PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No. 7a

Date of Meeting May 24, 2016

DATE: April 15, 2016

TO: Ted Fick, Chief Executive Officer

FROM: James Schone, Director, Aviation Business Development

SUBJECT: Airport Dining and Retail (ADR) Lease Group #3 Future Authorization

BRIEFING OUTLINING ANTICIPATED FUTURE AUTHORIZATION REQUESTS

Briefing regarding proposed 12 new opportunities encompassing 24 units in Airport Dining and Retail Lease Group #3:

1) Large Food Package #1: 5 units including: a bar with food (CD-7); a fast casual restaurant serving Asian food (CB-9); a wine bar with an emphasis on Washington State wines and craft beers as well as serving food (CC-13); a combined coffee and bar unit with light food (BC-6); and a quick service restaurant offering healthy food (CD-2);
2) Large Food Package #3: 4 units including: an upscale bar with food (SS-7); a marché (food hall) including a gourmet market and bar (minimum of wine and beer) (CA-10); a quick service restaurant focused on Mediterranean or Asian food (CT-21); and a sushi bar (CT-26);
3) Single Food Unit #1: a casual dining restaurant in the Central Terminal (CT-1 & CT-1 MZ);
4) Small Food Package #4 with 2 units: a gourmet coffee and newsstand (CD-8); and a gourmet coffee and newsstand (BC-4);
5) Single Food Unit #5: a gourmet burger restaurant with a bar (CC-6);
6) Small Food Package #7 with 2 units: a casual dining restaurant on the Central Terminal mezzanine associated with a concourse-level unit for a bar, market, and/or grab'n go options (CT-24 & CT-24MZ); and a bar with food (NS-2);
7) Single Food Unit #9: a bistro-style casual dining restaurant (CD-3);
8) Single Food Unit #11: a quick service restaurant serving healthy foods, emphasizing salads (CT-23);
9) Single Food Unit #12: a quick service restaurant serving Italian food/pizza (CT-22);
10) Single Food Unit #15: a quick service restaurant serving seafood (CT-20);
11) Single Food Unit #16: a diner-style casual dining restaurant (SE-2);
12) Large Retail Package #1 with 4 units: a specialty retail store with a local theme (CC-2); a specialty retail store selling jewelry and/or accessories (CA-9); a grab'n go market with coffee, news and sundries (RCF-1); and a convenience store/newsstand (NS-4).

Unit and package numbers reflect how each is denoted in the ADR Master Plan.

Note: See attached exhibits for location of all units.

SYNOPSIS

With leases for the majority of the units in the Airport Dining and Retail (ADR) Program expiring between mid-2015 and mid-2017, the redevelopment of the ADR Program offers an excellent opportunity to advance the Port's Century Agenda goals by enhancing the Airport's profile as the preferred gateway to the Pacific Northwest, by promoting job growth, by creating new opportunities for small, local and disadvantaged businesses and by meeting the expectations of the travelling public for quality food service, retail products and personal services.

The Commission provided specific guidance for the redevelopment of the ADR program in motions that they approved on February 14, 2012 and November 25, 2014:

- Encourage broad business participation;
- Use flexible competitive leasing processes to accommodate all types of business;
- Create new opportunities for small, disadvantaged and local businesses;
- Maximize employment continuity for qualified employees;
- Continue 'street pricing' of products and services;
- Improve efficiency and affordability in the unit build out process;
- Establish job quality expectations in competitive processes;
- Strengthen the local Pacific Northwest sense of place.

This guidance was accompanied by specific goals for the ADR program to be achieved by 2025:

- Grow sales per enplanement by at least 40 percent;
- Reach and remain within the top 10 North American airports as ranked by sales per enplanement;
- Grow gross revenues to the Port by 50 percent;
- Grow employment by 40 percent;
- Grow the share of sales generated by small, disadvantaged, and/or local businesses to 40 percent;
- Create an aspirational objective of increasing ACDBE gross sales to 25 percent of total sales.

In 2015, the ADR Program made significant progress towards these goals. Gross sales by ADR tenants were $271.5 million; the share of those gross sales achieved by small, local and disadvantaged ADR tenants reached 43.8%; employment in the ADR program totaled 1,817 full and part-time positions, and revenues to the Port were $44.77 million.

Port staff began working diligently in 2012 on an ADR master plan, incorporating Commission guidance, to prepare for the redevelopment of the program. An important component of implementing this ADR master plan was that Commission would consider authorization for solicitation requests in groups of units and/or packages of units due to the significant number of concurrent solicitation processes that would need to begin in 2015 and continue for several years.

The Commission approved the first step of the redevelopment effort in December 2014 with the approval of new leases and lease modifications with the ADR Program's largest lessees, HMS Host and Hudson Group. These leases are referred to as Lease Group #1.

In December 2015, Commission authorized the second step in the redevelopment effort: the issuance of competitive solicitations and execution of lease and concession agreements for 10 opportunities in Lease Group #2, encompassing 13 units. Proposals for these opportunities were submitted on February 22, 2016. The evaluation of these proposals is underway but not yet completed.

This request for authorization of Lease Group #3 marks the next step in the redevelopment of the ADR Program. This request is for authorization to complete solicitation processes and execute lease and concession agreements within the parameters defined in this memo and in the attached exhibits for 12 opportunities encompassing 24 units.

BACKGROUND

Leases for the majority of the Airport's restaurant, retail and personal services locations have expiration dates between mid-2015 and mid-2017. The large number of units with nearly simultaneous expiration dates is a consequence of the shift in management model that took place in the early part of the previous decade, specifically the move away from a master concessionaire model. The former master concessionaire operated nearly all of the Airport's food service, retail, and duty free units from 1963 through 2004. In 2005, the Airport instituted a hybrid leasing structure of large prime operators of multiple units and direct leases with independent operators. Because nearly all leases after the master concessionaire were executed at the same time for similar lease term lengths, they have expiration dates very close to one another.

Development of the ADR Master Plan

In order to create an ADR master plan, the tool to plan and implement all the necessary steps to redevelop nearly 100 dining and retail locations, staff procured the services of a team of consultants led by AirProjects, Inc. of Alexandria, Virginia, in early 2012 through a competitive solicitation process. AirProjects is a woman-owned small business consulting firm specializing in airport concession programs.

Between 2012 and 2014, Port staff and its consultant team completed the analysis and planning portions of the ADR master plan. These efforts focused on how to address increased passenger demand with limited square footage and to accommodate facility changes driven by terminal expansion. The most significant elements of the master plan were discussed in public briefings in 2014 (see Previous Commission Actions or Briefings below). The master plan work has also taken into account the continued availability of food service and retail goods during the redevelopment timeframe when transitions between and/or construction activity is underway.

With the delay in lease executions and construction, much of the original ADR masterplan phasing and packaging required reworking over the past several months. Port staff has needed to make adjustments because of the complex phasing, linkages and packaging. These changes have been made for Lease Groups 1-3. Port staff will focus on the changes needed for the remaining lease groups following Commission consideration of Lease Group #3. It is important to note that this re-work, along with adjustments made due to increases in passenger activity, have resulted in additional staff time and a corresponding increase in project costs. The specifics of these changes are being quantified and will be covered in an upcoming Commission action.

ADR Program Performance Metrics

On November 25, 2014, the Commission approved a motion regarding "Quality Jobs, Service and Employment Continuity Assurances for the Airport Dining and Retail Program." This motion provided guidance to the ADR master planning effort as well as requested regular reports to the Commission regarding the performance of the ADR Program relative to the goals that they set for the program. The table below provides this information for the previous two years.

Airport Dining and Retail Program Performance Metrics

	2014	2015	% Change
ADR Total Program Gross Sales	$248.3 million	$271.5 million	9.4%
ACDBE Gross Sales* % of Total ADR Program Gross Sales	$54.4 million 21.9%	$60.5 million 22.2%	11.2%
Small Business Gross Sales** % of total ADR Program Gross Sales	$59.5 million 23.9%	$67.3 million 24.7%	13.2%
Local Business Gross Sales*** % of Total ADR Program Gross Sales	$58.4 million 23.5%	$64.9 million 23.9%	11.1%
Total Gross Sales from Small, Local and Disadvantaged Businesses % of Total ADR Program Gross Sales	$105.9 million 42.6%	$118.9 million 43.8%	12.2%
Sales per Enplanement	$12.15	$11.91	(2.0%)
Rank in U.S. Airports per Airport Revenue News	22nd	2015 rank not yet available	
Employment (full–time/part-time)	1,362/278 ****	1,475/342	8%/23%
ADR Revenue to POS	$41.0 million	$44.77 million	9.1%

* Definition of Airport Concessions Disadvantaged Enterprise (ACDBE) is that described in 49 Code of Federal Regulations, Part 23.

** Definition of small business is based on standards used by U.S. Small Business Administration (SBA).

*** Definition of local business as developed by Port staff is: the brand of the business must be easily recognized by the travelling public as from Washington State; and the business must either be headquartered in

Washington State, or have the majority of its sales in Washington State. The unit at the airport may be operated by that same business or by a 3rd party.

**** Data collected in August 2013.

Update on Lease Group #1

In December 2014, the Commission authorized the first group (Lease Group #1) of lease agreements as part of the ADR master plan with HMS Host and Hudson Group. Due to a number of reasons, signing of these leases was delayed. But both leases were executed on March 31st, 2016 and work is underway on the redevelopment of the units in these leases.

Outreach Efforts

In preparation for starting the competitive solicitation process for the overall program, ADR staff conducted two outreach events in the spring and summer of 2015. The purpose of these events was to increase the awareness of the upcoming ADR leasing opportunities. The first event was held at the Airport on April 29, 2015 with 112 registered attendees. The second event was held at the City of Tukwila Community Center on June 24, 2015 with 64 registered attendees.

Based on Commission direction provided in August 2015, additional outreach activities were conducted in the fall of 2015 that targeted small, local, and disadvantaged businesses within the Puget Sound region (King, Snohomish and Pierce counties). The objectives of these targeted outreach efforts were to raise awareness, provide information, and create excitement within the business community about the upcoming ADR leasing opportunities at the Airport.

The ADR team identified and contacted over 1,100 small, local, or disadvantaged food service and retail businesses. All identified owners received an email describing the purpose of the outreach efforts, instructions for registering to receive future notifications regarding the leasing opportunities, and a link to view the Port's ADR leasing website. In addition, each owner received an invitation to learn about ADR opportunities at their place of business during late October, 2015.

The ADR team also contacted 26 regional organizations that represent a variety of business and commercial interests. These organizations included chambers of commerce, economic development agencies, the Washington Restaurant Association, the Washington Retail Association, the Business Development Center as well as a variety of smaller minority, women, and Lesbian, Bisexual, Gay and Transgender (LBGT) business affinity groups. Over one-half of these organizations, including the largest regional chambers of commerce, agreed to distribute the outreach information to their members either via email, their newsletters, or other electronic channels.

As a result of these efforts, our consultant identified and visited over 170 businesses. In addition, AirProjects staff met with approximately 30 food service and retail owners that requested an in-person visit.

Port efforts also included outreach beyond the Puget Sound region, including emails to a national audience of Airport Concessions Disadvantaged Business Enterprise (ACDBE) firms, prime operators who team with ACDBE businesses and industry tenant representatives.

In addition to the outreach efforts to prospective tenants, Port staff conducted a training session on November 5, 2015 for architectural, engineering and construction firms who expressed interest in learning more about the potential for work associated with the ADR leasing opportunities. This training session was the direct result of an earlier ADR stakeholder outreach process from which a recommendation was made that the Port do more to encourage interest from and provide training to architectural, engineering and construction firms so that there would be a larger pool of firms who understand how to do business at the Airport. There were a total of 46 individuals representing 36 different companies at the training session.

Outreach efforts have continued in 2016 with Port staff meeting with interested companies at the Airport Revenue News Conference in Dallas, Texas in March as well as presenting the draft Lease Group #3 opportunities to an audience of 75 representatives of dining and retail firms at the Airports Council International – North America "Business of Airports" Conference in Orlando, Florida that was held April 4-6. All of these outreach efforts resulted in 490 firms having registered on the ADR leasing website as of May 13, 2016.

Update on Lease Group #2 (LG#2)
Following Commission authorization of Lease Group #2 on December 4, 2015, the 10 opportunities were advertised on December 10, 2015. Training sessions were held on January 19 and 20, 2016 for firms interested in proposing on these opportunities. There were a total of 157 attendees representing 108 firms at these two sessions. On February 22nd, 2016, proposals were submitted for these 10 opportunities The team of Port staff, comprised of representatives from departments across the organization, along with two volunteer community members who are serving as monitors/advisors, are still in the process of scoring the proposals.

LEASE GROUP #3 OPPORTUNITY DESCRIPTIONS

Large Package #1 – Food Service
This five-unit package includes a total of 6,001 square feet of space as follows:

- CD-7: A bar with food. This 1,587 square foot space located at the end of Concourse D is currently leased to HMS Host for a Chili's Too casual dining restaurant. The current lease expires on December 31, 2016. This unit is scheduled for construction in mid-2017 with a targeted opening in October 2017.
- CB-9: a fast casual restaurant serving Asian food. This is a 1,342 square foot space located at the end of Concourse B that is currently leased by HMS Host for a Starbucks. The lease for this unit expires at the end of December 2016, but will go into holdover until June 30, 2017. This unit is scheduled for construction in early 2018 with a targeted opening date planned for May 2018.

- CC-13: A wine bar with an emphasis on Washington State wines and craft beers as well as serving food. This is a 1,099 square foot space located at the end of Concourse C. It is currently leased in part by HMS Host for a Starbucks and partially by the Hudson Group for a Hudson News. The lease for this unit expires at the end of December 2016, but will go into holdover until June 30, 2017. This unit is scheduled for construction in late 2018 with a targeted opening in January 2019.

- BC-6: a combined coffee and bar unit with light food. This 1,181 square foot space located in Baggage Claim is a new location. This unit is scheduled for construction in the fall of 2018 with a targeted opening date in January 2019. This location will not accommodate cooking exhaust, so the intended concept must focus on food service that does not require significant cooking.
- CD-2: a quick service restaurant offering healthy food. This 792 square foot space located on Concourse D is currently operated as a Great American Bagel Bakery under a lease expiring on December 31, 2016. The current lease will be extended to maintain a needed level of food service on Concourse D during the ADR program transition until August 31, 2018. This unit has a targeted opening date in February 2019.

Lease terms and projected schedule are contained in **Exhibit A**.

Large Package #3 – Food Service

This four-unit package includes a total of 10,490 square feet of space as follows:

- SS-7: Upscale bar with food. This 1,519 square foot space in the South Satellite is a new location to supplement the limited food service program in this gate area. This location is scheduled for construction in mid-2017 with a scheduled opening in October 2017.
- CA-10: a marche (food hall) including a gourmet market and bar (minimum of wine and beer). This location will be required to provide an area and related sound system to accommodate live music performances through the Airport's City of Music program. This 7,127 square foot space on Concourse A will be located across from the new International Arrivals Facility exit into the terminal. Part of the space is currently leased by the Hudson Group for a Hudson Booksellers store. Construction is scheduled to begin in the fall of 2017 with an opening scheduled for January 2018.
- CT-21: a quick service restaurant focused on Mediterranean or Asian food. This 1,387 square foot unit located in the Central Terminal is currently leased by Pallino Pastaria. This lease is currently operating on a month-to-month basis. This unit is scheduled to be closed in early September 2017 for Port infrastructure work. The unit should be available for tenant construction in March 2018 with an opening scheduled for July 2018.
- CT-26: a sushi bar. This 457 square foot unit in the Central Terminal Food Court is a new location. This unit is scheduled for construction in mid-2018 with a scheduled opening for August 2018.

Lease terms and projected schedule are contained in **Exhibit B**.

Single Unit #1 – Food Service
CT-1 and CT-1MZ: a casual dining restaurant. This single-unit offering is a 10,885 square foot space in the Central Terminal, including a large area on the Mezzanine level that will be accessed by a Port-constructed elevator. The current lease on this unit is held by Anton Airfoods/HMS Host and operated as an Anthony's Restaurant, a local concept. The existing lease expires in September 2017, but will need to be extended to September 2018 in order to maintain a satisfactory level of food service while the ADR units on the south side of the Central Terminal are under construction. Upon completion of Port work, tenant construction is scheduled to begin in late 2018 with an opening targeted for May 2019.

Lease terms and projected schedule are contained in **Exhibit C**.

Small Package #4 – Food Service
CD-8 and BC-4: Gourmet coffee with news for both locations. This two-unit package includes one unit on Concourse D and one unit in Baggage Claim (990 square feet and 1,457 square feet, respectively). The existing unit on Concourse D is currently leased to the Hudson Group and operated as a newsstand. The existing unit in Baggage Claim is currently leased to the Hudson Group for a Hudson News/Alki Bakery concept. Both locations have leases that expire on April 30, 2017. The Concourse D unit is scheduled to open in October 2017. In order to maintain service in Baggage Claim through the summer months and spread the Port's construction project management workload, the existing lease for the Baggage Claim location will be extended on a month-to-month basis until September 30, 2017 and the target date for the opening of the new unit is February 2018.

Lease terms and projected schedule are contained in **Exhibit D.**

Single Unit #5 – Food Service
CC-6: a gourmet burger restaurant with a bar. This single-unit offering is a 1,302 square foot space adjacent to the existing Beecher's unit on Concourse C. This unit is currently leased by Massage Bar on a month-to-month basis (original lease term expired in June 2014). In order to maintain massage services at the Airport, the existing tenant will continue to operate the Massage Bar through August 2017 by which time the new massage services locations are expected to be open. This location is scheduled for construction in the fall of 2017 with an opening expected in January 2018.

Lease terms and projected schedule are contained in **Exhibit E.**

Small Package #7 – Food Service
This two-unit package includes a total of 9,210 square feet:

- CT-24/CT-24MZ: The intended concept for the CT-24/CT-24MZ location is a casual dining restaurant on the mezzanine level accessed via a newly-installed Port elevator combined with a market and/or bar component on the main level. Two of the units, a 623 square foot unit in the Central Terminal food court and a 5,952 square foot unit located above it on the Central Terminal Mezzanine make up one of the units. The lease for the existing food court location expired and is currently operating on a month-to-month basis as a Wendy's. The mezzanine level is a new location. The Wendy's unit will be closed in April 2017 for Port infrastructure construction in the food court. Construction on the mezzanine level is scheduled to begin in late 2017 with a target opening on that level in April 2018. The lower portion of this unit is scheduled for construction in the spring and early summer of 2018, with a target opening of July 2018 along with the food court units.

- NS-2: a bar with food. This 2,635 square foot unit in Phase One of the North Satellite (new construction). Tenant construction on this location is schedule to begin in the summer of 2018 in order to have the unit opening coincide with the North Satellite Phase One opening in October 2018.

Lease terms and projected schedule are contained in **Exhibit F**.

<u>Single Unit #9 – Food Service</u>

CD-3: A bistro-style casual dining restaurant. This single-unit offering is a 2,306 square foot space located on Concourse D. This location is currently operated as a Seattle's Best Coffee under a lease that expires on December 31, 2016. In order to maintain coffee service on Concourse D during the ADR program transition, the lease for this unit will be extended on a month-to-month basis through September 30, 2017. Construction for the new unit is scheduled to start in the fall of 2017 with a targeted opening date in February 2018.

Lease terms and projected schedule are contained in **Exhibit G**.

<u>Single Unit #11 – Food Service</u>

CT-23: a quick service restaurant serving healthy food emphasizing salads. This single-unit opportunity is a 983 square foot space in the Central Terminal. This unit is currently operated as a Maki of Japan under a lease that is currently on a month-to-month basis. This location will be available for construction in early 2018 after the Port's infrastructure work in the Central Terminal food court is complete, with an opening scheduled for July 2018.

Lease terms and projected schedule are contained in **Exhibit H**.

<u>Single Unit #12 – Food Service</u>

CT-22: a quick service restaurant serving Italian food/pizza. This single-unit opportunity is a 1,156 square foot space in the Central Terminal. This unit is currently operated as a Qdoba under a lease that is currently on a month-to-month basis. This location will be available for construction in early 2018 after the Port's infrastructure work on the south side of the Central Terminal is complete, with an opening scheduled for July 2018.

Lease terms and projected schedule are contained in **Exhibit I**.

Single Unit #15 – Food Service
CT-20: a quick service restaurant serving seafood. This single-unit opportunity is a 1,142 square foot space in the Central Terminal. This unit is currently operated as an Ivar's quick service unit under a lease that is on a month-to-month holdover basis. This location will be available for construction in early 2018 after the Port's infrastructure work on the south side of the Central Terminal food court is complete, with an opening scheduled for July 2018.

Lease terms and projected schedule are contained in **Exhibit J.**

Single Unit #16 – Food Service
SE-2: a diner-style casual dining restaurant. This single-unit offering is a 2,640 square foot space located pre-security in the South Esplanade. This unit is made up of two existing units that are currently operated as a Seattle's Best Coffee and a Hudson News with leases expiring December 31, 2016 and April 30, 2017, respectively. The Hudson News unit will be returned to the Port one month early so that construction can begin on this combined location in the summer of 2017 with a targeted opening in September 2017.

Lease terms and projected schedule are contained in **Exhibit K**.

Large Package #1 – Retail
This four-unit package includes a total of 4,582 square feet of space:

- CC-2: a specialty retail store with a local theme. This 590 square foot unit is located at the entrance of Concourse C and is operated as an InMotion under a lease that is currently on a month-to-month basis. The existing unit will be held over until April 30, 2017 in order to maintain a tech retail concept at the Airport through the ADR program transition. Construction is scheduled to begin in the fall of 2017 with a targeted opening date in January 2018.
- CA-9: a specialty retail store selling jewelry and/or accessories. This 734 square foot unit is located on Concourse A and is currently vacant. Construction is scheduled to begin on this unit at the end of 2017 with an expected opening date in February 2018.
- RCF-1: a Grab 'n Go Market with coffee, news and sundries. A kiosk located in the Rental Car Facility currently leased by Firehouse. This unit can be up to 720 square feet and the future tenant must develop at least one-half of the space as leased space. The remaining space can be used as a seating area at the tenant's option. The existing lease expires August 31, 2016, but can be extended on a month-to-month basis for six months. This location is scheduled for construction early 2018 with an expected opening in May 2018.
- NS-4: a convenience store/newsstand. This 2,538 square foot unit is part of Phase One of the North Satellite (new construction). Tenant construction on this location is scheduled to begin in the summer of 2018 in order to have the unit opening coincide with the North Satellite Phase One opening in October 2018.

Lease terms and projected schedule are contained in **Exhibit L**.

Authorization Approach

The packages with 4 or more units in this lease group and Food Service - Single Unit 1 will be competed via the Request For Proposal (RFP) process. Packages of 3 or fewer units and individual units will be competed using the Port's Competitive Evaluation Process (CEP) that was utilized for Lease Group #2. The criteria to be used for evaluating proposals and the points allocated to each criterion will be the same as directed and approved by Commission for Lease Group #2.

The steps to be used for those packages and individual units to be competed via the CEP in LG#3 are as follows:

- Authorization by the Commission
- Advertising of the opportunities
- Conducting training sessions for all interested firms
- Posting of responses to all questions on the ADR leasing website
- Submission of proposals
- Evaluation of proposals
- Selection of the preferred respondent
- Negotiation with the preferred respondent
- Signing of leases
- Reporting of outcomes to the Commission

The steps to be used for those packages and individual unit to be competed via RFP in LG #3 are the same as for the CEP. The primary differences with the RFP are:

- More experience is required to meet the minimum qualifications;
- Proposers must submit a proposal guarantee along with their proposal;
- Documentation must be provided for the proposing organization (Articles of Incorporation, Joint Venture Agreement, etc.); and
- Additional and more detailed information is required in the proposal.

Summary of Evaluation Criteria

The categories of evaluation criteria used to score proposals will be uniform for every solicitation in LG#3. The total point allowance of 150 points and the point allocation and brief description for each criterion (see below) within the CEP and RFP are the same as used for Lease Group #2. The following descriptions of each criterion summarize the areas that will be evaluated (detailed submittal requirements will be included in the RFP and CEP documents).

Company Profile, Experience and Financial Capability **20 points**

The company must demonstrate stability, experience and expertise in operating a similar business as proposed, in a challenging environment. The proposer must demonstrate that the company has the financial capacity to fulfill the commitments of an agreement with the Port.

Concept Development **25 points**
The proposed concept (or concepts) will be evaluated based on its (their) ability to meet or exceed the expectations described for the unit or units. The airport is a competitive environment for the customer's spending, therefore the ability to attract business hinges on developing a concept with broad and lasting customer appeal.

Unit Design, Materials and Capital Investment **25 points**
The proposal will be evaluated based on the quality of unit design, efficient use of space, selection of appealing and durable materials (including sustainable materials) and its reflection of the Pacific Northwest sense of place, as well as the reasonableness of the proposed capital investment in the unit(s).

Financial Projections and Rent Proposal **20 points**
Financial projections and rent proposals will be evaluated based on the reasonableness of the financial projections and the proposed percentage rent fee.

Management, Staff, Operations and Environmental Sustainability: **20 points**
The company must demonstrate its commitment to reliable, safe, clean and well-merchandised operations, as well as a proactive and consistent approach to preserving the units (including equipment). The company should detail environmental sustainability measures that it currently or will practice in the operation of the business, including (where applicable) separation of waste, recycling and compost, and use of compostable materials.

The company must demonstrate its ability to effectively manage all units and operations, which also includes quality leadership, adequate levels of staffing, robust training for staff and incentives for performance. The company must also demonstrate commitment to employer philosophies and programs that support a positive work environment and the development of employees.

Job Quality, Workforce Training, Employment and Service Continuity: **20 points**
The company must provide detail regarding its commitment to employment continuity, provision of quality jobs, sustainable wages, benefits and Paid Time Off. If the company anticipates operating four or more units, it also must describe the company's efforts to have discussions regarding service continuity with labor organizations.

All solicitations will make clear that the Port staff interpretation of the Commission's expectations regarding quality jobs (as articulated in the November 11, 2015 memo from CEO Fick to Commission co-presidents - Attachment A) requires respondents to communicate their commitment to the following:

- For 2016, wages shall be paid at the rate of $15.24 per hour. The wage rate shall be adjusted on January 1 of each year by the rate of inflation. The increase shall be calculated to the nearest cent using the CPI (Consumer Price Index) for urban wage

earners and clerical workers, CPI-W, or a successor index, for 12 months prior to each September 1 as calculated by the US Department of Labor.
- Payment of sick and safe time, which shall be accrued at the rate of one hour for every 40 hours worked.
- Provide health insurance to full-time employees, consistent with the Affordable Care Act.

Small Business Participation: **20 points**
The company must indicate whether it is a small business consistent with the requirements of the U.S. Small Business Administration (SBA).

- A company that qualifies as a small business relative to the standards adopted by the SBA will automatically receive ten (10) points.
- All companies, regardless of size, may receive up to ten (10) points, depending on the degree of commitment, for each of the four small business participation opportunities (i.e., sourcing, mentoring, product placement, and design/construction).
- No proposer, though, may earn more than twenty (20) total points for the criterion.

Lease Parameters
Lease term lengths determined by the Port for each opportunity are based upon sales and investment assumptions, and are presumed to allow a future tenant the ability to amortize the investment over the life of the lease. The lease term lengths determined for this group of opportunities also fall within industry standard ranges.

For these new opportunities, the Port will establish the minimum guaranteed rent for the first year of the agreement. The purpose of this is to protect the Port's financial interest as well as to eliminate the minimum guaranteed rent as a factor in the selection process. This is particularly important for businesses new to the airport that may not have any experience in proposing minimum guaranteed rents. For the second and subsequent years, the tenant will be required to pay either 85% of the previous year's actual rent payment, or percentage rent based on gross sales achieved during the year, whichever is greater.

Interested businesses will propose percentage rent to the Port. Proposers may propose this either as a flat rent or tiered rent. Each proposer must provide the Port with a pro forma analysis that can substantiate the sales projections, rent offer, costs to operate the business (including goods, labor, debt service, etc.) as well as the anticipated profit margin.

SCHEDULE

The anticipated timeline for each solicitation and award is outlined in each exhibit. Upon execution of a lease agreement, the design review and permitting process can be anticipated to take up to six months followed by three to four months for construction before the commencement of business.

Projected Date	**Action**
May 24, 2016	Brief Commission on Lease Group #3 opportunities
June 14, 2016	Request for Commission authorization of Lease Group #3 opportunities
Late-June, 2016	Advertise opportunities (leasing website and through various local and national media)
Early July, 2016	Tours and training sessions for interested businesses
Late- June through late September, 2016	90 days for proposal preparation
Late- September, 2016	Responses due
Late-November, 2016	Port Evaluation Team completes their decisions
Early-December, 2016	Notification to preferred respondents Update Commission on Lease Group 3 results
December, 2016	Lease Negotiations and Executions

STRATEGIES AND OBJECTIVES

The approval of the proposed group of leasing opportunities supports the 25-year vision of the Port's Century Agenda to create 100,000 new jobs through economic growth led by the Port. These opportunities also support a number of the strategies and objectives of the Port's Century Agenda over the next quarter century:

- Advance this region as a leading tourism and business gateway;
- Promote small business growth and workforce development;
- Be the greenest and most energy efficient port in North America.

The Airport also has a number of shorter term strategic goals:

Strategic Goal:	Achieved Via:
Operate a world-class international airport	Meet the needs of tenants, passengers and the region's economy
Become one of the top 10 airports in customer service	Recruit quality operators that value staff training and development
Lead environmental innovation, minimize impacts	Lead sustainability programs to minimize waste and conserve water and energy
Reduce airline costs	Provide 50% revenue-sharing with airlines above specific debt service threshold
Maximize non-aeronautical income	Drive an increase in sales per enplanement to maximize growth in revenue
Develop valued community partnerships	Work in tandem with other Port resources, other partner agencies and community entities to foster partnerships

TRIPLE BOTTOM LINE

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. Each business opportunity outlined in this leasing authorization brings a unique set of benefits to the Port, the traveling public, the environment and the community.

Economic Development

From the point of lease execution, the businesses will begin generating economic benefit for the Port and the community. The new tenants will hire professionals to design and construct their units. Supplier relationships will be established for the procurement of local goods and services to support the operation of the business. The revenue generated by the Port will support needed improvements in transportation infrastructure for the region.

Environmental Responsibility

All dining and retail tenants are required as a condition of a lease agreement to follow environmental practices established in the Airport's Rules and Regulations. The Airport currently has numerous programs in place, such as recycling, composting, food bank donations, and cooking grease recycling. New gains in reducing the environmental impact of dining and retail businesses will be achieved by increased waste separation and increased use of durable use materials (stainless silverware, porcelain tableware, etc.), or, where applicable, compostable paper products and service ware. Energy conservation, water conservation, and indoor air quality practices will be integrated into the new ADR leases.

Community Benefits

The transition for occupied units in these packages is anticipated to take place after completed design and construction/renovation. In anticipation of potential impacts to employment stability, the Port is in the process of creating an Employment Continuity Pool for the benefit of current employees seeking new employment. The dual benefit of the pool is that it will offer new lessees access to experienced candidates for hire. The master plan projects an overall increase in employment as the result of program growth. The anticipated employment associated with each unit is noted in that unit's exhibit.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

1. ***Delay request for Commission approval of Lease Group #3 until later in 2016.***

   Economic Implications: Stabilized annual sales for 9 units that will be dark longer than necessary due to a delay in approving LG #3 are estimated at $26 million. Assuming a 10% concessions fee to the Port, this amounts to $2.6 million in lost revenue to the Port for a full year. The exact amount lost would depend on the amount of delay in considering LG #3.

Pros:

- This would allow for more time to determine what worked well with LG #2 and what changes, if any, to make to LG #3.
- This would also allow for more balance resource needs and workloads of Aviation Project Management Group (AV PMG), Aviation Facility & Infrastructure (F&I), Aviation Building Department (AVBD) and Fire Department staff due to the significant demands on their time with work associated with the Host and Hudson and LG #2 buildouts.

Cons:

- This would mean that HMS Host, Hudson and operators in the Central Terminal would need to stay in some of their units longer, giving them financial benefits and delaying the creation of new opportunities for other firms.
- This would also result in some units being closed longer than necessary without generating revenue for an extended period of time because of linkages to Host and Hudson leases and LG #2 reconfigurations.
- Nine units would either become vacant or remain vacant due to delays in issuing LG #3.
- A delay will require a rescheduling of the redevelopment plan. This will lead to increased soft costs for Port personnel and consultants to further revise the ADR Master Plan.
- A delay in leasing will lead to delays in construction which can lead to an increase in construction costs, especially so in a strong economic climate as currently exists in the Puget Sound region.

This is not the recommended alternative.

2. Reduce the number of units included in Lease Group #3:

Economic implications: This would have similar consequences to Alternative 1, a delay in consideration of LG #3, depending on which units were deleted.

Pros:

- This would reduce the peak workload demand on AV PMG, F&I, AVBD, Building Department and Fire Department.
- This would also help maintain higher levels of customer service with fewer units shut down.

Cons:

- This lease group has been carefully developed with considerations for multiple variables including: customer service levels, financial viability of packages, linkages to Host/Hudson/LG #2 projects, as well as increasing ADR capacity to meet increases in passengers. Reducing the number of units would negatively affect those variables.

- Reducing the number of units will require a rescheduling of the redevelopment plan, a repackaging of lease groups, and lead to increased soft costs for Port personnel and consultants to further revise the ADR Master Plan.
- There will be increased hard costs due to construction price escalation and increased need for temporary units to serve the travelling public.

This is not the recommended alternative.

3. Approve Requested Commission authorization for the proposed Lease Group #3:

Economic Implications: This alternative has the highest financial return to the Port while minimizing the need to keep Host and Hudson in units that they have relinquished as part of their new leases to as short a time as possible as well as minimizing the length of time that firms in the Central Terminal are in holdover status. It is important to note that we are still refining the implementation schedule of the proposed LG#3 units, in an effort to balance both customer level of service needs as well as project management workload distribution.

Pros:

- This set of leases has been developed to best meet the needs of the ADR program and the airport passengers.
- Considerations have included financial viability, build-out schedule, minimizing location closures and increasing dining and retail capacity to meet the forecasted growth in passengers.

Cons:

- The main negative to proceeding with this alternative is the peak demand on AV PMG, F&I, AVBD, and Fire Department staffing to support the build-out of these units immediately after the build-out of the Host, Hudson and LG #2 units.
- This will require the Anthony's lease to be placed in holdover status for approximately 1 year in order to ensure adequate levels of food service while the units on the south side of the Central Terminal are closed for construction.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- PowerPoint presentation
- Exhibit A: Food Service – Large Package 1
- Exhibit B: Food Service – Large Package 3
- Exhibit C: Food Service – Single Unit 1
- Exhibit D: Food Service – Small Package 4
- Exhibit E: Food Service – Single Unit 5
- Exhibit F: Food Service – Small Package 7
- Exhibit G: Food Service – Single Unit 9
- Exhibit H: Food Service – Single Unit 11
- Exhibit I: Food Service – Single Unit 12

- Exhibit J: Food Service – Single Unit 15
- Exhibit K: Food Service – Single Unit 16
- Exhibit L: Retail – Large Package 1
- Attachment A: November 11, 2015, memo from CEO Fick to Commission co-presidents regarding Quality Job expectations

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- December 8, 2015 – (Action) Request for Airport Dining and Retail Group Lease Authorization
- November 24, 2015 - (Action) Request for Airport Dining and Retail Group Lease Authorization
- August 4, 2015 – (Action) Request for Airport Dining and Retail Group Lease Authorization
- February 24, 2015 – (Staff Briefing) Airport Dining and Retail Outreach and Leasing Plans
- December 9, 2014 – (Action) Authorization of Leases and Lease Modifications for HMS Host
- December 9, 2014 -- (Action) Authorization of Leases and Lease Modifications for Hudson Group
- December 9, 2014 – (Action) Amendment to Lease and Concession Agreement with Anton Airfoods (dba Anthony's Restaurant)
- November 25, 2014 – Commission Motion Regarding Job Quality
- September 30, 2014 – (Staff Briefing) Drivers for Phasing Decisions
- May 27, 2014 – (Staff Briefing) Airport Dining and Retail Master Plan
- September 11, 2012 – (Briefing) Airport Concessions Master Plan Update
- February 14, 2012 – Commission Motion Regarding Concessions Program Guidelines