

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>5c</u>
Date of Meeting	<u>August 20, 2013</u>

DATE: August 5, 2013
TO: Tay Yoshitani, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Deanna R. Zachrisson, Manager, Concessions Business
SUBJECT: New Foreign Currency Exchange Provider at Seattle-Tacoma International Airport (Airport).

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a lease and concession agreement, substantially as drafted in Exhibit A, with a foreign currency exchange company to provide foreign currency and other ancillary services in multiple locations at the Seattle-Tacoma International Airport for a term of seven years.

SYNOPSIS

As a major international gateway, the Airport is expected to provide foreign exchange services for international travelers as a necessary and customary convenience. Airport staff issued a request for proposals for the operation of foreign currency exchange in late April. Proposals were due on August 2, 2013 and the Port received four proposals from companies active in the foreign currency exchange business in international airports. The proposals will be evaluated by a staff evaluation panel in accordance with the scoring criteria identified in the request for proposals. Upon selection of the preferred provider, staff would commence negotiations for a new seven-year contract. The new agreement would commence after January 1, 2014, and include a minimum annual guarantee, terminal rent, and a percentage fee based on sales. The seven-year term is typical for retail and service concessions and sufficient to cover the operator's investment.

BACKGROUND

The Airport provides foreign currency exchange services at multiple locations in the facility convenient for the international traveler. Currently, these services are provided in two locations in the pre-security ticketing level (North and South Esplanades), baggage claim (near the international arrivals carousel), in Concourse A on the route to the South Satellite, and at the South Satellite. Currency sales at the Airport in 2012 were just over \$14 million, and revenue to the Port was \$772,289. The current provider of these services is Travelex Currency Services Inc. This firm was selected in 2007 by a competitive process.

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In the last few years, the business of international travel from the Airport has changed significantly. Direct international service has increased international enplanements by 7% in 2010, 5% in 2011, and a robust 9% in 2012 at the same time as domestic enplanements have grown only modestly. This has increased the number of travelers for which foreign currency exchange services at the Airport may be desired.

However, the growing ease of use of debit and credit cards world-wide has limited the growth of foreign currency exchange demand despite the dramatic increase in enplanements. Staff does not predict a reversal of this trend. Easy access to ATMs abroad is expected to continue to erode this business long-term. This is similar to the nearly complete demise of the traveler's check that began in the late 1990s. Nevertheless, the companies that are active in the foreign currency exchange business can be expected to make adjustments and find innovations to their business model in order to meet this new competitive picture.

The foreign currency exchange business is a very mature, world-wide business. The companies providing these services in airports have been in the marketplace for decades, and through mergers and acquisitions, there are very few competitors in the marketplace, and they all offer similar services. Therefore, staff believes that the competition for this opportunity will be between a small number of U.S. and European proposers.

FINANCIAL IMPLICATIONS

The current foreign currency provider pays a combination of square footage rent and percentage rent on sales. This is unique for the Airport, but is due to the unique nature of foreign currency exchange, where the product/service is money.

The current operator pays the Port a terminal square foot charge (\$102.09 per square foot) and a tiered percentage rent fee, as follows:

Sales up to \$8 million: 5%

\$8 million to \$10 million: 5.25%

Over \$10 million: 5.50%

Five Year Sales History of Current Operator

As summarized above, the sales history of the current foreign currency operator does not mirror the growth in international enplanements at the Airport, largely due to the availability of ATM machines that offer competitive fees and convenience for international travelers. Nevertheless, it is important that the Airport continue to offer foreign exchange services for international passengers because a significant portion of the traveling public continues to require these services.

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Year	Sales	Revenue to Port
2008	\$12,766,784	\$683,863
2009	\$12,411,794	\$679,355
2010	\$13,717,558	\$729,683
2011	\$15,401,130	\$779,045
2012	\$14,046,370	\$772,289

Summary of Business Terms for the New Agreement

1. Term of Agreement:

The successful proposer will be receive a term of seven years in four locations.

2. Rent and Other Charges:

The successful proposer will pay to the Port a base rental amount at the terminal per square foot charge (currently \$102.09) for the combined leasable square footage of all locations. This amount is also the property rent, which is subject to Washington State leasehold excise tax (currently 12.84%). In addition, the new operator will pay additional amounts as follows:

- Minimum Annual Guarantee (MAG):

Proposers will bid a Minimum Annual Guarantee (MAG) for the first and fourth year of the agreement. The first year MAG will also be paid for the second and third lease year with the fourth year MAG also being paid for all subsequent years. The Property Rent will be credited against the MAG each month.

- Percentage Fee:

Proposers will bid the fee structure to be paid in the form of percentage of gross dollar volume. Tiered rent proposals will be accepted. The percentage fee will be bid for each of the proposed types of services.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Execute a new agreement with the current provider. Although expeditious, the Port would forego the benefits of exposing this particular opportunity to direct competition. This is not the recommended alternative.

Alternative 2) – Eliminate foreign currency services. Despite the increased use of debit and credit cards by international travelers, the need for this service clearly remains for a significant

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portion of the traveling public and does provide the Port with non-aeronautical revenue. This is not the recommended alternative.

Alternative 3) – Award and negotiate a new lease and concession agreement for foreign currency exchange services at the Airport. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Exhibit A: Draft Lease and Concession Agreement

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None.