

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**  
**ACTION ITEM**

**Item No.** 6d  
**Date of Meeting** September 27, 2016

**DATE:** August 25, 2016  
**TO:** Ted Fick, Chief Executive Officer  
**FROM:** James Schone, Director, Aviation Business Development  
Scott Van Horn, Senior Business Manager, Airport Dining and Retail  
**SUBJECT:** Competitive Solicitation for the Airport Advertising and Promotion Concession

**Revenue Implications:** \$3.8 million is minimum annual guarantee for first year

**ACTION REQUESTED**

Request Commission authorization for the Chief Executive Officer to conduct a competitive solicitation and execute a lease and concession agreement with a selected single proposer for the right for an advertising and promotion concession at Seattle-Tacoma International Airport for a period of ten years.

**SYNOPSIS**

The advertising program at the Airport is a critical piece of the overall generation of non-aeronautical revenue accounting for 2.7% of total Airport Dining and Retail (ADR) gross sales (\$7.3 million of the \$271.5 million) and 11% of ADR revenue to the Port (\$5.0 million of the \$44.7 million) in 2015. The advertising program brings public awareness to businesses located within the Pacific Northwest as well as national brands. The current advertising concessionaire employs two local employees and utilizes local contractors for electrical work, installation, and other services to support the program.

The last solicitation for the advertising program at the Airport was conducted in 2007. During this ten-year period, there have been many changes to advertising mediums, from digital displays to social media campaigns. In this new solicitation, staff is looking to capitalize on these changes while also improving the look and feel of the advertising program by:

- Upgrading older displays and equipment with newer technologies;
- Reallocating a number of existing static locations to digital displays; and
- Providing additional locations within the concessionaire's inventory for non-static/digital display elements as well as promotional activities e.g., credit card booths, kiosks, etc.

This proposed agreement is for 10 years, same as the current agreement, in order to provide sufficient opportunity for the lessee to amortize the capital investments that the Airport is requesting.

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Additionally, the Airport is looking to enhance its ability to provide opportunities for the surrounding communities and state-wide industries to promote within the Airport. This will be done through a combination of Port-controlled inventory locations, the use of unsold advertising “filler” spots, cultural and historical exhibits, and the use of photographs on construction barricades.

Staff is recommending the release of the solicitation at this time in order to provide adequate time for a transition between the new advertising concessionaire and current operator (if the current operator is not chosen as the preferred respondent through the competitive process).

### **BACKGROUND**

The current 10-year advertising agreement with Clear Channel will expire on July 31, 2017. Clear Channel was awarded this agreement through a request for proposal (RFP) process that was conducted in 2006-2007. The current agreement does not include any provisions for term extensions or options.

The range for airport advertising agreement term lengths is 5 to 10 years. Longer terms are usually driven by a need for larger capital investments, thereby allowing sufficient time to amortize the investment. In the case of this Airport, there are multiple factors behind the proposed 10 year lease term: the sizeable capital investment requested for the new digital displays, as well as capital investment needed for the new North Satellite and South Satellite upon their completion. The lessee will also be required to do a mid-term refresh of their display units (credit card booths or other fixtures), sign frames, as well as maintain all digital network hardware (screens, computers, etc.).

The current advertising program includes 174 locations throughout the Airport of which the majority are a still photo on a poster inside a glass case known as static advertising displays. There are also several digital displays that show videos such as those located on the baggage carousels in baggage claim. In addition, the program allows for advertisers to have interactive displays for their products or services in key locations throughout the Airport. In the 10 years since this agreement was signed, the advertising industry has moved toward the use of video monitors to display static, video, and interactive touch screen messages. In addition, the industry is emphasizing sponsorship and promotional events for specific products or services.

The financial performance metrics for the past three calendar years and through Q2, 2016 for this agreement are as follows:

- Advertising annual sales:
  - 2013 - \$3.9 million
  - 2014 - \$6.8 million
  - 2015 - \$7.3 million
  - 2016 - \$3.5 million (Q2)

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- Advertising annual revenue to the Port of Seattle (Port):
  - 2013 - \$2.7 million
  - 2014 - \$4.8 million
  - 2015 - \$5.0 million
  - 2016 - \$3.1 million (Q2)

### **PROGRAM DESCRIPTION**

The purpose of the lease and concession agreement is to generate non-aeronautical revenue for the Airport. The advertising program also supports the Century Agenda goal of advancing the region as a leading tourism destination and business gateway.

Locations included within this solicitation for advertising, sponsorship, and product/service promotions are in the Airport's terminal buildings, sky bridges, jet ways, and parking structures. This solicitation does not include any billboards on the roadway systems.

### **Technology Requirements**

As the median age of the Airport passenger becomes younger (in 2015, 60% of the Airport's passengers were younger than 50 years old) the look, feel, and delivery methods of the advertising messages should be updated. While it is cost-prohibitive to convert all advertising locations to a digital-based network, the Port has identified 14 locations where new digital displays will be added to the inventory. Furthermore, the preferred respondent may identify additional static inventory locations in the Airport where digital displays are warranted. This allows for a greater number of opportunities for companies wishing to have an advertising presence at the Airport.

In addition to increasing the number of digital displays, the Port is looking for an overall cohesive look and feel to the digital network that will enhance the passenger experience.

### **Community Promotional Opportunities**

Neighboring communities, as well as non-profit organizations with historical, cultural and trade/commerce programs, have requested opportunities to promote their respective interests in the Airport. The main limiting factor regarding what can be done in this area is the U.S. Federal Aviation Administration (FAA) revenue use policy. In general, airports are prohibited from using airport revenue for general economic development or for marketing and promotional purposes unrelated to airports. With this requirement in mind, staff has developed the following recommendations to include in the upcoming Advertising RFP, as well as other opportunities not directly associated with the RFP:

**Allocate 7 advertising locations (1 per A, B, C and D Concourses, N. Satellite, S. Satellite and Baggage Claim) from the current advertising inventory for use by the Port and/or**

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### **neighboring communities impacted by the Airport to enhance positive community relations in support of the Airport:**

- A number of these advertising locations will be made available to neighboring communities for messages that promote travel through the Airport. The messages may be jointly sponsored by the Port at these locations focusing on increasing travel through the Airport.
  - Examples of these types of promotional messages that could be done are:
    - The City of (insert name), with over 1,000 hotel rooms, welcomes passengers to Seattle-Tacoma International Airport
    - Seattle-Tacoma International Airport welcomes attendees to (insert name of convention). Note: staff recommends this only for conventions with 5,000 delegates or more
    - Seattle-Tacoma International Airport has over 10 daily flights to Washington Wine Country
- The community requesting the promotion would be responsible for all costs associated with the development, production and placement of the advertisements.
- Port staff (Public Affairs and Tourism) would be responsible for approving the initial content of these promotions.

### **Include the right of first refusal in the lease to use “filler” or unsold advertising inventory:**

- The agreement would include a clause stating that should the concessionaire have any unsold advertising inventory, the Port would have the right of first refusal for its use or use by communities/non-profit organizations.
- The Airport will receive revenue from this inventory as the concessionaire remains obligated to pay the Minimum Annual Guarantee for unsold advertising inventory. As such, the message from the neighboring communities can be much broader in nature.
  - Examples of what messages could include:
    - Visit (city name)
    - Explore the wine country
    - Welcome convention attendees (5,000 delegates or more)
- It is important to note that messages in these locations will be up for only that period of time before the location is sold to a regular advertiser, and it is unpredictable as to when these locations will be available.
- The communities and/or trade associations would be responsible for all costs associated with the production and placement of these advertisements.
- Port staff (Public Affairs and Tourism) would be responsible for approving the content of these advertisements.

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### **Communities or industries may purchase advertising:**

- A community or non-profit organization may also purchase advertising inventory from the advertising concessionaire. In this case, there would not be the restrictions on these messages as mentioned above. As with all advertising, these messages must comply with the Airport's advertising policy as outlined in the Rules and Regulations (Exhibit A).

### **Other non-advertising promotional opportunities:**

- Although this will not be part of the inventory for the Advertising RFP, there are other promotional opportunities for the Port, neighboring communities, as well as non-profit organizations with historical, artistic, cultural and trade/commerce programs, through use of the temporary exhibit component of the Port's Art Program as well as temporary construction barricades.

### **Art Program**

- Those communities and non-profit organizations that have exhibits that are historical, cultural, artistic and trade/commerce-themed, may seek approval to install these exhibits in the Airport through the Art Program. The exhibit and all artifacts associated with the exhibit are to be provided by the sponsor of the exhibit and must comply with the Temporary Exhibit Guidelines (Exhibit B).
  - Examples of exhibits include:
    - Aviation history in the state
    - Wine growing regions of Washington State
    - Ethnic heritage celebrations

### **Temporary construction barricades**

- Messages on temporary construction barricades are intended to educate the traveling public about new concessions, airline services that are available to the public, or other public services that are coming soon. Should a tenant not wish to promote its business on the barricade, the Port may use this location for photographs only. All photographs must be non-commercial in nature.

### **Authorization Approach**

This opportunity will be competed via the RFP process with award being made to the firm that offers the best value to the Port. Consistent with the Century Agenda, the Port will include a small business component and evaluate the proposer's commitment to utilization of small businesses.

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### **Evaluation Criteria**

The following criterion will be evaluated.

#### **Company Profile, Experience and Financial Capability** **10 points**

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

#### **Marketing Plan and Implementation** **20 points**

The proposal will be evaluated based on the quality of the overall marketing plan for the Airport's advertising inventory and promotional opportunities.

#### **Design, Implementation, Materials and Capital Investment** **15 points**

The proposal will be evaluated based on the quality of design that brings an overall cohesive look to the program.

#### **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** **25 points**

The company must demonstrate its ability to effectively manage a comprehensive advertising program, which also includes quality leadership and adequate levels of staffing.

#### **Small Business Participation** **10 points**

The company must identify opportunities for the inclusion of small business participation opportunities including, but not limited to product sourcing; joint venturing /mentoring/ subleasing/subcontracting; and design/construction/maintenance.

#### **Lease Parameters**

The lease term for this new agreement will be for a period of ten years commencing on August 1, 2017.

For this new opportunity, the Port will establish the minimum annual guarantee of \$3.8 million for the first year of the agreement and a minimum percentage rent of 67%. These amounts have been calculated based on the past performance of the program. The purpose of these minimum amounts is to protect the Port's financial interest. 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.

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Interested businesses will propose both on the minimum annual guarantee and percentage rent to the Port. These proposals shall be at or above the minimum amounts specified above. Proposers may propose this either as a flat rent or tiered percentage rent. Each proposer must provide the Port with a pro forma analysis that serves as the basis for the sales projections, rent offer, costs to operate the business (including goods, labor, debt service, etc.) as well as the anticipated profit margin.

A fixed security (based on the proposed MAG) will be required as part of the agreement.

## **SOLICITATION SCHEDULE**

Due to the complexity of the advertising agreements between advertising concessionaire operators and their customers, six months is the desired time frame for a transition between operators in order to allow for the transfer of existing advertising agreements, the development of content, and the design and construction of new advertising features. The following schedule is based on providing a five to six (5-6) month transition period.

September 2016	Request Commission approval for competitive solicitation
October 2016 to December 2016	Competitive solicitation
January 2017	Award to preferred respondent
February through July 2017	Preferred respondent transition (if necessary)
August 1, 2017	New agreement in effect

## **STRATEGIES AND OBJECTIVES**

The authorization of this competitive solicitation supports the 25-year vision of the Port's Century Agenda to create 100,000 new jobs through economic growth led by the Port. This opportunity also supports 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; and
- 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
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

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	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

## **FINANCIAL IMPLICATIONS**

Annual revenue to the Port will depend on the proposed terms and performance. The minimum annual guaranteed revenue to the Port for the first year is \$3.8 million.

## **ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1** – Do not release a solicitation and instead negotiate a new concession agreement with the existing operator.

Cost Implications: The Port would have a potential savings on administrative costs associated with preparing, releasing, scoring, and negotiating an agreement from a solicitation.

### **Pros:**

- (1) By negotiating a new concession agreement with the existing operator, that operator will be able to secure longer term advertising deals with potential advertisers.
- (2) Staff could negotiate the capital investment and improvements required for the program.

### **Cons:**

- (1) With a higher capital investment, and through the negotiations, a potential reduction in revenue to the Port may occur.
- (2) The Port would not be able to see what the current operator's competitors may propose in rent or innovations to the advertising program.

This is not the recommended alternative.



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**Alternative 2** – Request Commission authorization for the proposed release of the advertising solicitation.

**Cost Implications:** The Port's administrative cost to prepare, release, score, and negotiate an agreement from a solicitation.

### **Pros:**

- (1) Provides an open competitive process for a concession opportunity that has not occurred in ten (10) years.
- (2) Allows the Port to see what innovations other advertising companies may have.

### **Cons:**

- (1) With the potential for high capital investment for the requested improvements, rents may be reduced from those in the current agreement.
- (2) If the existing company is not selected as the preferred respondent, there would be a transition period between the advertising companies, the Port, and existing advertisers.

**This is the recommended alternative.**

## **ATTACHMENTS TO THIS REQUEST**

- PowerPoint presentation
- Exhibit A – Advertising policy
- Exhibit B – Temporary Exhibit Guideline

## **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

- None.