



**COMMISSION
AGENDA MEMORANDUM**

Item No. 4d

ACTION ITEM

Date of Meeting November 28, 2017

DATE: November 3, 2017

TO: Dave Soike, Interim Executive Director

FROM: James Schone, Director, Aviation Commercial Management
Dawn Hunter, Senior Manager, Airport Dining and Retail
Scott Van Horn, Senior Business Manager, Airport Dining and Retail

SUBJECT: Tenant Reimbursement for Temporary Central Terminal Food Carts and Shared Cooking Facility (CIP #C800154)

Amount of this request:	\$2,000,000
Total estimated project cost:	\$2,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to: (1) authorize \$1,600,000 of project spending via a Tenant Reimbursement Agreement (TRA), see Attachment 1, between the Port and Ivar's, Inc. for the design and construction of a shared cooking facility and venting system in support of temporary food carts offering hot food in the Central Terminal at Seattle-Tacoma International Airport (Airport); (2) execute a lease and TRA with Ivar's for this purpose under the Airport's AV-2 Policy, and (3) authorize an additional \$400,000 of project spending to support this tenant project. This request seeks a single authorization to approve the TRA and complete design and construction. The total estimated cost for this project is \$2,000,000.

EXECUTIVE SUMMARY

On August 8, 2017, the Commission authorized the construction of the Central Terminal Enhancements Project (Project). Phase 1 of the Project requires the shutdown of five (5) food and beverage units located on the south-side of the Central Terminal for approximately one year. This work is scheduled to start in the first quarter of 2018. Phase 2 will require the closure of the sit down restaurant on the north-side of the Central Terminal in early 2019.

In order to maintain an adequate level of hot food service to the travelling public during Phase 1 of the Project, staff worked with the operators of the affected south-side Central Terminal units (Ivar's, Pallino, Maki of Japan, and LaTrelle's operating a Wendy's) to explore their interest in installing and operating temporary food carts within the Central Terminal. Maki of Japan has elected not to participate in the food cart program. Qdoba, the fifth operator on the south side of the Central Terminal was awarded a new location as part of Lease Group 2 and thus, is not interested in participating in this program.

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Ivar's, Pallino, and LaTrelle's will execute a Temporary Food Cart Lease and Concession Agreement (Agreement), prior to beginning operations. A draft copy of the Agreement is included in Attachment 2. The term of this Agreement will be for a period of one year or the completion of Phase 1 whichever is greater. A shared cooking facility, located at CB-4, that is necessary for the operation of the temporary food cart program, will be leased to Ivar's as part of the Agreement. However, the Agreement will allow Pallino and LaTrelle's the right to utilize the shared cooking facility for the installation of their proprietary equipment and food preparation. The shared cooking facility is only available for use by these three companies during Phase 1 of the Project. All three companies are responsible for providing their own temporary cart and equipment to service that cart in the Central Terminal. All proprietary equipment installed in both the shared cooking facility and the Central Terminal will be removed at the completion of Phase 1 of the Project in approximately February 2019.

Due to the fact that these carts cannot cook any food, rather only heat food, a shared cooking facility is required for food preparation. Staff had previously identified a location on Concourse B (CB-4), a former Starbucks unit, for a future project as part of a long-term food kiosk program. This location, once remodeled, could serve as the shared cooking facility for the temporary food cart program. A remodel of this location is required to bring it into compliance with the building and health codes for such an operation.

At the conclusion of Phase 1, the Port anticipates utilizing the facility and infrastructure upgrades made to the shared cooking facility i.e., Type 1 hood, electrical upgrades, freezers and refrigerators, shelving, and tables, for the long-term food kiosk program in support of small businesses interested in operating food and beverage units at the airport but that aren't ready for the commitment of a long-term lease. This program will require additional investment in this location by the Port, but the amount is not yet determined. Staff will request funding for this program at a later date.

JUSTIFICATION

Airport Dining and Retail (ADR) staff has been planning for the closure of the food and beverage units on the south-side of the Central Terminal since these units were authorized by the Commission on June 14, 2016 for competitive solicitations as part of Lease Group 3 (LG 3). The initial plan was for other LG 3 food and beverage units located in proximity to the Central Terminal to open prior to the closure of the Central Terminal units. This plan also included setting up temporary "Grab and Go" locations in the Central Terminal offering pre-packaged sandwiches and salads. However, those new LG 3 food and beverage units in proximity to the Central Terminal will not be ready to open prior to Phase 1. Yet, there is still a need to meet passenger demand for hot food in the Central Terminal.

The closure of the five south-side Central Terminal restaurants will result in a loss of approximately \$3 million in revenue to the Port in 2018. The 2018 budget projects the proposed temporary food cart program to generate approximately \$380,000 in revenue to the Port. The temporary food cart program is just one aspect to recover the revenue loss

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associated with the closure of the south-side Central Terminal food and beverage units. The opening of new food and beverage locations near the Central Terminal during Phase 1, additional Grab and Go units set up throughout the terminal, as well as increased capacity of other food and beverage locations near the Central Terminal will all contribute to maintaining adequate levels of customer service to the travelling public and revenue to the Port.

In order to expeditiously complete the work necessary to provide this service, Ivar's has engaged a designer, initiated design, and engaged a construction contractor prior to the completion of design. Engaging a contractor at this stage would be in lieu of obtaining competitive bids. The TRA will only pay for the direct invoiced costs of design and construction for these improvements.

DETAILS

The scope of work for the TRA includes among other things:

- Installation of a Type 1 hood system and associated HVAC and fire sprinkler upgrades in the shared cooking facility;
- Electrical upgrades to support the cooking equipment and operations in the shared cooking facility;
- Installation of a fire-rated wall and double doors in front of the shared cooking facility;
- Installation and upgrade to plumbing to meet health code requirements for the shared cooking facility;
- Purchase of refrigeration and freezer units, prep tables, and shelving for use in the shared cooking facility that will be turned over to the Port after Phase 1 is completed;
- The installation of three (3) type 2 hoods along the construction barricades in the Central Terminal to support the food carts in this area.

The three (3) operators are required to provide:

- Their own cooking equipment associated with their operations in the shared cooking facility; and
- All equipment associated with their temporary food cart operations in the Central Terminal.

PROJECT SCHEDULE

Activity	Date
Bids received for the Central Terminal Enhancement Project	November 14, 2017
Commission Authorization of the TRA	November 28, 2017
Begin Demolition of the Shared Cooking Facility Space	December 1, 2017
Complete Shared Cooking Facility Design for Port and Building Department Review	December 8, 2017
Port and Building Department Review Period	December 9, 2017 to February 4, 2018

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Building Permit Issued	February 5, 2018
Shared Cooking Facility and Central Terminal Hood Construction Begins	February 6, 2018
Closure of the South-side Central Terminal Restaurants	February 9, 2018
Completion of the Shared Cooking Facility	March 23, 2018

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 - Status Quo – Do not approve the TRA, do not provide hot food in the Central Terminal

Cost Implications: \$0

Pros:

- (1) Grab and Go units (kiosks with refrigeration) offering pre-packaged sandwiches and salads will be available when the construction barricade is installed.
- (2) There is significantly less cost to the Port.

Cons:

- (1) There will be a decrease in hot food available for the passengers in the Central Terminal.
- (2) Customer service at existing operators in the vicinity of the Central Terminal offering hot food may suffer due to their inability to handle the increase in passenger demand.
- (3) The three Central Terminal operators who chose to participate in the temporary food cart program would cease operations at the Airport once the construction barricade is installed.

This is not the recommended alternative

Alternative 2 – Do not approve the TRA and authorize the Port to commence with design and construction of the full build-out of the kitchen for the long-term food kiosk program. Port staff would need to complete the project definition, authorize the project, secure a designer to complete the design, and advertise for construction bids to complete the build-out. Based on these steps, staff estimated that the kitchen for the food kiosk program would be available on April 2020, after Phase 1 of the Central Terminal Enhancement Project is completed.

Note: An alternative of having the Port complete the work described in the TRA is not viable as the soonest this could be completed, undertaking many of the steps above, would be August 2019, after Phase 1 is completed. Thus, it is not presented as an alternative to this request.

Cost Implications: Approximately \$1,800,000

Pros:

- (1) The Port would have total control of all phases of design, construction and equipment purchases.

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- (2) The Port would spend less money to create the facility envisioned to accommodate the long-term food kiosk program in the Concourse B unit.

Cons:

- (1) Due to the length of time to complete design and construction, this alternative would provide no offset to the impacts from the closure of the five food and beverage units on the south-side of the Central Terminal during Phase 1.
- (2) Does not provide hot food options for the travelling public during Phase 1.
- (3) The three Central Terminal operators who chose to participate in the temporary food cart program would cease operations at the Airport once the construction barricade is installed.
- (4) Customer service at existing operators in the vicinity of the Central Terminal offering hot food may suffer due to their inability to handle the increase in passenger volume.

This is not the recommended alternative

Alternative 3 – Authorize the TRA.

Cost Implications: \$2,000,000

Pros:

- (1) The construction would be completed approximately six (6) weeks after the start of Phase 1.
- (2) This alternative provides additional hot food options for the travelling public in the Central Terminal during the majority of Phase 1.
- (3) The Port would be able to utilize some portion, as yet undetermined, of the infrastructure for the full build-out of the shared cooking facility for the long-term food kiosk program as well as the purchased equipment.

Cons:

- (1) The Port is not in control of the project delivery.
- (2) Unknown site conditions within the shared cooking facility space encountered during construction may result in cost overruns that would require additional Commission authorization.

This is the recommended alternative

FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary

	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$0		\$0
AUTHORIZATION			

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Previous authorizations	0		
Current request for authorization	\$2,000,000		\$2,000,000
Total authorizations, including this request	\$2,000,000		\$2,000,000
Remaining amount to be authorized	\$0	\$0	\$0

Annual Budget Status and Source of Funds

The budget for the tenant reimbursement amount of \$2,000,000 will come from CIP (C800154), the tenant reimbursement CIP. The funding source will be the Airport Development Fund.

Financial Analysis and Summary

Project cost for analysis	\$2,000,000 (Depreciated over 10 years)
Business Unit (BU)	Airport Dining and Retail
Effect on business performance (NOI after depreciation)	(\$1,687,000)-First year. Kiosk sales in future years not known.
IRR/NPV (if relevant)	Undetermined
CPE Impact	Impact on CPE not yet known.

ATTACHMENTS TO THIS REQUEST

1. Draft TRA Agreement
2. Draft Temporary Food Cart Lease and Concession Agreement
3. Slideshow Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None.