

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5c

Date of Meeting February 24, 2009

DATE: February 18, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: James R. Schone, Director, Aviation Business Development
Deanna Zachrisson, Manager, Aviation Concessions Business

SUBJECT: Amendment to Lease and Concessions Agreement of Prime Concessionaire
Concessions International (CI)

REQUESTED ACTION

Request for authorization for the Chief Executive Officer to execute lease amendments to the Lease and Concession Agreement of Concessions International.

SYNOPSIS

This request for term extension, rent reductions and construction credits creates equity between Concessions International (CI) and other food and beverage concessionaires who received support in late 2005.

In December 2005, the Port Commission approved amendments to the prime food and beverage concessionaire Lease and Concession Agreements of Host International and Seattle Restaurant Associates. These amendments provided for term extension, rent reductions, construction credits and other utility and percentage fee reductions in recognition of higher than anticipated concessions build-out costs at Seattle-Tacoma International Airport. These relief measures were provided for both the prime concessionaire-operated units, and units operated by Airport Concessions Disadvantaged Business Enterprise (ACDBE) subtenants. CI is the Airport's third food and beverage prime concessionaire. Their agreement includes seven concessions units. At the time of Commission approval in December 2005, CI had completed only two of its required unit renovations. Because the relief was intended to mitigate higher than expected build-out costs, CI was required by the Port to complete all of their renovations before seeking Commission approval for the relief. With the recent completion of all renovations, CI now has met the requirement to receive this relief.

The relief includes a two-year term extension through 2016 for CI and its subtenants, a reduction in percentage rent for CI and its non-ACDBE subtenant CVC Foods across all categories of sales by 0.5% through the remainder of the lease term (2016), retroactive to January 1, 2008. CI also has one ACDBE subtenant operator (BF Foods) which would receive a rent reduction of 2% through 2009, a 1% reduction through 2010-12 and 0.5% reduction to the remainder of the term

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to 2016. In addition, the relief provided all prime concessionaires and their subtenants with construction credits (applied to rent payments) for certain construction costs related to infrastructure that primarily benefited the Port. In July 2006, CI requested construction credit for renovations to two Seattle's Best Coffee units completed in 2005. The Port granted this request and CI received a partial construction credit of \$9,869. CI is now due a construction cost rent credit of \$24,785 for their remaining five units. While this type of relief is the same as was provided to the other prime food and beverage concessionaires, delays in CI's renovations will result in a smaller amount of relief paid retroactive to January 1, 2008, and not beginning January 1, 2006 as with the other prime concessionaires. CI will receive this relief retroactive to the beginning of year in which renovations were complete (2008), which is the same principle was applied to the other prime concessionaires that completed their renovations in 2006.

BACKGROUND

CI operated prior to January 1, 2005 as an ACDBE subtenant to Host International at Sea-Tac. The company outgrew its ACDBE status by way of expansion at airports across the country and became a prime concessionaire. CI was awarded seven units at the Airport as a part of the negotiated agreements which also maintained Host International's presence in the new concessions program. CI operates three Seattle's Best Coffee units and a KOBO udon/sushi quick-serve. Two additional Burger King units are operated by a subtenant, CVC Foods, and the most recently developed concept, Bigfoot Food & Spirits, is operated by ACDBE subtenant BF Foods.

With regard to the required renovations, there were multiple false starts with proposed new concepts and subtenants in the new prime concessionaire agreement. Consequently, CI was unable to complete their renovations in a timely fashion. Port staff worked collaboratively with CI to extend completion dates numerous times for their renovations and support development of new concepts.

Sales for CI have improved over the past four years as their units were renovated and/or developed into new concepts. The redevelopment of the See's Candies/Dreyer's Ice Cream location in the North Satellite to Bigfoot Food & Spirits under the new ACDBE subtenant was particularly successful – from sales of \$310,000 in 2007 for the See's/Dreyer's concept to \$1.2 million for just seven months of operation as Bigfoot in 2008.

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SCOPE OF WORK

The Port would enter into lease amendments with CI making the following modifications:

- Term/Effective Date: Two year term extension to address higher than expected build-out costs due to Port-mandated construction requirements.
- Premises: Amend space exhibits to address actual square footage of facilities from initial estimate included in original Lease and Concession Agreement. In order to address the current needs of the overall concession program; 1) delete certain spaces, and 2) change the projected concepts of certain spaces. For example, the Concourse D Burger King has been reduced in size to create a new adjacent unit for future use as a retail space.
- Rent Credits: Tenants will receive rent credits to compensate them for certain, specific construction costs that primarily benefited the Port of Seattle. The Port will receive releases from the tenants for claims relating to their construction.
- Rent/MAG: Reduce percentage compensation by 0.5% (one-half percent) for CI and subtenant CVC Foods for the duration of the lease term. Reduce percentage rent for one ACDBE subtenant by 2% (two percent) for 2008-09, 1% (one percent) for years 2010-2012 and 0.5% (one-half percent) through the end of the lease in 2016.

STRATEGIC OBJECTIVES

This proposal supports the strategy of “Ensuring Airport and Seaport Vitality” by ensuring business viability for small businesses at the airport and by supporting the mission of the Office of Social Responsibility.

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION

- **Alternative 1: No authorization of amendments**
While capital investment by any concessionaire carries risk, CI’s investment is significant, particularly in light of operating the fewest number of units of the Sea-Tac prime food and beverage concessionaires. Without authorization of the amendments, the Port will create an inequity between CI and the other concessionaires who have received this relief via Commission approved lease amendments. This is not the recommended alternative.

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- **Alternative 2: Authorize modified amendments**
Authorizing amendments other than those outlined would also create an inequity between CI and the other prime concessionaires. This is not the recommended alternative.
- **Alternative 3: Authorize amendments**
Authorization of these proposed amendments brings equity to the lease terms of all three prime food and beverage concessionaires and at Sea-Tac. This is the recommended alternative.

FINANCIAL IMPLICATIONS

Rent credit for construction costs which primarily benefited the Port, such as upgrades to stainless steel grease waste lines, cost of running pipe further than 50 feet from point of connection to the tenant unit and fiber-optic cables, is due to Concessions International for the five units renovated in 2006-2008. This amount totals \$24,785.

Total sales for CI were \$7,568,821 in 2008. The retroactive rent credit calculated on 2008 sales for their units, including subtenants, totals \$55,106.

The total rent relief provided to CI, including both subtenants CVC Foods and BF Foods, is projected to be \$390,253 for the agreement years 2008-16. The present value of the two-year term extension (original term 2005-2014) is estimated to be \$1.8 million. As with previous projections of this relief for the other prime concessionaires, this projection assumes a modest average growth in sales of 2% per year across all units. In actuality, some units will perform better than others, and the demand in some years will provide greater or lesser potential for sales growth.

ECONOMIC IMPACTS

The purpose of the 2005 concessionaire relief was to assure the viability of airport concessions companies, particularly ACDBE subtenant companies. These amendments fulfill the same goal as relief granted in 2005.

PREVIOUS COMMISSION ACTION

December 13, 2005, Commission passed a resolution authorizing amendments to the lease agreements of food and beverage prime concessionaires Host International and Seattle Restaurant Associates which provided financial relief to these prime concessionaires and their ACDBE subtenant operators at Sea-Tac International Airport.