

WRAPM 2024

Appraisal, Rates & Charges

Presented By: Seattle Paine Field International Airport
Michelle Funk, Airport Real Estate Specialist
Nickolis Landgraff, Airport Business Manager

October 21, 2024





-
- **Introduction**
 - What is Airport Revenue?
 - Legal Implications of Administration?
 - Methodology, Structure, & Best practices of Rates?
 - Paine Field – IRL Examples
 - Questions?



• Introduction – Our Perspective

- General Aviation Reliever to Non-hub Primary Commercial Service Airport
- 113 FTE's set for CY2025 with a two-year (2025-2026) budget of \$165M
 - Paine Field's Economic Impact is estimated at 158,227 jobs (45,956 direct) and \$59.9B in annual business revenues.
 - To put that in perspective, Seattle-Tacoma International Airport (SEATAC) with 50 million+ passengers is at 151,400 total jobs and \$22.5B annual business revenues.
 - Two runways, and best known for Boeing's largest manufacturing facility.

Economic Impacts

| Impact Types | Jobs  | Labor Income  | Value Added  | Business Revenues  |
|-------------------------------------|---|---|--|--|
| On-Airport Activity | 46,124 | \$7,027,370,000 | \$17,006,916,000 | \$40,709,350,000 |
| Visitor Spending | 229 | \$9,404,000 | \$15,621,000 | \$23,180,000 |
| Total Direct Effects | 46,353 | \$7,036,773,000 | \$17,022,537,000 | \$40,732,531,000 |
| Supplier Sales | 52,896 | \$3,418,820,000 | \$5,350,348,000 | \$10,720,760,000 |
| Re-Spending of Worker Income | 58,977 | \$2,583,888,000 | \$4,776,601,000 | \$8,462,004,000 |
| Total Economic Impact | 158,227 | \$13,039,480,000 | \$27,149,486,000 | \$59,915,294,000 |



SEATTLE PAINE FIELD INTERNATIONAL AIRPORT



What is “Airport Revenue?”

- All fees, charges, rents, or other payments received by or accruing to the sponsor for the right to conduct an activity on the airport or use or occupy airport property, for the sale or other transfer of airport property, or from the sponsor’s aeronautical activities.

Aeronautical revenue:

This includes income generated directly from aircraft operations, such as landing fees, aircraft parking charges, and passenger security fees.

- Airlines/Aeronautical Charges
- Real estate leases and property development
- Facility Rent (FBO, Terminal)
- User Fees
 - Aircraft Parking, RONS
 - Fuel Flowage Fees
 - Landing Fees
- Passenger Facility Charges (PFC)
- Thru the Fence Agreements
 - Boeing Joint Use Agreement
- Non-Traditional – P3, Public Private Partnership
 - Privately Owned & Operated Terminal
 - Propeller
- Federal & State Grants



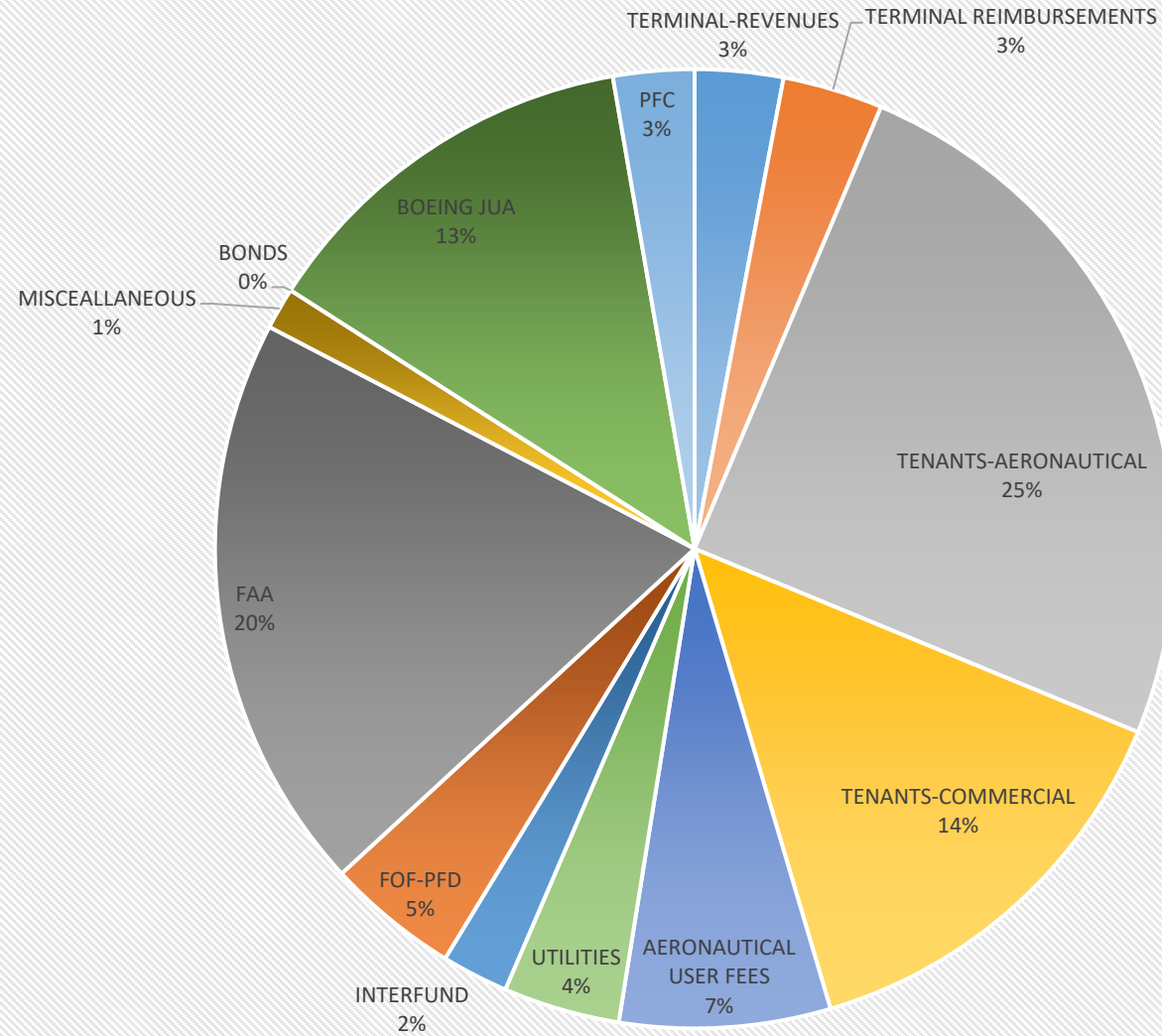
Non-aeronautical revenue:

This includes income from activities not directly related to aircraft operations, like parking fees, retail sales, food and beverage concessions, and car rentals.

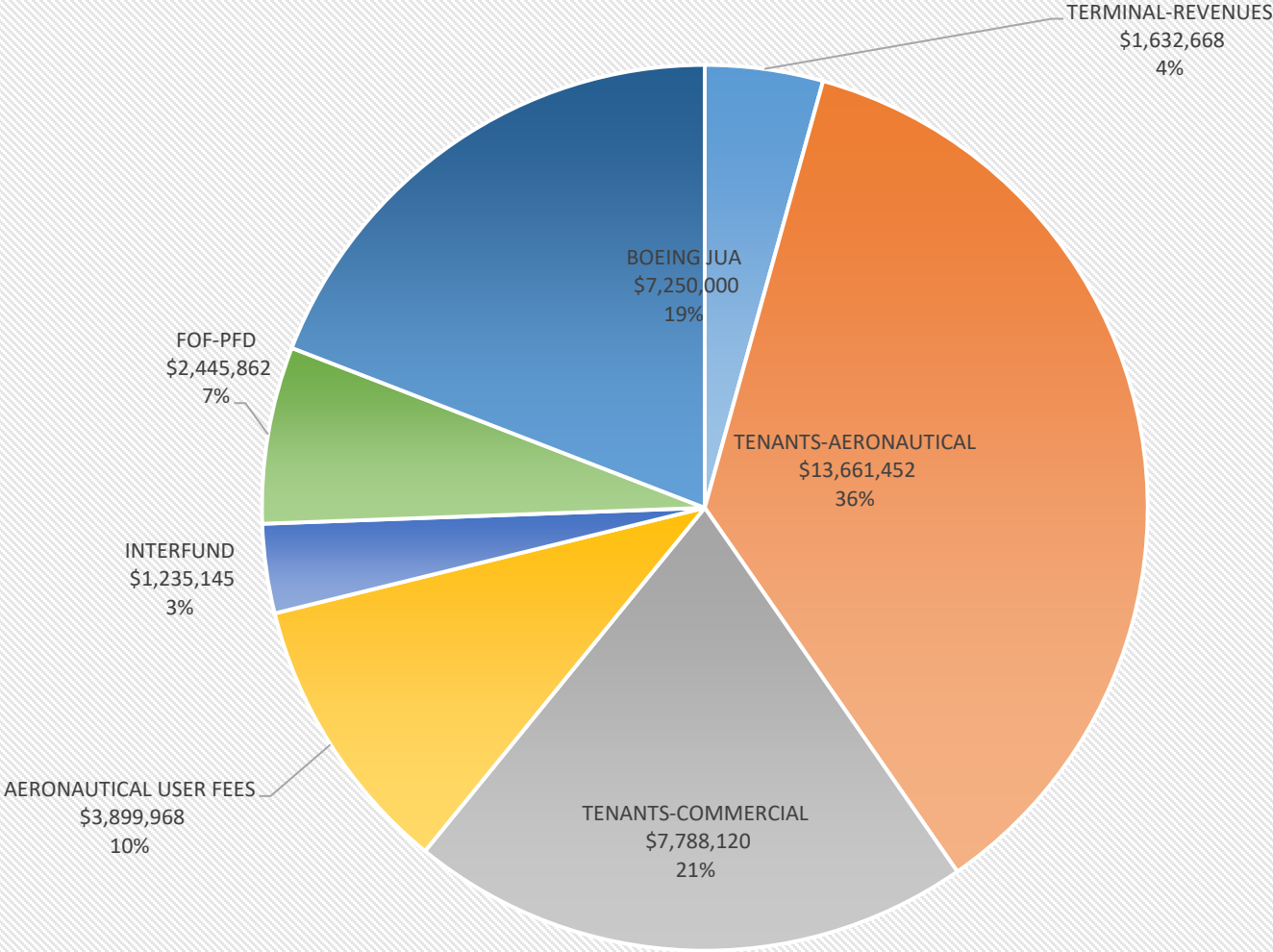
- Property Taxes (Airport or Port Authority)
- Utilities (Electric, Sewer, Surface Water Facilities (SWF), Surface Water Management (SWM))
- Hotels & Hotel Taxes
- Concession fees (restaurants, retail, car rentals)
- Advertising
- Parking and ground transportation (taxis, shuttles, ride-hailing services)
- Real Estate/Tenants Revenues & Property Development
 - Business Parks or Industrial Park
- Non-Traditional – P3, Public Private Partnership
 - Public Facility District
 - Future of Flight (museum)
 - Cell Phone Towers (always get co-locate fees or percentage of revenues)
- Federal & State Grants



CY2025 Airport Revenues



Core Operating Revenues



Legal Implications of Administration?

Grant Assurances
General Federal, State, &
Local Requirements

Requires compliance with federal, state, and local:

- Statutes, Code, etc.
- Regulations (federal, state, and local code)
- Executive Orders
- Grant Assurances
- Compliance with federal, state, local regulations
 - Obligates sponsors to include “required contract provisions” in every contract
- Title VI, Civil Rights
- Etc.

Key Principles of Airport Rates and Charges Policy

Federal Register / Vol. 78, No. 175 / Tuesday, September 10, 2013

- Direct Negotiation and Resolution
- Fair and reasonable Fees
- No unjustly discriminatory rates
- Self-sustaining rate structure
- Requirements Governing Revenue Application and Use
 - No revenue diversion
 - Part 13 & 16 Complaint
 - How will this action be viewed by internal or external stakeholders?

Legal Implications of Administration?

Assurance 22. Economic Nondiscrimination.

*“[Sponsor] will make the airport **available for public use on reasonable terms and without unjust discrimination** to all types, kinds and classes of aeronautical activities....”*

Assurance 23. Exclusive Rights.

*“[Sponsor] will permit **no exclusive right** for the use of the airport by any person providing, or intending to provide, aeronautical services to the public.”*

- Bars express and implied exclusive rights

Assurance 24. Fee and Rental Structure.

*“[Sponsor] will maintain a fee and rental structure for the facilities and services at the airport which will make the airport as **self-sustaining as possible** under the circumstances existing at the particular airport...”*

Assurance 25. Airport Revenues

All airport generated revenues must be used for the capital or operating costs of the airport, the local airport system, or other local facilities owned by the airport sponsor and directly and substantially related to the air transportation of passengers or property, or for noise mitigation purposes.

Can I Grant Exclusivity?

Assurance 23. Exclusive Rights.

Sponsors may “permit no exclusive right for the use of the airport by any person providing, or intending to provide, aeronautical services to the public.”

- Exclusive rights may be express or de facto.

Can I grant a right of first refusal?

- Avoid leasing more space than an aeronautical user can put to “gainful aeronautical use” within a “reasonable period of time.”
- Allowing a user to “block out” competition by exercising an option or right of first refusal is a potential exclusive rights violation.
- **Land Banking** is the practice of acquiring land for future airport development before it's necessary, in order to make it more economical or practical. It is the general practice of purchasing undeveloped land with the expectation that it will increase in value over time.

Requires reasonable and not unjustly discriminatory terms...

Terms must be:

- Attainable
- Rational
- Uniformly applied

3.1.1 “Prohibition on unjust discrimination does not prevent an airport proprietor from making reasonable distinctions among aeronautical users”

Treat similarly situated aeronautical operators similarly

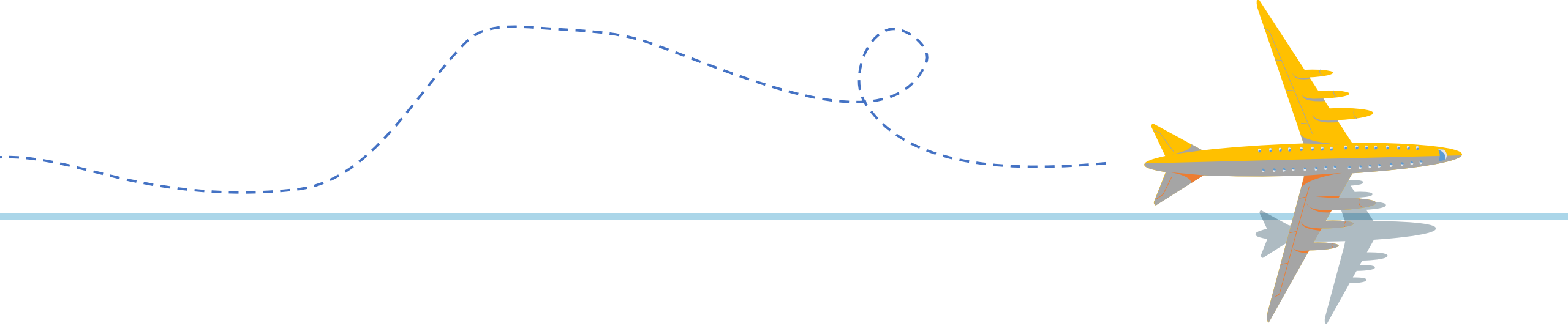
- Facilities
- Investment/risk
- Signatory status
- Comparable categories of aeronautical users

*3.4 “Allocated to aeronautical users by a **transparent, reasonable, and not unjustly discriminatory rate-setting methodology**. The methodology must **applied consistently** and cost differences must be determined quantitatively, when practical.”*

Airport must be available for aeronautical use on reasonable and not unjustly discriminatory terms...

Some considerations before signing a lease:

- Level of capital investment and use
- Changes in airport policies long term
- Local ordinances, zoning and land use regulations
- Difference in use/facilities long term
- Minimum Annual Guarantees – MAG
- Common Use Shared Space
- Impacts to local operations and cost benefit analysis
 - How much will their operation cost the airport? Is it truly beneficial?
- Term should allow tenant to amortize investment and earn a reasonable return.
- Term over 50 years is considered a disposal of airport property
 - **FAA approval is required!** Similar concerns for extensions.



Minimum Standards

Leveling the playing field and avoiding unjust discrimination



Should be

- Reasonable and not unjustly discriminatory
- Relevant and attainable
- Uniformly applied to similarly situated users
- Incorporated by reference into aeronautical agreements

Common pitfalls

- Do not confuse Minimum Standards with Rules and Regulations
- Do not waive Minimum Standards to prevent competition
- Do not include too much discretion in implementation and enforcement

Methodology, Structure, & Best practices of Rates?

- **Methods of Setting Rates**

- Residual –
 - **Signatory airlines pay** reduced use fees in exchange for providing a **financial guarantee to the airport.**
- Compensatory
 - Airport to **assume the majority of the financial risk** and charge airlines based on their use of airport facilities.
- Hybrid Models (Compensatory/Residual/Cost Recovery)
 - Paine Field's Model
 - Boeing Joint Use (TTF) Agreement, \$7.25M
 - Privately Owned & Operated Terminal (5% + PFCs)
 - Aeronautical/Non-Aeronautical Land Leasing
- Market-based approaches (competitive pricing based on demand)
- Cost-based approaches (simple recovery of operational expenses)
- Comparison with peer airports

APPRAISALS



Competitive Bid process to obtain an independent appraisal of airport property per County processes



Appraisal should consider comparable properties in the area such as commercial industrial, undeveloped land value, etc.



Recommend conducting on a regular interval
(three years at PAE)



Recommend conducting an independent appraisal on unique buildings or complex lease agreements.

Best Practices for Managing Airport Revenues, Rates & Charges

- **Transparency in Rate Setting**
 - Engaging stakeholders (airlines, concessionaires, passengers)
 - Clear communication of fee structures and justifications
- **Regular Reviews and Adjustments**
 - Aligning rates with inflation, capital improvement needs
 - Adjusting fees to match market conditions and airport growth
- **Legal Compliance and Auditing**
 - Implementing internal compliance mechanisms
 - Preparing for FAA audits and reviews
- **Maximizing Non-Aeronautical Revenue**
 - Diversifying revenue streams
 - Optimizing real estate development and commercial partnerships

Seattle Paine Field International Airport

Local Rate Setting

- Conducts appraisals every three years, five years is WA Statue requiring adjustment to fair market value.
- Market Rate Adjustments to tenants are set to be no more than 10% per year or divided by three if greater.
 - Not a requirement of leases. This is done to ease cost of living adjustments on tenants. This helps to essentially keep the peace. This has been very effective considering 53.9% + 27.6% over last two appraisal terms.
- Set by location and category; specific appraisals are completed if contested or if they go to arbitration. Arbitration is to be completed within thirty (30) days and tenant pays fair market value (FMV) until a determination is made.
- Privately owned and operated terminal with 5% gross revenue share.
 - Net would be too difficult to administer and considered too high risk.

| CATEGORY | CATEGORY ABBREVIATION | 2022-2025 |
|-------------------------------------|-----------------------|-----------------|
| Aeronautical Land | | \$/SF/YR |
| Aviation Small | Avia Sm | \$ 1.140 |
| Aviation Large | Avia Lg | \$ 0.709 |
| Non-Aeronautical Land | | \$/SF/YR |
| Industrial/Bus. Park Small <15 | Ind/Bus. Sm | \$ 1.207 |
| Industrial/Bus. Park Large <15 | Ind/Bus. Lg | \$ 0.750 |
| Bus. Park Eastside Small < 15 Acres | BPE Sm | \$ 1.207 |
| Bus. Park Eastside Large > 15 Acres | BPE Lg | \$ 0.750 |
| Eastside Commercial Low | East Com Lo | \$ 0.911 |
| Eastside Commercial High | East Com Hi | \$ 1.350 |
| Westside Commercial Low | West Comm Lo | \$ 1.013 |
| Westside Commercial High | West Comm Hi | \$ 1.485 |
| Northwest Commercial | NW Comm | \$ 1.436 |

BUILDINGS

| CATEGORY | CATEGORY ABBREVIATION | 2022-2025 |
|---------------------------|-----------------------|-----------------|
| Hangar / Warehouse | | \$/SF/MO |
| Basic Low | Hgr/Whs Basic Lo | \$ 0.500 |
| Basic High | Hgr/Whs Basic Hi | \$ 0.630 |
| Average Low | Hgr/Whs Avg Lo | \$ 0.640 |
| Average High | Hgr/Whs Avg Hi | \$ 0.830 |
| Premium Low | Hgr/Whs Prem Lo | \$ 0.870 |
| Premium High | Hgr/Whs Prem Hi | \$ 1.100 |
| Office | | \$/SF/MO |
| Basic Low | Office Basic Lo | \$ 1.150 |
| Basic High | Office Basic Hi | \$ 1.350 |
| Average Low | Office Avg Lo | \$ 1.360 |
| Average High | Office Avg Hi | \$ 1.700 |
| Premium Low | Office Prem Lo | \$ 1.710 |
| Premium High | Office Prem Hi | \$ 2.200 |

| | |
|------------------------------------|-----------|
| | 2022-2025 |
| Monthly Parking - Aviation Small | \$/SF/MO |
| Grass | \$ 0.0950 |
| Asphalt | \$ 0.1435 |
| Concrete | \$ 0.1887 |
| Monthly Parking - Industrial Small | \$/SF/MO |
| Grass | \$ 0.1006 |
| Gravel | \$ 0.1205 |
| Asphalt | \$ 0.1442 |
| Concrete | \$ 0.1936 |
| Asphalt Premium Price | \$/SF/MO |
| +Asphalt Premium | \$ 0.0477 |
| +Concrete Premium | \$ 0.0940 |

- All rates tied to appraisal on airport in some form.

AIRCRAFT RATE SCHEDULE

Effective November 1, 2024

Aircraft Landing Fees (applies to all aircraft with empty weights over 30,000 lbs.)

**\$4.90 per 1,000 lbs. (pounds) Maximum Gross Landing Weight (MGLW)
and Revenue Producing Flights above 12,500 lbs**

Fuel Flowage Fees (applies to all aircraft)

**Six (6) cents (\$0.06) per gallon for AVGAS (100LL)
Fourteen (14) cents (\$0.14) per gallon for JET FUEL (Jet A)**

Aircraft Parking Rates (applies to all aircraft parked on Airport controlled ramps)

General Aviation Aircraft¹(based on thickness of pavement or type of asphalt)

| | Monthly Rent ² | Daily Rent ³ |
|-------------------------------|--|---|
| Asphalt: < 8 inches | \$0.1435/sf (length x width)/mo. | \$0.01435/sf (length x width)/day |
| Concrete: ≥ 8 inches | \$0.1887/sf (length x width)/mo. | \$0.01887/sf (length x width)/day |

Aircraft below 7,500 lbs. MGLW: \$110.00 per space per month

Commercial Remain Overnight (RON) Aircraft Parking⁴ (applies to all Air Carrier aircraft)

| Parking Space: | (Wingspan<110ft, Example: E-175) | < 12 Hours | ≥ 12 Hours ³ |
|----------------|----------------------------------|-----------------------------|-------------------------|
| | RON4-5 | \$185.00⁴ | \$350.00 |
| | RON6-7 | \$185.00⁴ | \$350.00 |

³Each additional 12 Hour Increment



SEATTLE PAINE FIELD INTERNATIONAL AIRPORT

Paine Field – IRL Examples

Local Agreement Highlights



Boeing Joint Use Agreement

Through the Fence / Cost Recovery Formula

- Signed 1966 for 75 years, expires in 2041
- Cost Recovery Model to determine through the fence reimbursement
- Splits revenues into four main cost centers
 - Boeing formula that determines cost recovery is determined by pro-rata tiered share of Boeing's use of the airport
- One Agreement, Two Amendments, 14 fixed rate extensions
 - Extensions are negotiated for 1-3 years to lock the rate for stability/predictability by both parties
- **RISK:** Airport is at risk if runway usage changes significantly
- **BENEFIT:** Expenses are recovered if in compliance with the agreement

| Main Runway | Aviation | Commercial | Indirect |
|-------------|----------|------------|----------|
| M | A | C | I |
| Div 110 | Div 111 | Div 112 | Div 100 |



Boeing's Future of Flight - PFD

Public Facility District – PFD

Non-traditional Funding Source

- Sales and use tax rebate for regional PFD centers to pay debt service via interlocal agreements.
- Traditionally used for Stadiums, Art Theaters, Museums, Arena's, etc.
- Snohomish County has four (4) Public Facility Districts
- Funded Boeing's Future of Flight Museum at PAE, approximately \$25M
- Airport originally operated the museum via independent non-profit.
- Transitioned to land and building lease to Boeing only in 2018
- Peak attendance was 330,000 visitors per year to Snohomish County
- **You will get to see it tonight!**

Seattle Paine Field International Airport Terminal

Privately Owned and Operated by Propeller



DEPARTURES

| FLIGHT | DESTINATION | SCHEDULED | ESTIMATED | STATUS | Gate |
|---------|---------------|-----------|-----------|--------|------|
| AS 0357 | PORTLAND | 4:30P | ON TIME | | A1 |
| AS 9515 | SAN FRANCISCO | 5:30P | DELT | | A2A |
| AS 0135 | SAN FRANCISCO | 5:30P | ON TIME | | A2 |
| UA 3578 | SAN FRANCISCO | 5:30P | ON TIME | | A1 |
| AS 0159 | PHOENIX | 5:45P | ON TIME | | A2 |
| UA 6901 | SAN JOSE | 6:00P | ON TIME | | A2A |
| AS 0321 | SAN FRANCISCO | 6:30P | ON TIME | | A1 |
| UA 6814 | DENVER | 7:00P | ON TIME | | A2 |
| AS 0325 | LOS ANGELES | 7:15P | ON TIME | | A1 |
| UA 0968 | SAN JOSE | 7:30P | ON TIME | | A2A |
| AS 0379 | SAN FRANCISCO | 8:00P | ON TIME | | A1 |
| UA 7530 | SANTA ANA | 8:15P | ON TIME | | A2A |
| AS 6824 | LOS ANGELES | 8:30P | ON TIME | | A1 |
| AS 2486 | SAN DIEGO | 9:00P | ON TIME | | A2 |
| | | 9:30P | ON TIME | | A1 |









Privately Owned & Operated Terminal

- Small terminal with three beautiful gates
- Straight land lease for fifty (50) Years and tenant constructed
- Five (5%) Gross Revenue Share
- Firefighter, Law Enforcement, & Security Costs reimbursed
- Passenger Facility Charges (PFC's), Landing Fees, and Fuel Flowage go to airport
- **Recommendation:** Clearly define terms for reimbursement since the airport is keeping all operating expenses



Dreamlifter Operations Center



Boeing Dreamlifter Operations Center (DOC)

- Leased for fifty (50) years with options expiring 2065.
- Airport constructed in coordination with tenant completion in 2015
- Debt (GO bond) is owned by Airport and reimbursed 100% by tenant
- Airport receives revenue from the land lease and activities
- Lease assigned to FedEx in 2021

•Questions?