guided by the vacancy status of hangars and tie-down areas. While vacancies are inevitable in the property management business, KCIA will manage its hangar spaces to minimize vacancies overall while keeping the vacancy rate at or below a limit of five percent across all classes of hangars. Additionally:*
    - *Vacancies should be filled using the waitlist (see related waitlist policy recommendation), or if the waitlist has been exhausted, through advertisement within a reasonable marketing window.*
    - *Notwithstanding the overall vacancy goals, the airport managers should otherwise be aware of persistent or structural vacancies within particular hangar classes.*
    - *Should the vacancy rate exceed a five percent limit or if there is evidence of a persistent vacancy within a hangar type, KCIA will move beyond marketing to exploring other options to attract new tenants, including, but not limited to:*
        - *Evaluate potential to modify or otherwise tailor units to meet the needs of a broader range of small general aviation uses to improve the marketability of vacant units.*
        - *If vacancies persist, then reducing rental rates for the affected hangar class should be considered. Since rates need to be consistent across classes of hangars, the revenue implications of reducing rates to attract new tenants must be evaluated prior to implementing new rates.*

LFWG long-term lease key findings and recommendations

Appraisal process

Findings

- KCIA is required by County Code (4.56.010) to charge fair market value for property leases. The majority of long-term leases at KCIA have historically been entered through direct negotiation with a rent based on fair market value established through an appraisal.
- The appraisal process includes limited instructions to an independent, state-licensed and certified appraiser who adheres to national industry standards, with appraisal results used to establish lease pricing. Appraisal methodology involves a mix of analytic rigor and professional judgement. Appraisers compare like properties and markets, make adjustments for varying characteristics between comparable properties and markets, plus determine if the comparable properties represented "arm's length" transactions. Airports represent a specialized property and the appraiser must account for airport conditions including location, usability of the property, the mix of users (FBOs, small general aviation, cargo, commercial service, etc.), type and condition of facilities, volume of operations, etc.

Recommendation

- ***Continue to use an independent appraisal to set the initial rent and to periodically determine and adjust market value for airport properties.***

Appraisal re-evaluation cycles and rent adjustment

Findings

- King County Code 4.56.180 (C) requires rent adjustments at a minimum of every five (5) years, or more frequently as negotiated, for leases with terms longer than five (5) years. Rental adjustments of KCIA leases longer than five years are currently conducted every three (3) years, except for the Boeing lease which is adjusted every five (5) years. The rental adjustment is based on an independent fair market value appraisal.
- The three-year appraisal cycle is unconventional by industry and FAA standards. This shorter cycle drives greater administrative costs at KCIA (requiring management of both three- and five-year appraisals) and does not align well with tenants' business planning practices. A five- or 10-year re-appraisal cycle is more common in the industry. A change to five years between appraisals would not require a change to King County Code; a frequency interval longer than five years may require a code change.
- The current three (3) year, or five (5) year, adjustment cycle leads to flat rental adjustments in the non-appraisal adjustment years. Adjustment cycles should also be accompanied with annual adjustments to help keep rental rates up to market and allow KCIA to keep revenue in line with expenditures on a year over year basis. The annual adjustments will provide more predictable rents and income for the both the tenant and KCIA.
- The County Code has been recently amended to contemplate the inclusion of annual rental adjustments based on an annual Consumer Price Index or other index. CPI does not have a direct correlation to changes in the real estate market. The CPI adjustments may not wholly cover the difference in appraised values; however, it can anticipate changes and make price jumps less dramatic. Therefore, the flexibility to negotiate adjustments between appraisals using an annual fixed percentage escalator may be more desirable for tenants and KCIA. Nothing

in the current King County Code precludes the Airport from including a CPI or fixed annual escalator in leases between appraisal periods.

Recommendations

- ***KCIA should immediately implement five (5) year reappraisals cycles for leases longer than five years, as permitted in the current code, if the tenant agrees to amending the lease to include an annual rent escalator between reappraisal periods.*** *New leases will include the five (5) year appraisal adjustment provision with either an annual CPI or fixed rental increase. Existing leaseholders should be given the option to amend their leases to switch to the five (5) year reappraisal cycle with an annual escalator, or remain at their current three (3) year cycle.*
- ***King County should explore updates to Code 4.56.180 (C), if needed, to permit reappraisals for periods longer than five (5) years.*** *The longer reappraisal time frame may provide greater flexibility in negotiating lease terms and is consistent with industry standards and practices.*
- ***KCIA should implement an annual rental rate adjustment for leases longer than five years in non-appraisal years.*** *An annual rent adjustment would be fixed at a percentage rate negotiated at the time of lease negotiation for the full term of the lease. Negotiating at the time of lease inception will allow flexibility to adjust the rent to current market rates. A second option is to use Consumer Price Index (CPI-U Seattle-Tacoma-Bremerton), or similar index. Using an index instead of a fixed rate provides less certainty and increased administrative cost. Regardless of adjustment methodology, the rent will be readjusted to fair market value pursuant to the reappraisal schedule as set forth in each lease.*

Length of lease terms

Findings

- King County Code 4.56.180 permits lease terms up to 35 years under normal circumstances if the property is improved, or will be improved, and the value of the improvement is or will be at least equal to the value of the property to be leased.
- King County Code 4.56.180 (A) (3) states that "if the property to be leased is to be used for… major airport purposes… requiring extensive improvements… the county may lease the property for a term equal to the estimated useful life of the improvements, but not to exceed fifty years."
- The threshold for considering a lease term of 36-50 years is if a tenant uses the property for a major airport purpose that "requires extensive improvements". There are undefined terms in this section of the code, specifically the definition of the phrase "requires extensive improvements." The King County Prosecuting Attorney's Office interprets this phrase as follows: The fact that a tenant is choosing to invest in improvements beyond the minimum investment requirement does not itself provide a nexus for a term longer than 35 years, unless: a) KCIA is contractually requiring the tenant to provide an improvement investment with a useful life greater than 35 years; or b) the nature or use being required by King County in the lease reasonably necessitates an improvement investment with a useful life greater than 35 years.[1] There are also different mechanisms and formulas for measuring and/or calculating "useful life." The code currently does not specify a methodology.
- The existing test for up to 35-year leases is reasonable and addresses the need for most long-term leases and for businesses to amortize investments. The 35-year lease period is supported in industry standards. A 50-year limit is reasonable for larger investments, and is in alignment

[1] Not all LFWG observers agreed with this interpretation.

with FAA and industry guidance. Any lease longer than 50 years may be considered by the FAA as a grant of fee simple rights, which is not permitted by the FAA.

Recommendation

- ***Continue to utilize existing code that permits for lease terms of 36 to 50 years in cases where the tenant is required to improve the leased property for a major airport purpose which requires the tenant to construct extensive improvements. King County should endeavor to provide a policy direction and clarification as to the definitions of "major airport purpose", "requires extensive airport improvements", and how it will calculate "useful life."***

Investment requirements

Findings

- Improvements on a property revert to county ownership following the expiration of most long-term leases. During the next seven years there will be three high-end hangar leases whose improvements will revert to King County. The reversion is part of the agreed-upon leasehold language. Tenants and King County are motivated to clarify approaches for re-leasing these reverted improvements.
- King County Code 4.56.180 (A. 2.) states that: "If the county determines it to be in the best interest of the county, if the property to be leased is improved or is to be improved and the value of the improvement is or will be at least equal to the value of the property to be leased, the county may lease the property for a term not to exceed thirty-five years."
- King County Code currently states that if the value of improvements is at least equal to the value of the land, then King County may enter into a lease without requiring additional investment. Further, it provides King County and tenant the flexibility to negotiate mutually beneficial terms and conditions tailored to the individual opportunity. Rent, lease term, additional investment requirement, maintenance of the facility, etc., can be defined as part of the lease negotiation process. Once an improved property reverts to King County following the end of a lease, a new lease will be negotiated and the tenant will be charged improved rent.
- Tenants may desire a mid-term renegotiation of lease terms to allow for amortization of a new, large investment with value that extends beyond the initial lease term. King County considers these requests and, if appropriate and consistent with the King County Code, may agree to mutually terminate the lease and renegotiate new long-term leases to address specific or special conditions.
- DOT and FMD coordinate their policies and procedures to be responsive to individual property activities and situations involving investment requirements.

Recommendation

- ***Continue to utilize the existing code that permits long-term leases on improved property.*** *King County Code 4.56.180 (A. 2) already permits for the releasing of existing facilities via long-term leases (greater than 10 years) by existing or new tenants.*

Lease award

Findings

- The KCIA Director may determine what the highest and best or appropriate use is for airport property. This is guided and informed by the KCIA Master Plan, with a 20-year vision for airside and landside improvements and reflecting a "sustainable" approach that balances competing interests for land use, as well as by the Airport Layout Plan. The existing master plan reflects the principle of protecting all classes of general aviation at KCIA.

- King County supports continued light general aviation uses at KCIA. The KCIA Master Plan currently identifies several sites on airport property designated to attract light GA. In some cases, these sites require infrastructure to be available. KCIA also works to support light GA by waiving landing fees and maintaining a low fuel flowage fee. There is also a commercial lease rate available for support services for light GA in available King County-owned hangars.
- Consistent with King County Code 4.56.160 (B), for lease awards, KCIA may award leases based on the strategic interests of the airport and the best interest of the county through direct negotiations or a competitive bidding process. All direct negotiations are publicly noticed through legal ad in the newspaper of record (Seattle Times). In the event the airport elects to utilize a competitive bidding process, the Airport Director will inform the Airport Roundtable and work with KC Procurement to develop evaluation criteria. The final criteria, weighting and evaluation process will be communicated through publicly available information.

Recommendation

- ***Continue to utilize the tools available in King County Code to award leases at KCIA.***

Other long-term lease policies

- **Maintenance**. Current investment requirements often place long-term tenants, who do not plan to renew, in a position to either continue to maintain the facility or to stop making property improvements as their lease terms come to a close. Generally, KCIA tenants are responsible for maintenance and meet certain requirements established by the airport unless specified otherwise within the lease. There are many ways that the county and tenants can negotiate these maintenance requirements through lease negotiation.
- **Arbitration process.** King County Code requires that the airport and tenant each select a "disinterested arbiter," with the two arbiters then selecting a third. The Code does not otherwise define the arbitration process; these details are set in the terms of individual long-term leases or by agreement with the tenants during the arbitration process. King County is willing to explore options for arbitration efficiency and effectiveness on a case-by-case basis.
- **Assignment premium.** An assignment premium clause is contained in individual leases. King County, as the property owner, has an interest in avoiding a situation where a leaseholder receives compensation in a lease assignment that exceeds the value of the remaining lease period or property. In these cases, the assignment premium clause ensures the County's right to a proportional amount of any premium paid to a new tenant beyond the value of the lease/improvements. This is evaluated on a case-by-case basis. To date, no transfers or assignments have triggered or resulted in an assignment premium being collected by the airport.

Recommendation

- ***Continue to use the policies and tools available in King County Code and leases to determine mutually-agreeable terms related to maintenance, arbitration and assignment premium.*** *This will allow for maximum flexibility for both parties and accommodate the need for changing business conditions or proposals.*

Conclusion

LFWG members have fulfilled their charter through discussion and evaluation of a range of policy topics relating to hangar and long-term leases at KCIA. Deliberation by LFWG members, with active participation from the executive leadership team, has led to a greater understanding of the interests of diverse airport stakeholders, including light GA, corporate, cargo, Fixed-base Operator, etc., and the conditions, practices, and regulatory landscape related to airport property leasing. LFWG recommendations reflect common ground among the participants, focused on improving airport business, operations and tenant experience. The majority of recommendations resulting from this process may be considered without changes to King County Code.

All recommendations are provided to the LFWG Executive Leadership Committee, and after a final review they are to be transmitted to the County Executive. The County Executive may propose legislation pertaining to the recommendation(s) to the County Council, as appropriate. Updates and discussion on activities related to these lease topics and LFWG's recommendations are provided to the Airport Roundtable. The recommendations are to be presented to the Government Accountability and Oversight Committee and County Council after Executive Office review. The members of the LFWG and the Airport Roundtable are to be notified of the presentations.

Appendix A: Wait list policy

MINIMUM STANDARDS
King County International Airport/Boeing Field (KCIA)
Hangar Wait List Guidelines

King County International Airport (KCIA) owns and rents hangars to tenants on a monthly basis. KCIA aircraft hangar storage inventory includes:

- Thirty-two (32) large t-hangars
- Twenty-nine (29) small t-hangars
- Six (6) large executive hangars
- Five (5) small executive hangars
- Two (2) half-bay small t-hangars

All hangar space is available on a first come first served basis. When a unique type of hangar is at full occupancy KCIA will maintain a Hangar Wait list for that type of hangar and award vacant hangars to new tenants based on the Hangar Wait List Guidelines. Seniority on a Hangar Wait List is established based on the date the application is received by KCIA. As hangars become available wait list seniority within each of the unique hangar groups will be used to determine priority ranking in the offering process described below. The wait list is maintained, and available for review upon request, by contacting the KCIA Operations at (206) 477-0227.

Notification of Hangar Availability/Acceptance

A Notification of Hangar Availability is emailed to all applicants on any KCIA wait list notifying them of a vacancy. Applicants on the relevant wait list (Pool A) will be given priority over those on other lists (Pool B). For example, if a small T-hangar is available, the applicants on the small T-hangar wait list will be given priority over interested applicants on other lists regardless of seniority.

The Notification of Hangar Availability will include the specific unit that is available, the monthly rent, whether the applicant is a Pool A or Pool B applicant, instructions for how to respond, and the implications of accepting or declining the current offer. All applicants will have fourteen (14) calendar days to respond as to their willingness to accept the available unit.

At the end of the 14-day response period, applicants on the wait list will be categorized into one of the following groups:

- **Accept.** Those applicants that have indicated their willingness to immediately rent the available unit.
- **Decline.** Those applicants that have declined the available unit.
- **No response.** Those that have not responded, or responded after the deadline. These wait list applicants shall be considered to have declined the offer.

Wait list applicants that have accepted the available unit will be processed as follows:

- The applicant from Pool A with the most seniority shall have first priority for the unit and will receive a notice of preliminary award no later than two (2) business days after the close of the response period. If there are no applicants from Pool A that have accepted, then Pool B applicant that have accepted will be considered based on overall seniority among this group.
- The applicant will then begin the process of entering into a **Monthly Hangar Rental Agreement** with KCIA, which shall be completed and signed no later than thirty (30) calendar days from notice of award.
- If, for any reason, the execution of a **Monthly Hangar Rental Agreement** has not been completed in the timeframe as stated herein then KCIA, in its sole discretion, may revoke the preliminary award. In this instance the applicant will be considered as having declined the hangar and their status on the wait list will be subject to the terms of these guidelines.
- If a notice of preliminary award is revoked by KCIA, then the applicant with the next most seniority among those that accepted the offer shall receive notice of preliminary award.

When the applicant accepts an offer and a **Monthly Hangar Rental Agreement** is executed, they will be required to show proof of ownership of the aircraft(s) that will occupy the hangar. If the applicant does not own an aircraft at the time of taking occupancy of a hangar unit, they will be given sixty (60) calendar days to provide satisfactory documentation of ownership or will forfeit the hangar, the **Monthly Hangar Rental Agreement** will be terminated, and the tenant will be removed from the wait list.

Among the hangar wait list applicants that have declined (or who have not provided a timely response) the following rules shall apply for Pool A candidates:

1. If the applicant has declined the hangar offer, **for the first time**, they will retain their original position of seniority on the wait list.
2. If the applicant has declined a hangar a <u>**second time within the past 6 month**</u> period they will be removed from the list. The application deposit will not be refunded. All administrative fees are non-refundable.
3. If the applicant has declined a hangar a <u>**second time, but not within the past 6 month**</u> period and chooses to remain on the list, they will be placed at the bottom of the seniority list. If there are multiple wait list applicants among those that have declined a current offer and are eligible to remain on the wait list, then the seniority among this group will carry over. For example, if three applicants have declined and wish to remain on the wait list they will be placed in the final three positions, but will maintain their relative priority at the bottom of the list.

Since the Pool B candidates were not on the relevant wait list, there are no impacts should they decline or fail to respond.

<u>**Assignment and subleasing**</u>

Language regarding the assignment and subleasing will be included in **Monthly Hangar Rental Agreements:**

Tenant shall not assign or sublease all or any part of this Monthly Rental Agreement (MRA) or any interest therein. If the Tenant is a corporation, partnership, limited liability company or any other form of entity, Tenant further agrees that if at any time during the term of this MRA one-half (1/2) or more of the outstanding shares of any class of stock, partnership interests, membership interests or other equity interests of Tenant's corporation, partnership, limited liability company or other form of entity shall be transferred (other than TRANSFERS in connection with estate planning purposes between principals holding such interests and their heirs or successors)such change in the ownership shall be deemed an assignment of this MRA within the meaning of this section. The Airport Director, in their sole and final discretion, has the authority to make exceptions based on unique circumstances that are not inconsistent with the intent of protecting the integrity of the hangar waitlists.

<u>Application Procedure</u>

All parties interested in being placed on the Hangar Wait List must complete the attached **Wait List Application Form** with current contact information including, mailing address, telephone numbers, email address, and aircraft information (if applicable). If a partnership or corporation is intending to be the lessee, all partner's names and/or the corporate name must be listed on the application form. Wait list applicants must select the size and type hangar needed as identified on the wait list application form. Wait list applicants must identify intended uses in addition to aircraft storage. Airport staff will vet this information to determine whether safety or other special considerations require further evaluation by appropriate officials, i.e. FAA safety, Air Traffic, Fire Marshal, etc. Risk Management will be provided with this information to advise of any restrictions or limitations on proposed activities, and identify amounts and types of insurance required.

All correspondence will be accomplished via electronic mail. U.S. Mail will be used in the event that an applicant confirms that he/she does not have an email account. It is the applicant's responsibility to provide written notice of any changes to contact information including, but not limited to, contact person address, email address, and telephone numbers.

Due to demand, KCIA reserves the right to permit individuals to rent only one (1) large executive hangar. At the KCIA Director's discretion, a tenant who rents a large executive hangar may be allowed to rent additional hangars. The opportunity to rent additional hangars is subject to priority on the hangar wait list. KCIA also reserves the right to match aircraft type and size to the appropriate sized hangar within the hangar wait list categories.

KCIA reserves the right to allow an applicant to specify a geographic location within any particular wait list category. For example, the applicant may prefer northeast to the southwest small T hangar location or an end unit. An applicant with location preference may pass on an available hangar outside their preference location without affecting their priority on the wait list. The refusal would not be in conflict with rules specified in the Letter of Availability/Acceptance.

<u>Hangar Tenant Displacement</u>

If a current Hangar tenant is displaced due to airport development, the tenant will be offered the right of first refusal on the next available hangar that accommodates the aircraft. If the new hangar offered is refused then the tenant will need to complete a new hangar wait list application and placed at the bottom of any preferred wait list.

Wait List Fee

A one-time wait list application deposit of one-hundred dollars ($100) is required for all applications. The application deposit, after notice of hangar availability, shall be applied to the first monthly rental charge once the applicant meets the requirements outlined herein and is placed in a hangar

A non-refundable annual fee of ten dollars ($10), herein referred to as the annual administrative fee, shall be charged to wait list applicants to cover administration costs. This administrative fee will be billed to the applicant on an annual basis.

If tenant wants to be on more than one wait list a deposit is required for each list. The wait list applicant will be charged an annual fee for each wait list that they wish to occupy.

Applicants placed on more than one list may apply any/all deposits to the first month's rental payment for a hangar that becomes available, unless they wish to maintain their position on the other list(s).

A copy of the application will be returned to the applicant for their records.

Request for Removal from wait list(s)

A written request to KCIA Operations for all voluntarily withdrawals is required. If an applicant withdraws from the list voluntarily prior to being offered a hangar, the application deposit will be refunded. Any administrative fees paid by the applicant are non-refundable.

Airport Director's Discretion

At KCIA Director's discretion, the wait list guidelines as described in the Minimum Standards herein can be waived, and/or amended, if it is in the best interest of KCIA or County.

Appendix B: Commercial renal rate policy

King County International Airport/Boeing Field (KCIA)
Guidelines for Commercial Use of KCIA-owned Hangars

King County International Airport (KCIA) owns and rents hangars to tenants on a monthly basis. These hangars are part of KCIA's approach to ensuring that there are opportunities for small General Aviation (small GA) aircraft owners to have a home at Boeing Field. KCIA aircraft hangar storage inventory includes:

- Thirty-two (32) large t-hangars
- Twenty-nine (29) small t-hangars
- Six (6) large executive hangars
- Five (5) small executive hangars
- Two (2) half-bay small t-hangars

The permitted uses in KCIA hangars are generally restricted to the storage of airworthy aircraft owned and/or leased by the Tenant, and aviation dependent storage. There is a limit of one single or multi-engine aircraft per hangar, unless otherwise specifically authorized in writing by the Airport Director. Also, **the conduct of any commercial activity**, including but not limited to, flight instruction, air taxi, air charter, aircraft maintenance, aircraft sales and aircraft detailing and/or any other activity considered commercial in nature **is only allowed in KCIA Hangars with prior approval by the Airport Director**.

While the primary purpose of KCIA's hangars is small GA aircraft storage, there are some commercial activities whose presence at Boeing Field can enhance and support the overall environment for small GA aircraft owners. Where the value of a hangar space for aircraft storage exceeds the market rate for small commercial spaces near the airfield, it may become difficult to retain or attract some of these small GA service businesses.

Given KCIA's interest in having a reasonable level of on-airfield services available to small GA aircraft owners, The Airport Director will have the option to offer certain commercial businesses a special commercial rental rate for a KCIA hangar that seeks to better align the value of the space with the intended commercial use. The following guidelines shall apply in these instances:

- **Rental rate.** The commercial rate shall be proposed by the Airport Director and approved by the Director of King County's Facilities Management Division. The rate will be based on a periodic review of market rental rates for small light industrial/commercial spaces in relative proximity to Boeing Field. Further:
    - The rate shall be established as an annual rent per square foot of space
    - The rate shall be published alongside the regular monthly hangar rates
    - The rate shall be reviewed and reset to meet current market conditions on a periodic basis, with the review occurring no less frequently than every three years
    - The rate may be adjusted to inflationary changes between market review opportunities by using an inflation index such as the Consumer Price Index (CPI)

- **Eligible commercial activities.** The Airport Director shall have the discretion to consider whether a commercial business meets the intent of the commercial special rate policy, namely, that the business in question provides a service that is supportive of maintaining a strong small GA presence at Boeing Field. Examples could include, but are not be limited to: aircraft, airframe and/or engine maintenance and repair services; specialty services, such avionics & instrument repair, propeller service, aircraft refurbishment; and, other related activities. Additional considerations could include:
    - Whether the service is offered elsewhere on the airfield
    - Whether the service provider has a history of serving KCIA and has an existing Boeing Field client base
    - Whether there is a perceived need for a particular service
    - The degree to which a new service provider may enhance the overall range and mix of services on the airfield
    - KCIA management reserves the right to review applicant's history of business performance at current or prior locations

- **Ineligible commercial businesses.** The Airport Director shall have the discretion to allow a commercial business to use a KCIA hangar, even if that business has been determined to be ineligible for the commercial special rate. In such a case, the business shall pay the applicable regular hangar monthly rental rate. Examples could include, but are not limited to, businesses which use aircraft in the provision of a service, such as sightseeing tours, aerial photography, or air taxi services.

<u>Application for Commercial Use of a KCIA-owned Hangar</u>

All hangar space is available on a first come first served basis. When a unique type of hangar is at full occupancy KCIA maintains a Hangar Wait list for that type of hangar and award vacant hangars to new tenants based on the Hangar Wait List Guidelines. All prospective tenants must complete an application form; pay the application fee; and submit to KCIA for review. For applicants seeking to operate a commercial business from a KCIA hangar, the Airport Director shall review the submitted application and determine:

1. Whether the commercial use is an appropriate use for a KCIA hangar; and,
2. Whether the commercial activity also meets the intent of KCIA's small GA supportive policy.

Based on the results of this review:

- A business that satisfies both requirements will be notified and, assuming that there are no currently available hangars, they will be put on a separate Commercial Wait List (CWL). If there is a hangar preference, this will be noted
- A business that is determined to be an appropriate use, but does **<u>not</u>** meet the intent of the small GA supportive policy, shall be notified and KCIA shall treat applicant as any other hangar applicant and be placed on each relevant hangar wait list

- A business that is determined to be incompatible with KCIA hangar operations and/or tenants shall receive notice that their application is denied and they will be refunded their application fee
- If it is not possible to immediately determine compatibility of an applicant's proposed commercial activity, KCIA may request additional materials to support the application, such as details about the activities that would occur on-site to fully evaluate potential risks and/or understand how the proposed operations might affect other hangar tenants.

Hangar Availability, Wait List Seniority and Commercial Use

Seniority on a Hangar Wait List is established based on the date the application is received by KCIA. As hangars become available they are offered to each applicant based on hangar wait list seniority within each of the unique hangar groups. For applicants seeking to use a hangar for an approved commercial use, the regular seniority rules shall generally apply with the following modifications:

- **Commercial Wait List (CWL) applicants.** As a matter of policy, CWL applicants shall have "junior rights" relative to the regular wait list applicants. As a result, the most senior CWL applicant will be "next in line" behind any regular applicant on the wait list as developed in accordance with the "Hangar Waitlist Guidelines".

  However, the Airport Director has the discretion to override the standard seniority rules if it is in KCIA's interest to attract a new CWL tenant to fill a vacancy. For example, if a valuable small GA service business is closing and giving up its space, the best outcome may be to replace the service that will no longer be available. In this instance, the Notification of Hangar Availability will clearly identify the seniority rules that will be effect and provide the rationale for deviating from the standard rules.

- **Commercial Applicants on Regular Wait Lists.** Regular applicants (those not eligible for the Commercial Special Rate) that plan to operate a commercial enterprise in a KCIA hangar shall be treated like all other applicants with respect to seniority.

  However, the Airport Director has the discretion to give priority to non-commercial applicants, regardless of seniority status, in order to support small GA aircraft owners as the predominant use for KCIA-owned hangars. In this instance, the Notification of Hangar Availability will clearly identify the seniority rules that will be effect and provide the rationale for deviating from the standard rules.

All other Wait List Guidelines shall apply. The wait list is maintained, and available for review upon request, by contacting the KCIA Operations at (206)477-0227.

Hangar Rental Agreements for Commercial Use

When a commercial use applicant accepts an offer and a Hangar Rental Agreement is executed, they may be required to comply with additional commercial use provisions and insurance requirements. The commercial use provisions may include, but are not limited to, minimum facility requirements (e.g. total space, availability of additional tie down area(s), dedicated office space, etc.), operational requirements or constraints (e.g. hours of operation, materials handling/disposal, minimum staffing level, etc.) and, community benefit requirements (e.g. provide apprenticeship opportunities). These provisions may be required or separately negotiated and will be included as an attachment to the Rental Agreement.

Appendix C: LFWG charter

King County
International Airport
Boeing Field

Lease Framework Working Group

Charter and Operating Guidelines

FINAL

Background and purpose
King County Code establishes the framework for Airport leasing. There are different and specific code requirements depending upon the length of the term and/or type of lease. Additionally, Airport leasing policies must comply with Federal Aviation Administration (FAA) Grant Assurances and FAA Compliance Manual. In early 2015, the Government Accountability and Oversight Committee (GAO) was provided a briefing on the Airport's 2015 appraisal process and results. The appraisal process is on a 3 year cycle. As a summary, Airport long-term and monthly ground lease rates "remained constant" from 2009 until the 2015 appraisal. Hangar rates, which are on monthly rental agreements (MRA), were "held constant" until 2012.

On March 11, 2015, the GAO Committee forwarded to Executive Constantine a request to convene a work group to review the proposed 2015 hangar and ground lease rental fee increases. The King County Department of Transportation (KCDOT) has been tasked with establishing the work group. The goal of the work group is to review the existing King County Code leasing requirements and to recommend reasonable and practical alternatives, if any, to improve the airport leasing framework. The alternatives will be forwarded to the Executive Leadership Committee.

The Lease Framework Working Group (LFWG) is organized reflecting the guidance in the March 11, 2015 GAO letter. The working group is supported by KCDOT and the King County Facilities Management Department (FMD).

This charter is presented to include information on the LFWG scope, membership and operating guidelines. In addition, the meeting plan serves as a reference to all working group members, supporting County staff, and the facilitation team throughout the review process.

LFWG objectives and scope
The Working Group will conduct a policy review of the current lease framework as well as identify and evaluate possible opportunities and alternatives to improve the leasing framework alignment with the Airport's Strategic Plan goals. The review will include, but will not be limited to, policies related to pricing and lease terms, exclusive rights, arbitration rights and procedures, investment credits and/or amortization of tenant investments, and assignment and transfer rights. These issues will be discussed over a series of meetings and identify alternatives, if applicable and feasible, in the form of potential policy or code changes.

The alternatives will be carried by the chair of the LFWG to the Executive Leadership Committee for consideration. The Executive Leadership Committee will evaluate any final proposals to be forwarded to the County Executive and King County Council.

LFWG membership

LFWG members include tenant representatives, stakeholders from the Airport Roundtable and representatives from the King County Council, KCIA, DOT, FMD and Prosecuting Attorney's Office (PAO). The LFWG is being convened specifically to consider existing KCIA lease framework policies and code, consider policy implications of alternatives, and provide policy input and recommendations to the Executive Leadership Committee. The LFWG will work to review and understand the scope of the issues, potential solutions, and impacts of these options on the airport, tenants, and County.

LFWG member	Affiliation
Bill Ayer	Hangar tenant
H. Eugene (Gene) McBrayer	Hangar tenant
Chuck Kegley	Long-term lease tenant
Kevin Hoffmann	Long-term lease tenant
Richard (Rick) Lentz	Airport Roundtable
Rosemary Brester	Airport Roundtable
Thomas Ysasi [ALTERNATE]	Airport Roundtable
Bill Greene	King County DOT
Mike Colmant, Convening Chair	King County International Airport, Deputy Director
Gary Molyneaux	King County International Airport, Planning
Tom Paine	King County Facilities and Maintenance Division
Ian Taylor	King County Prosecuting Attorney's Office
Beth Mountsier	King County Council Central Staff
Lise Kaye	King county Council Central Staff

Executive Leadership Committee

The Executive Leadership Committee is comprised of Bob Burke, Airport Director, Harold Taniguchi, DOT Director and Tony Wright, FMD Director. The role of the Executive Leadership Committee is to consider the identified alternatives, including policies and code changes presented by the LFWG. The LFWG Chair will periodically brief the Executive Leadership Committee and carry forward the group's findings, as well as provide any feedback on interim work to the LFWG members. The Executive Leadership Committee will evaluate the findings and alternatives for transmittal to the County Executive and King County Council.

Facilitation Team

The County has contracted the services of a neutral third-party facilitation team from EnviroIssues (www.enviroissues.com) to support the LFWG processes. The facilitation team supports the County and LFWG members and maintains the integrity of the LFWG process. Specifically, the facilitator will:

- Remain neutral.
- Not contribute substantive ideas.
- Help the LFWG accomplish their tasks.
- Suggest and implement process ideas.
- Help the LFWG abide by their adopted ground rules.
- Solicit and field input and observations on the LFWG processes and consider modifications to improve the processes.

Meeting Protocols

- LFWG meetings will be convened and led by the Airport Division and actively managed by the facilitator to ensure that discussions are consistent with the LFWG charter and that feedback and findings and alternatives are advanced in a timely manner.
- The LFWG chairperson role is to assist with management of the working group and bring forward working group findings and alternatives to the executive committee for consideration.
- Dialogue between LFWG members will be supported by a number of non-committee resource staff from King County. Unless presenting information or responding to questions, staff will remain in a listening role.
- Members will establish meeting ground rules with the team's facilitator and agree to abide by them.
- Members will make their best effort to attend all meetings and notify the facilitator or KCIA staff in advance if unable to attend. Meetings will be scheduled in advance based on best availability and up to twice monthly during the project's most active phase. Remote participation by phone/web conference will be accommodated upon request.
- Meetings are open to the public; however no public comment will be taken at meetings. Attending members of the public may share comments and ideas via email or comment card to the convening chair.
- Meeting materials will be distributed a minimum of 48 hours in advance of the meeting. Members will be asked to review all materials in advance and come prepared to participate. The project staff will make every effort to ensure meeting materials are finalized at the time of distribution; however, there may be instances where materials or updated versions of materials are provided at the meeting.
- Meetings will begin and end on time. If agenda items cannot be completed on time, the LFWG will decide if the meeting should be extended or the discussion continued at the next scheduled meeting.
- Meeting summaries will be produced for each meeting by the facilitation staff to reflect team discussion, feedback, areas of agreement and tasks and assignments related to advancement of the team's work. Draft summaries will be distributed and team members given the opportunity to clarify or edit the summary to make sure it accurately reflects the meeting.

Communication

- Members are expected to share information with their organizations and/or constituents and gather information from their constituents to help inform discussions.
- Members will not take actions or discuss issues in any way that undermines an open and transparent process.
- Members will notify the facilitator and LFWG chair of all requests from the media. LFWG-related documents are not to be shared with members of the media until they have been finalized and are ready for public distribution. If members do speak with the media, they will clarify that they are speaking as an individual and do not speak on behalf of the project or the advisory team, nor characterize the points of view of other members.
- Support staff is available at and between meetings to address questions, concerns and ideas. Staff will respond to all member inquiries in a timely manner.

Decision-making process
All members will be encouraged to take a proactive approach to this process and to look for creative solutions rather than problems. While it is important to identify problems, it is even more important to seek thoughtful solutions that advance the project.

Formal actions will be sought. Members will work together to fulfill the team charter and seek to achieve consensus to the extent possible. For the purpose of this effort, consensus is achieved when all members can say:

I am supportive of this decision or choice.
OR
While I may not be fully supportive of this decision or choice,
I can live with it and I will not oppose it.

Appendix D: LFWG meeting summaries

Lease Framework Working Group Meeting #1
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
August 7, 2015

Attendance

Working group members
- Beth Mountsier
- Bill Ayer
- Bill Greene
- Chuck Kegley
- Gary Molyneaux
- Gene McBrayer
- Ian Taylor
- Lise Kaye
- Mike Colmant
- Rosemary Brester
- Tom Paine

Additional meeting participants
- Anthony Wright
- Courtney Meredith
- Dick Baugert
- Don Stark
- Doug Davis
- Eric Schneider
- Kelly Foley
- Ryan Orth
- Steve Ohlenkamp
- Toa Ysasi
- Tony Eayrs

Introductions, opening remarks, agenda review
Bob Burke, King County International Airport (KCIA) Director and Executive Leadership Committee member, welcomed the group and thanked everyone for attending the meeting. He noted the goal of the Lease Framework Working Group (LFWG) is to have open discussions about how to best establish a framework for KCIA leases, optimizing what is best for tenants and the airport. He introduced Tony Wright and Bill Greene to provide additional opening remarks.

Tony Wright, King County Facilities Management Director and Executive Leadership Committee member, expressed his interest in improving the leasing process in a way that meets the needs of the tenants and abides by the responsibilities outlined in King County Code. He noted that he is happy to answer any questions about financial calculations and interpretation of King County code and is optimistic that the LFWG can find the best way forward.

Bill Greene, King County Department of Transportation (DOT) Chief Financial Officer, provided opening remarks on behalf of DOT Director and Executive Leadership Committee member Harold Taniguchi. He emphasized that King County DOT values its relationship with its tenants and input provided by the tenants. He noted that the DOT is open to new ideas, believes that LFWG participation is critical in establishing the best possible leasing framework and is committed to a fair and open process to develop recommendations for the Executive and King County Council .

Ryan Orth, LFWG facilitator, led the group in a round of introductions. He thanked everyone for their participation and explained his role as a neutral facilitator for the LFWG process. He provided a brief overview of the meeting agenda, emphasizing that the purpose of this meeting was to provide relevant background information related to current KCIA lease policies and to set the stage for group discussion. LFWG members approved the agenda with no amendments.

LFWG process overview
Ryan explained that each member of the LFWG was provided with a binder of relevant background materials to be used as a reference throughout the process. He noted that materials will likely be added to the binders at each meeting.

Next, the group reviewed the draft charter and operating guidelines document which provides an overview of the LFWG scope, membership and protocols for meetings and other group communications. Ryan highlighted the following key points from the document:

- The purpose of the LFWG is to consider the existing KCIA lease framework, alternatives and implications for alternatives for consideration by the Executive Leadership Committee.
- The LFWG objectives and scope include a broad range of topics which were developed through correspondence between King County DOT and the Executive.
- Mike Colmant, Deputy Airport Director and Convening Chair, will assist in sharing information between the LFWG and the Executive Leadership Committee. It is expected that this will be an iterative process.
- The purpose of the facilitation team is to support productive dialogue as a neutral party, not to provide substantive ideas.
- The ground rules of each meeting are to be present, time sensitive and to speak from interests.
- The expectation from each LFWG member is that they will speak only to their own interests if they choose to engage with the media and to be respectful of draft documents.
- Group decisions will be on a consensus basis. Consensus will be achieved when all members can say they are supportive of the decision or are willing to live with the decision.

LFWG members discussed the following questions and comments about the LFWG process:

- The LFWG process is of high importance to airport tenants. There is concern over transparency and the way that recommendations from the LFWG are messaged to the Executive Leadership Committee and to King County Council.
    - Recommendations that are reached by the LFWG will be presented in their full form at the executive level. If there is a difference between what the LFWG and Executive

Leadership Committee recommend, King County Council will be made aware of these differences.

- How and why did the LFWG form?
    - Procedurally, the King County Council requested that the LFWG be formed after the Government Accountability and Oversight Committee Meeting in March 2015. The Executive carried out this request and King County DOT laid out the structure of the group and how the group would function.
- King County Council legislative staff are attending the meetings to stay informed on the committee's interests and process but do not speak on behalf of the Council.

LFWG members approved the charter and operating guidelines without amendment.

KCIA lease framework background
King County working group members presented on current lease policies and the legal framework, KCIA lease creation and practices, the KCIA business model and strategic plan. Questions and concerns about 2015 lease rates and the lease process were also discussed. A brief summary of each presentation is provided below along with questions, comments and responses from LFWG participants on each topic.

<u>Current lease policies & legal framework</u>
Ian Taylor, King County Prosecuting Attorney's Office, presented on the current KCIA lease policies and legal framework. Ian explained that while it would be ideal to have airport-specific Facilities Maintenance Department (FMD), these codes apply to all county property and are not specific to the airport. He noted that, as a result, there is a lack of flexibility in how lease rates are set. This reduces the ability to treat KCIA leases within a business model, but enhances predictability. He provided the following information about long-term leases (leases longer than one year):

- King County Code is the primary driver for what is charged for county leases and renewals, which is based on fair market value (KCC 4.56.010) (KCC 4.56.160.A) for these public assets.
- Leases cannot be issued without first having an appraisal (KCC 4.56.160.B). The appraisers are some of the most experienced in Washington.
- The leases must also have the best terms and conditions (insurance, indemnities, environmental, etc.) available to the County (KCC 4.56.160.A).
- The primary driver of revenue at the Airport is rent. Direct/discretionary funding from the Federal Aviation Administration (FAA) must comply with grant assurances.
- Rental adjustment on leases longer than five years occurs at a minimum of every five years, but it is adjusted by the county every three years. As a comparison, a privately-owned airport would be more likely to change rent every year or so at a predictable rate level.
- More specific lease terms became available after January 1, 2015 which allow for long-term leases to have gradual rate increases to reduce surprises.
- Boeing is the only tenant with a lease adjustment term of five years. All other tenants are adjusted every three years.

Next, Ian provided a brief overview of relevant lease rate requirements for short-term leases (leases less than one year). He noted that these leases are used primarily for month-to-month tie downs, T-hangars and executive hangars. He provided the following information about short-term leases:

- Lease terms must be the “terms and conditions that are in the best interest of the County” (KCC 4.56.160.B), not fair market value. However, it could be argued that it is in the best interest of the County to use fair market value.
- King County recognizes that fair market value is not necessarily required, but that all lease agreements must be treated equally.

LFWG participants had the following questions and comments about current lease policies and the legal framework underpinning these policies:

- Can the King County Code be amended to fit the needs of the airport?
    - There is code specific to the Airport in KCC 4.56 and there has been a concerted effort to make small changes to this code specific to the airport. The King County Council and Executive must support the changes, but the code could be amended all at once rather than by many small actions.
- The FAA requires that the airport be as self-sustaining as possible. It may be an overreach to assume that self-sustaining always requires fair market value.
    - Self-sustaining does not necessarily mean fair market value, but it has been used as the standard up to this point in time.
- How is the underlying property value determined in the appraisal process?
    - The value of nearby properties is taken into account in the appraisal process, but property restrictions are also considered (e.g. whether or not the property could be used for anything other than an airport). This is a standard appraisal practice when considering the value of an airport.

<u>KCIA lease creation and practices</u>
Tom Paine, King County FMD, provided a brief overview of how KCIA leases are created and implemented. He explained that the default practice for creating a long-term lease is to do a request for proposal (RFP), but they are typically created through direct negotiations which are sent to the executive for approval. There are two categories of long term leases which have different requirements:

- Leases longer than 5 years: requires council approval
- Leases longer than 10 years: requires council approval, lease investment and public notice

Tom noted that the rental rate adjustment process for long-term leases requires that the lease reflect fair market value and be appraised every three years. Tenants have the right to accept or reject the lease. If rejected, the lease will go into arbitration.

Tom further explained that short-term leases require competitive bidding, but in the case of tie down leases there is not currently a need for bidding because of vacancies. Hangar leases are awarded by a wait list. All short term leases must be in the best interest of the county, but do not require public notice. Short-term tenants do not have an option for arbitration because they have the option to accept or deny the lease.

LFWG participants had the following questions and comments about KCIA lease creation and practices:

- Does King County have to appraise leases every three years?

    - Yes, leases must be appraised every three years but rates do not necessarily have to change. For example, in 2012 the appraisal was flat, so rates were not adjusted.
- Some hangar tenants have observed that the KCIA hangar rates are higher than competing airports and believed that this may be attributed to high demand and a need to create vacancies.
    - Proximity to downtown and the state of the current wait list were considered in the most recent appraisal.

<u>KCIA business model and strategic plan</u>

Bill Greene, King County DOT, provided an overview of the KCIA business model and strategic business plan which was presented to the GAO Committee in September 2014. Fiscal sustainability of KCIA was one of King County Council's top strategic initiatives in 2014 and continues to be a high priority. Key highlights from Bill's presentation on the business model and strategic plan include the following:

- The strategic plan is considered to be a living document and KCIA hopes that the LFWG will help to update and improve the plan.
- There is an inherent tension between lease payers seeking to minimize leasing rates and tax payers seeking to maximize returns with respect to funding KCIA operations.
- Between 2014 and 2020, KCIA plans to focus on financial capacity, property redevelopment, Boeing retention, cost management, facility needs and organizational capacity. KCIA will use key performance metrics in these focus areas, including maximization of economic contribution (e.g. job support), maximization of financial contribution and improvement of operating margins. .
- KCIA capital needs are based on when assets need to be replaced. There are currently about $5 million of unmet capital needs.
- KCIA's financial outlook using the new lease rates shows that unmet capital needs can be fulfilled and the airport will be operating at a more sustainable level. However, it is important to note that there are a lot of unknowns that could impact funding (e.g. Duwamish mitigation).
- KCIA considers long-term investments when determining a sustainable level of operation to reduce the risk from unknown needs and future capital needs.

LFWG participants had the following questions and comments about the KCIA business model and strategic plan:

- What is job support?
    - KCIA does a study every three to five years on the economic impact of the airport. Last year, it was determined that the Airport generates over $3.5 billion dollars for the county. A standard global input/output model is then used to determine the level of job support based on this number.
- What is value pricing?
    - KCIA has a series of facilities that are rented out. Currently, KCIA charges a base rate to recover some of the costs incurred from maintaining the facilities.
- What portion of income comes from month-to-month leases vs. long term leases?
    - Long-term leases typically provide nearly 10 times greater income levels than short-term leases. This year, long-term leases are expected to contribute about $11.5 million, with nearly half of this revenue derived from Boeing. Monthly leases are expected to contribute $1.2 million ($900,000 from hangars, $300,000 from tie downs).
- What percentage of total expenses have come from labor expenses?

    - King County DOT will provide a history and breakdown of airport expenses.
- Do the $5 million of capital needs include those that could be met using federal grant money?
    - The $5 million worth of unmet capital outlined here is capital that KCIA does not believe could be funding by the FAA.
- If Duwamish mitigation is required, will this expense be spread out across other properties, or just the airport?
    - There is a large group of stakeholders and legal groups working to determine how costs will be shared. However, whatever portion is assigned to KCIA cannot be covered using income from other King County Departments (e.g. Wastewater Treatment Division, Solid Waste).
- Are FAA grant assurances always the same or do they vary by project?
    - The grant assurances are always the same, but grant specifications differ by project.

<u>Review 2015 lease rate process and tenant concerns</u>
LFWG participants provided the following questions and comments about the 2015 rate process:

- If appraisals are not required for short-term leases, why was the last rent increase based solely on an appraisal?
    - While appraisals are not necessarily required, the county does use appraisals and fair market value as a guideline. However, one goal for the LFWG might be to strike a balance between these guidelines and what makes the most sense for the airport and its tenants.
- Even though lease rates stayed flat through the recession to ensure airport revenue and operating income remained flat, it should be noted that many businesses were operating at a loss. This is an important fact that should have been considered in the 2015 lease update.
    - Rent determination is not based on maintaining any given level of operational support, but based on processes outlined by King County Code.

LFWG Meeting Plan

Ryan Orth provided an overview of the meeting plan for the next four meetings and asked LFWG participants for their feedback. LFWG participants expressed concern that the process may be rushed and that there may not be enough time to discuss topics that were of concern to them. County working group members clarified that there is a sense of urgency because recommendations from the group could be used to impact the 2016 monthly lease rates. It was also noted that the process could be extended if more time was needed to discuss additional topics or to develop the best possible leasing framework. Members expressed an interest in focusing their near-term meetings on discussion of options for monthly rental agreements.

The following requests for information were outlined by LFWG participants to be considered for discussion at future meetings:

- Appraisal process, specifically the 2012 appraisal
- Hangar wait list
- Cost containment strategy
- Capital budget process, comprehensive list of capital projects
- Capacity utilization

- Labor as a percentage of operating cost (for the last decade, or so)
- Current financials for business model
- Value pricing

Next steps
The next LFWG meeting will be held on Monday, Aug. 17 from 2:30 p.m. to 4:30 p.m. The agenda for the next meeting will be revised to reflect priority topics proposed by LFWG participants.

The following action items were proposed for the project team and LFWG participants to complete prior to the next meeting:

<u>Project Team:</u>

- Review and adjust the meeting plan and upcoming meeting agenda to include high priority discussion topics outlined by LFWG members.

- Provide requested information, including additional financial information around costs, capital projects and capital needs.

<u>LFWG Participants:</u>

- Review the contents of the resource binder.
- Provide any additional comments on the meeting plan or priority topics.

Lease Framework Working Group Meeting Summary - Aug. 17, 2015

Lease Framework Working Group Meeting #2
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
August 17, 2015

Attendance

Working group members

- Bill Ayer
- Chuck Kegley
- Gary Molyneaux
- Gene McBrayer
- Ian Taylor
- Lise Kaye
- Mike Colmant
- Michael Hodgins
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting participants

- Courtney Meredith
- Dick Bangert
- Don Stark
- Eric Schneider
- Harold Taniguchi
- Nikki McBrayer
- Paul Takamina
- Tony Eayrs
- Ryan Orth
- Brett Watson

Introductions, agenda review, and committee business
Mike Colmant, King County International Airport (KCIA) Deputy Director and Lease Framework Working Group (LFWG) Chair, welcomed the group and thanked everyone for attending the meeting. He noted the goal of the LFWG is to have open discussions about how to best establish a framework for KCIA lease rates and to optimize the process for both tenants and the airport.

Ryan Orth, LFWG facilitator, provided a brief overview of the meeting agenda and available materials. Ryan emphasized that the purpose of this second meeting was to present information relating to the KCIA business model and KCIA lease framework. Ryan noted that he would work to keep hangar lease rates at the forefront of discussion because of the time sensitivity associated with the spaces. LFWG members approved the meeting agenda.

Harold Taniguchi, Director of the King County Department of Transportation and Executive Leadership Committee member, thanked LFWG members for their time and their thoughtful participation. Harold noted that King County is committed to the process of involving the LFWG in ongoing lease framework discussions, and he recognized that the airport and the county would mindfully examine the feedback of the working group within existing legal and procedural boundaries. Harold noted that the County valued transparency in the process to a very high degree.

The LFWG adopted the summary from the August 7, 2015 meeting following the incorporation of a minor revision.

King County International Airport business model

Michael Hodgins, BERK Consulting, presented historic (2000-2014) and projected (2015-2020) financial information for KCIA in response to the group's questions at the Aug. 7 meeting including requests related to airport operating expenses, capital investments and financial needs.

Michael led the group in a high-level review of the financial information, noting that net operating income was not relatively strong in the early 2000s. However, beginning in the mid-2000s, KCIA worked to improve net operating income and the operating margin in order to fund additional capital investment projects. Michael recognized that operating margin was particularly high between 2010 and 2011, and he noted that the downward trend in operating margin (beginning in 2012) corresponded with stable lease rates. In the coming five years, operating margins for KCIA are expected to remain relatively constant between 15-20 percent. The airport's net income is a key component of the investment capital, which KCIA uses to fund improvement projects.

LFWG participants had the following questions and comments about the KCIA business model:

- There was a change in KCIA revenue in 2008. What happened in operations that increased revenue?
    - 2008 was the first year following a Boeing lease reevaluation that began in the middle of 2007. In 2009, KCIA incorporated revenues from lease reevaluations from other tenants.
- The LFWG requested a list of the KCIA definitions of operating margins. It would be beneficial to see the breakdown for capital investments (e.g. project lists that accompany the expenditures by year). This will allow LFWG members to have a better idea of Federal Aviation Administration (FAA) grant dollars that may be available in the future.
    - The provided handout breaks down airport expenditures in the Operations table (KCIA Labor, Central Rates, ARFF Contract, etc.). The Investment Program table demonstrates the transfers from operations, the FAA grant dollars, the capital expenditures, and the ending fund balance. The connection between the operating program and the capital program is found in the transfers from operations. In years where KCIA transfers income to capital in order to fund projects, the Investment Fund is where those dollars move across.
- Is labor included within KCIA capital investments?
    - No. The data only demonstrate the operating side.
- Does a certain amount of money need to be kept in the KCIA Investment Fund?
    - There is a requirement that it must include at least 60 days of operating costs.
- Part of the process regards the self-sustainability of the airport. One interest of the LFWG is to look at hard numbers to understand where the KCIA is operationally so that the group could do a financial analysis and better understand the financial basis for increased lease rates. The LFWG does not currently have enough information to conduct this analysis. Could the KCIA provide LFWG members with a list of projects specific to the investment program by year?
- What financial contributions are provided by FAA grants for approved projects?
    - The current law states that the KCIA puts in $0.10 for every dollar spent and FAA grants supply the remaining $0.90. In the past, the split was $0.05/$0.95. The change was made approximately 5-7 years ago.
- Whether or not the KCIA has a financial problem in the coming years is heavily related to whether or not the airport pursues capital projects that are FAA-eligible.
- Why does the FAA money in the Investment Program disappear in 2017?

    - The projects that KCIA has planned for that period are not FAA eligible.
- Is there a chance that FAA-eligible projects will be scheduled between 2017—2020, or is there no potential for FAA-eligible projects within this period?
    - There are very few currently planned projects that are eligible for FAA funding. The high amount of FAA funding in the past came almost exclusively from airfield projects. The KCIA is moving toward new projects that may meet the criteria for FAA grants.
- What are examples of improvements or capital projects that are not FAA-eligible?
    - Examples of projects that are not eligible for FAA grants include improvements to internal building structures, traffic/intersection, utilities, etc. The FAA funds projects that will relate to the safe operation of aircraft. Security improvements are generally not eligible.
- To what degree do the number of takeoffs/landings impact operation costs?
    - Many KCIA expenses are not variable based on operations (takeoffs/landings). Operations include costs such as plumbing, stormwater, etc. There are also FAA standards for sweeping and snow removal.
- Has Aircraft Rescue and Firefighting (ARFF) at the KCIA always fallen under the King County Sheriff?
    - ARFF staff transferred to the King County Sheriff on January 1, 1999.
- In the provided financial summary, there are no unmet capital needs displayed in the graph; however, unmet financial needs are demonstrated in the legend.
    - The included version does not display any unmet capital needs in the short-term (2020). The KCIA Strategic Plan version of the chart did demonstrate approximately $11 million in unmet capital needs; therefore, the chart maintains that ability to display this information. In the short-term, the airport is essentially balanced. The Investment Fund Balance demonstrates that the KCIA is not necessarily sustainable on the investment-side, as upcoming projects will continue to draw down this balance.
- Does KCIA have any new ideas for increasing revenue or decreasing expenses? As revenue is less controllable than expenses, the LFWG would be most interested in hearing additional ideas relating to future cost saving strategies.
    - Action items relating to this point were incorporated into the KCIA Strategic Plan. An example option included looking into pricing more generally (beyond lease rates). There was also a property evaluation effort, where airport properties that become available in the coming years could be transferred to uses that better serve the airport's long-term sustainability.
    - The King County Executive has been very aggressive in addressing sustainability (climate change and greenhouse gas emissions). The focus is to reduce energy use within each building. KCIA received a small grant to work with Seattle City Light to install light-emitting diodes along the runway. An energy study will be conducted on the terminal building, and the desired outcome is to reduce energy consumption within the building by 40 percent. The fleet has also been switched to bio-diesel and flex-fuel. These changes have large impacts on emissions and energy expenses.
- The amount of expenses that the KCIA has control over is smaller than the numbers demonstrate. Costs such as central rates and stormwater are not controllable. Some operating expenses are variable, but most are not.
- King County has a strategic goal to enhance the number of available jobs. To what degree is the KCIA conflicted in trying to bring more jobs to the County while simultaneously working to cut operating costs?

    - King County's strategic goal looks to enhance the number of jobs within the region overall, not only for the County. KCIA needs to strategically examine its overall property and maximize the number of jobs that the airport creates for the region. This would not necessarily compete with cost-saving efforts.
- Are storm water fees completely recovered?
    - The KCIA has two storm water fees—one to the City of Seattle and one to the City of Tukwila. The fee to the City of Seattle was decreased by approximately $300,000 in 2010. Those costs are largely not passed through to airport tenants.

Members identified the several follow-up items related to the KCIA business model for discussion at future meetings:

- Investment program, broken-out by project and grant eligibility
- Capital prioritization process
- Drivers of cost and performance metrics
- Aircraft counts/airport inventory

King County International Airport lease framework and group discussion of lease options for hangars
Michael Hodges provided and introduction to the KCIA's lease framework and lease determination. Michael provided LFWG members with handouts detailing local, state and federal lease policy guidance, classes of KCIA assets and current lease determination policies. Highlights from Michael's overview included:

- The King County code reflects federal and state law. In many cases, King County code implements federal and state law in a way that is more restrictive than prescribed. The airport also needs to consider FAA requirements.
- Key framework policy issues include:
    - Leases and rental agreements must be based on terms and conditions that are in the best interest of the County.
    - Fair market value must be the basis of leases and rental agreements greater than one year.
    - Leases greater than one year must be based on appraisals.
    - Leases generally cannot exceed a duration of 50 years.
    - Leases longer than 5 years must include a process for rate adjustment every three years, not to exceed once every 5 years.
    - Annual rent adjustments for leases longer than one year can be made using a consumer price index.
    - Leases cannot be assigned or sub-leased.
- The airport leases facilities in four major categories: (1) land, (2) buildings, (3) County-owned hangars, and (4) tie-downs. Lease rates are determined by fair market value and appraisals.
- The King County Council sets tie-down lease rates based on proposals made by King County staff. Appraisals for hangars are not required, as these are monthly rental agreements; however, appraisals are used to define these costs. The airport sets rates for hangars based on fair market value and in coordination with direction from the King County Executive.
- Fair market value is not required to be the basis for leases that are less than one year in duration. These leases are also exempt from appraisal.

LFWG participants had the following questions and comments about the current KCIA lease framework and hangar lease options:

- Which, if any of the framework policy issues are set by the FAA?
    - These all come specifically from the KCIA code. The provided handout incorporates federal language in the far-right column, and additional detail is noted in the LFWG resource book.
- If the KCIA has a requirement for fair market value, is that requirement synonymous with an appraisal?
    - When awarding a new lease, the KCIA has to conduct an appraisal. The presumption is that the appraiser will use fair market value as a baseline. Also, whenever there is an arbitration process, fair market value is required.
- If the KCIA's general practice to do appraisals in order to arrive at fair market value whenever fair market value is required by policy?
    - Yes.
- If there were a formal appraisal done, would the KCIA be obligated to follow that?
    - If the airport were awarding a lease with a rate that deviated from the appraised value, it would need to clearly communicate a reason why the conducted appraisal, based on fair market value, was incorrect. For example, if the KCIA were to conduct an appraisal, then receive bids for a space that were all less than the appraised cost, the market would then be the determinant of fair market value.

Courtney Meredith, General Aviation Facilities Coordinator, provided the LFWG with handouts detailing additional information relating to the KCIA's hangar waitlist process. Key points from Courtney's presentation included:

- The KCIA maintains four hangar waitlists: (1) small T-Hangars, (2) large T-Hangars, (3) small Executive Hangars, and (4) large Executive Hangars. Provided information includes the minimum standards for each waitlist as well as estimated waitlist time.
- The KCIA waitlist was created in 2008. In 2013, the waitlist was split into four separate waitlists, each based on hangar size. The current waitlist policy helps to manage interested persons by need.
- If individuals included on the waitlist decline a hangar as it becomes available, they are dropped to the bottom of the list. Currently, individuals must indicate their interest in being removed from the hangar waitlist in writing. Asterisks denote an individual on the waitlist who has dropped to the bottom of the waitlist more than once.
- Small T-Hangars are very easy to lease, and interested parties are generally individuals. Executive hangars take longer to lease, as there are additional processes associated with approval of business operations (insurance, airport approval, etc.). Working through individuals on the wait list to confirm interest can take several months. There has been discussion at the airport regarding potential updates to the approval process that could decrease these approval timeframes.

LFWG participants had the following questions and comments about the current KCIA hangar wait list policy:

- The five Small Executive Hangars are a good test case for raising overall hangar lease rates at the KCIA. There are currently three out of five that are vacant and possibly four according to reports of an aviation mechanic who plans to vacate his leased hangar.
    - Executive hangar vacancies have been in a pending status as KCIA works through the wait list. There is active interest from the wait list in the three hangars, but these are yet to be confirmed.
- The current KCIA policy appears to be testing the validity of lease rates by pricing out customers who have 18-25 year relationships with the airport. At a 50 percent increase, KCIA hangars are overpriced for the greater Northwest area.
- If KCIA has many executive hangars empty, what will happen to the airport's pricing policy? Will costs decrease in response to the empty hangars? If, as a result of price increases, the airport loses tenants, KCIA will eventually reach a point where overall revenue either remains stable or decreases. The functional outcome of this is that good, long-term tenants are pushed out. The King County Council clearly stated that they wished to avoid this scenario.
- Are all of the members of the T-Hangar waitlist aware that the lease rates for the hangars will increase by 50% next year?
    - Yes. Individuals on the wait list have been notified over the phone of the rate increase, and they have indicated that they are still interested.
- If you have an open hangar and no one on the waitlist is ready to lease, what is the next step? Does KCIA go to the market with an RFP?
    - KCIA has never had to do this in the past. The assumption is that the airport would advertise the open space.
- Do individuals have to re-register for the waitlist if they decline a hangar? Is there a fee to stay on the hangar waitlist?
    - No, there is no re-registration requirement or fee.
- KCIA should change the waitlist policy so that individuals are removed from the list if they decline to move into a hangar space. The current wait list does not have a high degree of value, and it is misleading when taken into account during the appraisal process.
- The KCIA needs to build more predictability into lease rates. A 93 percent increase in one year is too difficult for most businesses and individuals to absorb.
- The waitlist and the waitlist requirement is not a county code, and changing it is a much faster process. There are elements to the waitlist that KCIA does not control, such as the risk analysis and aspects that belong to other County departments. The appraiser may have made assumptions about the wait list in good faith. The group could recommend that the appraiser revisit lease rates and incorporate the wait list differently.

Harold Taniguchi thanked the LFWG members for their insights. He noted that King County relies heavily on the lease value provided by the appraiser. Harold stated that, without deviating too far from the history of lease rates and while remaining within the established policy framework, the airport may need to rethink wait list and lease procedures moving forward. Harold encouraged LFWG members to provide the airport and the County with their ideas, and he recognized that the County does not want to drive dedicated tenants away from the airport. Harold closed by noting that the County and the KCIA are committed to figuring out what makes the most sense moving forward.

Members identified the several follow-up items related to the wait list and lease rate options for discussion at future meetings:

- Wait list

    - Shortening process time
    - Providing updates to the Airport Roundtable
    - Administrative process for wait list
    - Fee to stay on the wait list
- Lease rate options
    - Location factor premium, more formulaic rate determination
    - CPI for interim years

Next steps
County staff will address follow-up items identified at the meeting. The next LFWG meeting will be held on Monday, Aug. 31 from 2:30 p.m. to 4:30 p.m. The agenda for the next meeting will be updated to reflect topics and action items identified by LFWG participants.

King County
International Airport
Boeing Field

Lease Framework Working Group Meeting Summary - Aug. 31, 2015

Lease Framework Working Group Meeting #3
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
August 31, 2015

Attendance

Working group members
- Beth Mountsier
- Chuck Kegley
- Gary Molyneaux
- Gene McBrayer
- Ian Taylor
- Lisa Kaye
- Mike Colmant
- Rick Lentz
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees
- Don Stark
- Eric Schneider
- Harold Taniguchi
- Justin Lowe
- Nikki McBrayer
- Steve Ohlenkamp
- Tony Eayrs
- Garrett Holbrook
- Michael Hodgins
- Ryan Orth
- Brett Watson

Introductions, agenda review, and committee business
Mike Colmant, King County International Airport (KCIA) Deputy Director and Lease Framework Working Group (LFWG) Chair, welcomed the group and thanked everyone for attending the meeting. He noted the goal of the LFWG is to have open discussions about how to best establish a framework for KCIA lease rates and to optimize the process for both tenants and the airport.

Ryan Orth, LFWG facilitator, provided a brief overview of the meeting agenda and available materials. Ryan emphasized that the purpose of the LFWG's third meeting was to present additional information relating to the KCIA business model and the KCIA lease framework before focusing on identifying and refining potential hanger rate policy options. LFWG members approved the day's meeting agenda.

The LFWG adopted the summary from the August 17, 2015 meeting.

LFWG members were hopeful that meeting materials could be distributed more than 48 hours in advance of the next meeting to provide ample opportunity for review.

King County International Airport business model
Michael Hodgins, BERK Consulting, continued the discussion on the KCIA's business model, providing requested information on airport capital projects, including the Federal Aviation Administration (FAA) grant eligibility of both completed and planned projects, as well as KCIA operating costs. Michael presented the LFWG with materials that highlighted the following key information:

- There is approximately $160 million in ongoing investment at the KCIA since 2000. Approximately $105 million of that was contributed by the FAA for eligible capital projects.
- The FAA ranks proposed KCIA projects against projects proposed by other airports. The FAA always prioritizes safety projects. KCIA prioritized projects in the same way, with safety, security and environmental projects at the top of the list.
- Operating costs at KCIA are spilt into two categories, those that are outside of the airport's control (Airport Rescue and Firefighting [ARFF], storm water fees, debt, etc.) and those costs that are for KCIA provided services (administration, maintenance, operations, etc.).

LFWG participants had the following questions and comments about the KCIA business practices:

- KCIA did a facilities study three years ago. Following the study, the airport challenged itself to reduce energy usage by 10-15 percent. Currently, KCIA has reduced energy consumption by nine percent.
- Is the KCIA Master Plan a FAA-funded project?
  - Yes. The Master Plan update is FAA-eligible, and KCIA has already received FAA funding for the 2015-16 Master Plan effort. A grant application has been approved by the FAA for the Update. Funds for previous master planning were incorrectly noted as non-eligible.
- Will the group hear additional information about the impacts that the Lower Duwamish cleanup may have on the airport and on hangar lease rates?
  - The KCIA does not know what the full financial impact of the Lower Duwamish settlement will be. Placeholder costs are provided as a planning estimate, pending the final adjustment. The KCIA will not know what the final cost is until the U.S. Environmental Protection Agency makes a determination and releases that information.
- The Lower Duwamish cleanup impact could potentially be considerable on all rate payers. How does KCIA anticipate that this cost will be passed on to tenants?
  - It was noted that hangar rates are not set on operational costs, but appraisal.
  - As King County comes together to discuss the Lower Duwamish cleanup further, KCIA will continue to think about the airport's share and how it relates to lease rates.
- What is the surface water management cost? Is this for treating surface runoff?
  - Tukwila and Seattle both impose surface water management fees on the airport. The cities charge this fee for impervious surfaces, and the fees support utilities that manage surface water runoff. Surface water is treated, but not always to the same extent as sewage. KCIA is currently working with the City of Seattle examine the fee amount.
- How are KCIA surface water fees related to the Lower Duwamish cleanup?
  - The costs are two different things. The cleanup costs are related to historic contamination, and the surface water fees are paid to the Cities of Tukwila and Seattle for the management of surface water runoff.
- There is a difference between the noted number of full-time equivalent (FTE) employees and the allocated number of operations and AARF FTE employees. Why is this different?
  - AARF FTEs are not included in the operating cost, as these positions are outside of KCIA's control and a contract with the Sheriff's Office. However, the airport is looking for strategies to control these costs and use funds as efficiently as possible.

Members identified items for follow-up, including:

- Ensuring that the provided capital list is accurate and necessary, considering the FAA forecast for general aviation.
- Additional detail on the KCIA Redevelopment Plan and overall airport prioritization.
- Additional detail on the Duwamish cleanup and how the process will impact lease rates, to the degree available. Additional information may be provided at future Airport Roundtable meetings.
- Examining other airports and their ratio of revenue to expenses.

Group discussion of KCIA lease framework and hangars lease options

Michael Hodgins provided LFWG members with a hanger rate discussion guide that detailed the 2015 approach to setting hanger rental rates and potential options for improvement. Key points from Michael's overview included:

- King County considers two primary policy guidelines when setting hanger rates:
  - King County Code requires monthly hanger rates to be set based on "terms and conditions that are in the best interest of the county."
  - As a condition of federal grants, the FAA requires KCIA to treat all of the "similarly situated" tenants equally and to set prices to be as "self-sufficient" as possible.
- KCIA implemented the above policy guidelines through rental rates based on estimated fair market value and consistently applied within asset classes.
- In 2015, an appraiser concluded that KCIA Owned Executive and T-Hangers were priced below market value, based on their location and their condition. The appraiser based the market rate on the following:
  - Evaluation of rental rates for comparable facilities at other airports
  - History of vacancy, turnover and average wait list time
  - The size and the condition of hangers
  - The competitive advantages of KCIA when compared to other local airports (including factors such as location, condition, services, facilities, etc.)
- The implementation schedule for hanger rates worked to address equity, market and risk.
- All new and pending hanger lease agreements reflect the updated 2015 rate.
- Questions for group discussion and consideration include:
  - Should fair market value be the primary goal of lease rates at the KCIA? If yes, what factors should be considered when setting marker rent (e.g. comparable spaces, condition, locational advantage)?
  - What balance should KCIA strike between stability (low vacancies) and access (opportunities for non-KCIA tenants)?
  - How can KCIA balance goals such transparency, equity, value of current tenants, predictability?
  - How can the current wait list approach be improved (e.g. an annual renewal fee, requiring risk management pre-processing, moving away from a wait list).

Harold Taniguchi, Director of the King County Department of Transportation (DOT) and Executive Leadership Committee member, noted that the King County DOT is often encouraged to implement strategies that are in-line with the private sector, and he stated that the private sector would likely lease hangar space at fair market value. Harold recognized that the LFWG had noted that fair market value was not a desirable baseline for hangar lease rates. He was hopeful that LFWG would include defensible reasons for deviating from fair market value in their policy recommendations. Facilities Maintenance

Director and Executive Leadership Committee Tony Wright echoed the request for rationale the county could use as the basis for policy alternatives.

LFWG participants had the following questions and comments about the current KCIA lease framework and options for improving the current approach to setting lease hangar rates:

- There is internal as well as external competition that needs to be considered in KCIA hanger lease rates. The appraiser did not seem to take the conditions and amenities of Fixed Operation Business (FBO) facilities into consideration. Once rates for certain hangers rise to a certain point, customers could move within the KCIA to another hanger facility that provides enhanced amenities, for the same price.
- Within the coming months, is KCIA confident that all five Small Executive Hangers will be leased at the 93% increased rate?
    - The information available to the KCIA at the moment is that three of the Small Executive Hanger units are in the process of being leased. Two units are awaiting signatures at the new lease rate, and the third unit is currently in discussion with an individual who was on the wait list.
- The month-to-month decision was predicated on the same appraisal that caused some of the issues leading to the arbitration. Should KCIA consider delaying this conversation until the outcomes of the arbitration are decided?
    - The land value analysis in the appraisal was separate from the facility value analysis. Fifteen tenants were made aware of the rate increase and they chose to not move into arbitration.
- KCIA needs to be self-sustaining in several ways. Financial sustainability is one. The airport also needs to incorporate services such as maintenance and flight training. If these vital services are priced out because of lease rate increases, the KCIA is not supporting general aviation needs.
- The concept of market readiness does not cleanly apply to hangers, as there are not many additional options for hangers available to customers. In this regard, leased hangers are different that apartment or storage units. KCIA could look into the possibility of constructing additional hangar capacity to alleviate regional pressure.
- KCIA should work to implement policies that address sub-leasing. Currently, sub-leasing practices at the airport give the appearance of hanger tenants being more stable than they really are.
- KCIA appears to be testing the high end of lease pricing to see which tenants will stay. Turnover of long-term tenants will likely happen if the new rates are kept in place.
- What other elements should the KCIA consider in addition to guidelines stipulated in King County Code and by federal and state regulations?
    - Lease rates could be set at a benchmark of 20 percent higher than those lease rates at Paine Field in Everett. Tenants at KCIA expect to pay a premium for the convenient location of the airport; however, lease rates are currently set too high. A 20 percent increase would account for the competitive advantages of KCIA.
    - Could KCIA incorporate a general aviation category into the lease rate framework that would help to recognize vital services such as maintenance and work to retain these services for the airport? Lack of affordable general aviation services is becoming an issue at the KCIA, and it hurts the airport as well airport tenants. Making the airport more desirable in this way is in the best interest of King County, as stipulated by the Code.

Members suggested the following ideas as items for additional exploration:

- Analyzing the KCIA wait list process, including the matter of tenants “jumping” the wait list via sub-leasing
- Providing arbitration for monthly rental agreements
- Considering the location premium of the KCIA and/or factoring regional airport and hangar capacity
- Setting a policy basis that is not a “one size fits all” approach; developing a factor that supports general aviation needs and encourages KCIA as a general aviation business center; attracting additional airport services (even if the services are not based at KCIA)

Next steps
County staff will address follow-up items identified at the meeting. The next LFWG meeting will be held on Monday, Sept. 14 from 2:30 p.m. to 4:30 p.m. The agenda for the next meeting will be updated to reflect topics and action items identified by LFWG participants.

Lease Framework Working Group
Meeting Summary - Sept. 14, 2015

Lease Framework Working Group Meeting #4
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
September 14, 2015

Attendance

Working group members
- Beth Mountsier
- Bill Ayer
- Bill Greene
- Chuck Kegley
- Gary Molyneaux
- Gene McBrayer
- Ian Taylor
- Lise Kaye
- Mike Colmant
- Rick Lentz
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees
- Don Stark
- Eric Schneider
- Harold Taniguchi
- Nikki McBrayer
- Tony Eayrs
- Tony Wright
- Garrett Holbrook
- Michael Hodgins
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Mike Colmant, King County International Airport (KCIA) Deputy Director and Lease Framework Working Group (LFWG) Chair, welcomed the group and thanked everyone for attending the meeting. Ryan Orth, LFWG facilitator, provided a brief overview of the meeting agenda and available materials. Ryan emphasized that the purpose of the LFWG's fourth meeting was to continue discussions on hanger rental rate policies and focus on refining potential policy options. LFWG members approved the day's meeting agenda and adopted the summary from the August 31, 2015 meeting.

King County International Airport business model
Michael Hodgins, BERK Consulting, presented information related to the KCIA business model. Handouts included information related to the KCIA's role as a property manager, the airport's redevelopment projects through 2020 and a comparison of operational revenue/expenditure ratios at nearby airports. Michael highlighted the following key information:

- Upcoming projects for airport redevelopment have been approved by the King County Council through the capital budget process. KCIA's prioritization process assigns each airport redevelopment project a score against several ranking criteria, including County and FAA guidelines.
- Many of the projects associated with the airport's role as a property manager are related to environmental cleanup and other actions tied to turning over KCIA property for redevelopment.

- Comparisons of airport operational revenue and expenditures are presented as ratios. It is difficult to get operations numbers into total alignment between local airports for a variety of reasons. For example, the Renton Municipal airport does not have police or airport rescue and firefighting (ARFF) costs as those services are provided by the city. At Paine Field, ARFF is lower because the sheriff provides police services and the airport only needs to pay for the firefighting component.

LFWG participants had the following questions and comments about the KCIA business practices:

- Are there many legal mandates on development projects?
    - There are some legal mandates on environmental projects. Often these legal mandates stipulate actions as well as timeframes. The airport usually works with the Washington State Department of Ecology on environmental projects. The timeframes of these environmental projects may fluctuate due to a variety of factors.
- Are the numbers noted in handouts for development projects the total cost of the project, or are they only the KCIA's share of the total cost?
    - The numbers are the entire cost of the project.
- Is there a document that would allow LFWG members to more effectively trace expenditures? Has the airport provided the most current documents?
    - The financial plan that the LFWG has been presented with is the most current; however, the County Council may vote on a new financial plan in the coming days. Financial information does track throughout the documents provided to the LFWG. Staff is available to work with members between meetings on specific questions. There may also be the opportunity moving forward to further explore the financial topics with the roundtable group and with KCIA tenants.
- For future airport revenue and expenditure ratio comparisons, it would be helpful to note the size of the various airports, as well as the number of airplanes that are based out of each. This would help to put the financial comparisons into perspective.
- Could the county provide additional detail on allocations to the superfund cleanup on the Duwamish River?
    - That information is not available at this time due to ongoing negotiations.

Group discussion of KCIA lease framework and hangars lease options
Michael Hodgins provided LFWG members with a presentation detailing updated hanger occupancy figures, a framework and existing process for setting hangar rates and potential options for updating the hanger lease policies. Key points from Michael's overview included:

- Hanger occupancy figures were recently updated. For small executive hangers, the wait list has been exhausted and two hangers are currently open. These hangers will be advertised to the general public. A hangar in the NE section that was notified for vacancy at the end of September is now pending for a new occupant Oct. 15.
- There are two basic tracks for the current KCIA lease rate setting process: long-term leases and short-term leases. For long-term leases, the airport begins with an appraisal as the first step. The airport then notifies tenants, and they can either accept the rate changes or they can arbitrate. While there is no requirement for the appraisal for short-term leases, the county code and the Federal Aviation Administration (FAA) requirements need to be honored, and the KCIA needs to justify lease rates to the FAA. King County Code requires that rents be set based on

"terms and conditions that are in the best interest of the county". FAA exempts aeronautical uses from a requirement to charge fair market value, but generally requires KCIA to treat all similarly-situated tenants equally and to set prices to be as self sufficient as possible. The FAA guidelines point to the FMV methodology as an appropriate approach to setting equitable rates and charges. Any changes to the current process will need to be connected to and justified by King County and FAA policy.

- Strategies for updating the current process for short-term leases could potentially include:
  - Determining an alternative to an appraisal to determine base rent, including value based on a set premium that is above and beyond KCIA competitor rates, a commercial property index to adjust a prior year, or adding a peer review to the appraisal process or dispute resolution process.
  - Using policy-based adjustments, including discounts to reflect support general aviation, or caps on annual rate adjustments
  - Use alternative approaches to new rate implementation, including annual CPI adjustments between rate-setting years

LFWG participants considered the existing KCIA lease framework policies and the advantages and disadvantages of potential options. Members had the following comments and questions:

Base rent

- Paine Field is raising rents on facilities an average of 4 percent every year. The KCIA could potentially set lease rates at a set value (potentially 30 percent) above Paine Field to account for the location premium.
  - Paine Field will conduct a new appraisal this late 2015 or early 2016 for rate setting.
- The appraisal worked under the assumption that there was an extensive wait list for hanger tenants. The fact that one small executive hanger has sat empty for at least a year and a half demonstrates that the extensive wait list was not a valid assumption in terms of calculating fair market value for hanger lease rates.
  - The list was only one of several criteria used in rate determination, including location advantage.

Policy adjustments

- There could be a discount provided to those tenants who sign annual leases, as opposed to month-to-month leases.
- If the KCIA were to treat a certain tenant differently (for example, a tenant categorized as general aviation services), the airport needs to be able to explain and justify this treatment to the FAA as it applies to all that provide the same service. As the KCIA is in the public sector, the airport needs to be very clear in defense of fairness, equity and sustainability.
  - Policies that target categories of tenants differently are very challenging to implement at the KCIA, especially because of the transparent, public nature of the facility. Fairness is of paramount importance.
- KCIA is experiencing an exodus of general aviation businesses that have supported the airport community for years. Increasing rent is likely a contributing factor to this exodus. There should be a lease rate policy framework in place that allows KCIA to better accommodate for general aviation services.
  - King County should work to get better general aviation services at the KCIA, as this would be in the best interest of the county.

Wait list

- There could be an initial fee to secure a place on the wait list and then a yearly maintenance fee to stay on the wait list. These fees could then potentially be applied as deposits to hanger rents if individuals transition from the wait list to tenancy.
- There could be a limit to how many times a person on the wait list can decline an open hanger before they are moved off of the wait list.
- The current process of the KCIA wait list is that the airport does not know the potential for tenants to accept the offer of a lease until the offer is extended to them.
- In most cases, the wait list has not been used because of the long tenancy of most hangars. KCIA does not have to contact many individuals on the wait list before a hanger opening is filled. The current inquiries into small executive hangers are the exception to this. The airport has never before had to navigate this situation.
- Why does it take such a long time to move through the wait list?
    - There are a variety of factors that contribute to delays in hanger occupancy. As the airport and a potential tenant discuss and work through any rental details (e.g. readiness to move, insurance, operations, uses, etc.) that present themselves in anticipation of a lease agreement, the hanger sits empty. This process repeats itself with each tenant as the KCIA works through the wait list.

Other

- If demand exceeds capacity, then capacity could be increased. KCIA could increase hanger capacity by constructing additional facilities.
- The KCIA should have a very low tolerance for hanger vacancies. Vacancies translate to lost revenue and lower overall activity at the airport.
- Level of vacancy could be incorporated into lease rates in some form. High vacancy is an indication that lease rates are too high. While 100 percent occupancy is not indicative of fair market value, an especially low occupancy rate (60 percent, for example) is indicative of a problematic rate structure.

Tony Wright, Facilities Maintenance Director and Executive Leadership Committee member, noted that lease rate increases on small executive hangers were likely too high. Tony stated that the KCIA was interested in lowering rate increases to a more appropriate level and would appreciate input from the LFWG. He encouraged LFWG members to consider ideas for identifying a transparent, market-appropriate rate level for small executive hangers at KCIA and asked members to include a policy-basis for any suggested updates.

Next steps

Ryan thanked the committee members for their discussion and noted that an additional meeting to explore policy recommendations would likely be in order. He encouraged LFWG members to consider the elements and options for the policy framework discussed at this meeting submit new ideas and clarifications to him via email or phone. The LFWG will discuss leading policy options at the group’s next meeting and work to identify their recommendations. The date for the next LFWG meeting will be confirmed as soon as possible. Members stated the team should take as much time as necessary to get the ideas incorporated and possible changes reviewed.

Lease Framework Working Group
Meeting Summary – Oct. 26, 2015

Lease Framework Working Group Meeting #5
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
September 14, 2015

Attendance

Working group members

- Beth Mountsier
- Bill Ayer
- Bill Greene
- Chuck Kegley
- Gary Molyneaux
- Gene McBrayer
- Ian Taylor
- Mike Colmant
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees

- Harold Taniguchi
- Tony Wright
- Don Stark
- Nicholas Lee
- Nikki McBrayer
- Tony Eayrs
- Garrett Holbrook
- Michael Hodgins
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Mike Colmant, King County International Airport (KCIA) Deputy Director and Lease Framework Working Group (LFWG) Chair, welcomed the group and thanked everyone for attending the meeting.

Ryan Orth, LFWG facilitator, provided an overview of the meeting agenda and available materials. Ryan emphasized that the purpose of the LFWG's fifth meeting was to begin systematically reviewing policy elements of KCIA hangar and tie-down lease policies and potential improvements for each. Ryan reminded LFWG members that the overall goal of the group's work was a set of consensus policy recommendations that would be passed along to Executive Leadership Team members for their consideration before being shared with the County Executive and Council.

Harold Taniguchi, Director of the King County Department of Transportation and Executive Leadership member, emphasized King County's interest in the LFWG's discussions and recommendations. He noted that County staff and County Council members value transparency in the process of updating the KCIA lease framework, and he thanked LFWG members for the perspectives that they bring to discussions. Harold noted that King County will continue to coordinate with the group throughout the process, and he committed to keeping members of the LFWG informed as to how their input would be used moving forward.

Several LFWG members had recently attended a King County Council Government Accountability and Oversight (GAO) Committee meeting, and they observed a willingness on behalf of the councilmembers in attendance to revisit recent rate increases. Beth Mountsier, LFWG member, noted that County Councilmembers recognized that the LFWG was ongoing, and she stated that councilmembers were interested to hear recommendations from the group. A video recording of the Sept. 22 GAO Committee meeting is available online here: http://king.granicus.com/MediaPlayer.php?view_id=4&clip_id=5446 (discussion of KCIA LFWG begins at around the 11:00 mark).

Ryan provided a brief overview of the proposed revised LFWG meeting plan. Several additional LFWG meetings are anticipated to finalize interim recommendations on hangar and tie-down lease policies, expected to be completed by the end of the calendar year. The LFWG will resume discussion of long-term leases and other lease framework policies after current long-term lease arbitrations are complete, likely in January.

LFWG members approved the day's meeting agenda and adopted the summary from the September 14, 2015 meeting following the incorporation of minor revisions.

King County International Airport lease framework options
Michael Hodgins, BERK Consulting, first provided LFWG members with an update of the occupancy status of midfield, southwest, and northeast hangers, and he noted that three units were currently vacant. Michael reported that marketing efforts for these available units were ongoing, and that they had already brought one new tenant to the airport. A summary of this occupancy status was included in the provided discussion guide.

Michael summarized the potential options for structuring KCIA's future hangar and tie-down business to help frame group discussion. He reminded LFWG members that KCIA policy needs to take into account both existing King County Code ("terms and conditions that are in the best interest of the county ") and Federal Aviation Administration (FAA) guidelines (treat all similarly situated tenants equally and set prices so the airport is as financially self-sufficient as possible). Michael reiterated that the 2015 rate-setting process accounted for these directives by setting rates that were based on estimated fair market value and applied consistently within asset classes.

Michael asked the group to consider several questions as about the airport's lease policy moving forward, including:

- Should fair market value be the primary goal for lease rates?
- What factors should be considered in setting a market rent (e.g. comparable nearby facilities, conditions of facilities, relative locational advantages, etc.)?
- What level of hangar and tie-down vacancy should be acceptable to KCIA moving forward, and how should KCIA respond to vacancies following a price change?

The major business option that the LFWG has explored to date assumes that KCIA stays in the hangar and tie-down business. Michael provided an overview of potential KCIA lease policy options, which the group would explore in greater detail through focused information in the discussion guide.

Michael also posed the question as to whether or not the airport should remain in the business of operating leases for hangars and tie-downs, noting that an alternative strategy could involve the use of a third party concessionaire to operate these facilities. In this potential scenario, KCIA would develop a request for a proposals, establish minimum concession terms and then select a third-party operator. Michael noted that this strategy may provide additional flexibility for a private operator in terms of how leases are conducted.

Following the overview, LFWG participants provided the following comments, questions and discussion:

- How does the KCIA interpret what constitutes the best interests of the County? Is this short-term or long-term best interests of KCIA? This directive could potentially be construed to maximize revenue. Conversely, it could be interpreted to enhance general aviation at the airport to ensure a thriving community in the long-term.
    - The King County Code provides broad guidance. If KCIA proposes any policy or rate changes, the airport simply needs to demonstrate that these changes are in the best interest of the County. King County taxpayers own the KCIA and the taxpayers need to benefit from any policies at the facility.
- General aviation support is at a low level throughout the United States. Aside from lower lease rates, what policy strategies foster and support general aviation?
    - There are many factors that influence lease rate; one of the largest components of price is location. Many tenants at the KCIA are willing to pay higher rents because of the location. This location premium needs to be balanced with fostering general aviation at the airport.
    - Location is one component that influences lease rate; however, the market today is very different than it was twenty years ago. The KCIA needs to be operated as a business in order to foster its long-term viability. One factor that may contribute to long-term operations is robust general aviation.
- In order for the LFWG to provide holistic guidance on the future direction that airport operations should take, members need to have a clear idea of what the airport's current plans for growth are.
    - The KCIA has an adopted master plan, and airport staff will soon engage in a KCIA master plan update. There is also a KCIA strategic plan that has very developed goals and objectives. The objectives that are present in both the master plan and the strategic plan provide a roadmap to the airport's growth goals in the coming years.
- If KCIA were to operate leases through a third-party concessionaire, would the FAA guidelines stipulating equal treatment of similarly situated tenants still apply to the private operator?
    - A concessionaire would not be beholden to the FAA in the same ways that the airport currently is.
- Do other local airports use a third party concessionaire to operate?
    - Paine Field operates airport tie-downs through a third party. At the moment, the KCIA operates facilities through a third party to an extent, as leases are granted through FBOs. If KCIA were to explore an enhanced concessionaire model, the airport would remain the property manager while a private entity would operate the facilities. The Port of Seattle operates in this way.
- Rather than operate hangers via a third-party concessionaire, could KCIA sell hangers outright to a private operator?
    - Selling property presents different challenges. Currently, airport property cannot be sold.
- If the County explored a concessionaire model for the operation of hangars and tie-downs, KCIA's ability to address tenant concerns would be different than it currently is. In such a scenario, KCIA could build feedback mechanisms into contracts; however, County control would be limited.
- The LFWG needs to be mindful that policy recommendations are looking into the long-term.

LFWG participants focused discussion on five potential policy areas that could be updated moving forward: (1) pricing, (2) the wait list, (3) vacancy), (4) terms, and (5) small executive hangars. Members had the following comments and questions within each of these five areas:

Pricing

- What should KCIA do if rates increase and three tenants decide to leave, but are then replaced by two tenants who are willing to pay the higher rate? Is this an acceptable scenario?
    - Time will tell if this is a valid strategy. The functional outcome of this scenario is that established, long-term tenants will be forced out of facilities to allow new, untested tenants to come in. KCIA will have to consider the ramifications of this outcome and determine if this is acceptable.
    - Should the KCIA keep a tenant that is unable or unwilling to pay a fair market rate for the facility that they are renting? The County could potentially make this case if it were related to fostering general aviation services at the airport; otherwise, it would be very difficult to make the case.
- Higher pricing tends to squeeze out general aviation businesses. One of the strategies that KCIA can explore moving forward is adapting pricing to support general aviation enterprises.
    - KCIA would be very cautious in extending advantageous lease rates to new tenants that will then be in competition with existing tenants. Bringing new tenants in at a lower rate would provide them with an advantage that would not match KCIA policy guidelines.
- If KCIA were to operate lease rates at a set premium above a nearby airport, using Paine Field as a comparison, the premium would have been significant (between 144-388%) before the 2015 rate increases. The LFWG needs to consider whether or not the idea of a premium is sustainable and robust over time.
- If KCIA would set lease rates as a premium over a nearby airport, there is the potential that regional price-setting could become a circular process that could potentially drive up the price of facilities at all nearby airports or artificially depress the value of the KCIA. This practice would be very difficult to implement effectively, and it would be difficult to base lease rates on the value of the location versus the value of the land.
    - The premium does not need to be entirely prescriptive. It could potentially be a factor that is conserved as a component of a market valuation.
- Tax payer money does not fund the airport, and no tenant money subsidizes anything else within the county.
- Incorporating peer review into the appraisal process would be a way to ensure the accuracy of the appraised lease rates for hangars and tie-downs.
    - The appraiser used 14 different factors, including regional airport comparisons. There is more that goes into valuation of KCIA facilities than a direct comparison between airports, as many airports have very unique characteristics.

Wait List

- The wait list process, especially as it relates to the 2015 appraisal process, was not well managed. Updates need to be made to the KCIA's wait list moving forward, and it needs to be accounted for differently in future rate appraisals.
- Part of the problem with the wait list is that the process it currently follows is very linear. Each step in the process has delays associated with it, and it is not very nimble to move through.

The discussion guide outlined potential improvements to the wait list process that LFWG had previously suggested. LFWG members proposed that KCIA begin implementing these changes immediately, including:

- Add annual renewal fee to stay on the wait list
- Pre-process new applicants through risk management to shorten the time to work through the wait list
- Confirm aircraft ownership status
- Streamline the process to work through the wait-list:

KCIA staff committed to using these concepts to begin revising and implementing its wait list policies immediately.

Vacancy

- Keeping existing businesses on airport property should be a primary objective of KCIA. Vacancies constitute missed revenue opportunities, and as such they should be taken very seriously by the County. Missed revenue is not in the best interest of King County or taxpayers.
    - As a public entity, the KCIA needs to ensure that hangar and tie-down leases accommodate everyone. The current conversation is focusing on a very small piece of overall airport revenue, but the process that the LFWG is following could potentially lay the groundwork for future decisions. Finding acceptable pricing and vacancy rates is a balancing act.

Terms

- One lease strategy that is in the best interest of the County is longer lease terms.
- Could leases provided by a third-party concessionaire be operated for longer than ten years?
    - Due to property valuation issues, several King County Code changes would be required for a concessionaire to grant and operate leases longer than ten years.

Small Executive Hangars

- Updates to the Small Executive Hangers could be made that would allow them to support large or different aircraft. This could be a potential strategy for making them more marketable.

Next steps

Ryan thanked the committee members for their discussion and noted that additional meetings would be needed to continue discussion and to clarify consensus recommendations of lease policy at the KCIA. He noted that he would request additional input from LFWG members via email, phone or online survey in the coming weeks and that feedback supplied by members would be packaged into a set of draft recommendations for discussion at the LFWG's next meeting. The date for the group's next meeting will be confirmed with members as soon as possible.

King County
International Airport
Boeing Field

Lease Framework Working Group Meeting Summary – Jan. 29, 2016

Lease Framework Working Group Meeting #7
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
January 29, 2016

Attendance

Working group members

- Bill Ayer
- Bill Greene
- Kevin Hoffman (phone)
- Chuck Kegley
- Rick Lentz
- Gary Molyneaux
- Gene McBrayer
- Ian Taylor
- Mike Colmant
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees

- Tony Eayrs
- Nafin Eyoub
- Garrett Holbrook
- Nikki McBrayer
- Steve Ohlenkamp
- Harold Taniguchi
- Eric Schneider
- Sandip Soli
- Don Stark
- Michael Hodgins
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Mike Colmant, King County International Airport (KCIA) Deputy Director and Lease Framework Working Group (LFWG) Chair, welcomed the group and thanked everyone for attending the meeting.

Ryan Orth, LFWG facilitator, provided an overview of the meeting agenda and available materials. Ryan emphasized that the purpose of the LFWG's seventh meeting was to further clarify interim recommendations to KCIA lease policy and begin a conversation on potential strategies for a long-term KCIA lease framework.

LFWG members approved the day's meeting agenda and adopted the summary from the December 7, 2015 meeting.

Updated Occupancy Status for KCIA-Owned Hangars
Tom Paine,

Review of Revised Interim Recommendations

Introduction to Ground Lease Policy Framework and Discussion Topics

Next steps

Ryan thanked the committee members for their contributions. He noted that the planning would update the group's interim recommendations document with the consensus decisions made at this meeting. He recognized that the LFWG could, upon review, further clarify recommendations and highlight additional questions or concerns at the group's next meeting. Ryan also noted that group would begin discussing long-term lease policies. The next LFWG meeting will be scheduled in January based on member availability.

Lease Framework Working Group Meeting Summary – Jan. 29, 2016

Lease Framework Working Group Meeting #7
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
January 29, 2016

Attendance

Working group members

- Bill Ayer
- Bill Greene
- Kevin Hoffman (phone)
- Chuck Kegley
- Rick Lentz
- Gary Molyneaux
- Gene McBrayer
- Ian Taylor
- Mike Colmant
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees

- Tony Eayrs
- Nafin Eyoub
- Garrett Holbrook
- Nikki McBrayer
- Steve Ohlenkamp
- Harold Taniguchi
- Eric Schneider
- Sandip Soli
- Don Stark
- Michael Hodgins
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Mike Colmant, King County International Airport (KCIA) Deputy Director and Lease Framework Working Group (LFWG) Chair, welcomed the group and thanked everyone for attending the meeting.

Ryan Orth, LFWG facilitator, provided an overview of the meeting agenda and available materials. Ryan emphasized that the purpose of the LFWG's seventh meeting was to further clarify and confirm interim recommendations to KCIA hangar lease policies and begin a conversation on potential strategies for updating the KCIA lease policy framework related to ground leases.

LFWG members approved the day's meeting agenda and adopted the summary from the Dec. 7, 2015 meeting.

Updated Occupancy Status for KCIA-Owned Hangars
Tom Paine provided LFWG members with a handout detailing the updated occupancy status for KCIA hangars. He noted that two Large T-Hangars and two Large Executive Hangars have new tenants that were elevated from the waitlist. Tom recognized that two of the Small Executive Hangars were not being leased at the time, as they were being used to accommodate airport needs (Small Executive Hangar MF A-1 was used for airplane storage during hangar maintenance and Small Executive Hangar MF A-2 was being used as temporary storage for Aircraft Rescue and Fire Fighting vehicles). Tom noted that KCIA staff plan to make these small executive hangars available for lease as soon as possible.

Tom identified that one Large T Hangar (SW C-4) is also vacant and being held while maintenance work at the SW Large T-Hangars is ongoing.

Review of Revised Interim Recommendations
Ryan introduced revised interim lease recommendations to the group, noting that the draft document incorporated comments provided by members during and after the Dec. 7 meeting. Ryan encouraged LFWG members to review the revised recommendations and highlight additional updates.

LFWG members discussed several potential changes to the revised interim recommendations. Key ideas and questions raised during discussion included:

- Will there be a fee associated with the wait lists?
    - Yes. It is currently set at ten dollars per year, but KCIA staff were considering increasing it to fifty dollars per year. However, further review of the fee policy identified that the ten dollar amount is stipulated by King County Code. A change in the Code simply to increase the wait list fee may not be worth the effort; however, if other Code changes are recommended by the group, then the wait list increase could be sent to the King County Council as part of a bundle of recommendations.
- KCIA staff should ensure that any current fees associated with remaining on the hangar wait list are collected. This will ensure that exiting code is enforced and that any potential updates to fees are effective.
- There are currently four wait lists that KCIA maintains, one for each type of hangar. To ensure that vacancies are filled as rapidly as possible, waitlist policy should advertise all hangar openings across all waitlists. Individuals on wait lists may be willing to upgrade to a larger hangar if they have an immediate need and know that a larger one is available.
- KCIA staff felt that the seven-day window for new tenants to sign lease agreements was too aggressive. Interim recommendations may extend this timeframe to receive signatures to a month.
- KCIA policy needs to more explicitly detail the conditions that authorize hangar subleases.
    - There should likely be a distinction made between active and passive consent on behalf of King County and the KCIA. There should be some flexibility if there are multiple aircraft and multiple owners; however, lease policy should stipulate that both owners need to be on the lease. Passive consent of subleases occurs whenever policy is not followed. There are policy mechanisms that help to avoid these situations, but they are complex.
    - KCIA needs to be mindful of potential leasing scenarios that may constitute a jump in the waitlist by a tenant. In these situations, the judgement of the KCIA Director will also be important.
    - Subleases will likely become more and more prevalent as lease rates increase and fractionalized leasing becomes more prevalent.
- An additional level of complexity in subleasing enters when a limited liability companies (LLC) become lease holders. How will the KCIA prohibit LLCs from holding a lease forever, with membership changing within the LLC? This is, in practice, a form of subleasing.

- KCIA views its tenant base as individuals with aircraft, as opposed to LLCs. KCIA may need to continue examining and clarifying lease policy to codify how the airport interacts with LLC tenants in the future.

- The interim recommendations should note an increase between the time periods between appraisals. KCIA lease policy currently calls for three years between appraisals, which is too fast of a turnaround.

Harold Taniguchi, Director of the King County Department of Transportation and Executive Leadership member, thanked LFWG members for their comments. He noted that King County and KCIA staff would look into highlighted items and consider what recommended interim policy changes would be implementable and enforceable.

The planning team and KCIA staff will revise the interim hangar recommendations and waitlist policy, and provide to LFWG members for review.

Introduction to Ground Lease Policy Framework and Discussion Topics

Michael Hodgins, BERK Consulting, provided LFWG members with a handout outlining the purpose and approach to LFWG discussion about ground lease policies. He encouraged members to discuss current issues and to identify potential areas of ground term lease policies that the group could analyze and craft recommendations for. Michael included an excerpt from the LFWG Charter highlighting that long-term policy review would include:

- Pricing and lease terms
- Exclusive rights
- Arbitration rights and procedures
- Investment credits and amortization if tenant investments
- Assignment and transfer rights

Michael noted that the KCIA receives approximately two-thirds of its revenue from property rental income (excluding the Boeing lease). Michael also highlighted that, as the airport is County-owned, the KCIA's ability to negotiate long-term leases is limited by King County Code. Michael stated that any recommended changes to long-term lease policy at the KCIA should be considered in the context of real-estate policies that that effect all King County properties.

Generally, LFWG members discussed the opportunity for KCIA to be exempted from certain provisions in the King County Code, since the airport is specialized and distinct from other King County properties and facilities. In addition, LFWG members noted the following ideas related to ground lease policies:

Arbitration Process

- The current lease policy process provides tenants with 30 days following notification of new lease rates to notify KCIA if they intend to arbitrate. Tenants accept updated lease rates if they do not indicate intent to arbitrate. If arbitration is evoked, a panel of three arbitrators issue a ruling binding on the new lease. Any rate changes do not necessarily roll back rate updates on other leases.

- Lease policy may need to further clarify the tenant's responsibility to follow-up and initiate arbitration following their notice of intent.
- The arbitration process is expensive and confrontational. It should be reviewed.

Rate Determination

- Current policy calls for an appraiser to recommend (not set) lease rates every three years. The appraiser values the underlying ground at the KCIA that is reflective of the income being generated by the land. Some uses that tenants bring to the airport may demonstrate value to the airport community above and beyond what is reflected by appraised value.
- Setting lease rates by appraisal is difficult. It is often expensive, takes a long time to conduct, and lacks comparable airport facilities to inform its valuation. At many other airports, lease rates are set by identifying an initial lease rate and then updating that rate with consumer price index (CPI) increases on an annual, biannual, or five-year cycle.
    - The KCIA is currently setting lease rates by using regular appraisals with annual CPI increases. It makes sense for only one of those strategies to be used regularly moving forward. CPI increases should be following the rise and the fall in the economy, therefore negating the need for regular appraisal.
    - Appraisals are expensive for KCIA to conduct. Appraisals done once every ten years with annual CPI adjustments may be more appropriate for the airport and for tenants. KCIA could set appraisals to occur once every five years without a change to King County Code. Setting appraisals to occur every ten years would require a Code change.
- The KCIA is a difficult facility lease in that the tenants spending power is tied to CPI, while the appraisal is more tied to the real estate market.
- Tenants are interested in greater predictability from these policies, while the County is seeking reasonable alignment with the current market.

Investment Issues

- If there is a long-term tenant that has invested in their property and is coming up to the end of their lease term, does the airport request the land or the building back from them? Long-term tenants may withhold improvements to buildings because they are worried that the airport will seize buildings that they have constructed.
    - King County's goal is to get fair market value for the property, whether or not there is a building included on the property. LFWG members have encouraged KCIA to operate like a business. One of the airport's primary goals is to appropriately manage public funds.
- Thirty-five years is on the low side of the amortization; fifty years is more typical.

Next steps

Ryan thanked the committee members for their discussion. He noted that the next LFWG meeting will be scheduled in either February or March 2016, depending on member availability. Ryan anticipated that the upcoming meeting would serve as an opportunity to further develop identified policy topics for ground lease framework at the KCIA.

Lease Framework Working Group Meeting Summary – Mar. 4, 2016

Lease Framework Working Group Meeting #8
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
March 4, 2016

Attendance

Working group members
- Ben Humbert
- Beth Mountsier
- Bill Ayer (phone)
- Bill Greene
- Chuck Kegley
- Rick Lentz
- Gary Molyneaux
- Gene McBrayer
- Ian Taylor
- Lisa Kaye
- Mike Colmant
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees
- Don Stark
- Eric Schneider
- Garret Holbrook
- Nikki McBrayer
- Peter Anderson
- Randall Berg
- Sandip Soli
- Steve Ohlenkamp
- Michael Hodgins
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Mike Colmant, King County International Airport (KCIA) Deputy Director and Lease Framework Working Group (LFWG) Chair, welcomed the group and thanked everyone for attending the meeting.

Ryan Orth, LFWG facilitator, provided an overview of the meeting agenda and available materials. Ryan noted that LFWG members would review final recommendations to KCIA hangar lease policies during their eighth meeting, and continue a conversation on potential strategies for updating ground lease policies.

LFWG members approved the day's meeting agenda and adopted the summary from the Jan. 29, 2016 meeting.

Updated Occupancy Status for KCIA-Owned Hangars
Tom Paine provided LFWG members with an updated occupancy status for KCIA hangars. Tom stated that all hangars were currently leased, with the exception of two small executive hangars. Tom noted that these small executive hangars are being advertised to the general public. He also highlighted that KCIA staff provided lease information to interested attendees at the 2016 Northwest Aviation Conference and Trade Show.

Tom also restated that a single KCIA large T-Hangar is not available for lease while airport maintenance in ongoing.

Review of Final Hangar Recommendations

Ryan Orth asked members to review the final draft of the LFWG hangar policy recommendations. Ryan reminded LFWG members that the consensus recommendations, once approved, would be provided to the King County Executive and the King County Council and used to guide policy development and implementation at the KCIA. Ryan noted that the document highlighted changes made to the hangar policy recommendations following the Jan. 29, 2016 LFWG meeting.

LFWG members provided the following key comments and questions on the final hangar policy recommendations:

- The phrase "class of aircraft" on page two of the recommendations should be change to "class of hangar."
- The recommendations should consistently recognize that the Consumer Price Index (CPI) used to assess rate increases would be the local Seattle/Bremerton CPI as opposed to the national CPI.
- The recommendations should clearly state that the industry standards noted under "peer review of appraisal" heading are appraisal industry standards, as opposed to aviation industry standards.

The draft final recommendations document included a proposed deferral of phased rate increases resulting from the 2015 appraisal until May 1. LFWG members discussed the proposal and did not reach consensus on this point. Several members believed that the policy recommendations should be applied to the 2015 appraisal findings to address questions around the current lease rate schedule and potential effect on long-term tenants. LFWG members provided the following comments:

- Are new tenants and individuals on the wait list aware that hangar lease rates are going to increase in 2016 and again in January 2017?
  - Once KCIA has definitive information to share on the upcoming dates of phased increases, all individuals on the wait list will be informed. As there is still some uncertainty associated with the timing of the increases, it is premature to widely share the information.
- One of the reasons that the King County Council Government Accountability and Oversight Committee (GAO) requested that the LFWG convene was to provide the KCIA with the opportunity to come up with a process for determining hangar lease rates that would not drive away long-term customers in order to test the rental market. The hangar lease policy recommendations that the LFWG identified would likely improve existing policy; however, implementing them at a future date would not help to maintain current occupancy.
- There are four classes of hangars at KCIA. In the small executive hangar class, 100 percent of the 2015 rate increase was implemented at once. As a result, two of these hangars remain vacant. This demonstrates that the 2015 rate increase was harmful to sustaining occupancy.
  - One-hundred percent of the 2015 rate increase was also implemented on the large executive hangar class, and large executive hangars are currently leased. Available small executive hangars were not leased prior to the rate increase; new tenants have not been found for these open hangars.
- KCIA could test the effectiveness of the LFWG's recommended updates to lease policy on the current group of hangar lessees. A peer review of the 2015 appraisal could be conducted to demonstrate the validity of the phased hangar lease rate increases.

    - An appraisal conducted now would differ slightly from that called for by the LFWG's policy recommendations. A significant amount of time has passed since the initial appraisal was done. A peer review of the appraisal would not re-conduct an appraisal, it would simply review the appraisal methods to ensure that they met industry standards and practices. King County would scope the review to account for these factors.

Members of the Executive Leadership Team briefly convened to discuss the potential of incorporating the LFWG's recommendation of a peer review of the 2015 appraisal to inform a decision on phased increases of hangar lease rates. Tony Wright, Director of Facilities Management for King County, reported back to the group. Members of the Executive Leadership Team agreed that a peer review would be possible to undertake, provided it is scoped to focus on hangars and conditions that existed during the original appraisal. As this would be a review appraisal, Tony noted that new information would not be considered and that the appraisal would verify the assumptions that were included in the initial 2015 appraisal.

Tony said that the review appraisal would occur as soon as possible, noting that the timing of the appraisal review would be dependent upon appraiser availability. Tony anticipated that it would take King County approximately two weeks to draft the scope of work for the review appraisal. He stated that King County would look into the possibility of providing LFWG members with this scope of work for the review appraisal once it was finalized, pending legal approval. Tony also noted that he would look into the possibility of the review appraiser attending an Airport Roundtable meeting.

Executive Leadership Team and LFWG members agreed that the language included in the LFWG hangar policy recommendations should tie the target date for the next phased rate increase to the release of the review appraisal.

The Executive Leadership Team reported their plan to brief King County Council Government Accountability and Oversight Committee members at their March 8 meeting. LFWG members were welcomed to attend and provide comment during this meeting.

Review of Ground Lease Policy Framework and Discussion Topics
Michael Hodgins, BERK Consulting, re-introduced the topic of long-term ground lease policy issues for the group's consideration and discussion. Michael provided members with a handout that highlighted potential focus areas for future discussion and policy recommendations. Michael noted three areas where current King County Code may not be flexible enough to support changes to ground lease policies at KCIA, depending on LFWG recommendations: (1) the length of lease terms, (2) investment requirements, and (3) appraisal and reevaluation cycles.

LFWG members highlighted the following items for consideration at future discussion:

- Are investment requirements at the KCIA comparable to what other government-run airports do?
    - There are other models that exist that may allow additional flexibility in meeting the best needs of the KCIA and the county.
- Washington State auditor reports often state that the Port of Seattle is not maximizing the value of land, highlighting that it is not in the best interest of taxpayers. The Port of Seattle often responds by noting that it is working to balance other goals that taxpayers have set for it. This perspective may be helpful to future discussions.
    - KCIA needs to continually demonstrate that the airport is not misusing public funds.

    - If LFWG members have different needs or long-term policy goals in mind, those need to be communicated to King County staff in the group's recommendations.
- The most important contribution that the KCIA makes is to the national airspace. An item that the LFWG should consider in future discussions are Federal Aviation Regulations.

Next steps

Ryan thanked members for their discussion and highlighted that the group's next meeting is scheduled for Apr. 1, 2016. He asked that LFWG members continue to consider options and preferences for ground lease policies in preparation for the upcoming discussion. He encouraged members to send comments to him in advance of the group's next meeting. Ryan said that these comments would be incorporated into documents distributed in preparation for the upcoming meeting.

Lease Framework Working Group Meeting Summary – Apr. 1, 2016

Lease Framework Working Group Meeting #9
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
Apr. 1, 2016

Attendance

Working group members
- Ben Humbert
- Bill Ayer
- Bill Greene
- Chuck Kegley
- Gary Molyneaux
- Ian Taylor (phone)
- Mike Colmant
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees
- Don Stark
- Eric Schneider
- Garret Holbrook
- Harold Taniguchi
- Lance Robertson
- Marjan Foruzani
- Michael Hodgins
- Nafin Eyoub
- Peter Anderson
- Randall Berg
- Steve Ohlenkamp
- Tony Wright
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Ryan Orth, LFWG facilitator, provided an overview of the meeting's agenda and available materials. Ryan noted that LFWG members would discuss the status of the Scope of Work for the review appraisal for hangars as well as revisit the topic of long-term lease policy at the KCIA.

LFWG members approved the day's meeting agenda and adopted the summary from the March 4, 2016 meeting.

Updated Occupancy Status for KCIA-Owned Hangars
Tom Paine provided LFWG members with an updated occupancy status for KCIA hangars. Tom noted that all KCIA hangars were currently leased, with the exception of two small executive hangars. Tom noted that these small executive hangars recently received three inquiries from potential tenants, and he noted that discussions with potential lessees were ongoing.

Review of Scope of Work for Hangar Review Appraisal
Tom Pain encouraged LFWG members to review two documents: (a) a scope of work pertaining to the review appraisal and (b) a summary of comments from LFWG members, tenants and Airport Roundtable members related to the 2015 hangar appraisal. Tom noted that the overall purpose of the review appraisal was codified in the four bullets under the "Description of Work" heading in the Scope of Work document. Tom stressed that the review appraisal would not re-conduct a full appraisal; rather it would focus on the methodology and the conclusions provided by the 2015 appraisal.

LFWG members provided the following comments and questions pertaining to the review appraisal and the draft Scope of Work:

- Will this review ensure that the 2015 appraisal conforms to Uniform Standards of Professional Appraisal Practice?
    - The review appraisal will examine the work that was conducted during the 2015 appraisal. The review will confirm the appropriateness of the methodology (e.g. were the comprehensive airports appropriately chosen, etc.), and be informed by the comments and concerns of various stakeholders.
- If one aspect of the appraisal is discounted during the review process, how will that affect the overall 2015 appraisal? Would it call into question the accuracy and the viability of the entire 2015 appraisal?
    - The results of the appraisal will inform any potential next steps that KCIA staff will take with regards to hangar leases and lease rates. If any errors are identified, King County and KCIA leadership will consider the new information and decide on the most appropriate path forward.
- The value of hangars in the 2015 appraisal was based entirely on the square footage of hangars. In reality, it is the size of hangar doors that should set the price for hangars. The hangar door is the pinch-point in determining the class of aircraft that could potentially fit into the space.
    - The review appraiser will have that comment bundled into the package of materials that they are provided with. The review appraiser will then have the opportunity to examine that concern and address it through the review appraisal process.
- What next steps does KCIA plan to take if the 2015 appraisal is not supported by the review appraisal?
    - KCIA delayed the phased rate increase on hangars while the review appraisal process in ongoing, per the LFWG's recommendation. If the review appraisal comes back with significant disagreement, then King County will need to examine next steps for addressing any identified issues. A likely first step would be to discuss results with LFWG members as well as the Airport Roundtable to solicit ideas and perspectives. King County would be willing to work with stakeholders to address any fundamental errors in the 2015 appraisal that the review appraisal identifies.
- How will the review appraisal confirm the methodology of the 2015 appraisal?
    - The review appraisal will consider the methodology that was used during the 2015 appraisal effort. The methodology review will be subject to the professional standards and judgment of the appraiser. If any issues are discovered, the review appraisal will bring them to the attention of the KCIA.
- Changes have been made to the KCIA hangar wait list in the past year that may affect how it is considered in the appraisal process.
- LFWG members made a recommendation regarding comparable airports in the document outlining potential KCIA improvements to hangar lease strategies. The review appraisal should incorporate clear direction on this point.
    - King County staff need to ensure that the scope of work does not hinder, constrain or guide the review appraisal. Appraisers operate by their own set of rules and guidelines, and the Scope of Work needs to set the review appraisal up for success. Providing the review appraiser with a pre-set list of comparable airports would likely constitute an extraordinary circumstance. However, these types of comments can be provided in the package of materials given to the appraiser.
- How could conducting a review appraisal impact long-term lease holders?

- That the KCIA is willing to take a second look at the appraisal demonstrates that King County is willing to work with hangar tenants to address potential concerns. The review appraisal does not pose a high level of risk for long-term lease holders. The impacts of a review appraisal could influence ongoing hangar rent negotiations more heavily than they could influence long-term lease holders.

Members of the King County International Airport Executive Leadership team encouraged members of the LFWG to provide comments to be incorporated into the review appraisal's Scope of Work within one week of the meeting. Comments would be highlighted in the provided overview sheet, as well as made available to the appraiser in their entirety. LFWG members were also interested in providing the appraiser with a copy of the group's hangar lease recommendations.

Ryan Orth encouraged LFWG members to review meeting summaries to ensure that all comments and perspectives provided during past meetings were captured in the overview document.

Review of Long-term Lease Policy Framework Issues
Michael Hodgins, BERK Consulting, re-introduced the topic of long-term ground lease policy issues for the group's consideration and discussion. Michael provided members with a handout that highlighted potential focus areas for future discussion and policy recommendations. Michael again recognized that current King County Code may not be flexible enough to support changes to ground lease policies with regard to (a) the length of lease terms, (b) investment requirements, and (c) appraisal and reevaluation cycles.

Pricing
Michael noted that a major question associated with rate determination with regards to long-term leases could involve either direct negotiation or a Request for Proposal (RFP) process, so long as the determined rate was in the best interest of King County. Michael reminded LFWG members that previous discussions also considered lease rates increases and appropriate frequencies of appraisals and Consumer Price Index (CPI) increases.

LFWG members and meeting attendees provided the following questions and comments regarding long-term lease rate determination:

- Is there room for negotiating a price for a long-term lease below what an appraiser would value the property at?
    - KCIA is required by code to get fair market value for a property. An initial appraisal is done, which determines Fair Market Value.; this finding is then used when determining lease pricing or noted in an RFP. It is often difficult for KCIA to justify accepting a price below the fair market value that was noted in an appraisal. However, if multiple bids to an RFP came in below the appraisal price, this would determine the market.
- Are CPI adjustments in addition to appraisal reviews every three years?
    - Many long-term leases do not have a CPI adjustment clause, even though the King County code allows for CPI adjustments under changes made within the past two years. A CPI adjustment would help tenants and the county to anticipate rate increases between appraisals and bring costs to appropriate levels in anticipation of a future determination of fair market value. LFWG members identified at past meetings that having both a three-year appraisal cycle and an annual CPI increase may represent redundancy. CPI would be more useful if appraisals were conducted every five- to ten-years.

- CPI does not always account for changes in the real estate market. How can long-term lessees plan for price-jumps following an appraisal that are not wholly accounted for by CPI?
    - The annual CPI adjustment is a tool to help smooth out shocks to the rent system. It allows for leases to be more predictable, which is beneficial to both King County and tenants. The CPI adjustments may not wholly cover the difference in appraised values; however, they help to anticipate changes and make price jumps less dramatic.
- Can tenants negotiate a cap to annual rate increases that are not directly tied to CPI, but that are fixed annual increases.
    - Yes. KCIA needs to prove that King County is being a good steward of public resources and that the airport is not gifting public funds. CPI tends to be a strong factor to incorporate on very long leases (e.g. 30-years), since there is so much uncertainty associated with long time-frames. The code could be updated to provide King County with flexibility to incorporate CPI or a fixed annual increase.
- Is it possible for King County to stretch the frequency of appraisals to five years? Ten years?
    - Yes. Up to a ten-year frequency of appraisal is could work, so long as annual CPI increases were required. A change to five-years between appraisals would not require a change to King County Code; a frequency interval of more than five-years would require a code change. If the airport were to switch to this timeframe, staff would need to confirm that current lease holders would be amenable to this strategy moving forward. Five- and ten-year appraisal cycles could potentially work together.
- Changing King County Code relating to the appraisal frequency does not mean that the individual leases will be updated. If the Council were to update the Code, KCIA would need to go back to individual lease holders and negotiate lease amendments.

LFWG members identified that there was interest within the group to move to a five-year or more appraisal cycle with annual CPI adjustments. The planning team committed to drafting a recommendation for LFWG consideration

Lease Terms and Investment Requirements
Michael revisited the requirement that long-term tenants have to invest in the property that they are leasing. He noted that investment requirements on King County properties are not airport-specific, highlighting that property investments for leases over ten-years need to be equal to the value of the property to be leased and investments for leases over thirty-five years need to be equal to the estimated useful life of the improvements.

Michael encouraged the group to discuss the investment requirements. He noted that that the provided discussion guide highlighted policy issues associated with the investment requirements.

LFWG members and meeting attendees provided the following questions and comments regarding lease term and investment requirements:

- Investments may come in forms other than simple property upgrades. For example, investments could be made into businesses themselves that could provide the property and the airport with enhanced value.
- Strict interpretation of King County Code puts some airport properties in an interesting situation. If a property is leased long-term and it already has a $40 million hangar built on it that does not need improvements, should King County then request a further $45 million? This

requirement could potentially drive small businesses away when they are unable to reinvest such large amounts into the property.

- The investment requirement of the code seems to be geared toward unimproved properties.
- One potential strategy for changing the code could be to offer existing tenants a right of first refusal that would allow them to forgo further investment requirements.
    - Right of first refusal is already practically present in King County negotiations with long-term tenants.
    - King County Code needs to specifically protect long-term tenants. These protections need to be more explicit.
- Tenants who develop a property to its highest and best use should be preferred tenants.
    - It is up to the KCIA Director to determine what highest and best use for the airport is. This is guided and informed by the KCIA Master Plan and the Land Use Plan.
- Current investment requirements often place long-term tenants who do not plan to renew in a position to stop making property improvements as their lease terms come to a close.
- King County Code does not currently provide the KCIA with the flexibility that it needs. Higher rents for improved properties could also be an option in some cases where investment options do not make sense. This would allow King County to demonstrate that it is being a good steward of public resources while also responding to the needs of the KCIA community.

Next steps

Ryan thanked members for their discussion and highlighted that the group's next meeting is scheduled for Apr. 15, 2016. He reminded members to send comments pertaining to the review appraisal Scope of Work, especially those pulled from past meeting summaries to him in advance of the group's next meeting.

Gary Molyneaux, Manager of KCIA Planning and Program Development and LFWG member, reminded attendees that the King County Council Government Accountability and Oversight Committee would meet at the airport on May 24, 2016 to discuss several ongoing airport initiatives, including updates or a final report, if available, on the LFWG process.

Lease Framework Working Group Meeting Summary – April 15, 2016

Lease Framework Working Group Meeting #10
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
April 15, 2016

Attendance

Working group members

- Beth Mountsier
- Bill Greene
- Gary Molyneaux
- Lisa Kaye
- Mike Colmant
- Rick Lentz
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees

- Don Stark
- Garret Holbrook (phone)
- Harold Taniguchi
- John Hempelmann
- Marjan Foruzani
- Nafin Eyoub
- Peter Anderson
- Randall Berg
- Sandra James
- Serge Walczak
- Tony Wright
- Wendy Langen
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Ryan Orth, LFWG facilitator, provided an overview of the meeting agenda and available materials. Ryan noted that LFWG members would review draft recommendations on long-term ground lease policies, identify any additional opportunities for recommendations, and clarify goals and next steps for upcoming meetings.

LFWG members approved the day's meeting agenda and adopted the summary from the Apr. 1, 2016 meeting.

Updated Occupancy Status for KCIA-Owned Hangars
Tom Paine provided LFWG members with an updated occupancy status for KCIA hangars. Tom said that the KCIA recently executed a lease on a small executive hangar, and he noted that this new lease meant that only one small executive hangar remained vacant at the airport. Tom stated that the airport is currently working with a potential tenant to fill the final small executive hangar.

Review of Draft Recommendations on Long-Term Lease Rate Adjustments
Tom Paine provided LFWG members with a draft document highlighting potential policy recommendations regarding the frequency of adjustment and increases between adjustments for long-term ground leases at KCIA. Tom reminded members that, with the exception of Boeing, long-term ground leases currently have three-year adjustment cycles stipulated in their existing leases. At the previous LFWG meeting, members identified the benefits that five- to ten-year adjustment cycles could

provide for the county and tenants. Tom noted that the airport would need to sign lease amendments with existing lease holders to extend adjustment cycles beyond the currently stipulated three years. Tom also highlighted that the draft recommendation captured the LFWG members' hope that King County Code could be amended to allow lease rate adjustments of up to ten years in order to provide the airport and tenants with additional flexibility as new ground leases are negotiated.

The draft recommendation document also highlighted the need for annual fixed-percentage rate increases in non-adjustment (appraisal) years. Tom noted that annual increases would reduce the risk for large rate increases at re-appraisal, and he said that King County prefers a fixed-percentage approach over Consumer Price Index (CPI) due to the increased certainty and a decreased administrative costs that fixed rate increases provide.

Tony Wright, Director of King County Facilities Management Division, noted that the KCIA could immediately implement the noted recommendations, with the exception of the ten-year rate adjustment cycle.

LFWG members provided the following comments and questions pertaining to the draft recommendations:

- Does the airport have many ground leases that are less than ten years?
    - Typically, leases at the KCIA are either month-to-month, up to five years, or 35-years. If a tenant meets the investment requirements, they may qualify for a lease that is ten to 35 years. Any lease that would be five to ten years would require King County Council approval.
- Do recommendations for interim rate adjustments require a change to King County Code?
    - No. Code currently allows for interim adjustments based on either a fixed-percent or on CPI. King County's preference is generally to use a fixed-rate to provide more certainty. In general, tenants also prefer fixed-percentage increases.
- What is the process for requesting a change in King County Code?
    - Recommendations from the LFWG would be bundled into a King County Council Government Accountability and Oversight Committee (GAO) report, which would then move to the King County Executive, then to the King County Council for a vote. To be efficient, the LFWG should package all recommended changes to King County Code together for Executive and Council consideration.

Discussion of Policy Options Related to Ground Lease Investment Requirements

Ryan requested that LFWG members discuss, consider and clarify potential policy changes associated with long-term ground lease investment requirements.

Tom highlighted that currently policy (stipulated by King County Code) required no investments for leases less than ten years, investments equal to the value of the land on leases ten to 35 years, and "significant" investments for leases up to 50 years.

LFWG members provided the following comments and questions pertaining to ground lease investment requirements:

- Are King County investment requirements generally for unimproved properties? If a property is improved, is the investment requirement then equal to the value of the land and any land improvements?

- King County Code may be interpreted in such a way that an existing investment on the property fulfills investment requirements. For bare-ground leases, the investment requirements stand. Because the code is currently open for interpretation, the King County legal counsel is currently reviewing the code language and will issue an opinion.

- Will King County share the legal opinion on investment requirements for improved properties?
  - The county will share a summary of the conclusion once the legal opinion is available.
- If the legal opinion on investment requirements for improved properties does not support the county's current interpretation of code, could that provide an additional opportunity for a code change?
  - The County Code would likely not need to be changed if the legal review returned a definitive interpretation. If the review demonstrated that the Code language could benefit from additional clarification, the Director of the Facilities and Maintenance Division may request that the County Executive pursue legislation to clarify the code language.
- If a long-term lease tenant made improvements to a county property, and then wished to renew their lease following its expiration, would the new lease incorporate the value of their investment into the lease rate?
  - Yes. Improvements to the land revert to the county following the expiration of a lease. Therefore, once a property reverts to King County following the end of a lease, any new lease terms would incorporate the value of both the property and the value of any investments. Long-term tenants are aware that investments will revert to the county when they sign their lease, and this provision is very much the norm in the airport industry.
- If investments revert to county ownership at the end of a long-term lease, does that mean that the county is then in charge of maintaining the infrastructure?
  - The county is currently looking into this. Lease rates take into account base rent, operating costs, cost escalation and other factors. In some cases, King County may add maintenance requirements into leases, as well. There are many ways that the county and tenants can negotiate these maintenance requirements. Generally, KCIA would like tenants to be responsible for maintenance and meet certain requirements established by the airport.
- Is there a financial burden on the county to maintain infrastructure that reverts to the county following the end of a long-term lease?
  - No, King County has sufficient resources to respond to these maintenance needs.
- The ten- to 35-year window requiring investment equal to the value of the land is very broad. Could KCIA explore some kind of formula or graded approach to investment within this 25-year timeframe?
  - KCIA needs to be careful that over-defining policy doesn't hinder lease negotiations. Flexibility is important to give both the airport and tenants the ability to negotiate a lease that is mutually beneficial.

Discussion of Additional Policy Options Related to Ground Lease

Ryan asked LFWG members if there were any additional long-term ground lease issues that should be explored fir potential recommendations from the group. LFWG members provided the following comments and questions:

- Should LFWG members look at the impact KCIA policies have had over the past 20-30 years that may have contributed to some businesses and general aviation (GA) services leaving the airport?

It would be in King County's best interest to attract these types of businesses back to the airport.
    - The LFWG should consider how lease policy could be updated to support the airport's strategic goals and Master Plan. If the County needs to encourage GA services through subsidies or other lease strategies, the group could recommend that.
    - The KCIA Master Plan currently identifies several sites on airport property designated to attract GA. In some cases, these sites are not yet available. KCIA also works to support GA by waiving landing fees and fuel flowage fees. There is also discounted rate space available for GA that the KCIA has been unable to fill.
- For vacant airport properties, Requests for Proposals (RFP) allow KCIA to fill spaces with tenants that meet airport needs above and beyond fair market value. RFPs allow the airport to fill vacancies by considering other factors, such as social and environmental needs.
    - King County needs a firm policy basis for lease criteria above and beyond fair market value. State audits will expect the airport to lease all properties at fair market value.
- County Council is tentatively planning on examining the KCIA Master Planning process. Part of this review will involve teasing out the long-term goals of the County and examining how the overall economy, large GA, small GA and Boeing relate to these goals.
- The KCIA is supported by enterprise funds and not by tax dollars; however, KCIA is supported by Federal Aviation Association (FAA) funding. FAA grants often have strings attached to help airports adapt to local needs, while also requiring KCIA to maximize revenue and be as self-sufficient as possible. FAA grants also require that the airport not discriminate against different classes of users.
- In general, the King County Code needs to strike a balance between certainty and flexibility. If code is overly prescriptive, it can make lease negotiation very difficult.
- Leasing policy needs to account for investor risk and ensure this is balanced against the county's policies related to economic, revenue, fiscal, social and environmental factors.
- Why are King County leases only executed for a maximum of 35 years whenever many long-term commercial leases extend to 99 years? It usually takes a long time for investors and tenants to effectively amortize their property investments.
    - This is a policy question that would require additional research. The airport industry norm is 50 years with right of first refusal at the end of the term. After 50 years, most aviation buildings have outlived their design life.

Next steps

Ryan thanked members for their discussion and highlighted that the group would likely require two additional meetings prior to the May 24, 2016 GAO meeting. LFWG members noted that the first of the two potential meetings should present a set of draft recommendations for group review and discussion; members could then finalize a set of ground lease policy recommendations at the following meeting.

To accommodate this schedule, Ryan requested that LFWG members identify any additional ground lease policy topics in advance of the groups next meeting. KCIA staff committed to writing draft ground lease policy recommendations using input gathered from LFWG members.

Lease Framework Working Group Meeting Summary – May 9, 2016

Lease Framework Working Group Meeting #11
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
May 9, 2016

Attendance

Working group members

- Ben Humbert
- Bill Ayer
- Bill Greene
- Chuck Kegley
- Gary Molyneaux
- Lisa Kaye
- Mike Colmant
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees

- Don Stark
- Eric Schneider
- Garret Holbrook
- Harold Taniguchi
- Nafin Eyoub
- Randall Berg
- Steve Ohlenkamp
- Teresa Mason
- Tony Wright
- Michael Hodgins
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Ryan Orth, Lease Framework Working Group (LFWG) facilitator, provided an overview of the meeting agenda and available materials. Ryan noted that LFWG members would review draft recommendations on long-term ground lease policies and identify any outstanding opportunities for policy recommendations. He said that the group would aim to review and potentially finalize draft of recommendations in preparation for the upcoming King County Council Government Accountability and Oversight Committee (GAO) meeting on May 24, 2016.

Following the meeting, identified findings and recommendations would be compiled into a draft recommendations document and that LFWG members would have an opportunity to review at a final meeting prior to the recommendations being presented to the GAO.

LFWG members approved the day's meeting agenda and adopted the summary from the Apr. 15, 2016 meeting.

Updated Occupancy Status for KCIA-Owned Hangars
Tom Paine provided LFWG members with an updated occupancy status for King County International Airport (KCIA) hangars. Tom said that all Small Executive Hangars were expected to be leased by the end of the week. In addition, he noted that one Small T Hangar tenant planned to vacate at the end of May 2016. Tom said that an individual from the waitlist indicated their interest and plans to take over the lease of the Small T Hangar on June 1, 2016.

Finally, Tom noted that a Large T Hangar is still vacant in order to house KCIA construction vehicles in the short-term.

Review of Draft Recommendations on Long-Term Lease Rate Adjustments
Tom Paine provided LFWG members with a draft document highlighting potential policy recommendations related to lease term and rate adjustments.

Tom said that the draft recommendation related to long-term leases with improvements that would soon revert to King County. LFWG members were interested in clarifying how existing improvements on KCIA properties would be managed when the county signed new leases with tenants. Specifically, Tom noted that the airport was interested in exploring whether or not King County code allowed existing improvements to count toward a new lease's investment requirement.

LFWG members provided the following comments and questions pertaining to improved properties:

- When the code refers to the "value of the property," does the value of improved properties then account for the value of both the land and the improvements?
    - King County assumes this will reference only the value of the land, as the language of the code distinguishes between "property" and "improvements". This will be clarified as recommendations are drafted.

The draft recommendation also noted that future long-term leases should continue to utilize existing King County Code that allows for lease terms between 36-50 years for properties that require significant improvements (the extended lease term would allow tenants additional time to amortize their property investment).

LFWG members provided the following comments and questions pertaining to length of lease term:

- The statement that the Federal Aviation Administration (FAA) "advises against longer lease terms and considers any term longer than 50 years to be fee-simple transactions (i.e., the tenant becomes the de-facto owner of the leased property)" may not be accurate.
    - KICA staff will look into FAA guidance on lease terms and airport compliance. However, King County code does not allow for leases longer than 50 years. Longer terms would require a code change or approval by the King County Council.
- At past LFWG meetings, participants noted that a 99-year lease is the norm for many commercial leases. A 99-year term seems to make the most sense from a tenant-investment perspective. The LFWG could recommend a code change to allow for greater than 50-year lease terms to ensure that King County has greater flexibility in the future.
    - The current layout of the KCIA likely does not warrant this. A 99-year lease term is more appropriate for a much larger airport. Even in the case of larger airports, 50-year lease terms are the industry maximum in all but the most extreme cases. With regard to the FAA, leases longer than 50 years could potentially flag the airport for a compliance audit, following a tenant complaint that an airport was discriminating against other tenants in favor of a longer lease term.
- What would happen if a tenant made improvements to an airport property, but then felt that they did not have enough time left in the lease to fully amortize their investment?
    - In that case, King County could potentially terminate the existing lease and renegotiate a new lease to provide a tenant with additional certainty. If there were any unfulfilled terms in a lease to be terminated, King County would settle with a tenant in some way.
- Are there any examples of lease negotiations that did not work because of existing investment terms?

    - There are likely examples of this happening at the KCIA. However, the county does not maintain a database of reasons that lease negotiations are not finalized.
- What are the maximum lease terms at other airports?
    - Regionally, Boeing's 75-year lease at KCIA is likely the longest. Renton has a maximum of 50 years. Throughout the nation, the standard lease term is likely around 35 years.
- Should the group recommend that King County code be amended to allow and normalize greater than 50 year leases?
    - A code change would need to lengthen the maximum allowable lease term currently noted in the code as 50 years. King County Council can currently allow exceptions to the 50-year rule, however. The LFWG could recommend that tenants seeking a greater than 50-year lease should engage with the King County Council sooner. This strategy would not necessitate a change to code.

Discussion of Additional Policy Options Related to Ground Lease

Ryan asked LFWG members if there were any additional long-term ground lease policy opportunities that should be explored for group recommendations. LFWG members provided the following comments and questions:

Right of First Refusal and Lease Award

- How is Right of First Refusal (ROFR) currently managed at KCIA properties as new leases are awarded? Should the group consider proposing an update to King County Code in order to benefit tenants and provide more flexibility to the county?
    - Currently, King County Code does not stipulate ROFR. In practice, King County will discuss options with the tenant to ensure that the property is developed to its highest and best use. King County would then decide whether or not to move into direct negotiation or to release a Request for Proposals (RFP). King County often moves into direct negotiation for a new lease, and the tenant has a strong bargaining position based on their history. KCIA has historically directly negotiated with most tenants in the past 15 years, and will continue to do so in cases where it is in the best interest of the county. The best interests of King County are not always monetary- there are other economic and policy factors that influence these decisions.
- The KCIA should also strategize ways to protect small general aviation (GA) from encroachment by large GA.
    - In the KCIA Master Plan development alternatives, small GA accounts for approximately 20 percent of the airport's leasable land. The Master Plan may be a helpful reference in future recommendations.
- In cases when KCIA releases an RFP, what language is incorporated into the selection criteria? Are businesses that serve the airport considered differently from airports that do not?
    - KCIA looks at the Master Plan and considers how to best use county real estate. RFPs are then constructed with language that demonstrates how KCIA will evaluate applications.
- Current tenants have the perception that they have more protection for assuming adjacent parcels than they do for maintaining their existing lease holds. Is this accurate?
    - No. Currently, tenants can apply current terms to adjacent parcels that they may acquire, but tenants do not have first refusal rights to adjacent properties as they become available.

- ROFR presents several difficulties to the KCIA. For example, ROFR become very valuable near the end of a lease term. There are several King County leases that include a ROFR clause; however, the county will always account for the value of the ROFR in the lease agreement.

Assignment Premium

- Is the 75 percent premium extracted by the county if KCIA tenants sell their business stipulated by King County Code?
  - No, that is a clause that is included within the leases themselves. This premium is only extracted in extreme scenarios, when a tenant is selling for a value beyond the property and lease. This helps the airport to benefit from the value of the leasehold. If a company is paying an existing tenant a large sum of money to access the final two to three years of a lease, the company is likely paying a tenant for access to end-of-lease negotiations. In these cases, the airport would like to realize part of that transaction.
- If the 75 percent premium is intended to cover only the most extreme events, is the policy more appropriate to be includes within airport or King County policy that is outside of individual leases? For example, could individual leases simply stipulate that they cannot transfer?
  - King County is willing to negotiate on this clause with individual tenants, so long as the airport's goals are met. King County is willing to work with tenants to adjust language and minimize uncertainty as needed.

Arbitration

- Are existing arbitration practices stipulated by code? The current process is inefficient and encourages the use of arbiters who may or may not be knowledgeable of policy and the best interests of KCIA. For example, it is difficult to find an arbiter that understands why height restriction discounts are included in the costing of the land to tenants. That was lost through the recent arbitration process and some believe the height restriction elimination was a mistake. An advocacy arbitration model could have made the process more efficient.
  - Arbitration is not stipulated by code; it is language included within leases. There is nothing that prevents a selected appraiser in the current process from advocating a positon. The three arbiters were neutral to tenants and the county. The goal of existing arbitration practices is to limit expense and ensure that they are not protracted. The current process is likely as effective as it can be, but King County would be open to discussing arbitration further with tenants.

Next steps

Ryan thanked members for their discussion and highlighted that the group would meet once more prior to the May 24, 2016 GAO meeting. At this meeting, members would review a final draft of long-term lease recommendations.

King County International Airport Boeing Field

Lease Framework Working Group Meeting Summary – June 27, 2016

Lease Framework Working Group Meeting #12
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
June 27, 2016

Attendance

Working group members

- Bill Greene
- Chuck Kegley
- Gary Molyneaux
- Gene McBrayer
- Lisa Kaye
- Rick Lentz
- Rosemary Brester
- Tom Paine
- Tom Ysasi

Additional meeting attendees

- Don Stark
- Harold Taniguchi
- Lance Robertson
- Marjan Foruzani
- Nikki McBrayer
- Randall Berg
- Sandra James
- Tony Sekora
- Tony Wright
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Ryan Orth, Lease Framework Working Group (LFWG) facilitator, provided an overview of the meeting agenda and available materials. Ryan noted that the twelfth LFWG meeting would provide members with the opportunity to review, edit, and finalize their recommendations on hangar and long-term lease policy at the King County International Airport (KCIA).

LFWG members approved the day's meeting agenda and confirmed the summary from the May 9, 2016 meeting.

Update on the Review Appraisal Process
Ian Taylor, King County, provided members with an update on the status of the review of the 2015 appraisal. Ian noted that the review was underway and that he anticipated a draft of the review appraisal soon. Ian said that the results of the review appraisal would be shared with the KCIA community at an upcoming Airport Roundtable meeting, potentially in July or September 2016.

LFWG members had the following questions and comments about the status of the review appraisal:

- Will LFWG members be able to see the instructions that the KCIA provided to the review appraiser?
    - Yes. The scope of work, as well as a collection of comments provided by LFWG members, was previously sent out to LFWG members.
- Will the Airport Roundtable discussion of the review appraisal be open to the public?
    - Yes. LFWG members will be notified when this update will occur, so that they may attend if interested.

Discussion of Draft LFWG Policy Recommendations
Ryan Orth provided LFWG members with a draft document highlighting long-term and hangar lease policy recommendations. The draft recommendations incorporated comments and edits provided by members during and after the group's May 9, 2016 meeting. Ryan hoped to highlight and discuss any final comments, concerns, or questions on the draft recommendations document, and he was hopeful that LFWG members could reach consensus on the suit of recommendations following their discussion.

Ryan highlighted that the most significant changes that LFWG members had proposed pertained to appraisal re-evaluation cycles and rent adjustment, length of lease terms, lease award, and hangar pricing. He encouraged LFWG members to focus on these areas within the recommendations as they reviewed and discussed. He also noted that many of the past edits that LFWG members identified to the draft recommendations were requests for additional clarity.

LFWG members noted the following questions and comments regarding the draft lease policy recommendations:

Length of lease terms

- The first bullet calls for that a lease term "up to 35 years." Is that true, or is this development requirement more likely to be tied to a ten-year lease?
    - The recommendation document can be updated to say "ten to 35 years."
- There are nuances in the phrasing "in the County's best interest." It could mean many things, and it is a challenging concept to approach from a tenant's perspective.
    - The phrasing provides additional flexibility that allows King County to enter into direct negotiations in more lease situations, as opposed to releasing a Request for Proposals (RFP) once leases expire. In many cases, this language benefits both the County and the tenant. The more strict and prescriptive that King County Code is, the more challenging it is for tenants to operate.
- Do these recommendations set a new threshold that sets an investment requirement of at least two times the value of the property being leased just to qualify for a 35-year lease? This point needs to be better defined.
    - Investment that is two times the value of the property is an outcome from a specific lease direct-negotiation. This is not an overall requirement noted in the LFWG recommendations.
- Members of the King County Council are interested in protecting and fostering small general aviation (GA) at the KCIA. Do direct negotiations help to enhance GA?
    - RFPs allow the KCIA to set parameters for the types of businesses that can apply to fill a vacant lease. This includes fostering GA where the KCIA Master Plan highlights a need. If the airport is unclear what as to what property needs should be met in a new lease, it has the opportunity to release a Request for Information and allow the industry to come to the airport with recommendations. The airport can then release an RFP from there.
- When determining a value for a 35-year lease, is the value of the land determined by an appraisal?
    - In most circumstances. King County Council often desires an appraisal that is less than a year old.

Investment requirements

- The third bullet, noting that King County will negotiate individually with tenants who have improved properties and account for improvements that have reverted to King County ownership, appears to answer the question posed by the first bullet in the segment, which highlights a need for additional clarity on approaches for re-leasing reverted improvements.
    - Yes, direct negotiation with tenants and updating lease terms to include property improvements largely does respond to this need for additional clarification. However, King County Code requires that properties move to an RFP by default unless it is in the County's best interest to directly negotiate. Therefore, the findings work to capture this slight ambiguity.
- Is it policy for the KCIA to directly negotiate with all existing tenants?
    - In practice, the King County Facilities and Maintenance Division (FMD) does contact existing tenants before their lease expires. What happens to the lease following that contact, either an RFP or a direct negotiation, is dependent upon the conversation that the airport has with tenants. FMD always talks to current tenants first, even if moving to an RFP is the King County's chosen path forward for a lease.
- Should the LFWG provide comment on lease-holders who may currently be at risk of losing their properties?
    - No, the relationship is a business transaction with mutually agreed upon rights and responsibilities. The parties are aware of the potential from the day the parties entered into the lease. Tenant do not have certainty that their lease will be renewed or a new lease. Factors such as tenant use, behavior, or their duration at the KCIA may influence the County's interest in working with a tenant on the potential for a new leases.

Lease award

- When are direct negotiation notices released to the public?
    - Current practice is that direct negotiations are publically noted on two occasions once they are begun.
- Is the KCIA Master Plan intended to protect all classes of GA, large and small?
    - Large GA is doing well at the KCIA, but all GA services at the airport are important. The KCIA Master Plan highlights this as a multiuse airport for all types of aircraft.

Other long-term lease policies

- Should the recommendations include a stronger suggestion for a policy incorporating right of first refusal?
    - Right of first refusal is a stronger element with legal importance, and there are questions as to whether or not airport leases could incorporate a right of first refusal policy due to U.S. Federal Aviation Administration (FAA) regulations. Right of first refusal would likely demonstrate to the FAA that the tenant de facto owns the land, which is problematic.
- Can a tenants hold two back-to-back 35-year leases without being considered the de facto property owner?
    - Yes. However, if the initial 35-year lease included language that set the expectation that the tenant would be able to automatically enter into another 35-year lease, that would be problematic from the FAA's perspective.
- If the right of first refusal language is problematic, then the first bullet should be removed from this section of the LFWG recommendations.

Hangar pricing

- Does the KCIA provide appraisers with a list of comparable airports to use when making regional pricing comparisons?
    - No. KCIA can provide the appraiser with a list of ideas, but the appraiser must have the independence to choose their own comparable airports.
- Can the recommendations further clarify the language included under the "base rates for hangars" bullets? Does the County have the ability to determine rates not tied to appraisal results because some short-term lease hangars are older?
    - This language provides the County and tenants with greater flexibility, and the practice often benefits tenants. This language refers to month-to-month leases; therefore, fair market value is not a Code requirement when setting cost. Appraisals provide a starting point that the County may use to set pricing. The language included in this bullet of the recommendation could be simplified to make this point more clear

Lisa Kaye noted a procedural clarification. She requested that, within the conclusions of the recommendation document, language should be inserted that clarifies the role of the King County Executive, who would propose recommendations for Code changes to the Council, as appropriate.

Members noted that the draft recommendations, in noted areas, could more clearly convey the LFWG's perspective regarding long-term lease policy. The group noted that an additional meeting may be needed to review suggested additions and come to consensus on the final hangar and long-term lease policy recommendations.

Hangar Insurance Requirements

Gene McBrayer, LFWG member, noted that tenants recently received notice from the KCIA GA Manager regarding insurance requirements. Gene highlighted two items that he sought additional clarification on:

- Vehicles driven onto KCIA property must be covered with a minimum liability coverage of $350,000 and the KCIA must be named as an additional insured party
- Aircraft is required to have extensive liability coverage ($5M for 5,000 lb gross takeoff weight)

Gene noted that some tenants were having difficulty insuring their aircraft for the required amounts, and he also noted that some insurers were unwilling to name KCIA as an additional insured party as a matter of policy. He also cited concerns with the additional costs associated with the insurance premiums.

Randy Berg, KCIA Director, noted that the GA Manager is enforcing current tenant policy. He noted that, if the policy was not feasible for tenants as written, that the issues should be brought to the Airport Roundtable. The group could then formally request that the KCIA Director request that the Risk Management division conduct a review of the insurance requirements. Randy noted that the GA Manager would review the issues, including weight requirements and, as well as send out additional information to tenants outlining next steps.

Next steps for LFWG process completion

Ryan thanked LFWG members for their discussion and comments, and he said that the group's policy recommendations would be updated with the thoughts and comments provided by LFWG members. He noted that the group may either confirm the updated consensus policy recommendations by email or at a final meeting.

Tony Wright closed the meeting by noting that the results of the review appraisal may be presented at an upcoming July Airport Roundtable discussion or LFWG meeting, depending on availability and timing. Tony said that LFWG members would be alerted if the review appraisal was completed in time for this meeting.

Lease Framework Working Group Meeting Summary – October 18, 2016

Lease Framework Working Group Meeting #13
King County International Terminal
7277 Perimeter Road South Seattle, WA 98108-3844
October 18, 2016

Attendance

Working group members
- Bill Ayers
- Chuck Kegley
- Gary Molyneaux
- Rosemary Brester
- Richard Lentz
- Tom Paine
- Ian Taylor
- Tom Ysasi

Additional meeting attendees
- Peter Anderson
- Randall Berg
- Nafin Eyoub
- Teresa Mason
- Marlene Mitchell
- Lance Robertson
- Tony Sekora
- Don Stark
- Harold Taniguchi
- Greg Vik
- Alyssa Wen
- Tony Wright
- Ryan Orth
- Brett Watson

Introductions, agenda review and committee business
Ryan Orth, Lease Framework Working Group (LFWG) facilitator provided an overview of the meeting agenda and available materials. Ryan noted that this thirteenth and final LFWG meeting would provide members with the opportunity to review and finalize their recommendations on hangar and long-term lease policy at the King County International Airport (KCIA).

LFWG members approved the day's meeting agenda and confirmed the summary from the June 27, 2016 meeting.

Review Appraisal Process
Ian Taylor, King County Prosecuting Attorney's Office, provided LFWG members with an overview of the review appraisal process and findings. Ian noted that the comments from the LFWG and Airport Roundtable were provided to the review appraiser for consideration. During the review of appraisal methodology and findings, the appraiser requested further information regarding the hangar wait list and hangar conditions. The report affirmed the findings of the original appraisal.

LFWG members provided the following questions and comments about the review appraisal's scope, process, and findings:

- The review appraisal did not effectively incorporate a review of comparable airports. Small executive hangars were the only class that was considered against comparable facilities, and comparable facilities were only located in California and leased by Signature Flight Support.

- Did the review appraisal consider the appraisal that is ongoing at Paine Field?
    - King County was unaware of the ongoing appraisal at Paine Field, and doesn't know if the review appraiser was aware of this.

Harold Taniguchi, King County Department of Transportation Director, asked LFWG members to consider strategies for addressing short-term hangar lease rates in the future that may facilitate a more streamlined update process. Members gave the following feedback:

- The KCIA could raise rates by a set amount each year, like Paine Field.
- King County Code does not require the KCIA to conduct appraisals for month-to-month rental agreements. In the future, the KCIA Director could potentially have more discretion in setting these short-term lease rates based on customer's changing needs and fluctuating regional pricing.
- Use the hangar appraisal as one data point for the Airport Director to consider when setting month-to-month lease prices. Pricing does not have to be directly tied to the appraisal results.
- The KCIA could consider implementing longer-term leases on some of the hangars. This would help address the discrepancy between the airport setting long-term hangar rates for tenants who do not necessarily have the same long-term commitment (as is, tenants can leave with one month's notice to the KCIA). Predictability can offer value to both the airport and the hanger tenant. Hangars converted to longer-term leases could then have arbitration rights.

Randy Berg, KCIA Director, concluded the discussion by recommending that rates not be increased until July 2017. He noted that increases in lease rates would then be phased in, and that final hangar rates would be determined by the Executive Leadership following review of LFWG recommendations and ongoing conversations with the Airport Roundtable. Randy also noted that he was hopeful that KCIA could incorporate additional light general aviation (GA) capacity on this southern parcel to further address LFWG member recommendations.

LFWG members updated language in the final draft LFWG recommendations document to reflect the completed review appraisal.

Final LFWG Recommendations Document

Ryan Orth walked members through updates in the draft LFWG Hangar and Long-term Lease Policy Recommendations document based on the group's on Jun. 27, 2016 meeting. A summary of these changes were provided to the group.

Members highlighted the additional opportunities for updating the recommendations document in order to finalize it. Ryan made live edits to the LFWG recommendations on screen:

- De-couple the use of an appraisal for determining base rates for hangars. Identify the Airport Director and FMD Director's discretion in adjusting rates in line with business objectives and market conditions. An appraisal may be periodically used as an independent assessment of market value to inform the rate-setting process.

- Provide future appraisers with additional direction as to what airports should be considered as comparable to KCIA. Potential options included Pacific Northwest airports or Washington state airports. Leadership noted that this language would need to ensure that this recommendation was only tied to month-to-month rental agreements and not long-term tenants. Incorporate a language in the recommendation for appraisers to review the hangar wait list at all comparable airports as part of future appraisal efforts.
- Include a more detailed description of hangar rate changes over the past 15 years.
- Replace "short-term leases" with "leases of less than one year" and replace "ground leases" with "leases longer than five years" throughout the document.
- Include "requires extensive improvements" as an additional term that needs further definition within the code relative to investment requirements for leases longer than 35 years.

LFWG members and Executive Leadership recognized that any necessary, future conversations on lease policy would be considered at the Airport Roundtable. Executive Leadership recognized that they would work with Roundtable leadership to adjust the format of upcoming meetings to better fit the needs of these potential upcoming discussions.

Members were asked for their acceptance of the document, with changes, and the LFWG expressed consensus support for the package. Ryan noted that he would individually check with members who were not able to attend the final meeting to confirm that the final LFWG recommendations represented a full consensus.

Steps for LFWG Process Completion and Ongoing Discussion of Lease Issues

Mark Witsoe, KCIA Marketing Manager, thanked LFWG members for their discussion regarding tenant insurance requirements at the June 2016 meeting. He noted that the airport was updating insurance requirements to align airport and tenant needs, highlighting that the airport was no longer required to be added as an additional insured party on auto insurance and that general liability insurance would be updated based on wing span, (as opposed to takeoff weight). He also noted that transient aircraft would have lower insurance requirements. Mark concluded that additional updates on insurance requirements would be provided at the next Airport Roundtable meeting.

Conclusion

Ryan thanked the members for their participation throughout the LFWG process. Members of the Executive Leadership team thanked LFWG members for their time and perspectives, and they once again noted that future conversations would take place at Airport Roundtable meetings.