

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6f

Date of Meeting July 26, 2011

DATE: July 15, 2011

TO: Tay Yoshitani, Chief Executive Officer

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

SUBJECT: Procurement for Concessions Planning and Leasing Services

Amount of This Request: \$0 **Source of Funds:** Current and Future Operating Budgets

Maximum Value of Contract: \$3,000,000 **Estimated Jobs Created:** 5 or fewer

ACTION REQUESTED:

Request authorization for the Chief Executive Officer to execute a project specific contract to support Concessions Planning and Leasing Services at Seattle-Tacoma International Airport (Airport). The services to be provided under this procurement are estimated at a maximum of \$3.0 million for three years with a one two-year extension option. No budget is associated with this authorization. Budget will be included within annual budget requests that are reviewed and approved by the Commission.

SYNOPSIS:

This is a request to initiate and execute a project specific contract for various planning and leasing services to assist the Airport concessions team. It is necessary to retain outside consultant services because the in-house concessions team is both small and fully occupied, and do not have available staff to perform the work. The work covers three distinct phases. The first phase identifies a balanced mix of concession types, conducts business outreach and analysis, and executes leases on behalf of staff for available airport venues. The second phase performs the advance planning, strategy formulation, and analysis for concessions renewals and new venues that are necessary several years from now. The third phase involves follow on execution of leases similar to the final element in the first phase. The third phase is contingent upon staff's determination whether to proceed with that work at that future time which would necessitate exercising the final two year option period of the contract. While concession additions associated with this work will generate significant additional revenue for the Airport, it should be noted that the first phase will bring additional jobs to our community in the near term, as will follow on phases in the longer term.

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The Airport is well-known for its outstanding concessions program and has earned several industry awards including the “Overall Award of Excellence” by the *Airports Council International North America* in 2007 and “Best Overall Concessions Program at a Large Airport” by *Airport Revenue News* in 2009. Attractive storefronts, a good mix of shops, quality food service, great customer service and overall high standards distinguish this program from many other airports and are the result of the new leasing structure begun in 2005. This structure combines large prime concessionaires and direct leases with many small and independent retail and restaurant operators and certified Disadvantaged Business Enterprises and allows both well-known national brands and local companies to serve Airport customers. Since 2004, gross concessions sales have increased from \$100 million to \$158 million in 2010 and revenue to the Port has increased 61%. Employment in concessions businesses has increased 90% from 732 jobs in 2003 to approximately 1,388 jobs in 2011. The purpose of the proposed procurement is to provide support to Concessions staff in the development and leasing of new concession spaces to meet passenger needs and capitalize on revenue opportunities that exist both now and in the future.

BACKGROUND:

In 2005, the Port introduced a new leasing structure that combined large prime concessionaire contracts (where one company operates multiple units in an airport) and direct leases with many small and independent retail and restaurant operators. This new structure enabled the Airport to introduce competition between multiple operators in order to encourage more local character, better customer service, better product quality, greater variety and lower prices.

Last month marked the sixth anniversary of the opening of the Central Terminal, the dramatic atrium area which added 19 new food and retail concessions. It is also more than seven years since the transition of the concessions program that began with the opening of Concourse A. The next program transition is a major undertaking for which planning must begin well in advance of lease expiration dates. As a way to better prepare for the next transition and provide opportunity for inclusion in the earliest stages of planning, staff is currently undertaking a significant stakeholder involvement process with the concessions program’s many interested parties. As part of this stakeholder process, Airport staff has identified and studied industry “best practices,” developed preliminary consensus on a vision and goals for the concessions program, and developed draft principles and practices for management of the program. This work has been completed in preparation for an opportunity for stakeholder groups to participate in facilitated discussions about these topics. The discussions will help the Port understand the diversity of opinions and inform recommended final principles and practices for the program. The Airport will be substantially complete with this effort by the late fall of 2011. The stakeholder process and the procurement process to hire the contract consultant will run simultaneously.

The consultant will take advantage of information gathered from the stakeholder involvement and use it in phase 1 to ultimately direct lease the venues currently available, and to consider in the longer range planning necessary in phase 2 for renewal of venues and necessary releasing to occur in a few years. Thus, the Airport plans to work with this proposed consultant, or team of consultants, for the more long range planning work as well. Having one consultant perform both phases of work allows for better continuity, less expense in getting a second consultant up to

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speed in learning the unique airport needs, evolving customer mix, and understanding of long range strategy. Both the timing and necessary fee are difficult to estimate at this time due to the nature of the environment and work, and as a result, if it is necessary to either lengthen the contract time or increase the value, then staff will return to the Commission for added authorization when either need becomes apparent. By providing continuity in planning-ahead now, the Airport will be positioned to create the next great concessions program as leases expire and new offerings are added in the coming years.

SCOPE OF SERVICES:

Phase 1 – Lease Existing Available Concession Venues:

1. Evaluation of Current Concessions Program:

The Consultant will work with Concessions Staff and other appropriate airport departments to review the history and current conditions of the concessions program. The Consultant also will have the opportunity to review the work of the stakeholder involvement process.

2. Lease High Priority Locations:

Work with Airport staff to secure tenants for locations that are identified for new development in the short to medium-term, likely during 2012-2014.

a. Develop Strategy:

Identify the best mix of concessions in terms of category, type, and size to match our market in maximizing the benefit to Airport travelers.

b. Conduct Outreach for Businesses:

Develop materials and define process for tenant interest. Work with Airport staff educate prospective tenants about the airport and what it takes to operate, overall costs and long-term impacts.

c. Concept Evaluations:

Analyze preliminary proposals from potential parties who are interested in operating within the Airport.

d. Develop Prospective Options:

Conduct in-depth analysis of prospective tenants who submit pro-forma and evaluate suitability for operating in the Airport environment. Consultant proposals will help to narrow the field of recommendations for staff to consider in their decision making of final tenant selection.

e. Negotiation of Leases:

Work with Airport and legal staff to prepare and execute leases to enable concession tenant construction and operation.

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Phase 2 – Advance Planning, Strategy, and Analysis of Existing Tenant Space Renewal and Leasing to Occur in a Few Years:

3. Conduct Feasibility Study for Future Concessions Program:

Analyze economic, financial, logistics and resource issues critical for the success of the future program in 2015-2017. Review risk and critical variables and the overall impact to the Port and operators. Include review of current lease language and construction costs. Identify new means of encouraging environmental innovation through lease development. Assist Port staff with a plan for creating sustainable schedule for ongoing renewal of the concessions program over time.

4. Conduct Market Analysis and Research:

Utilize research to determine needs and wants of passengers. Research trends and sustainable concepts for new retail, food & beverage and services in an airport environment.

5. Conduct Highest/Best Use Analysis with Sales/Revenue Forecasting:

Develop strategy for best use of space and tenant mix in the future concessions program. Analyze sales/revenue forecasts with possible new rent structures to maximize return to the Port and promote successful partnerships with tenants. Consideration of future operator packages with balance of local, regional and national tenants.

Phase 3 – Perform Releasing work for Renewal Venues:

6. Lease Existing and New Locations:

Perform the necessary steps similar to to step 2 above within phase 1 to complete the leasing of selected venues that are be necessary to be operational in the 2015-2017 timeframe.

FINANCIAL OPPORTUNITY:

There are passenger needs and revenue opportunities that demand attention now. Recent and impending changes of airline gate use place immediate pressure on the Airport to execute new concessions development to meet traveler needs. The best example is the recent 20% enplanement growth (2008-2010) in the South Satellite where there has been no corresponding growth in concessions capacity. In 2010, food & beverage sales per enplanement were \$5.55 airport-wide, but only \$2.91 in the South Satellite. A lack of adequate capacity results in customer “walk-offs” (when a customer abandons a queue for service that moves too slowly), lost sales, and a poor customer service experience. The airline realignment in 2012 also necessitates moving forward with certain development to match concessions availability with enplanement activity. In particular, United Airlines relocation to Concourse A in early 2013 will increase enplanements and support re-opening of one small food & beverage concessions unit that currently is boarded up.

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In total, the Airport has identified seven new or repurposed concessions spaces appropriate for leasing in 2012-2013 that are aimed at providing better customer service and taking advantage of revenue opportunities. However, it is possible that other unoccupied spaces may require development or re-leasing to new tenants, given the rapid pace of change in the Airport environment, driven by passenger needs, changes in viability for certain types of concessions and/or airline changes. All of the identified units listed in the table below are currently vacant or undeveloped (see locations on Exhibit A). Assuming an average revenue share of 13.5% of gross sales, these new units could generate approximately \$1 million in total new revenue for the Port in their first year and approximately 100 new jobs.

Unit Location and Square Footage	Presumed Use	Est. Year One Gross Sales	Est. New Jobs
South Satellite (1,560 sq ft):	restaurant	\$2.3 million	25
Arrivals Hall (1,061 sq ft):	restaurant/events venue	\$800,000	20
Concourse A (888 sq ft):	specialty retail	\$1.1 million	10
Concourse A (1,396 sq ft):	specialty retail	\$1.6 million	15
Concourse A (587 sq ft):	quick serve restaurant	\$600,000	12
Concourse C (555 sq ft):	small business 'pop-up' store	\$675,000	10
Concourse C (645 sq ft):	specialty retail	\$800,000	10
Total			102

SOURCE OF FUNDS:

No dollars will be committed under this proposed contract without the issuance of service directives for specific project tasks. Staff has estimated the cost for this contract based on similar total costs in 2003-2005. Fee structures for leasing services in the private sector are not consistent with practice in public facilities. As part of the RFQ process, staff will solicit fee structure proposals, and upon review, issue an addendum with specific guidelines for submittal of comparable cost proposals.

The source of funds for this contract for the remainder of 2011 will be expense dollars available in the Aviation Business Development department budget for consulting services. Future funding will be accomplished through the routine budgeting process for consultant expenses.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

1) By previously contracting with a qualified third party retail planning and leasing consultant with experience in commercial leasing in typical retail environments and airports, the Airport added local independent operators, popular national brand-names and certified Disadvantaged Business Enterprises. The leasing process for multiple units was completed in an efficient yet inclusive fashion. The Airport saw dramatically increased revenues from the results of this process. In 2010, the Central Terminal businesses were responsible for generating 28% of the

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total Airport concessions sales. Working with a consultant proved very successful, and this success would not have been possible to achieve without either the consulting support or significantly greater Port in-house staff resources. From a financial standpoint, an important advantage of the leasing consultant approach is the ability to lease the units more expediently than with other alternative processes. This leads to occupancy by revenue-generating businesses more quickly with new revenue benefiting the Airport with new jobs being created sooner and with passengers reaping the benefits of new available offerings more quickly. **This is the recommended alternative.**

2) Alternatively, these units could be split into two ‘Request for Proposals’ packages, three food & beverage and three specialty retail units respectively. The ‘small business pop-up’ store is intended for short-term tenancy for multiple operators. However, staff believes that such RFPs likely would not attract interest from national prime concessionaires other than those which already lease the majority of the units at the Airport, such as HMS Host and Hudson Group, thereby limiting competition. For the existing concessionaires, additional units represent new sales opportunities without proportionate incremental costs. For new prime concessionaires, economies of scale would not be readily achieved with such a small number of units. As such, a new prime concessionaire competing for these packages would need to be willing to sacrifice economies of scale in order to gain a toehold at the Airport in preparation for the expected larger number of offerings in the 2015-2017 timeframe. Staff also believes that small business operators are unlikely to be able to respond to an RFP with three different branded concepts for the spaces, or perhaps even have the financial ability to build-out three units at one time. *This is not the recommended alternative.*

3) Another option would be for Airport staff to do RFPs for each of these units. However, there are too many units for a small internal staff to be able to manage RFP processes for each individual unit in a timely fashion. A single RFP process for a concessions business typically takes 25 weeks or more to complete. In addition, an RFP approach likely would limit the possibility of small business participation. Typically, the best conditions for an RFP are where the competitors are established airport operators with the financial resources and expertise to craft responses to public sector RFPs. As Port staff has gained more direct leasing experience, it has become clear that the RFP process is an imprecise tool when attempting to interest local and/or independent businesses, such as restaurants, retail shops and services. Most such businesses possess neither the expertise nor resources to respond to a public sector RFP. Requiring participation in RFP processes for all types of business opportunities may mean that the Airport loses out on potentially very successful concepts. *This is not the recommended alternative.*

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Exhibit A - Concessions Development Opportunities Map

PREVIOUS COMMISSION ACTION

None.