

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA – POLICY AND STAFF BRIEFING

Item No.	<u>6c</u>
Date of Meeting	<u>February 24, 2009</u>

DATE: February 17, 2009

TO: Tay Yoshitani, Chief Executive Officer

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

SUBJECT: Staff briefing on impacts to concessionaires on Concourses A and D and possible adjustments to lease terms for Prime Concessionaires Host International (Host), Seattle Restaurant Associates (SRA), Concessions International (CI) and Airport Management Services, LLC (dba Hudson News) and their subtenants.

TODAY'S BRIEFING

Today's briefing will provide information about Port staff efforts to address impacts to certain concessionaires at Seattle-Tacoma International Airport (Airport). In 2009, the Airport expects significant scheduled enplanement losses in Concourses A and D. There are a total of ten potentially affected units in Concourse A and nine units in Concourse D. These are a combination of food and beverage (seven each in Concourses A and D), four news/gift retail and one bookstore (Please refer to Exhibits A and B).

The reduction of scheduled enplanements will present business challenges for concessionaires located on Concourses A and D. The reduction in scheduled enplanements may lead to a lack of adequate sales opportunity to support operations.

The Lease and Concession Agreements of all four prime concessionaires do not require the Port to mitigate the effects of the reductions because airport-wide enplanements are not anticipated to drop by 20%, which is the threshold for relief in the agreements. Nonetheless, staff has worked to develop voluntary measures that would provide options to owners of affected units to address the loss of scheduled enplanements near their units.

The potential options are summarized as follows:

1. Concessionaire continues to operate unit under modified lease terms. The tenant would be relieved of the requirement to pay monthly 'guaranteed rent' (known as Minimum Annual Guarantee, or MAG), and pay only percentage rent based on actual sales. Percentage rent reduction also may be considered.

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2. Concessionaire closes unit with the intent of re-opening when enplanement levels return. The Port would provide a rent credit equivalent to the value of depreciation during the period of closure.
3. Concessionaire closes unit permanently and is purchased by the Port at its net book value.

BACKGROUND

2009 Concourse Changes

In the fall of 2008, Sea-Tac's #1 and #6 ranked carriers (by enplaned passengers) announced changes to their operations which staff believe will take effect in the first half of 2009. These changes will result in scheduled enplanement losses of such a magnitude that normal concession operations may not be possible in the affected concourses.

Scheduled enplanement levels in Concourse D will drop dramatically in all parts of the concourse as a result of Alaska Airlines' consolidation of gate use to the North Satellite and Concourse C. Alaska will retain only three preferential gates among gates D1-D11. Departures from the non-preferential gates ("common use") are expected to be very limited. Consequently, scheduled enplanement levels in Concourse D are anticipated to drop in excess of 35% compared to 2008. The reduction in enplanements and loss of concession sales are likely to occur in early March.

The merger of Delta Airlines and Northwest Airlines will result in a consolidation of the carrier's service in the South Satellite. Delta/Northwest will cease use of Delta's preferential gates near the end of Concourse A, which will lead to a reduction of scheduled enplanements of approximately 26% for the entire concourse relative to 2008 levels. However, the current Delta gate area A10-A14 will sustain a much greater loss. These gate changes and the impact to concession sales are anticipated to materialize in late June. In contrast to these severe impacts, overall scheduled enplanement levels at Sea-Tac during 2009 are expected to drop to a much lesser degree – less than five percent per the forecast in 2008 for the airport's 2009 budget preparations.

Airport Industry Experience

Airports across the U.S. have been addressing airline carrier impacts to concessionaires for most of 2008. Port staff has been able to study the actions taken by other airports in similar situations. The relief offered in the instances available for study has been 1) reduction of MAG payments commensurate with percentage enplanement drop, 2) suspension of MAG payments and/or 3) temporary reduction in percentage rent. Relief has been offered for a specific period of time, most commonly ending after 12 months (or earlier if enplanement levels return). Airports also have purchased units that were no longer viable.