Port of Seattle

COMMISSION
AGENDA MEMORANDUM

ACTION ITEM

Item No.	8b
Date of Meeting	June 11, 2019

DATE: June 6, 2019

TO: Stephen P. Metruck, Executive Director

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

SUBJECT: Airport Dining and Retail Lease Group 4 and 4A Results and Insights and Lease Group 5 Authorization

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) conduct competitive solicitations and execute lease and concession agreements with selected proposers for the following seven opportunities in Airport Dining and Retail Lease Group 5:

CEP FB-1;
CEP FB-2;
RFP FB-3;
CEP SR-1;
CEP SR-2;
CEP PS-1;
CEP PS-2;

and (2) implement a pilot program for Lease Group 5 (LG5) for investment incentive payments in the amount of $5,000 to each proposer that submits a fully responsive, responsible, and competitive proposal for a Competitive Evaluation Process opportunity, but is not selected. Each individual proposing entity in LG5 would be eligible for one such payment.

EXECUTIVE SUMMARY

The redevelopment of the Airport Dining and Retail (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 ADR program is an important element of the Port's ongoing efforts to provide outstanding customer service and improve the traveling experience. In addition, the businesses generate significant revenue that is reinvested to support airport operations and capital improvements.

Significant progress has been made towards the goals set by the Commission in 2014 for this redevelopment, including expanded outreach, the creation of an Employment Continuity Pool, increased participation by small, local and disadvantaged businesses as well as increased jobs and revenues.

LEASE GROUP 5 BACKGROUND

This proposed set of leasing opportunities, referred to as LG 5, is the final step in the implementation of the Airport Dining and Retail Master Plan. It contains a total of seven opportunities, of which one will be competed via Request for Proposals (RFP) and six will be competed via the Competitive Evaluation Process (CEP). Commission consideration is requested now as these seven units will be new construction in the North Satellite and need to be completed prior to the re-opening of this area, currently scheduled for June 2021.

Commission has established direction to encourage small businesses and support quality jobs at the airport. As part of the continuous evaluation of the ADR program, the staff has identified needs and opportunities to further the Port's efforts to increase participation by small businesses in competing for dining and retail places. This supports the Port's significant interest in providing a wide variety of dining and retail choices to appeal to travelers and increase revenue. The airport environment creates unique challenges for businesses, including high construction costs, construction and permitting issues, security constraints and higher employee costs.

To provide incentives to businesses to participate in ADR solicitations and to reduce barriers to entry, the Executive Director is proposing:

- Allow dining and retail businesses to set prices at 10 percent above street-level, to address the additional labor and infrastructure costs in the airport environment; and
- Create a pilot investment incentive program for LG5 to provide a payment of $5000 to each proposer that submits a fully responsive, responsible and competitive proposal, but is not selected. Each individual proposing entity in LG5 would be eligible for one such payment. This will provide an incentive for businesses to participate by partially compensating them for the costs of developing and submitting concepts and proposals to compete in the ADR solicitations.

Details of the LG5 opportunities, the authorization approach and the schedule are included at the end of this report.

Lease Group 4 and 4A

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

Guidance for the ADR Program Redevelopment

- 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 Pacific Northwest sense of place.

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.

ADR Program Performance Metrics:

The Commission motion on November 25, 2014, 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 year-end 2018 results compared to the goals.

Airport Dining and Retail Program Performance Metrics

	2025 Goal	2014 Baseline	2018 Results	Remarks on Goal
ADR Total Program Gross Sales	Increase by 40%	$248.3 Million	$345.3 Million	39% increase
ACDBE Gross Sales* % of Total ADR Program Gross Sales	Achieve 25% of Total ADR Gross Sales	$54.4 Million 21.9%	$68.7 Million 19.9%	Based on increased ACDBE participation in LG3, 4 and 4A, this percentage will increase as these locations start operations.

Small Business Gross Sales** % of Total ADR Program Gross Sales		$59.5 Million 23.9%	$85.1 Million 24.6%	
Local Business Gross Sales *** % of Total ADR Program Gross Sales		$58.4 million 23.5%	$75.8 Million 21.9%	
Total Gross Sales from Small, Local, and Disadvantaged Businesses % of Total ADR Program Gross Sales	Achieve 40% of Total ADR Gross Sales	$112.7 Million 45.4%	$177.6 Million 51.4%	Based on increased small, local and ACDBE participation in LG3, 4 and 4A, this percentage will increase as these locations start operations.
Sales per Enplanement (including Duty Free)	Increase by 40%	$12.15	$13.49	11% increase
2017 Sales per Enplanement Ranking (including Duty Free) per Airport Experience News	Reach and remain within the top 10 N. American airports		26th	
Employment (full-time/part-time) as of 12/31/2018	Increase by 40%	1362/278	1729/386	26.9% increase in full-time 38.8% increase in part-time employees
ADR Revenue to Port of Seattle	Increase by 50%	$41 Million	$54.8 Million	33% increase

* Definition of Airport Concessions Disadvantaged Business 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 third party.

Outreach Efforts

ADR staff continues to engage interested businesses wherever possible. In 2018, Port staff organized six PortGen sessions that included a total of 300 attendees. These efforts have resulted in a total of 694 firms registered on the ADR leasing website as of March 1, 2019.

ADR staff presented the draft LG5 opportunities at the Airport Experience Conference, held in Las Vegas, Nevada in late February 2019, which had over 1000 registered attendees. ADR staff also held an Outreach Event at the Airport's Conference Center on Thursday, March 14, 2019, that was attended by 55 individuals representing 31 firms.

Employment Continuity Pool (ECP)

The Commission motion on November 25, 2014, directed ADR staff to create and hire a third-party contractor to manage an Employment Continuity Pool (ECP) focused on the needs of employees and employers throughout the redevelopment of the ADR program. Commission recognized that the redevelopment would cause disruptions for employees and acknowledged the value of workforce stability during the redevelopment. The ECP is a database of all non-management, non-supervisory, and non-confidential employees who will lose or have lost their jobs due to their employer leaving the ADR Program but wish to continue working in the ADR Program with another employer. The objective of the ECP is to make employment transitions more secure and smooth for both employers and employees.

In July 2016, the Port contracted with Airport Jobs, following a competitive procurement process, to manage the ECP. The role of Airport Jobs is to work collaboratively with the ADR staff and existing tenants who are leaving the program and who will need to inform employees of the ECP resource. Incoming employers have this resource available to them for hiring staff for their units. Airport Jobs created an employee database, and assist in evaluating needs and matching qualified employees, facilitate interviews and track outcomes.

ADR has partnered with Airport Jobs to make the transition for all impacted employees as seamlessly as possible. The ECP has had significant success in engaging impacted employees. As of Q3 2018, 593 employees registered for employment and have been placed in airport or related jobs.

Commission Authorized Changes to the Solicitation and Evaluation Process for LG4/4A

Prior to the release of LG4/4A, Commission authorized changes to the solicitation process and scoring criteria that addressed key issues and lessons learned in Lease Group 3 (LG3). These changes and the methodology for their implementation included:

- Compliance with Proposition 1 back wages and benefits was made a minimum requirement.
- The methodology for scoring Quality Jobs was changed so that 15 of the 20 points for this criterion were allocated based on a quantitative formula. The company with the highest dollar per hour rate for wages that exceeded those called for in Proposition 1 combined with health care benefits and retirement benefits (also on a per hour basis) received the full allotment of 15 points. All other companies received a percentage of those 15 points based on their total of the combined wage, health care and retirement benefit hourly rate divided by the highest hourly rate. The remaining 5 points were allocated based on evaluation of other benefits provided by the firms.
- The methodology for scoring firms that proposed a joint venture was changed so that any firm that submitted a joint venture with a minimum of 20% control by a small business or certified ACDBE would receive an automatic 5 points for the Small Business Participation criterion.
- The methodology for scoring the Concept Development criterion was changed by allocating 10 of the 25 points to the creation of a Pacific Northwest Sense of Place. The remaining 15 points was allocated to the concept description and product or service offerings.

- A requirement was implemented that all non-exempt proposers had to submit evidence of a Labor Peace Agreement with their proposal. Only small businesses with 35 or fewer badged airport employees were exempted.
- Award limitations were established that restricted a firm to the award of one opportunity competed via RFP or two opportunities competed via CEPs.

LEASE GROUP 4/4A RESULTS:

Following Commission authorization of LG4 on June 27, 2017 and LG4A on February 27, 2018, 49 proposals from 22 firms were received for 12 packages in LG4 on October 5, 2017, and nine proposals from six bidders were received for the LG4A F-8 package on May 30, 2018. Following is information about the results of the solicitation and evaluation process for these packages.

Competition for the 13 packages (8 Food and Beverage and 5 Retail) in LG4/4A was rigorous:

- 28 firms (and/or joint ventures) submitted 58 proposals;
- 11 of the 28 firms were new to the Airport and the competitive process (i.e., are not current tenants nor had submitted proposals before at this Airport) ;
- 23 firms submitted only on the food packages;
- 4 firms submitted only on the retail packages;
- 1 firm submitted on both;
- Multiple bids were received for 10 of the 13 packages.

Small, local and Airport Certified Disadvantaged Business Enterprise (ACDBE) firms were well represented among businesses that submitted proposals:

- 26 of the 28 firms (93%) that submitted proposals had some form of ACDBE, small or locally-owned business inclusion either with a joint venture or 100% ownership:
- 7 ACDBE firms (25%) submitted proposals;
- 7 small businesses (25%) that are not ACDBEs submitted proposals;
- 3 locally-owned businesses (11%) that are neither small nor ACDBEs submitted proposals;
- 8 firms (32%) submitted proposals that involved joint ventures with ACDBEs
- 1 firm (3%) submitted a proposal that involved a joint venture with a small business;

The Preferred Respondents in LG4 and LG4A included current tenants as well as firms new to the Airport:

- A total of 9 firms were selected for the 13 packages
- 1 firm with 2 packages is new to the airport - Bambuza SEA-TAC Ventures
- 12 of the 13 packages (92%) that were awarded have some form of ACDBE, small or locally-owned business inclusion either with a joint venture or 100% ownership

- 3 ACDBE firms were awarded 4 of the 13 packages (31%);
  - Bambuza SEA-TAC Ventures – 2 packages
  - Concourse Concessions – 1 package
  - Planewear, LLC – 1 package
- 1 locally-owned business was awarded 1 of the 13 packages (8%) that is neither small nor an ACDBE;
  - Sub Pop Records
- 3 firms were awarded 5 of the 13 packages (38%) that involved joint ventures with ACDBEs
  - WBB C.I. Crews, LLC – 1 package
  - SSP America SEA – 2 packages
  - Seattle Air Ventures – 2 packages
- 1 firm was awarded 2 of the 13 packages (15%) that involved joint ventures with small business
  - Host LPI SEA FB, LLC – 2 packages
- 1 firm was awarded 1 of the 13 packages (8%) that was neither a ACDBE, small business, local business, nor a large company with a joint venture
  - Marmot Mountain, LLC – 1 package

Impact of authorized changes made to LG4/4A:

Regarding compliance with Proposition 1 back wages and compliance, all 28 firms who submitted proposals were deemed compliant.

Regarding scoring for Quality Jobs, in 6 of the 10 packages that had multiple proposals (60%), the Preferred Respondent had the highest score in the Quality Jobs criterion.

Regarding scoring firms that proposed joint ventures, the Preferred Respondent in 5 of the 10 packages that had multiple proposals (50%), the Preferred Respondent proposed a joint venture with 20% or more ACDBE or small business participation.

Regarding the requirement that all non-exempt proposers had to submit evidence of a Labor Peace Agreement with their proposal:

- 7 of the 28 firms that proposed were exempt from submitting evidence of a Labor Peace Agreement;
- 21 of the 28 firms that proposed were required to submit evidence of a Labor Peace Agreement; and 4 firms (19%) did not and were deemed non-responsive.

Regarding award limitations that restricted a firm to the award of one opportunity competed via RFP, or two opportunities competed via CEPs, this restriction did not play a role.

Key Insights about the LG4 and 4A Process:

The emphasis on Quality Jobs did have an impact on the process.

All Preferred Respondents were firms who scored high in the Quality Jobs section.

The emphasis on awarding points for alternative ways for small business to gain entry to the ADR Program did have an impact on the process.

In LG4 and LG4A, firms received points for the inclusion of small, local and minority-owned businesses in joint ventures. Firms also were able to gain additional points for their commitment to using small, local vendors and service providers. This allows the ADR program to go beyond its small business goals and incorporate more small, local Women and Minority-owned Business Enterprises (WMBE) who can provide services and products from the Pacific Northwest, thereby enhancing the passenger experience and enriching the sense of place.

The Port did not need to invoke the award limitation rules with LG4/4A. In LG4 and LG4A, no firm won more than the proscribed limit of one RFP and up to two CEP's.

The third-party facilitator for each panel was a valuable addition. The facilitator ensured that the evaluation panel members and independent observers followed the rules; that all evaluation panel members participated in the discussions; and that evaluation panel discussions were focused on the scoring decisions.

Key Consideration of Challenges to Businesses

As mentioned above, the airport operating environment presents special challenges for business, which lead to higher costs for creating new dining and retail spaces. Staff observations and comments from business operators cite these costs as a barrier to widening the participation of small businesses at the airport, whereas major national firms have more capital resources, extensive operating experience, and the ability to spread costs over many units.

There are several tools that the Commission could consider if they determine that relief is appropriate for ADR businesses.

Street Pricing Policy

Sea-Tac Airport's Street Pricing Policy requires all ADR tenants to submit pricing for their products/services as well as pricing for comparable street-side locations for approval by Port staff by December 31st of each calendar year. Once the pricing is submitted, Port staff verifies the data and then either approves or disapproves the proposed pricing based on the guidelines set forth in the Street Pricing Policy. If tenants wish to change their prices during the year, they must submit these requests to the ADR staff along with pricing from comparable street-side locations to support their requested changes.

In November 2015, following the Washington State Supreme Court's ruling that the City of SeaTac's minimum-wage ordinance applied to businesses on Airport property, the Commission approved short-term changes to the Street Pricing Policy that allowed firms to increase their pricing above strict street pricing levels if they met several criteria regarding minimum wages, the provision of safe and sick time as well as health care to their employees.

The higher pricing levels approved by the Commission were:

12/1-/2015 – 12/31/2016:	Up to 10% above street prices
1/1/2017 – 12/31/2017:	Up to 7.5% above street prices
1/1/2018 – 12/31/2018:	Up to 5% above street prices
1/1/2019 – 12/31/2019:	Up to 2.5% above street prices
1/1/2020 henceforth:	Return to strict street pricing

Once the street pricing policy was changed, nine companies (four Small Business/ACDBE and five Large Business/Prime Operators) representing 28 food and beverage locations (out of a total number of 85 ADR locations) took advantage of the street plus pricing.

Higher costs in all of these areas along with the upcoming return to the strict street pricing requirement in January 2020 have decreased the interest of new firms in bidding for leasing opportunities at the Airport as well as led a number of current tenants to express concerns about their ability to operate profitable businesses.

Allowing for street plus 10% pricing policy provides the tenants with greater ability to recover their higher costs through higher prices for the goods and services that they sell without mandating that they charge the full 10%. This strengthens a tenant's ability to procure quality products and staff due to a higher profit margin. This may attract more bidders for future leasing opportunities because they perceive the Airport as a better investment opportunity with a revised street pricing policy. Another consideration, however, is that the traveling public may feel that prices for goods and services at the airport are too high, leading to an increase in complaints, and/or reduced gross sales.

Investment Incentive

Small businesses cite the high cost of preparing proposals as a significant barrier for entry into the airport. Compensating firms that submit proposals, but are not selected, could be a means to encourage smaller businesses to compete for opportunities.

For ADR leasing opportunities that are procured through a CEP process, the Port could implement an investment incentive pilot program for LG5 to provide a payment of $5,000 to each proposer that submits a fully responsive, responsible, and competitive proposal, but is not selected. Each individual proposing entity in LG5 would be eligible for one such payment. This would provide an incentive for businesses to participate by partially compensating them for the costs of developing and submitting concepts and proposals to compete in the ADR solicitations. The investment incentive would serve the Port's strong proprietary interest in creating robust competition for leasing opportunities through a greater number of applicants, and in providing a broad assortment of dining and retail opportunities to appeal to the travelling public and increase revenue.

Other options

From Lease Groups 2 through 4A, the amount of percentage rent paid by each tenant for each location has been determined based on the financial offers submitted by each firm proposing for a given leasing opportunity. The term length for these leasing opportunities has been set by the Port at 10 years for food and beverage units and 8 years for retail units. These term lengths are fairly standard across the airport industry. They have been developed based on consideration of sufficient time to amortize the investment costs while providing an ability to generate a profit. The longer term for food and beverage units takes into account the additional infrastructure (e.g., gas, water, sewer, venting) needed to operate that type of unit.

Extending the lease term is not recommended as it may lead to FAA objections about barriers to new firms, would limit the ability to refresh offerings, and could lead to all ADR businesses requesting similar treatment. In addition, providing extended terms to LG5 tenants would run counter to the Port's policy of setting uniform lease terms.

Providing a rent reduction in the early years of operations would allow businesses to recover their investments more quickly, but it would result in less Port revenue and would have to be extended to all ADR businesses. This approach is not recommended.

Some businesses have proposed modifying the labor peace agreement for small businesses. Under current policy, businesses employing 35 workers or fewer are exempt from the requirement. The Port has a significant proprietary interest in protecting the airport from labor disruptions, which would have a potentially major impact on airport operations and passengers and could decrease revenue. The practice of using labor peace agreements at airports is fairly common. No change is recommended.

Pacific Northwest Sense of Place Scoring Criteria

Prior to the release of LG4, Commission authorized changes to the solicitation process and scoring criteria that addressed key issues and lessons learned from LG3. The changes included a methodology for scoring the Concept Development criterion allocating 10 of the 25 points to the creation of a Pacific Northwest Sense of Place, using the definition included below. The remaining 15 points were allocated to the concept description and product or service offerings.

Pacific Northwest Sense of Place Concept – An authentic, well-recognized brand that originated in the Pacific Northwest Region; or a new or existing concept that through its name, products, and/or service offerings, and/or use of local products conveys a strong sense of the Pacific Northwest Region.

The FAA notified ADR staff that per FAA regulations, no local or geographic preferences or limitations can be imposed on any federally assisted program, including airport concessions programs. The scoring methodology used in connection with the Northwest Sense of Place category potentially conflicts with the FAA's regulatory prohibition against local or geographical preferences. In addition, this scoring methodology potentially creates a barrier for small, local, and disadvantaged businesses who bid with national brands.

Executive Directors Recommendations:

The Port has adopted policies aimed at encouraging airport dining and retail opportunities for small businesses at the airport, as well as ensuring quality jobs for employees of those businesses.

Stakeholder comments and observations of our staff indicate the costs and unique conditions of operating at the airport present challenges for small businesses to compete successfully for ADR opportunities.

After careful consideration of the various stakeholder perspectives regarding these key policy issues, the Executive Director recommends the following as the best way to balance all the competing interests and to achieve the Commission's stated objectives for the ADR Program. These recommendations are made to provide an incentive for participation by reducing barriers. The goal is to increase the variety of businesses participating in the airport ADR program.

- Allow for street plus 10% pricing policy that takes into account the cost of doing business at the airport.
- For ADR leasing opportunities that are procured through a CEP process, implement a pilot program for LG5 to provide an investment incentive of $5,000 to each proposer that submits a fully responsive, responsible, and competitive proposal, but is not selected. Each individual proposing entity in LG5 would be eligible for one such payment.
- Do not provide any additional relief, such as extended lease terms or reduced percentage rent, at this time.
- No changes in the labor peace agreement requirement.
- To assure compliance with FAA guidance, there will be no points granted for concepts that originated in the Pacific Northwest. In order to achieve the overall Pacific Northwest aesthetics and character desired by the Commission, proposals will still be evaluated within Concept Development (menu, use of fresh local products, use of local vendors and overall presentation) and Unit Design (overall look and feel and use of materials that best represent the Pacific Northwest based on ADR Design Guidelines and Tenant Design Process Manual).

LEASE GROUP 5

The proposed 7 opportunities in LG5 are listed below:

Food & Beverage:
Package FB-1 **(Exhibit A)**
Location: North Satellite (NS-10)
Type: Competitive Evaluation Process
Proposed Concept Description: Quick Service Restaurant featuring a Burger Concept with a nationally-recognized brand, this single unit offering is an approximate 1,300 square foot location in the North Satellite. This is a new location in the food court Phase 2 North Satellite Moderation Program and is scheduled to open in June 2021.

Package FB-2 **(Exhibit B)**
Location: North Satellite (NS-25)
Type: Competitive Evaluation Process
Proposed Concept Description: Fast Casual Restaurant featuring an Open Concept, this single unit offering is an approximate 3,440 square foot unit located in the North Satellite. This new unit is scheduled to open with Phase 2 of the North Satellite Modernization Program in June 2021.

Package FB-3 **(Exhibit C)**
Location: North Satellite (NSM-26)
Type: Request for Proposal
Proposed Concept Description: Quick Service Restaurant, Fast Casual, or Casual Dining Restaurant with Bar featuring an Open Concept. Unit NSM-26 is an approximate 6,780 square foot unit located in the North Satellite. The NSM-26 location is part of Phase 2 North Satellite Moderation Program and is scheduled to open in June 2021.

Specialty Retail:

Package SR-1 **(Exhibit D)**
Location: North Satellite (NS-12)
Type: Competitive Evaluation Process
Proposed Concept Description: Open Concept, this is an approximate 1,840 square foot unit located in the Specialty Retail Core at the entry point of the new North Satellite Modernization Program and is scheduled to open in June 2021.

Package SR-2 **(Exhibit E)**

Location: North Satellite (NS-14)
Type: Competitive Evaluation Process
Proposed Concept Description: Open Concept, this is an approximate 1,890 square foot unit located in the Specialty Retail Core at the entry point of the new North Satellite Modernization Program and is scheduled to open in June 2021.

Passenger Services:

Package PS-1 **(Exhibit F)**
Location: North Satellite (NS-11)
Type: Competitive Evaluation Process
Proposed Concept Description: Massage, Spa, or Medical Services, this is an approximate 580 square foot unit located in the Specialty Retail Core at the entry point of the new North Satellite Modernization Program and is scheduled to open June 2021.

Package PS-2 **(Exhibit G)**

Location: North Satellite (NS-13)
Type: Competitive Evaluation Process
Proposed Concept Description: Napping Room, Business Center, or Video Gaming Lounge, this is an approximate 1,740 square foot unit located in the Special Retail Core at the entry point of the new North Satellite Modernization Program and is scheduled to open in June 2021.

Authorization Approach

One (1) opportunity in this lease group will be competed via the Request for Proposals (RFP) process. The remaining six (6) opportunities will be competed using the Port's Competitive Evaluation Process (CEP). The primary differences between the RFP and the CEP are:

- More experience is required to meet the minimum qualifications;
- Proposers must submit a larger 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.

Award limitations will be applied as in Lease Group 4/4A that restricts a firm to the award of one opportunity competed via RFP or two opportunities competed via CEPs.

Summary of Evaluation Criteria

The categories of evaluation criteria used to score proposals will be uniform for each solicitation in LG5 and will be the same as approved by Commission for use in evaluating LG4A with two exceptions: First, the total point allowance of 1500 points is increased from the 150 points allowed in prior lease groups in order to provide greater opportunity for scoring differentiation. The relative weight of each category, however, remains the same. Second, the points for Pacific Northwest Sense of Place, in the Concept Development criterion, is removed. Proposals will still be evaluated within Concept Development (menu, use of fresh local products, use of local vendors and overall presentation) and Unit Design (overall look and feel and use of materials that best represent the Pacific Northwest based on ADR Design Guidelines and Tenant Design Process Manual). 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 200 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 250 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 250 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 200 points
Financial projections and rent proposals will be evaluated based on the reasonableness of the financial projections and the proposed percentage rent fee.

Management/Staffing, Operations, Customer Service and Environmental Sustainability 200 points
The company must demonstrate its ability to effectively manage all units and operations, which includes quality leadership and adequate levels of staffing. The company must also 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 must also demonstrate its commitment to providing a high level of customer service at its operations at Sea-Tac. Environmental sustainability measures that the company currently practices or will practice in the operation of the business, including (where applicable) separation of waste, recycling and composting, and the use of durable or Cedar-Grove approved compostable or recyclable food service-ware should be documented.

Job Quality, Workforce Training, Employment and Service Continuity 200 points

The company must provide information 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. Greater emphasis will be placed on proposed wages and medical/retirement benefits and a quantitative-formula-based methodology for scoring wages and medical/retirement benefits will be utilized.

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:

(1) For 2019, wages shall be paid at the minimum rate of $16.09 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.
(2) Payment of sick and safe time, which shall be accrued at the rate of one hour for every 40 hours worked.
(3) Provide health insurance to full-time employees, consistent with the Affordable Care Act.

<u>Small Business Participation</u> 200 points
The company must indicate whether it is a small business consistent with the requirements of the U.S. Small Business Administration (SBA).

(1) A company that qualifies as a small business relative to the standards adopted by the U. S. Small Business Administration and proposes directly (whether via CEP or RFP), will automatically receive 100 points.
(2) For units competed via CEP, only small businesses that propose directly can receive the full 200 points for this criterion.
(3) For units competed via RFP, all companies regardless of size are eligible to receive the full 200 points for this criterion.
(4) Large businesses that propose a joint venture with a small business (whether via CEP or RFP), and that agreement meets the FAA guidelines for joint ventures and includes a minimum of 20% share of capital investment, will automatically receive 50 points.
(5) All companies, regardless of size, may receive up to 100 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).
(6) No proposer, though, may earn more than 200 total points for the criterion.

<u>Minimum Qualifications</u>
Firms who are not fully compliant with Proposition 1 back wages and benefits will be disqualified from participation.

The Port has a significant proprietary interest in the success of the ADR Program and so it is in the Port's best interest to try and eliminate disruptions to our tenants' operations due to labor disputes that can also negatively impact customers using the Airport as well as airline operations. As such:

(1) All non-exempt respondents must submit a Labor Peace Agreement with their proposal that includes signatures from a senior officer of the respondent's organization and a labor union that is capable of representing the workers of the respondent in collective bargaining or already has a collective bargaining agreement with the respondent.
(2) The Port will have no role in reviewing or establishing the terms of these agreements.
(3) Small businesses (as determined by U.S. Small Business Administration criteria), which have 35 or fewer badged airport employees, will be exempted.

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 the exhibit for the specific opportunity. Upon execution of a lease agreement, the design review and permitting process can take up to six months followed by three to four months for construction before the commencement of business.

Projected Date	Action
June 11, 2019	Brief Commission on LG4/4A results, insights from the LG4/4A solicitation process and proposed LG5 opportunities and request Commission authorization to solicit proposals for LG5 opportunities
June 18, 2019	Advertise opportunities (ADR leasing website and through various local and national media)
July 1, 2019	Information session for interested businesses

June through September 2019	90 days for proposal preparation
September 18, 2019	Responses due
October 2019	Port Teams complete their evaluations
November 2019	Notification to preferred respondents Update Commission on LG5 results
December 2019	Lease negotiations and executions
January 2020 –December 2020	Design Review and Permitting
January 2021	Start Construction
May 15, 2021	Tenants receive Temporary Certificate of Occupancy and conduct stocking and training
June 2021	Open

JUSTIFICATION

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; and
- Be the greenest and most energy efficient port in North America.

ALTERNATIVES and IMPLICATIONS CONSIDERED

Alternative 1 – Delay request for Commission approval of LG5 until later in 2019.

Cost Implications: For each month of delay in the solicitation of proposals beyond June 2019, assuming a day for day delay in awarding the leases and the buildout of the units, the lost revenue to the Port would be approximately $200,000 per month.

Pros:

1) This would allow more time for consideration of all aspects of the proposal solicitation process.

Cons:

1) The units in the North Satellite would not open in time for the opening of Phase 2 of the North Satellite project, thereby creating a significant customer service issue.

This is not the recommended alternative.

Alternative 2 – Seek Commission authorization to solicit proposals for the opportunities in LG5.

Cost Implications: None

Pros:
1) This will provide new ADR units when Phase 2 of the North Seattle opens to the public.

Cons:
1) This results in less time for Commissioners and staff to consider all issues associated with this request.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

(1) Attachment A – November 11, 2015, memo from CEO Fick to Commission Co-Presidents regarding Quality Job expectations
(2) PowerPoint presentation with Exhibits A-G for each lease opportunity

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

February 27, 2018 – Commission authorized the solicitation of proposals for the Airport Dining and Retail Lease Group 4A opportunities

June 27, 2017 – Commission authorized the solicitation of proposals for the Airport Dining and Retail Lease Group 4 opportunities

June 13, 2017 – The Commission was briefed on outcomes of the Lease Group 3 competitive selection process with a preview of leasing opportunities and recommendations on key policy issues for use in Lease Group 4

August 23, 2016 – Commission authorized the Airport Dining and Retail (ADR) Lease Group 3, Large Food Package 3 Addendum

June 14, 2016 – Commission authorized the solicitation of proposals for the Airport Dining and Retail Lease Group 3 opportunities

May 24, 2016 – Commission was briefed on the lessons learned from the competitive evaluation process for Airport Dining and Retail Lease Group 2 and the proposed leasing opportunities for Airport Dining and Retail Lease Group 3

December 8, 2015 – Commission authorized the solicitation of proposals for Airport Dining and Retail Group Lease Group 2

November 24, 2015 – A request was made of Commission to authorize the solicitation of proposals for Airport Dining and Retail Group Lease Group 2

November 24, 2015 – Commission approved a change to the Airport Dining and Retail Street Pricing Policy.

August 4, 2015 – A request was made of Commission to authorize the solicitation of proposals for Airport Dining and Retail Group Lease Group 2

February 24, 2015 – Commission was briefed on the Airport Dining and Retail Program Outreach and Leasing Plans

December 9, 2014 – Commission authorized Leases and Lease Modifications for HMS Host

December 9, 2014 – Commission authorized Leases and Lease Modifications for Hudson Group

December 9, 2014 – Commission authorized an Amendment to the Lease and Concession Agreement with Anton Airfoods (dba Anthony's Restaurant)

November 25, 2014 – Commission approved a Motion Regarding Quality Jobs, Service and Employment Continuity Assurances for the Airport Dining and Retail Program.

September 30, 2014 – Commission was briefed on the Drivers for Airport Dining and Redevelopment Phasing Decisions

May 27, 2014 –Commission was briefed on the Airport Dining and Retail Master Plan

September 11, 2012 – Commission was briefed on the Airport Concessions Master Plan

February 14, 2012 – Commission approved a Motion regarding Concessions Program Guidelines