



## King County

### Department of Transportation

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March 25, 2015

The Honorable Pete von Reichbauer  
 The Honorable Rod Dembowski  
 The Honorable Reagan Dunn  
 The Honorable Jane Hague  
 King County Council  
 Room 1200  
 COURTHOUSE

Dear Councilmembers:

Thank you for your letter to Executive Constantine dated March 11, 2015, regarding rate changes at the King County International Airport (KCIA). I am responding on the Executive's behalf. I appreciate your concerns and below outline the background on this issue and our proposed path forward.

#### **Appraisal Process Background**

King County International Airport's (KCIA) business model relies on lease revenues to support its role as a regional economic center. KCIA generates an estimated direct economic impact of \$3.5 billion - supporting over 16,000 direct and indirect jobs in Puget Sound. The recently completed appraisal and recommended plan for implementation of the lease rate changes outlined below are critical to KCIA's ability to fulfill this vital regional role and provide long-term sustainability of Airport operations and services to its tenants and the community.

Prior to 2009, KCIA lease rates included numerous discounts related to height restrictions, location, parcel size and other lease conditions. As a result, most tenants enjoyed favorable rates below fair market value. By 2009, King County had eliminated the practice of applying discounts to fair market rental rates for non-Boeing Company tenants. This process resulted in a fairly significant increase in rental rates for ground leases.

Since 2009, long-term and monthly ground lease rates have remained constant, with no increases, mostly due to the economic factors associated with the Great Recession.

Monthly hangar rates held constant until 2012, at which point some hangar rates were adjusted. Additional increases to executive hangars were implemented in 2013 and 2014.

The current lease adjustment effort is an ongoing process that has taken many months to analyze and prepare for implementation. As part of that process, KCIA conducted a significant tenant outreach effort to make sure concerns were heard and addressed. The goal of the process was to make sure that the rate changes accurately reflect market conditions, were fair to all tenants

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across KCIA, and complied with both the King County Code and Federal Aviation Administration (FAA) Grant Assurance obligations. In addition, the process complied with the lease adjustment provisions in the individual lease agreements.

Tenants at KCIA have a mixture of long-term (up to 35 years) and monthly lease/rental agreements. Together these agreements generate an estimated \$6.7 million in annual rental income for KCIA or approximately 40 percent of all KCIA revenue. The 18 long-term agreements are exclusively ground leases. The monthly agreements include 74 hangars (executive and T-hangars) and 16 ground leases.

### **KCIA Tenants Affected**

There are different types of lease/rental agreements that permit tenants to occupy space at KCIA. Understanding how these agreements interact with King County Code and FAA Grant Assurances is a critical component of the process. As a general construct, KCIA is obligated to treat all similarly situated tenants equally, or risk formal complaints and restrictions on existing and future FAA grant funds.

#### **Long-Term Leases**

All of the long-term leases are ground leases and have arbitration clauses that permit the tenants who disagree with the appraisal conclusions and proposed rental increases to seek independent review of the appraisal, and arbitration if necessary. Accordingly, any tenant concerns about the new rental rate for these leases should be addressed by arbitration. An unfavorable arbitration decision aside, a 120-day pause in notifying the long-term tenants of the revised rent, could cause a significant loss in revenue to KCIA from January to September 1, 2015.

#### **Monthly Rental Agreements (MRAs)**

While an appraisal is not required for MRAs (because they are less than a year), KCIA determined that an independent appraisal process is an important data point in the determination of the rental rate. That being said, we are now clear that the appraisal can be adjusted using other relevant and articulated data points for MRAs covering hangars and ground leases. These factors could include potential vacancy, facility condition, use of the leasehold, and other factors and considerations as determined by KCIA and/or the Facilities Management Division (FMD).

It should be noted that the majority of the tenants who provided comments at the March 10, 2015, GAO meeting occupy King County owned hangars via MRAs. Reading and interpreting the various code provisions applicable to MRAs, our conclusion, which is supported by the King County Prosecuting Attorney's Office, is that KCIA is obligated to execute these agreements on terms and conditions that are in the best interest of King County. This includes making a reasonable effort to charge an appropriate and fair rent.

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### **Path Forward**

All long-term leases have the right to arbitrate their appraised rate. As such, and in order to expedite any potential arbitration, I have instructed KCIA staff to transmit notification of rate increase letters to our long-term leaseholders.

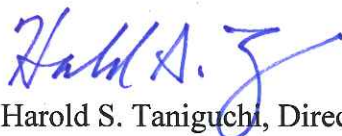
As it pertains to MRAs, I have directed KCIA staff to work in conjunction with FMD to provide appropriate documentation about conditions and circumstances as listed above for the purpose of adjusting the proposed MRAs accordingly. Once this round of vetting for the MRAs is complete for this appraisal period, we will provide a courtesy briefing with the affected parties before implementation. I understand the urgency of getting resolution on this matter, and anticipate these briefings to happen within two weeks.

### **Work Group**

I agree that the formation of a work group to review the existing appraisal and rate determination process to inform a recommendation for potential changes to King County Code that would address the future needs of KCIA and our tenants would be a valuable endeavor. I have tasked KCIA and FMD with creating a work group as outlined in your March 11, 2015, letter to accomplish this.

I have concerns about creating a work group to help affect the 2015 lease rate changes, especially with work group members that are going to directly benefit from any reduction in the proposed rent. These are not rights that are set forth in the rental agreements, and thus I am concerned that this will create a future expectation with respect to setting rental rates, both at KCIA and with other King County tenants. By addressing the immediate issues brought forward by our tenants with the solid documentation to make any rate adjustments, and evaluating our King County Code to ensure the spirit of fair market value is captured, I am confident that the creation of a work group is unnecessary.

Sincerely,



Harold S. Taniguchi, Director  
King County Department of Transportation

cc: Dow Constantine, King County Executive  
Anthony Wright, Director, Facilities Management Division  
Bob Burke, Director, King County International KCIA  
Ian Taylor, Prosecuting Attorney's Office