

Exhibit	<u>A</u>
Port Commission	<u>Regular</u>
Meeting of	<u>April 10, 2012</u>



April 3, 2012

**Port of Seattle - Pier 69**  
2711 Alaskan Way  
Seattle, WA 98121

**Attn:** Commissioner Tarleton, President  
Commissioner Albro  
Commissioner Bryant  
Commissioner Creighton  
Commissioner Holland

**Subject:** Proposed Port Commission Resolution - ACDBE Lease Terms

**Reference:** (A) Revised Resolution to Port Commission  
*(Attachments)* (B) Concourse A Sales Trends & Comparison  
(C) CC vs. New Concessions (Beechers) Chart  
(D) CC vs. New Concessions (McDonalds) Chart

**Dear Honorable Port of Seattle Commissioners:**

On behalf of the small business, food & beverage concessionaires at the Seattle-Tacoma International Airport, I am writing to underscore our support for the Resolution proposed by Jerry Whitsett of the SeaTac Bar Group. Attachment A is a modified draft of that Resolution. With help from counsel we revised the draft Resolution to correct a few minor errors pointed out by Port counsel. The spirit of the proposed Resolution is consistent in this revised version, which we urge you to approve.

The factual support for the policy directive we are asking you to approve by the proposed Resolution is easy to prove. Specifically, the airport food & beverage (F & B) concession industry is a specialized field, where it is difficult for small business operators to access opportunities for participation. In the past, it was necessary for small businesses to undergo the DBE (Disadvantaged Business Enterprise) certification process to be considered for F & B concession opportunities at Sea-Tac Airport. Currently, all small business F & B operators - with the possible exception of a few in the Central Terminal - are ACDBE (Airport Concession Disadvantaged Business Enterprise) certified companies under the Federal Government 49 CFR Part 23 regulations.

In addition to the paperwork intensive ACDBE certification process, small businesses face the industry specific obstacles of high capital requirements, high operating costs, high quality requirements, price controls and other facility specific guidelines such as security and delivery logistics.

At SeaTac Airport, small business F & B operators have also faced the challenge of generally being placed in the locations with the lowest traffic or highest build out costs, or both. This has created an environment at SeaTac where those who can least afford it are bearing the largest relative burden, to round out the fringe areas in our award winning airport concession Program.

As a result, the small business F & B operators have struggled since opening our doors at SeaTac, due to no fault of our own. With design guidelines that were not finalized prior to our development and construction, moving of enplanements away from Concourse A and disparate terms and treatments - the small business operators are facing the reality of a negative return on our investments and not being able to pay off our construction loans by the scheduled expiration of our sublease agreements.

22518 Marine View Drive S.  
Des Moines, Washington 98198

t 206.824.6300 • f 205.824.1195  
www.concourse-usa.com

In the 2007-08 timeframe, the DBE companies met with the Port to request lease term and rent relief, based on the circumstances faced at that time. Since then, our collective circumstances have worsened to the point where we have no chance to recover our initial investments under our existing terms - while the Central Terminal and the Satellites have enjoyed unprecedented success.

Although numerous examples of small business F & B disadvantages exist, especially when considering the circumstances of the Central Terminal, here are just a few specific examples of disadvantaged circumstances using both historical and current information:

**1) Disparity in Sales - Qdoba vs. La Pisa Cafe**

Concourse Concessions (CC) opened the La Pisa Cafe in June 2004 toward the end of Concourse A with a construction cost of approximately \$725,000. Qdoba opened in the Central Terminal in June 2005 with a construction cost of approximately \$770,000.

In 2011, La Pisa earned around \$1.2 million in sales while Qdoba earned around \$3.9 million in sales. Similar build out costs - yet Qdoba had over 3x's the sales - and this huge gap in sales is completely due to the disparity in traffic based on the placement of each concession, as traffic was being removed from Concourse A while being consistently funneled toward the CTE.

In 2008, La Pisa's sales peaked at \$1.4 million before sharply declining. Even at our peak, Qdoba had nearly 3x's the sales of La Pisa, yet both had comparable build out costs.

Over a 10 year period, Qdoba can be expected to earn \$39,000,000 in sales. Over a 12 year period, La Pisa can be expected to earn \$15,600,000 in sales. For La Pisa to earn a comparable total sales amount, Concourse Concessions would need to operate La Pisa for an additional 18 years at current traffic and sales figures. *(See the reference Attachment B - Qdoba Comparison & Sales Trend for Concourse A.)*

**2) Disparity in Build Out Costs - Waji's vs. Beechers**

CC opened Waji's toward the end of Concourse C in June of 2007. Due to the delay in opening, our operating term is only 9 years. Last month, in March of 2012, the Port approved Beechers to be constructed at the beginning of Concourse C, with a term of 7 years.

Both Waji's and Beechers are projected to earn around \$2,000,000 in sales per year. However in terms of construction, Waji's cost over \$1,000,000 to build, while Beechers is estimated to cost only \$200,000 to build. Waji's build out cost is 5x's that of Beechers - for the same annual sales. Furthermore, Beechers has been awarded a flat 12% rent while Waji's rent ranges from 13.5% - 17.5%. *(See the reference Attachment C Comparison.)*

Although placing a \$2,000,000 F & B concession at the front of Concourse C may dilute our sales, CC is not afraid of competition and we did not oppose the Beechers concept. However, the comparative disparity in terms must be noted since, even with relatively good sales, Waji's will certainly not pay off our initial investment within our current lease term.

**3) Disparity in Rents - Concourse Concessions vs. McDonalds**

CC has opened three restaurants at SeaTac Airport at a total construction cost of \$2,632,932 across 2,980 sq. ft. Since opening all 3 restaurants, they have averaged an annual total of around \$3,800,000 in sales. Our stores pay rents starting from 11.5% for Tully's up to 13.5% for La Pisa and Waji's. For alcohol sales, the percentage increases up to 17.5%.

The Port has proposed to bring in McDonalds, with a construction cost of \$2,000,000 for a 2,900 sq. ft. facility and projected sales of \$3,500,000 per year. Yet, the Port has granted a tiered rent structure for McDonalds starting at 9%, with justification being that McDonalds will invest a large build out cost. Collectively, CC has invested more than the McDonalds project yet what explanation is there for the wide disparity in rent percentages? *(See the reference Attachment D.)*

Furthermore, an even larger disparity exists with Anthony's in the Central Terminal, who has been granted a flat rent structure of 8% and, we understand, potentially a 20 year lease term.

In summary, ever since the inauguration of Concourse A, the small business F & B concessionaires have struggled under the weight of high capital costs, high operating costs, high rents and low traffic. We have played a critical role in providing high quality customer services in the least desirable concession spaces, at the least desirable terms. Through it all, we have paid every penny of rent due and have consistently exceeded the high standards required by the Port of Seattle, in serving the traveling public.

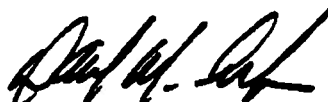
The Port has verbally assured the concessionaires on Concourse A that airline moves will result in an increase of traffic, sometime next year. We have seen this airline move pushed out for a few years now. It seems, just when the opportunity to earn increased sales may appear, our subleases will soon expire.

Therefore, we are asking the Commission to approve this Resolution during your upcoming Commission Meeting on April 10, 2012, while also directing that the ACDBE companies be afforded a lease extension comparable to other concessionaires or at least an additional eight (8) years on par with the Anthony's lease. In addition, we are requesting a rent percentage comparable to the tiered structure offered to the McDonalds project.

The Port Commission sets policy for the Port of Seattle. The Port has a number of policies and directives that acclaim the virtues of small business participation. However in practice, at least at SeaTac Airport, the Port has not adequately responded to the circumstances of the small business food & beverage concessionaires - specifically regarding the worsening circumstances for the small business concessionaires on Concourse A.

Unlike the new concessions coming in to the airport, our companies have already made significant commitments to the Port of Seattle in terms of capital investment, rent payments, hard work (time) and award winning creative designs. So, we are asking the Port Commission to consider your commitment to the small business Community and help us to resolve the longstanding issue of economic disparity burdening small business F & B concessionaires through the passage of this Resolution. In the interest of fairness and cooperation, please approve this Resolution so that we may all focus on the rightful, long term business of serving the traveling public at SeaTac Airport.

Sincerely,



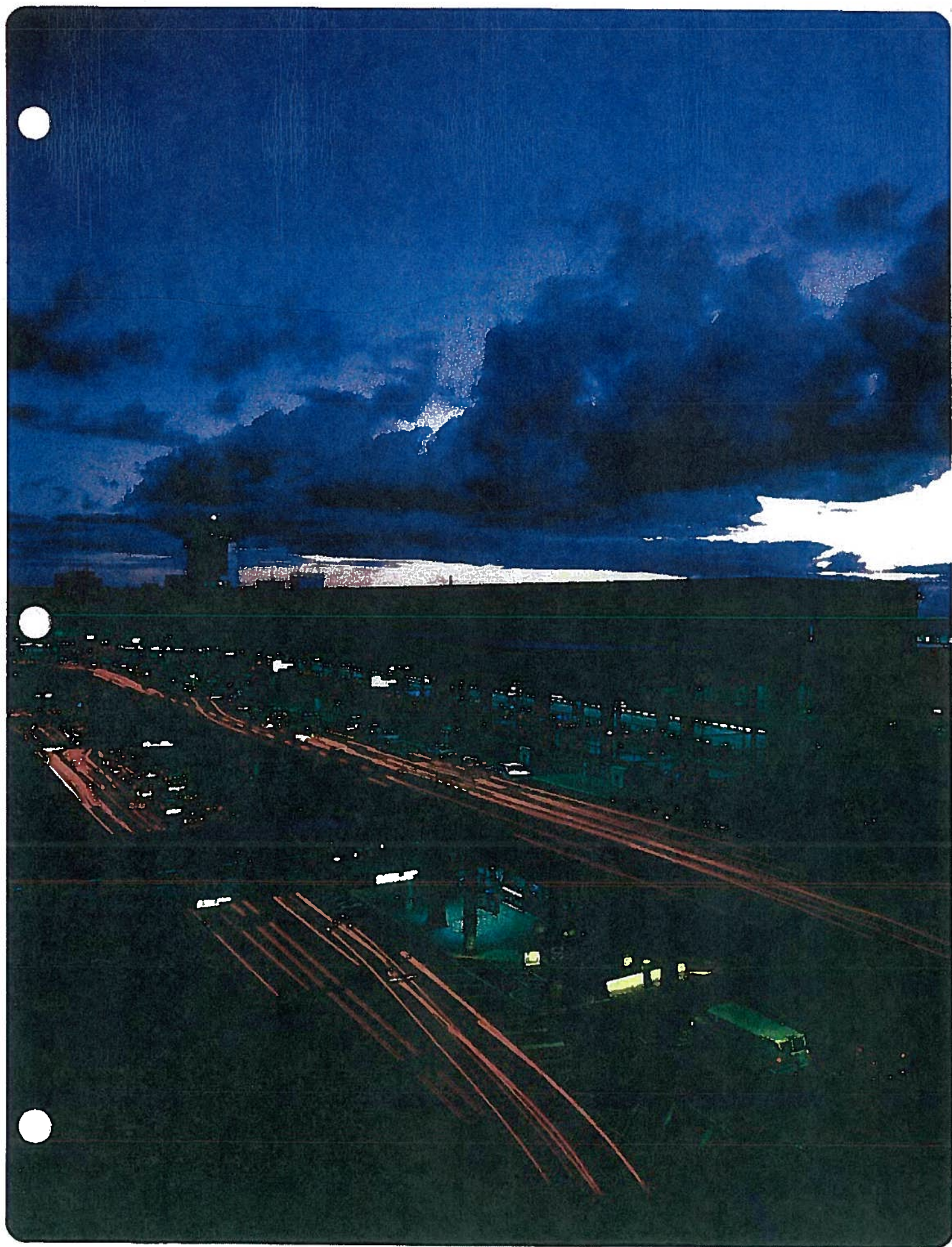
David Fukuhara  
*Concourse Concessions LLC*





*Our mission is  
dedicated to bringing  
innovative, quality food  
and retail services to high-  
traffic environments.*







### **Tully's Coffee**

Our Tully's coffee shop was the first domestic franchise store to be approved by the Tully's corporation. We offer a variety of specialty espresso drinks, as well as an assortment of food ranging from breakfast items, pastries, sandwiches and salads. All made fresh daily, on-site.

### **Waji's at Sea-Tac**

In 2007, Concourse developed and launched Waji's at Sea-Tac on Concourse C, serving a Japanese-oriented menu including teriyaki, yakisoba, grab and go sushi, sandwiches, salads and an assortment of Hawaiian specialties. In 2007, Waji's won the "Richard A. Griesbach Excellence in Airport Concessions" award from the Airport Council International (ACI), for Best New Food & Beverage Concept.

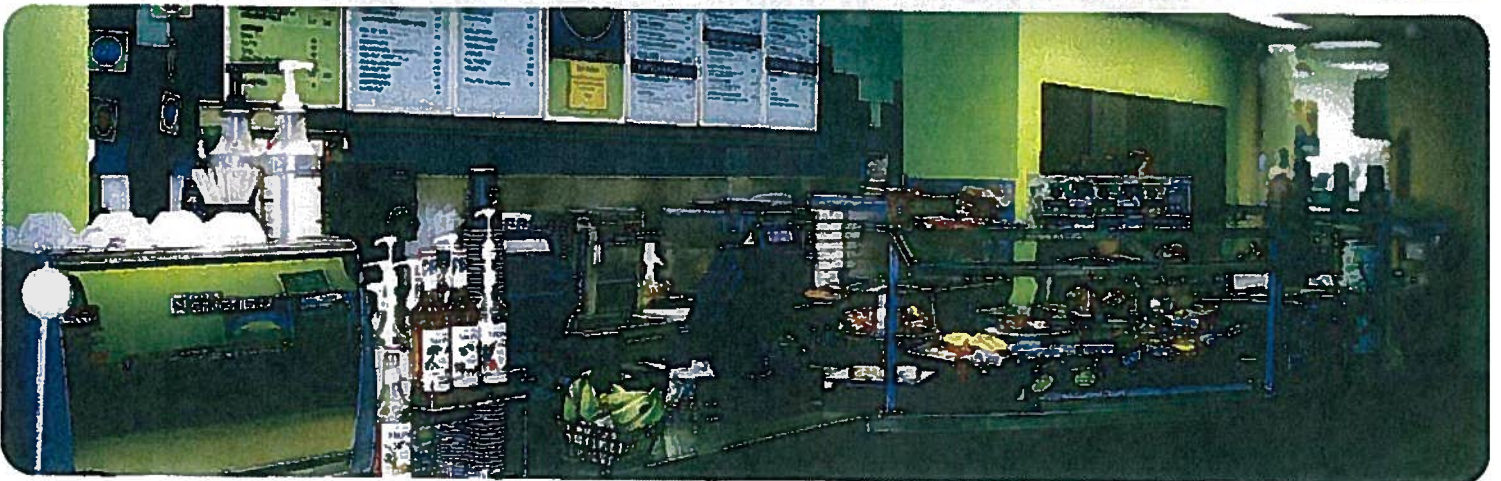
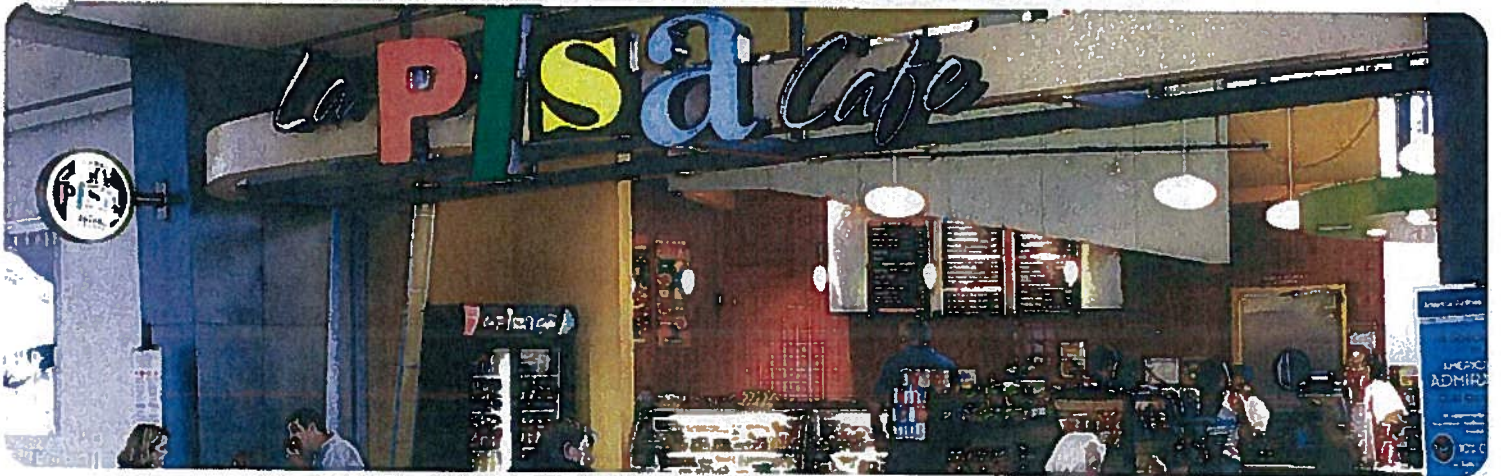
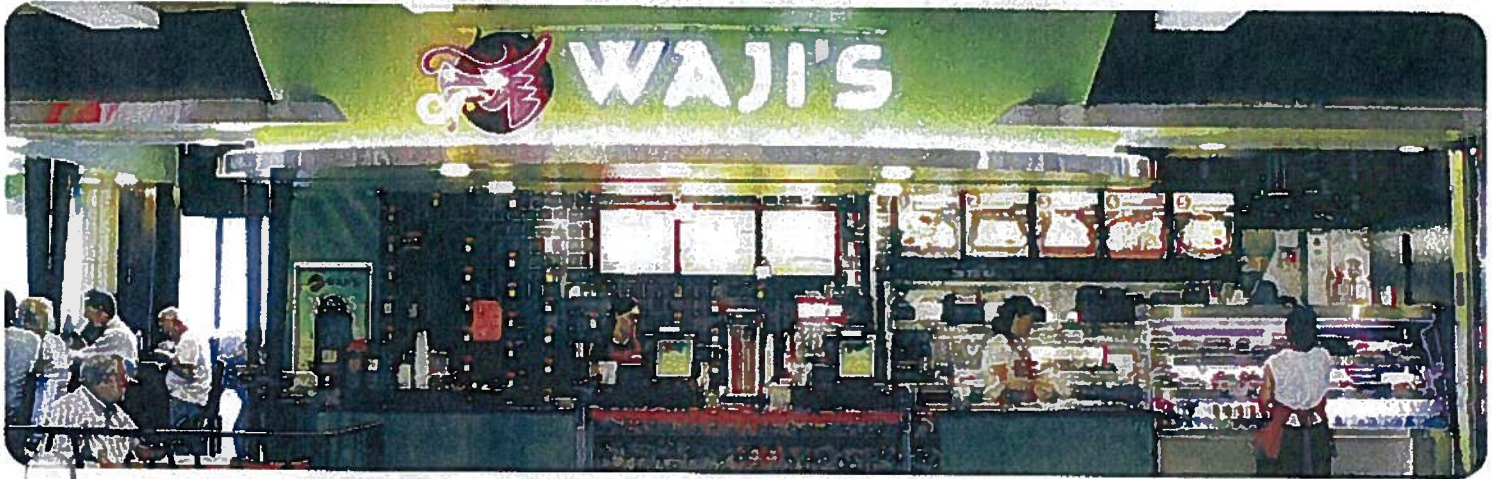
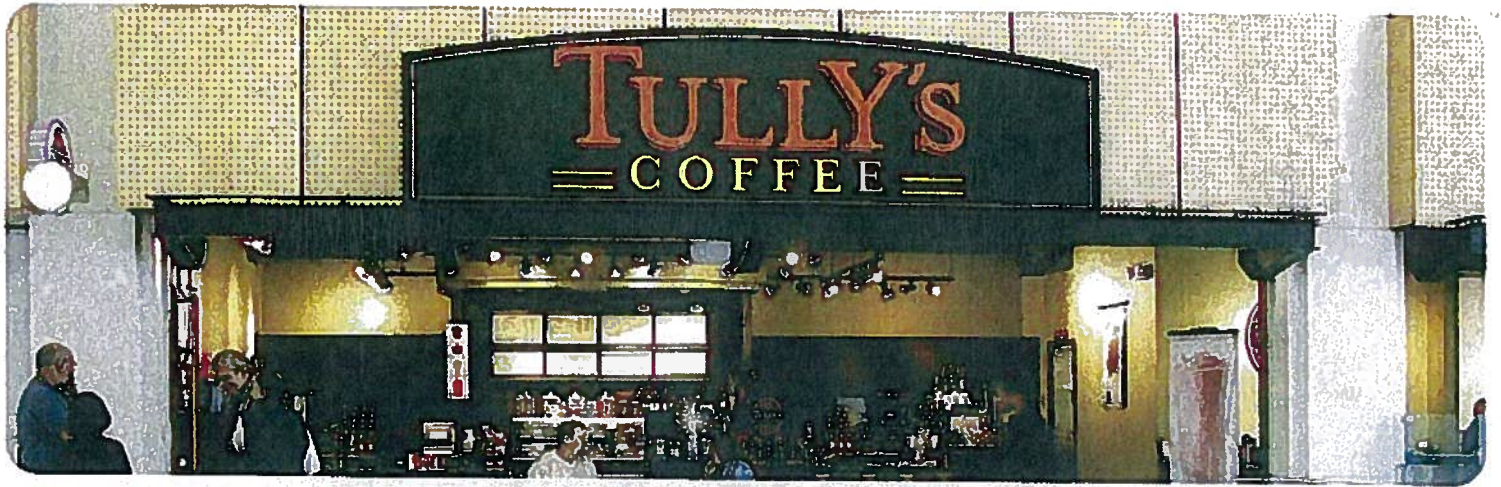
### **La Pisa Café**

The La Pisa Café was developed with a menu that "leans toward Italian." We serve a full line of breakfast sandwiches, pizzas, hot Italian sandwiches, grilled Panini sandwiches, soups, salads and snack items. Using artisan breads and in-house sliced meats, the La Pisa Café offers high quality products in a quick-serve environment.

### **The Portside - Waterfront Café**

In 2010, Concourse opened our first location outside of the airport environment. The Portside, was opened on the Seattle waterfront at Pier 69, in the Port of Seattle headquarters offering full espresso service featuring Caffé D'arte, along with fresh pastries, sandwiches, panini, salads, soups, and pizza, and Daily Specials.







## Reference

- Revised Resolution to Port Commission
- Concourse A - Sales Trends & Comparison
- CC vs. New Concessions (Beechers) Chart
- CC vs. New Concessions (McDonalds) Chart
- Sea-Tac Airport ACD/E Operations Map

## RESOLUTION No. \_\_\_\_\_

**A RESOLUTION** of the Port Commission of the Port of Seattle regarding renewing and extending lease agreements at Seattle Tacoma International Airport with existing small business concessionaires that are designated as disadvantaged business enterprises; and directing the Port staff to undertake certain related actions.

**WHEREAS**, as a matter of Federal policy described in the Federal Register at 76 F.R. 5095 (January 28, 2011) the Federal Disadvantaged Business Entity ("DBE") regulations, and the statutes authorizing them, there is a compelling and continuing need to address discrimination and its effects and there is a continuing need for race- and gender neutral programs such as the Department of Transportation's Airport Concessions Disadvantaged Business Entity ("ACDBE") program.

**WHEREAS**, the Port of Seattle (the "Port") established a 19.72% overall goal for ACDBE participation in the Port's Aviation Concessions program;

**WHEREAS**, a significant number of the ACDBE certified concessionaires at the Seattle Tacoma International Airport ("Airport") are located on Concourse A, and have incurred economic disadvantage due to reduced traffic on that Concourse;

**WHEREAS**, offering existing ACDBE's the opportunity to renew and extend their leases is consistent with the federal requirement that the Port reach out to small businesses to make it competitively fair, providing a level playing field for them, and creating opportunity that will foster the objectives of the ACDBE program;

**WHEREAS**, the Commission believes that offering existing ACDBE's the opportunity to enter into direct leasing arrangements with the Port is desirable from a policy standpoint and consistent with the Port's goal of maintaining its ACDBE participation and of implementing the policies of the Federal Government to encourage fair competition for small businesses, as set forth in 49 CFR Part 23.

**NOW, THEREFORE, BE IT RESOLVED**, by the Port Commissioners of the Port of Seattle as follows:

1. Port staff shall develop a proposal whereby the current ACDBE concessionaires at the Airport shall be offered lease renewals and extensions on terms as reasonably favorable as those offered to other concessionaires, prior to those spaces being rebid;
2. Such renewed leases shall be executed directly between the Port and each concessionaire;
3. The Port staff shall continue to manage the Aviation Concessions Program consistent with the Commission motion adopted \_\_\_\_\_, 2012.
4. The Port staff shall commence implementation of this Resolution upon its approval, and shall endeavor to complete the ACDBE lease transition, renewals, and extensions by the end of fiscal year 2012.

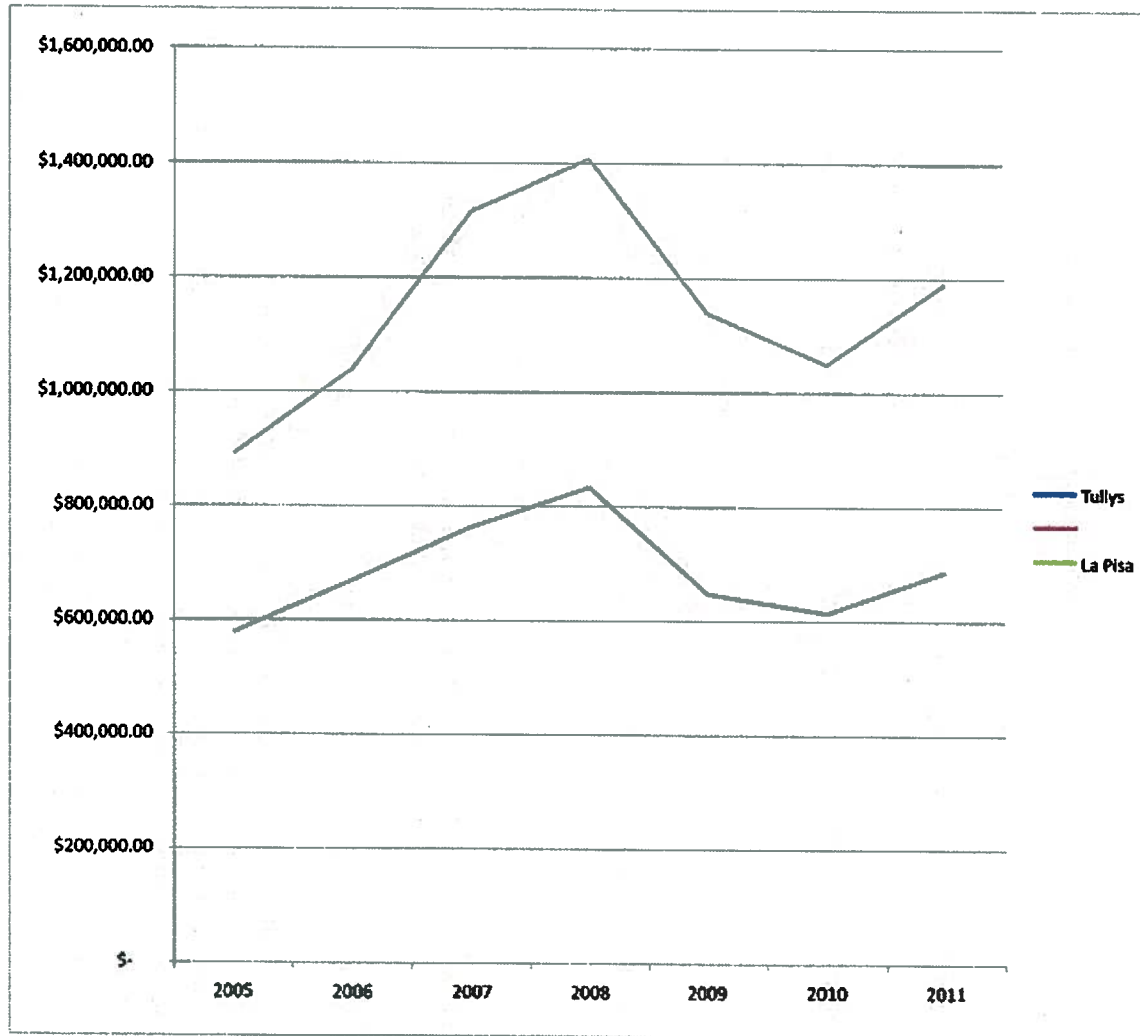
Approved: \_\_\_\_\_

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*Port Commission*



**Concourse Concessions LLC**  
**Sea-Tac Airport - La Pisa Café , Tully's Coffee**  
**Concourse A - Annual Sales Trend**



	2005	2006	2007	2008	2009	2010	2011
Tullys	\$ 577,684.45	\$ 668,394.82	\$ 763,472.42	\$ 833,530.09	\$ 647,458.09	\$ 614,134.89	\$ 686,796.69
La Pisa	\$ 890,704.43	\$ 1,039,135.25	\$ 1,315,917.36	\$ 1,407,726.06	\$ 1,138,970.77	\$ 1,049,597.10	\$ 1,191,124.30
Qdoba Comparison Central Terminal			\$ 3,075,477.00				\$ 3,939,635.00

**Development Costs:**

Tully's	\$ 856,194.00
La Pisa	\$ 722,600.00
Qdoba	\$ 772,675.00

Concourse Concessions LLC  
Comparison to New Concessions - Beechers  
Sea-Tac Airport

Apr-12

Concourse Concessions LLC

	<u>Beechers</u>	<u>Waji's</u>	<u>La Pisa</u>	<u>Tully's</u>	<u>Total</u>
Annual Projected Revenues	\$ 2,100,000 (year 1)	\$ 2,013,198 (4.5 yr average)	\$ 1,115,167 (7.5 yr average)	\$ 672,354.22 (7.5 yr. average)	\$ 3,800,719
Development Costs	\$ 200,000	\$ 1,054,138	\$ 722,600	\$ 856,194	\$ 2,632,932
Square Footage	1200	640	850	1490	2980
\$/square foot investment Per unit	\$ 167	\$ 1,647	\$ 850	\$ 575	\$ 884
Total CC Average					
Contract Term	7 years	9 years	12 years	12 years	
Rent percentage (rent increase)	12%	13.5/17.5% 14/18%	13.5/17.5% 14/18%	11.50% 12%	
MAG	\$ 120,000	\$ 262,371	\$ 116,470	\$ 68,956	

Waji's vs. Beecher

- 1) Both stores on Concourse C, however Beechers is at the front of concourse.
- 2) Both stores have comparable sales at around \$2 million per year.
- 3) CC development costs for Waji's is 5 times higher than Beechers (\$1.054 million vs. \$200,000)
- 4) \$ per sq. ft. investment, Waji's = \$1,647 vs. Beechers = \$167
- 5) Beechers contract term is 2 years shorter than Waji's
- 6) Waji's is paying a higher rent than Beechers, 13.5% vs. 12%
- 7) Waji's is paying a higher MAG than Beechers, \$262,000 vs. \$120,000
- 8) Beechers replaced a Regus Business Service Center. Now a food shop, this will take away from Waji's sales.



Concourse Concessions LLC  
Comparison to New Concession - McDonalds  
Sea-Tac Airport

Apr-12

Concourse Concessions LLC

	McDonalds	Wail's	La Pisa	Tully's	Total
Annual Projected Revenues	\$ 3,500,000 (year 1)	\$ 2,013,198 (4.5 yr average)	\$ 1,115,167 (7.5 yr average)	\$ 672,354.22 (7.5 yr. average)	\$ 3,800,719
Development Costs	\$ 2,000,000 (second to Anthony's?)	\$ 1,054,138	\$ 722,600	\$ 856,194	\$ 2,632,932
Square Footage	2900	640	850	1490	2980
\$/square foot investment Per unit	\$ 690	\$ 1,647	\$ 850	\$ 575	\$ 884
Total CC Average					
Contract Term	12 years	9 years	12 years	12 years	
Rent percentage (rent increases)	9% (<\$2,780,000) 11% (\$2,780,001-\$3,630,000) 13% (> \$3,630,001)	13.5/17.5% 14/18%	13.5/17.5% 14/18%	11.5% 12%	
MAG	\$ 280,000	\$ 262,371	\$ 116,470	\$ 68,956	\$ 447,797

CC vs McDonalds

- 1) Port justification for favorable terms to McDonalds based on high investment.
- 2) CC has invested more in terms of total dollars and dollars per square foot, while paying a much higher rent.
- 3) Combined, CC has a much higher MAG and % rent than McDonalds for comparable sales.
- 4) McDonald rent will be only 9% up to \$2.78 million in sales, compared with 13.5-17.5% for CC.

