



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6g

ACTION ITEM

Date of Meeting November 22, 2016

DATE: October 28, 2016

TO: Ted Fick, Chief Executive Officer

FROM: Julie Collins, Senior Director, Public Affairs
James Schone, Director, Aviation Business Development
Scott Van Horn, Senior Manager, Airport Dining and Retail

SUBJECT: Competitive Solicitation for the Airport Advertising and Promotion Concession

ACTION REQUESTED

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

EXECUTIVE SUMMARY

Seattle-Tacoma International Airport has an important role as the place we welcome visitors to our region and share our civic pride. This advertising request for proposal (RFP) offers a unique opportunity to advance a variety of Port objectives:

- Sustain and grow advertising revenues;
- Upgrade electronic displays to accommodate digital advancements in advertising styles and methods;
- Enhance the Port's economic development abilities through partnerships with local communities and non-profit economic development organizations;
- Instill a "Northwest Sense of Place" through local tourism promotion, scenic photographs, special displays and local offerings;

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

Meeting Date: November 22, 2016

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.

Additionally, the Port is looking to enhance its ability to promote economic development through the allocation of a fixed number of advertising locations in the Airport for its own use or by communities in Washington State and non-profit organizations focused on economic development. This will be done through a combination of Port-controlled inventory locations that will be paid for by the Port and/or other organizations selected by the Port at market rates, 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).

JUSTIFICATION

The current 10-year advertising agreement with Clear Channel will expire on July 31, 2017. Clear Channel was awarded this agreement through a 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

Meeting Date: November 22, 2016

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 Q3, 2016 for this agreement are as follows:

- Advertising annual sales:
 - 2013 - \$3.9 million
 - 2014 - \$6.8 million
 - 2015 - \$7.3 million
 - 2016 - \$5.6 million (Q3)

- Advertising annual revenue to the Port of Seattle (Port):
 - 2013 - \$2.7 million
 - 2014 - \$4.8 million
 - 2015 - \$5.0 million
 - 2016 - \$4.7 million (Q3)

DETAILS

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.

Meeting Date: November 22, 2016

Community Promotional Opportunities

As the first welcome gateway for thousands of annual visitors, Sea-Tac provides a unique opportunity to promote tourism locally and across the state. Efforts are underway to identify a number of suitable locations where the Port can partner with neighboring communities and non-profit organizations with historical, cultural and trade/commerce programs to promote their respective interests in the Airport. As this program is being developed, the Port is mindful of 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 this Advertising RFP, as well as other opportunities not directly associated with the RFP:

Allocate up to 10% of the advertising locations (17 of 174) for use by the Port for its own economic development purposes.

These locations will be selected based primarily on their suitability for capturing the attention of deplaning passengers. The Port will use these ad locations for either its own purposes or for sale to communities/non-profit organizations. The Port (using non-airport funds) or the community/non-profit trade groups will pay the Airport Development Fund for use of these advertising locations at the same rate as the concessionaire is paying for its exclusive inventory. As new airport facilities are built during the term of this agreement, the Port will have the right to add up to 10% of whatever new locations are added to the advertising inventory for its own use.

If the Port does not use or sell these advertising locations, the Port will offer these to the concessionaire at the same concession fee rate proposed in the bid for similar locations.

Port staff (Public Affairs and Tourism) will be responsible for the allocation of these advertising locations as well as the content in them be they used by the Port or community and non-profit economic development organizations.

Meeting Date: November 22, 2016

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.
 - Examples of messages for these filler spots could include:
 - Visit (city name)
 - Explore Washington 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 non-profit organizations 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.

Communities or industries may purchase advertising:

A community or non-profit economic development organizations may also purchase advertising inventory from the advertising concessionaire.

In all circumstances, the ad content 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

Meeting Date: November 22, 2016

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.

Public Affairs is working closely with Aviation staff (Airport Dining and Retail, Customer Service, Operations) and Economic Development Staff (Tourism) to bring together these various signage, advertising and display opportunities into a cohesive program.

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.

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.

Meeting Date: November 22, 2016

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

15 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

20 points

The company must identify opportunities for the inclusion of small business participation 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 \$3.4 million for the first year of the agreement and a minimum percentage rent of 65%. 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.

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.

Meeting Date: November 22, 2016

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 schedule proposed below would allow for approximately four months of transition.

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

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.

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 adverting companies may have.

Meeting Date: November 22, 2016

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.

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 \$3.4 million.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides PowerPoint
- (2) Exhibit A – Advertising policy
- (3) Exhibit B – Temporary Exhibit Guideline

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

September 27, 2016 – The request for Commission authorization of a Competitive Solicitation for the Airport Advertising and Promotion Concession was deferred.