

## Sea-Tac Concessions Policy and Principles Stakeholder Process: June-December 2011

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### **Introduction**

Between 2015 and 2017, nearly 90% of Sea-Tac's concessions leases will expire. This concentration of lease expirations is a continuing by-product of the end of the master concessionaire era in 2005 when the majority of locations transitioned to new contracts. The renegotiation of these leases presents a challenge and an opportunity to consider how to best serve the interests and needs of the traveling public, the vendors who serve them, and the residents of King County.

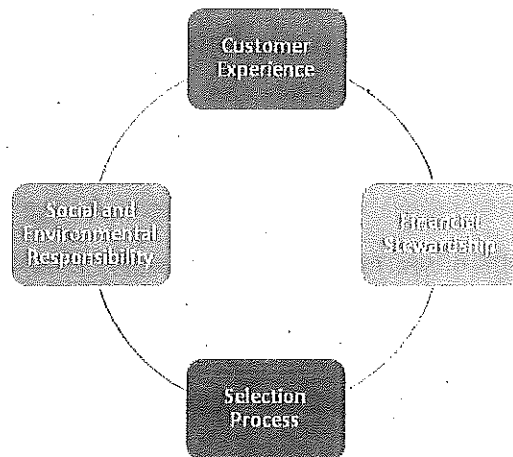
The Sea-Tac concessions program initiated a stakeholder outreach process in June 2011 to inform the development of leasing policies and practices in anticipation of the upcoming lease expirations, as well as ongoing development. The process has included the following steps:

- Draft principles and practices – June
- Research best practices in concessions – June/July
- Meetings with individual stakeholder groups – July-October
- Traveler focus groups – September
- Combined meetings with all stakeholder groups – November 2 and 3
- Recommendations to Port Commission – December 13

The outreach process has engaged all concessions stakeholders, including small/ACDBE businesses, prime concessionaires, independent businesses with direct leases, local businesses interested in becoming tenants at Sea-Tac, airlines and union representatives. The process also included three focus groups with travelers, one group of business travelers and two of leisure travelers, to ensure that customer feedback was also considered in the development of concessions policies and principles. A total of 53 individuals representing 36 companies and organizations participated in two phases of stakeholder involvement.

### **Stakeholder Outreach, Round One**

Round one of the stakeholder outreach process was structured around a set of Draft Principles that could guide Sea-Tac as it develops principles and practices for future development of the program. The draft principles were divided into four major categories:



The Port held individual meetings with all stakeholder groups. These meetings were professionally facilitated to allow participants to voice their opinion in an open, neutral setting. At the meetings, participants were asked to provide input on the draft principles document. Despite their diversity, stakeholders expressed consistent and general agreement with most of the draft principles. Stakeholder perspectives were synthesized into a summary document that outlined areas of stakeholder agreement, as well as areas of disagreement.

## Stakeholder Outreach, Round Two

The second round of stakeholder outreach focused on the key issues that emerged from the individual stakeholder meetings. To further understand the reasons behind divergent perspectives, the Port held two combined stakeholder meetings on November 2 and 3. Nearly 40 stakeholders representing current and prospective tenants, labor, small/ACDBE operators, prime concessionaires, and airlines attended the two meetings. Broad areas of agreement were summarized. The discussions focused on the areas of greatest dissent among stakeholders.

Stakeholder opinions primarily diverged around issues that are rooted in what the appropriate role of the Port of Seattle/Sea-Tac Airport should be as a landlord and lessor of concession locations. Should the Port's role be limited to leasing space to independent businesses, or should the Port's role be expanded to include a role in setting employment practice standards of these businesses?

Most airport stakeholders said they would like the Port to limit its role to managing the overall mix of businesses at the airport, focusing on what it directly controls such as its own internal processes, reducing high costs of operation and streamline processes. Beyond that, they feel businesses should be allowed manage their businesses without interference. In contrast, organized labor contends that, as a public agency, the Port has a social responsibility to taxpayers to elevate the living standards of workers.

This basic disagreement about the Port's role manifested itself in the following five issue areas:

1. Management model and leasing structure for the Sea-Tac concessions program
  - How should the Port balance opportunities for multiple unit leases with large, national concessionaires and direct leases for smaller and/or local businesses?
2. Possible Port requirements regarding concessionaires labor practices

- Should the Port seek, within the limits of federal legal constraints, to influence the labor or employment policies/practices of its concessionaires?
3. The landlord responsibilities of the Port relative to build-out and operations costs
    - How should the Port gain an understanding of the build-out costs' impact to tenant profitability and risk?
    - How might the Port identify improvements to the tenant construction process to increase efficiency and reduce costs?
  4. Leasing opportunities for locally-owned businesses and/or small and Airport Concessions Disadvantaged Business Enterprise (ACDBE) operators
    - How should the Port maintain and/or increase participation in the concessions program by locally-owned, small and/or ACDBE businesses?
  5. Street pricing requirements and other contractual terms for operators
    - Should the Port initiate a comprehensive analysis of the implications of the current street pricing policy (both structure and implementation) for large and small concessionaires, the traveling public and the Port?
    - Should this include current contractual requirements (investment, term, rent, pricing, etc) with the goal of understanding more fully the financial picture for both small and large concessionaire tenants?

## **Issue #1 – Management Model and/or Leasing Structure for the Sea-Tac Concessions Program**

### **Statement of Issue**

Prior to 2005, like most U.S. airports, Sea-Tac operated for decades under a master concessionaire concession model. Nearly all concessions, including restaurants, specialty retail, gift/news, duty free and vending, were operated by one company under one contract. The Port replaced this model in 2005 with a "hybrid" structure in which the Port holds many leases directly with tenants as well as contracts with a small number of national prime concessionaires operating multiple units.

Gross concessions sales have increased by 141% during the period 2001-2010 despite the introduction of street pricing in 2004. Currently, 71% of all concession units are under contract with prime concessionaires (including subtenants) and 29% are direct lease agreements with the Port. Direct leases give the Port greater influence over concession concepts (including local brands) and the ability to recruit local and small businesses; however, it also is more staff-intensive.

All stakeholder groups, with the exception of airline representatives, were in agreement that Sea-Tac should continue to develop and manage its own concessions program, rather than hiring a developer or fee manager. However, there is disagreement among the groups about the degree or balance that should be struck between direct lease agreements and agreements with prime concessionaires.

## General Summary of Individual Stakeholder Themes

Stakeholder	Comment Themes
Small business/ACDBE	<ul style="list-style-type: none"> <li>• See direct leasing as their opportunity to run a business at the airport. They believe locally-owned businesses benefit the local economy.</li> <li>• Desire the opportunity to become direct lessees with the Port due to a perceived lack of benefit (in terms of business support, purchasing, and operational support) from being a subtenant to a prime concessionaire.</li> </ul>
Labor	<ul style="list-style-type: none"> <li>• Advocates a limitation on direct leasing so that no more than 10% of employees are employed by direct lease tenants.</li> <li>• Believes that direct leasing dilutes the portability for employees to move from one unit to another by increasing the number of employers.</li> </ul>
Prime concessionaires	<ul style="list-style-type: none"> <li>• Believe they can apply their knowledge of operating in an airport and resources as an advantage in the program.</li> <li>• Concerned about placing limits on how many units one concessionaire can operate, i.e. breaking up units into too many or small packages and</li> <li>• Encouraged the Port to clarify if it wants multiple operators or a mix of offerings or concepts (regardless of operator).</li> </ul>
Airlines	<ul style="list-style-type: none"> <li>• Suggest that the Port may want to consider hiring a fee manager or similar entity to manage its concession program, as has been done in other airports, in order to eliminate political pressures on business decision-making. Some airlines may even want to operate concessions.</li> </ul>
Prospective tenants	<ul style="list-style-type: none"> <li>• Feel strongly that they would always want to have a direct lease with the Port to maintain control over their business and their brand.</li> </ul>
Independent businesses with direct leases	<ul style="list-style-type: none"> <li>• Feel it is important to retain control over their business decisions and would like direct leases with the Port.</li> </ul>
Travelers (focus groups)	<ul style="list-style-type: none"> <li>• Indicate a preference for shopping with local businesses which they believe keeps their money in the local economy.</li> </ul>

### Policy Question

How should the Port balance opportunities for multiple unit leases with large, national concessionaires and direct leases for smaller and/or local businesses?

### Prevalent View:

- The Port has a good mix and should maintain a mix of prime contracts with direct leasing

- There should be no artificial or prescriptive constraints – all types of concessionaires want the opportunities to compete
- Sea-Tac should manage ACDBEs as direct lessees rather than as subtenants to primes – both primes and ACDBE subtenants voice support for this approach
- Sea-Tac should assure only that packages intended for primes have enough units to support the scale they need (minimum of 4-6 units)

*Divergent View:*

- ACDBE participation should occur as subtenant opportunities to prime concessionaires to maintain portability for workers across units (with same wages and benefits). The Port should direct primes to sublease specific units to ACDBEs
- Direct leasing should be limited as it dilutes the system of portability for workers by increasing the number of separate employers

## **Issue #2 – Requirements for Concessionaires Regarding their Labor Practices**

### **Statement of Issue**

About 70% of the Sea-Tac concession workforce is represented under union contracts between prime concessionaire businesses and Hotel Employees Restaurant Employees (HERE) Local 8 or United Food and Commercial Workers (UFCW) Local 21. In addition, some major prime concessionaires have labor agreements that include “card check agreements” and “recognition agreements,” where concessionaires agree to support unionization activity (i.e. card check) or recognize the labor agreement of a predecessor concessionaire, when awarded new contracts. The remaining share of non-represented employees are employed by small and/or ACDBEs (most typically as subtenants to primes) and independent non-union businesses with locations outside the airport (e.g. Fireworks, Body Shop, ExOfficio, Qdoba Mexican Grill).

There is disagreement among stakeholders regarding the degree to which the Port can or should impose requirements on prospective tenants to negotiate with labor unions for labor harmony and/or retention of a predecessor concessionaire’s employees for a specific period of time. Among the issues discussed as part of the stakeholder process, this issue generated the most differing perspectives regarding the extent to which the Port should place requirements on concessionaire tenant labor practices (i.e. hiring and firing).

The question of the Port’s role in labor policy carries potential legal implications for the Port, concessionaires, labor and employees. The issue also has a significant documented history with the Port, which is summarized here.

In 2000, by order of the Hon. Barbara Rothstein, United States District Judge, the Port was permanently enjoined from “any action . . . interfer[ing], either by its actions or inactions, with the exercise of federally protected rights of third parties using Port facilities to assign work to their own employees” (Citylce Cold Storage Company. Port of Seattle, No. 399-164R. (“Citylce”), pp. 15; 19-20). Judge Rothstein was not focused solely on future agreements the Port might enter into with any unions, but any action of any nature, including policies.

Despite the terms of the permanent injunction, the Port entered into a Memorandum of Understanding (MOU) in 2002 with organized labor, including UFCW and HERE, where the Port agreed to recruit new concessions operators by issuing Requests for Proposals for prime concessionaires that required respondents to submit a "labor harmony plan" and required the successful respondent to retain the workers of the previous master concessionaire. For concessions other than prime concessions, the understanding with organized labor was that the Port would recruit small and local businesses ("direct lessees") to meet specific customer needs and to provide a Pacific Northwest flavor at Sea-Tac.

Following the implementation of the 2002 MOU, however, the Port, the former master concessionaire, and HERE were sued in federal court by a subtenant concessionaire that objected to requirements that the Port was allegedly trying to impose as a condition of renewal of its concession agreement. In the September 2005 order on summary judgment in the case, Judge Marsha Pechman indicated she found the MOU objectionable. Judge Pechman's order was significant in that it not only allowed plaintiff's claims against the Port of civil conspiracy, violation of 42 U.S.C. Sec. 1983, and tortious interference to move forward to trial, it also revealed the court's view that there was strong legal and evidentiary basis for the plaintiff's claims.

The Pechman order also rejected the defense that the union and Port were simply seeking "work preservation." In addition, with regard to the plaintiff's claim that the Port was in contempt of Judge Rothstein's permanent injunction, Judge Pechman's order referred the civil contempt cause of action to Judge Rothstein for determination. The effect of the order was to highlight the Port's great legal exposure if the case proceeded to trial. Ultimately, the Port and the former master concessionaire settled with the subtenant and paid monetary damages.

Independent of any historic or future labor-related requirements, the Port recognizes the right of any employee to organize and engage in concerted activity. As the Port has twice been sued and penalized for interfering with the labor relations of third party employers and is subject to a permanent injunction enjoining the Port from interfering with the right of lessees to assign work to their own employees, implementing labor harmony and/or worker retention requirements could expose the Port to considerable legal risk.

All stakeholder groups, with the exception of labor, reject the suggestion that the Port should be involved with employee recruiting, training or retention initiatives or that the Port should require or set specific targets for retention of employees. Most felt that it is the employers' responsibility to earn the retention of their own employees.

#### General Summary of Individual Stakeholder Themes

Stakeholder	Comment Themes
Small business/ACDBE	<ul style="list-style-type: none"> <li data-bbox="662 1514 1365 1646">Emphasize that worker retention means, in practicality, a requirement to retain union labor of a previous concessionaire and that a requirement to use a unionized workforce would put them out of business.</li> </ul>

Labor	<ul style="list-style-type: none"> <li>• Concerned about the employment security of concessions employees in the event that new concessionaire companies are chosen to operate at the airport. Benefits and seniority would not be guaranteed to stay the same when concessionaire companies change.</li> <li>• Advocates the adoption of a Port policy requiring new concessionaire employers to retain employees for a minimum of 180 days, and offer permanent employment to all employees who perform satisfactorily. Incumbent workers must be hired from a worker pool until it is exhausted or all positions are filled.</li> <li>• Prefers to see most workers employed by a small number (no more than three) of prime concessionaire employers, with no more than 10% with unrepresented employers. (See issue #1)</li> <li>• Believes that labor harmony/worker retention means that unions will refrain from any type of economic interference with concession operations; maximizing revenue.</li> </ul>
Prime concessionaires	<ul style="list-style-type: none"> <li>• Requirements to maintain a union workforce mean increased costs that should be taken into account by the Port in its rent expectations.</li> </ul>
Airlines	<ul style="list-style-type: none"> <li>• Market forces should be allowed to shape concession businesses and employment at the airport, without intervention by the Port or other body.</li> </ul>
Prospective tenants	<ul style="list-style-type: none"> <li>• Businesses that operate locations outside of the airport were concerned that union labor requirements also would apply to their other locations. This concern was enough in some cases to deter a business from the airport environment.</li> </ul>
Independent businesses with direct leases	<ul style="list-style-type: none"> <li>• Independent businesses at the airport were concerned that they would not be able to have their own employees from other locations come to work in their airport operations.</li> <li>• Contend that there has never been a loss of jobs as the result of a change in concessionaire, for example, Borders employees who wished to stay at the airport were able to find new jobs. Job opportunities have grown since the new concessions program began in 2005.</li> </ul>

### **Policy Question**

Should the Port seek, within the limits of federal legal constraints, to influence the labor or employment policies/practices of its concessionaires?

#### *Prevalent View:*

- The Port should not place mandates on the employment practices of concessionaires – businesses want control over their P&Ls and their own ability to succeed or fail
- There are enough jobs at the airport that employees have a choice where they want to work. Entrepreneurs will go elsewhere
- Employers have difficulty finding good employees and want to hire from the airport employee base, but they do not want a requirement
- The employees that a business chooses to hire come to reflect their brand and philosophies and it is important to be able to choose these employees freely

#### *Divergent View:*

- Labor Harmony agreements do not mandate unionization. They establish a code of ethics and assure that labor laws are followed

### **Issue #3 – Landlord Responsibilities to Provide a Facility for Operations at a Reasonable Cost**

#### **Statement of Issue**

With the end of the master concessionaire contract, a new group of tenants came into the airport and began building out locations. This initial experience was more costly for tenants than anticipated, which led to a Port relief package granted in 2005. Tenants were reimbursed for certain construction and materials costs, provided rent reductions and received a two-year term extension on 10-year leases.

Build-out costs at Sea-Tac, according to some concessionaires, are about 100% more costly than a street location. Sea-Tac is not unique for airports with its high build-out costs. Some of these costs may be justifiable or unavoidable as a consequence of the unique airport environment; however, most believe there is significant room for improvement.

A typical food and beverage investment might be \$700-800 a square foot or more, and somewhat less for retail. Some of this cost stems from the lengthy Port design review process (26 weeks on average) where several departments and/or workgroups weigh in on tenant designs, which leads to many design revisions. Other costs are driven by the Port's facility requirements, which tend to be more strenuous than for a street location. As an example, international building code requirements for sanitary waste lines stipulate cast iron, whereas the Port requires stainless steel. The Port will typically require more extensive venting and fire suppression systems.

Another source of increased cost is the Port's practice of not providing needed infrastructure to the lease line. A tenant may be required to bring electricity, gas, water and communication lines to the space. If Port base building systems such as HVAC are not adequate, the tenant may be required to install its own supplemental infrastructure.



The costs of operating in the airport are also much higher than on the street. The airport facility tends to be more labor-intensive due to extended hours of operation, security requirements and undersized or antiquated infrastructure to support concession operations.

Current tenants agree that the Port can be more efficient and get things done quicker and more cost-effectively. Some current tenants feel the Port needs to provide better facility support, for example, some say that there is not enough seating provided by the Port in the Central Terminal. All stakeholders agreed that the process could be streamlined and should not be a barrier to someone's ability to operate a business at the airport.

**General Summary of Individual Stakeholder Themes**

Stakeholder	Comment Themes
Small business/ACDBE	<ul style="list-style-type: none"> <li>• Emphasize that build-out costs are high, margins are slim and costs to operate are high. With restrictions on pricing, it becomes difficult to impact profitability.</li> <li>• Small businesses feel that Sea-Tac should improve the airport infrastructure to support composting, waste separation, and other processes.</li> <li>• Small businesses propose that a lease with an option to extend would make it easier to get financing for an expensive build-out.</li> </ul>
Labor	<ul style="list-style-type: none"> <li>• Proposes that the Port lend money to small businesses for their build-out costs.</li> </ul>
Prime concessionaires	<ul style="list-style-type: none"> <li>• Emphasized the need for better facility planning.</li> </ul>
Airlines	<i>No comments on this issue</i>
Prospective tenants	<ul style="list-style-type: none"> <li>• The high cost of build-out has deterred some businesses from pursuing space at Sea-Tac.</li> </ul>
Independent businesses with direct leases	<ul style="list-style-type: none"> <li>• Emphasized the need for better facility planning.</li> </ul>

**Policy Questions**

How should the Port gain an understanding of the build-out costs' impact to tenant profitability and risk?

How might the Port identify improvements to the tenant construction process to increase efficiency and reduce costs?

*Prevalent View:*

- The Port needs to change its design approval process. It is excessively long and excessively costly due to administrative inefficiency and requirements to build "above code."
- Tenants should not be building infrastructure for the Port. Needed base infrastructure should be provided by the Port and brought to the lease line.

- The Port could promote more competition for tenant builders at the airport. There are too few construction companies willing to build at the airport, and concessionaires are at their mercy to pay whatever they charge
- Stagger lease expirations to avoid spikes in construction activity, which exacerbates the high construction cost problem by creating too much demand at one time

*Divergent View:*

- The Port should consider providing low-interest loans to small businesses to help with the high investment costs

## **Issue #4 – Leasing Opportunities for Locally-Owned Businesses and/or Small and ACDBE Operators**

### **Statement of Issue**

Prior to 2005, opportunities for locally-owned and small/ACDBE operators were mostly limited to subtenant agreements under the master concessionaire. Today, the majority of opportunities still have been provided as ACDBE subtenant opportunities within prime concessionaire contracts, which have required primes to sublet units in order to achieve 25% of sales from ACDBEs. Among the current prime concessionaires which use subleasing as a means to meet their ACDBE requirement, one fully meets the 25% goal. However, operators that demonstrate “good faith efforts” to achieve this goal are considered to be in compliance. The annual overall Sea-Tac ACDBE participation goal is 19.56% of gross sales.

The opportunities for local and small businesses (including ACDBEs) have grown with the introduction of direct leasing. There are currently a number of locally-owned businesses under direct lease contracts, including some ACDBEs. As the local business community has come to understand that the former master concessionaire is no longer the gateway to opportunities at Sea-Tac, interest in direct leasing opportunities at the airport has grown.

At the same time, the airport is not a realistic venue for most small/local businesses. It is a challenging environment to succeed in – financially and operationally. Most small businesses will not have the capital necessary for the level of required investment at the airport. Typical bank financing is a challenge due to the high costs. However, there is untapped potential and interest among many already established street-side local businesses, which have economies of scale outside the airport. Airport-only small business tenants without operational scale face the greatest obstacles and risk.

### **General Summary of Individual Stakeholder Themes**

<b>Stakeholder</b>	<b>Comment Themes</b>
Small business/ACDBE	<ul style="list-style-type: none"> <li>• Describe the typical RFP process as very arduous. Small companies say that they don't have the infrastructure to be able to prepare a response that is competitive with the large concessionaire companies.</li> <li>• ACDBE tenants claim that prime concessionaires sublet only the less-desirable locations.</li> <li>• ACDBEs need more opportunities for operational scale.</li> </ul>

Labor	<ul style="list-style-type: none"> <li>• Believes the airport should attract strong operators that are able to finance capital improvements needed and can meet or exceed Sea-Tac's wage and benefit standards.</li> <li>• Suggests the Port should offset small businesses' higher costs with reduced rent and create a fund for low interest loans so that small businesses have the margins they need to meet wage and benefit standards.</li> <li>• Supports partnerships between large and small businesses (i.e. prime/subtenant contracting) and believe that primes offer the small/ACDBE operator operational support and financial benefit due to their economies of scale.</li> </ul>
Prime concessionaires	<ul style="list-style-type: none"> <li>• Emphasize that an operator does not need to be local in order to operate a local concept. Primes can operate local concepts by way of license agreements or similar arrangements.</li> <li>• Typically use both joint venture agreements and subleasing as a means of meeting ACDBE participation. Some primes feel that subleasing gives the ACDBE the best opportunities to learn and exposure to risk and reward. Others have had positive experiences with joint ventures.</li> </ul>
Airlines	<ul style="list-style-type: none"> <li>• Support outreach to local and small businesses for concessions opportunities and feel that the Port should do what it can to reduce barriers to entry (i.e. high build-out costs).</li> <li>• Suggest that Sea-Tac make a better attempt to understand travelers' needs and bring in concepts that appeal to those needs and desires. They urge Sea-Tac to make no assumptions about the popularity of national brands versus local businesses.</li> </ul>
Prospective tenants	<ul style="list-style-type: none"> <li>• Would like the opportunity to represent a community presence at the airport, and the chance to advance their local brand.</li> </ul>
Independent businesses with direct leases	<ul style="list-style-type: none"> <li>• Would like more opportunity to lease space at the airport and longer-lease terms or certainty about lease renewal.</li> </ul>

**Policy Question**

How should the Port maintain and/or increase participation in the concessions program by locally-owned, small and/or ACDBE businesses?

*Prevalent View:*

- The Port has got it right – there are good opportunities for local, small and ACDBE businesses

- Reduce the barriers to entry for small business: excessive process (RFPs) and high costs of investment

*Divergent View:*

- Small business/ACDBE participation should not be increased, and possibly reduced, if these operators believe they cannot afford “living wage” standards and provided family health care for workers. The system is broken if this is the case.

## **Issue #5 – Sea-Tac Concessions Program Pricing Policies and Other Contractual Terms**

### **Statement of Issue**

The industry-typical means of selecting concessionaires for multiple unit contracts is the Request for Proposals/Qualifications (RFP/RFQ). In these processes, airports usually stipulate a desired use for a specific space(s), and may set minimum guarantee (MAG) requirements, maximum ranges for rent, minimum dollar per square foot investment requirements and pricing restrictions. There may be additional Common Area Maintenance (CAM) fees, marketing fees, taxes, utility and storage charges which must be added to the proforma.

The competition between operators is fierce due to the relative scarcity of airport opportunities. Once beyond the phase of securing the business, the realities of airport operations begin. Capital investments may be higher than anticipated. Negotiated wages and benefits for employees may be higher than planned. Enplanement forecasts may not materialize. Operators also may discover that they overbid a contract in the zeal of competition.

Concession agreements are rigid legal contracts, with little room for adjustment for changing conditions. It is not uncommon in the industry for concessionaires – large and small – to make an appeal to an airport authority for reductions in rent, MAG or increases in price, citing any number of reasons.

Evidence supports that the costs of doing business in an airport are high, much higher than for a street location. However, this fact is countered by the tremendous volume potential that exists in an airport. Very few street-side venues can bring the number of potential customers to a business that an airport can. Travelers are considered a captive audience. Square footage sales can be two or three times that of a comparable street location.

Among all stakeholders, with the exception of airlines, there was general consensus that Sea-Tac is a very expensive place to build so the Port should consider longer term leases to allow time for tenants to recover their upfront costs. Several participants felt that Sea-Tac should do more analysis to project beyond top-line sales and the Port needs to be more understanding of the big picture and show more concern about what is going on for concessionaires. The area of disagreement lays in the respective perceptions of the reasonable relationship between higher costs, risk, and profit potential.

## General Summary of Stakeholder Themes

Stakeholder	Comment Themes
Small business/ACDBE	<ul style="list-style-type: none"> <li>• Would like the flexibility to set prices at a level that works for their business model.</li> </ul>
Labor	<ul style="list-style-type: none"> <li>• Advocates for the flexibility of up to street +15% in order to provide margins operators need for acceptable wages and benefits.</li> <li>• Encourage the Port to incentivize quality to allow for premium pricing.</li> </ul>
Prime concessionaires	<ul style="list-style-type: none"> <li>• Some cite studies that show that passengers are not primarily concerned with price in an airport, and questioned whether there is any evidence that lower prices boost sales.</li> <li>• Note that many other airports are setting prices at street + 10%, and that a slight premium above street pricing is imperceptible to the customer. They also urged the Port to consider allowing tenants to set prices above street-pricing levels because there is the potential for additional revenue to the Port.</li> <li>• Supported emphasis on quality rather than price, citing that travelers will pay for higher quality.</li> </ul>
Airlines	<i>No comments specific to this issue</i>
Prospective tenants	<ul style="list-style-type: none"> <li>• Potential tenants agree in principle with street pricing, but emphasize that occupancy costs need to be kept in check in order to be profitable. This is particularly important for small businesses not used to paying mall-like occupancy costs.</li> </ul>
Independent businesses with direct leases	<ul style="list-style-type: none"> <li>• Concern that the high costs of doing business at the airport coupled with pricing limits makes it challenging. There should be a balance.</li> <li>• Businesses with off-airport locations need to keep prices consistent with street pricing.</li> </ul>
Travelers (focus groups)	<ul style="list-style-type: none"> <li>• Believe that rents in airports are higher and may justify higher prices, but most also would prefer not to pay higher prices.</li> <li>• Consistently, travelers believe that airport prices have been historically high, but some also have recognized the drop in prices recently.</li> </ul>

### **Policy Questions**

Should the Port initiate a comprehensive analysis of the implications of the current street pricing policy (both structure and implementation) for large and small concessionaires, the traveling public and the Port?

Should this include current contractual requirements (investment, term, rent, pricing, etc) with the goal of understanding more fully the financial picture for both small and large concessionaire tenants?

#### *Prevalent View:*

- The Port should not need to use pricing policies and lease terms to compensate for its internal shortcomings that drive up costs
- Local operators with local street-side locations feel that they must maintain street pricing because their customers compare between locations
- Street pricing becomes factor with the high build out costs and high costs of operation and the inability to use higher pricing to re-coup those costs. The flexibility of street pricing plus 10% is preferred by most
- Examine the structure and implementation of the street pricing lease language to provide some more flexibility for different types of operators
- The more competition the Port adds via direct leases, the less pricing will matter – customers will vote with their feet. But this makes the high cost side even more critical to address.
- If the Port puts mandates in place that affect labor costs, the Port needs to adjust its expectations for financial return, i.e. rent
- If the airport is going to have street pricing, it needs to be marketed more aggressively, for example, signs in every unit

#### *Divergent View:*

- The Port should allow for street pricing plus 10 or 15 percent. This margin must go to supporting worker wages and benefits, not profit

### **Conclusions/Next Steps**

Sea-Tac staff will summarize results of the stakeholder process and recommend principles and practices to the Port Commission at a public meeting on December 13, 2011.

## **Appendices**

Appendix A: Draft Principles and Practices Guidance Document

Appendix B: Discussion Summary for Combined Stakeholder Meetings

Appendix C: Meeting summaries from stakeholder meetings

