

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6c
Date of Meeting September 11, 2014

DATE: September 3, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Deanna Zachrisson, Business Leader, Airport Dining and Retail
SUBJECT: Lease and Concession Agreement for a full-service restaurant at Seattle-Tacoma International Airport

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to negotiate and execute a lease and concession agreement with the proposer selected in the Port's current third-party Competitive Evaluation Process (CEP) to operate a full-service restaurant in the South Satellite for a term of ten years. The draft lease (Exhibit A) is not necessarily the final version and is subject to negotiation within the stated parameters in the memorandum.

SYNOPSIS

The Airport's South Satellite has inadequate food service capacity. Currently, there is only one full-service restaurant, one coffee location and two quick service units to service more than 2 million annual passengers. In recognition of this food service shortage, the Commission approved the design (March 8, 2011) and construction (July 24, 2012) of a new full-service restaurant shell space in the west end of the satellite (Exhibit B). The Port completed the construction of this shell space in late 2012. In May 2013, Airport staff hosted an outreach event for this leasing opportunity. As a result of this outreach, the Port received five concept proposals from three operators. At this time, Airport staff would like to move forward and negotiate a lease agreement with the objective of starting operations before the summer travel season in 2015.

BACKGROUND

On May 27, 2014, Airport staff briefed the Commission on the ongoing work with the development of the Airport Dining and Retail master plan. One point of emphasis with regard to passenger demand – both current and future – was that the North and South Satellites lack adequate capacity for food service and retail. With regard to the South Satellite, the available square footage for restaurants has not increased notably since the facility was built 40 years ago. Existing restaurants have no available footprint for expansion. Food and beverage sales in 2013

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reached \$4.10 per enplaned passenger, compared to the Airport average of \$6.30. This metric indicates that there is inadequate capacity to serve customers. Existing operators and the Port are aware that business is lost during peak times due to long lines. On the positive side, the full-service restaurant, Dungeness Bay Seafood House, operated by HMSHost, was renovated and expanded in 2011 and its performance has improved dramatically. However, without an additional restaurant in the South Satellite, the Airport will continue to provide inadequate food service and lose easily available revenue.

The new South Satellite restaurant will mirror the configuration of the North Satellite with its newer 1,774 square foot restaurant (Bigfoot Food & Spirits). In 2013, this North Satellite restaurant achieved \$3.2 million in sales on enplanements of 3.3 million without cannibalizing sales at the other full-service restaurant. This suggests that the 1,500 square foot South Satellite restaurant, with an appealing concept and skilled operator, should be able to achieve sales in the neighborhood of \$2 million - \$2.5 million or approximately \$1,500 per square foot in its first full year on enplanements of approximately 2 million. This would provide about \$200,000-\$250,000 in new revenue to the Port.

All three companies that have submitted concept proposals are firms that operate restaurants in multiple U.S. airports. The firms have submitted multiple concept proposals, all of which meet the Port's objective to reinforce a local 'sense of place' in the South Satellite. The concepts are proposed in partnership with local 'celebrity-chefs' or are locally known concepts. The local partnerships are achieved either as licensing agreements or joint ventures.

The solicitation process for this restaurant is consistent with the approach used with a single-unit opportunity: a third-party Competitive Evaluation Process. In this process, a new business opportunity is announced via public outreach and paid advertising. The opportunity is described in detail on the program's leasing website (lease.seatacshops.com), and it is also via this website that interested businesses can submit an application for initial evaluation of qualifications. The Port's consultant evaluates these applications and assures that proposers meet the minimum qualifications for the opportunity. The consultant then solicits additional information from qualified proposers such as financial statements, concept information (including menus/planned merchandise), space renderings and a pro forma for the entire term of the lease. The consultant evaluates the proposals based on the operators' experience and qualifications (including operations in other airports or high-volume facilities), the proposed concept (including menu options and pricing), design implementation (including completed build-out quality in other facilities) and the proposed rent offer to the Port. Upon conclusion of this evaluation, the consultant provides the Port with its evaluation and rationale for the selection of a preferred operator. This restaurant will dramatically improve the customer service experience in South Satellite by adding much-needed food service capacity. It will reinforce a desired 'sense of place' with a new locally-themed restaurant concept and will increase non-aeronautical revenues with the addition of the new operation.

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This particular opportunity was offered in an outreach effort in May 2013. It was at this time that the leasing consultant website for the Airport Dining and Retail program was launched (lease.seatacshops.com). The leasing website provided detailed information about the location, size, available infrastructure, anticipated enplanement traffic as well as the Airport's desired concept. Restaurant operators interested in the opportunity first submitted an online application with information to determine if they met the minimum criteria.

The Port's leasing consultant (AirProjects, Inc.) initiated a dialogue with the qualifying firms about their proposals. The proposing companies submitted information to substantiate financial capability, detailed concept information including sample menus, storefront renderings, and a financial pro forma for the entire term of the lease. The Port's consultant received five complete proposals by the deadline date and will evaluate the proposals in accordance with the criteria outlined above for the Competitive Evaluation Process. The Port's consultant will provide Airport staff with its recommendation for a preferred tenant/concept. Airport and Port legal staff are responsible for negotiating an agreement. Presuming that the Port is able to negotiate a lease agreement in accordance with the timeline outlined below, the Airport will be able to add this much-needed capacity before the summer travel season in 2015.

REQUEST JUSTIFICATION AND DETAILS

Approval of this lease will allow the Port to dramatically improve its food service offering in the South Satellite. In addition, the new restaurant is likely to generate at least \$200,000 annually in new Port revenues. The restaurant operation will create approximately 40 management and non-management jobs.

SCOPE OF WORK AND SCHEDULE

Scope of Work and Schedule:

<i>Milestone</i>	<i>Schedule</i>
Commission Approval	September 9, 2014
Complete Evaluation	September 19, 2014
Commence Negotiations	September 25, 2014
Conclude Negotiations/Legal Review	October 15, 2014
Execution of Agreement	November 1, 2014
Initiate Design Review Process	November 10, 2014
Design Approvals Complete/Permitting	February 28, 2015
Begin Construction	March 15, 2015
Construction Complete/Open for Business	June 1, 2015

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FINANCIAL IMPLICATIONS

The lease term will be ten years with no option to renew. The Minimum Annual Guarantee (MAG) and rent will be negotiated with the winning proposer. Airport staff anticipates that the Port will receive no less than 10% of gross sales.

The Airport and its consultant are in the final stages of the proposal review as the proposers have been asked to confirm their proposals and financial assumptions. However, the initial financial offers by all of the proposers are very similar. This is indicative of the Airport restaurant business where the variables such as investment costs and costs of operation are fairly consistent regardless of operator. The restaurant business is a notoriously risk-filled endeavor, and it is no different in an airport environment. Airport staff anticipates that there may be a reduction in enplanement activity in the South Satellite when Delta Airlines relocates to Concourse A in 2018/2019 in conjunction with the opening of the new International Arrivals Facility (IAF). Another air carrier will assume Delta's gates in the South Satellite, but it is uncertain what the difference in passenger activity will be, largely dependent on the carrier and its fleet type. This information has been provided to all of the proposers to take into account in their pro formas.

Each of the three proposers are known within the airport dining industry for their comprehensive pay, benefits and training programs for their employees, and can substantiate far below industry-average turnover among their staff. There is little concern that their standard pay and benefits practices would fall below any standards expected by the Port. There is a risk of reversal of the initial State Superior Court judgment on the applicability of the City of SeaTac's wage ordinance at the Airport. This eventuality will be considered in proposed lease language (Exhibit A).

STRATEGIES AND OBJECTIVES

This project supports the Port's Century Agenda goal to "advance the region as a leading tourism and business gateway" by providing an extraordinary customer experience at the Airport. The project also supports the Aviation Division's strategic goals to operate a world-class airport and grow non-aeronautical revenues.

TRIPLE BOTTOM LINE

Economic Development

The Airport Dining and Retail program places a high value on the concurrent pursuit of positive economic, community, customer service and environmental stewardship outcomes in the selection of new operators. The pursuit of this opportunity is clearly consistent with these values.

This lease and concession agreement will contribute to the achievement of the Airport's business plan objectives of "maximizing non-aeronautical net operating income" by generating new non-aeronautical revenues. The Airport Dining and Retail budget will be built upon the assumption of new revenue generation from this restaurant beginning in June 2015.

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Environmental Responsibility and Community Benefits

From the point of lease execution, this restaurant will begin generating benefit for the Airport and the broader community. The new operator will employ architects and engineers for the design as well as contractors for its initial construction, and skilled laborers for ongoing maintenance and repairs. Building materials will be procured locally in accordance with Port environmental standards, and once the restaurant is operational, generate a benefit to the many suppliers for the restaurant.

The restaurant is expected to require up to 40 employees. It will operate seven days a week, 365 days a year and likely 16 hours a day. Each of the firms currently have labor contracts at other airports and are committed to respecting the rights of association of their future employees, if they should choose to be represented by a labor union.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) - Delay Approval: The Port will continue to forego the revenue generation from this restaurant. There has already been a significant delay to tenancy due to circumstances of business uncertainty in 2013. Also, as long as the restaurant shell space stands vacant, the Port's investment in the shell construction and installation of utilities will not generate the planned return on investment. Revenue budget assumptions for 2015 would need to revise downward. The need for food service is most critical in the summer months, and delay in approval now would eliminate the possibility of opening the new food service before summer 2015. This is not the recommended alternative.

Alternative 2) - New Recruitment: The Port has invested time and resources in the outreach to the business community for this opportunity. Three firms have invested similarly in the preparation of their proposals. Failure to negotiate an agreement at this juncture may call the Port's ability to manage its redevelopment into question. Additionally, there seems to be little justification to begin a new recruitment process for this opportunity as the proposals received are all top-tier local concepts proposed by experienced operators. This is not the recommended alternative.

Alternative 3) - Approve Lease and Concession Agreement: Approval will make it possible to meet the schedule to open the restaurant in the South Satellite by June 1, 2015. This new capacity is much needed for passengers and will provide relief for the existing operators who have no ability to adequately serve passenger demand during peak times. Both existing operators and the Port estimate that a significant amount of business is lost to long lines during these times, which is reflected in the lower sales per enplanement compared to the main terminal. The Port also will begin to realize a new revenue stream if this alternative is selected. **This is the recommended alternative.**

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ATTACHMENTS TO THIS REQUEST

- Exhibit A: Draft Lease and Concession Agreement
- Exhibit B: Power Point Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- May 27, 2014 – Staff Briefing: Airport Dining and Retail Master Plan
- July 24, 2012 – Action Item: South Satellite Concessions Project (CIP#C800412) authorization for additional funding and award of construction contract (combined with CIP#C800466).
- June 5, 2012 – Action Item: South Satellite Concessions Project (CIP#C800412) authorization to advertise for construction bids (combined with CIP#C800466).
- March 27, 2012 – Staff Briefing: Interim Concessions Leasing, 2012-2014.
- March 8, 2011 – Action Item: South Satellite Concessions Project (CIP#C800412), authorization to design.