

# 2015 KCIA Triennial Appraisal

## Lease Rate Implementation



# 2015 LEASE RATE IMPLEMENTATION

## ACTIONS SINCE LAST BRIEFING

Since the last GAO Briefing, KCIA and FMD staff have accomplished the following:

- **Transmitted notification of rate increase letters to our 18 long-term leaseholders**
- **Completed inspection of all 74 KCIA-owned hangars**
- **Developed 2015 rental adjustment rate implementation plan for Monthly Rental Agreements (MRAs)**
- **Developed a plan for implementing the Council's direction regarding the formation of a work group**

# 2015 LEASE RATE IMPLEMENTATION

## POLICY CONTEXT FOR IMPLEMENTATION

### Considerations in the development of the implementation plan for the lease rates for the MRA's

- **Strategic Plan** directed KCIA to adopt policies and pursue business opportunities that will focus on optimizing across two key performance metrics:
  - Maximize the economic contribution of the airport; and,
  - Improve operating margins and maximize the financial return on its assets
- **Policy guidance** is also based on goals around equity and fairness:
  - KCIA has a duty to taxpayers to ensure that rental rates for publicly-owned airport land and facilities reasonably reflect fair market value.
  - As a condition of its federal grants, the FAA generally requires KCIA to treat all similarly situated tenants equally.
- Under current **King County Code**, KCIA and FMD do have the ability to make adjustments to fair market value based on policy and market considerations **so long as the terms and conditions of these agreements are in the best interest of King County.**

# 2015 LEASE RATE IMPLEMENTATION

## IMPLEMENTATION OF MONTHLY RENTAL AGREEMENTS

The following implementation schedule is consistent with the Strategic Plan goals, County and FAA policy guidance and the current King County Code:

- Implement all MRA's for **KCIA ground and building leases** at rates determined by the appraiser, with rates taking effect on July 1, 2015.
- **Adjust all hangar rates based on the fair market value** as determined by the appraisal, with appropriate adjustments for the final unit size determinations. New hangar rates will be effective as of July 1, 2015.
- To partially mitigate the potential vacancy risk from a rapid adjustment to market rates, **phase in rates for the NE and Midfield T-hangars**, with 50 percent of the rate increase taking effect on July 1, 2015 and the full market rate taking effect on January 1, 2016.
- Rates for the **SW T-hangars** are driven by two separate factors; the increase in fair market value and the reclassification of these units from Small to Large T-hangars. As a result, phase in lease rates for these units over three years. Rates will be adjusted on July 1, 2015, January 1, 2016 and January 1, 2017.

# AIRPORT LEASE RATE IMPACTS

## APPLICATION OF IMPLEMENTATION PLAN

### The implementation schedule accomplishes several important objectives:

- **Equity.** Some decisions addressed equity within classes.
  - MRA's for ground and building leases are treated like the long-term leases
  - Rates for small and large Executive hangars are brought into alignment
- **Financial.** The implementation of new market rents will improve operating margins and increase capital funding capacity of the airport.
- **Manages market risk.** Phasing for the T-hangars helps manage potential vacancy risks with new market rates.

Monthly Hangar Rents	No.	Current	2015		2016		2017	
			(Eff: 1-Jul)		(Eff: 1-Jan)		(Eff: 1-Jan)	
Hangars (individual unit monthly rent)			rate	%chg	rate	%chg	rate	%chg
Large Executive Hangars (Midfield B)	6	\$2,933	\$4,300	47%	\$4,300	0%	\$4,300	0%
Small Executive Hangars (Midfield A)	5	\$1,605	\$3,100	93%	\$3,100	0%	\$3,100	0%
Large T-hangars (Midfield C)	8	\$895	\$1,048	17%	\$1,200	15%	\$1,200	0%
Small T-hangars (Midfield D)	7	\$784	\$882	13%	\$980	11%	\$980	0%
Large end T-hangars (SW)	5	\$733	\$872	19%	\$1,011	16%	\$1,150	14%
Large middle T-hangars (SW)	19	\$733	\$855	17%	\$978	14%	\$1,100	12%
Small T-hangars (NE)	22	\$760	\$870	14%	\$980	13%	\$980	0%
Half-bays (NE)	2	\$367	\$429	17%	\$490	14%	\$490	0%

# LEASE FRAMEWORK WORKGROUP

## PROCESS FOR REVIEW OF LEASE FRAMEWORK POLICIES

### KCIA will integrate the Council's proposed Workgroup into the Lease Framework Update effort called out in the Strategic Plan:

- **Composition.** The Workgroup will be formed based on the representation identified in the Council's proposal.
- **Charge.** The Workgroup's charge will be to advise KCIA and FMD throughout the Lease Framework Update process and, in particular, provide their unique perspectives on the work products developed and offer input, feedback and ideas to enhance and improve the outcomes of this effort.
- **Schedule.** The following is the preliminary proposed schedule:
  - April 30, 2015. Complete Workgroup formation
  - May through July/August. Workgroup meets 3-4 times (roughly monthly)
  - August/September. KCIA and FMD present findings and recommendations
- **Product.** The product of this effort will be an updated set of Lease Framework policies and practices, including proposed changes to the King County Code where necessary to implement the recommendations.

# QUESTIONS

