

Sea-Tac Airport Concessions
DRAFT PRINCIPLES AND PRACTICES GUIDANCE DOCUMENT
Revised 7.1.11

Vision Statement

All who come to Sea-Tac International Airport will be delighted by shops and restaurants that exceed their expectations for customer service, variety, affordability and quality with a Northwest flair. In following a "triple bottom line" philosophy that values the concurrent pursuit of positive economic, social and environmental outcomes, the Airport and its tenants will enjoy financial success while embracing the principles of equal opportunity, environmental leadership, accountability and ethical practice.

**Port of Seattle
Strategic Objectives**

- Creating economic opportunity
- Moving cargo
- Moving people
- Attracting Next Generation Industries
- Achieving our environmental values
- Achieving our community values
- Putting real estate to work
- Funding our strategic goals

Background

Seattle-Tacoma International Airport (Sea-Tac) offers the traveling public a wide range of goods and services through a variety of vendors, who lease space through different contractual agreements. In that capacity Sea-Tac is similar to a shopping district or mall, but also must operate in the public interest. Sea-Tac seeks a financial return through its leases; but it must also comply with Federal and local regulations and with the social and environmental policies of the Port of Seattle.

Concessions are one of three major non-aeronautical sources of revenue for Sea-Tac, the others being car rentals and parking/ground transportation. Airport revenues from restaurants and shops reached \$22 million in 2010. This represents a 142% increase over the last decade. Sales per enplanement (SPE) reached \$9.98 in 2010, placing Sea-Tac

among the best performing airports in North America. Concession profits are used to reinvest in airport operations and infrastructure. No tax dollars are used to support Sea-Tac.

There are currently 80 concession units airport-wide, under numerous concession agreements. In 2015, 12 direct lease units in the Central Terminal will expire and, airport-wide, 36 units in 2016 and 22 units in 2017. In total, nearly 90% of Sea-Tac's leases will expire between 2015 and 2017. The fact that so many leases expire in a simultaneous manner creates a significant economic risk for the Port, especially during times of economic downturn. A strategy of continual renewal of concession contracts would allow the Port to introduce new concepts as customer needs evolve, as well as grow sales. 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. Contracts have been negotiated in a variety of ways—some are negotiated directly, while others have been solicited through competitive proposals, and some through a third party leasing consultant.

Sea-Tac Airport follows a “hybrid” management model, which includes contracts with prime concessionaires (operating more than three units) and direct leasing. This approach gives Sea-Tac the flexibility to rely on the management infrastructure of larger operators, while also providing access to local independent, small and disadvantaged businesses. This approach also allows Sea-Tac to manage its concessions program with a modest FTE requirement.

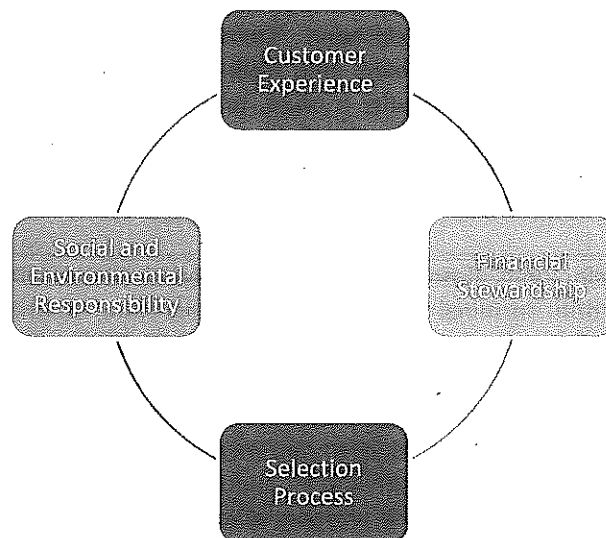
Operators at Sea-Tac Airport fall into the following major categories:

- Prime concessionaires (HMSHost, Hudson, Concessions International and Seattle Restaurant Associates)
- Direct lessees (About 30, including advertising, luggage carts, vending, etc.)
- Disadvantaged business operators (10 total, 6 subtenants to primes)

The concession’s workforce has grown from approximately 700 employees to 1,400 over the last 10 years contributing to the growth and success of the program. Concessions employees serve in a variety of retail and restaurant occupations including sales clerks, cooks, wait staff, supervision and management. About 70% of the concession workforce is represented under union contracts between their employer vendors and Hotel Employees Restaurant Employees (HERE) Local 8 or United Food and Commercial Workers (UFCW) Local 21. Regardless of representation status, turnover among concession employees is relatively high—between 20%-50% annually, depending on the state of the economy. Turnover among both represented and non-represented employees is typically within this range, in 2010 averaging 20%.

Policy Framework

The Sea-Tac concessions policies fall into four major categories:



Customer Experience

We are, above all, customer-driven, and our customer-driven approach is fundamental to all Aviation Division activities. Sea-Tac's concessions exist in order to serve its customers, and customers are the most valued asset of the concessions program. Our customers have varied needs that range from storage rentals to sit-down dining to spa services and casual shopping. Sea-Tac Airport strives to create a sense of place, so that travelers can experience a retail environment that is uniquely Northwest. The rapid changes require that we maintain flexibility in how we develop and manage the concessions business in order to meet changing customer needs and desires.

Our customer service priorities are based on the following principles:

- The mix of venues at Sea-Tac should support a strong sense of place.
- A variety of operators promotes higher quality products and excellent customer service in competition for the traveler's dollar.
- There should be a wide variety of quality offerings available to Sea-Tac customers.
- Sea-Tac has a strict street pricing policy. The Airport should strive to win the customer's confidence in our pricing, particularly through the selection of street-side brands with directly comparable pricing.
- There should be a combination of national brands and local offerings at Sea-Tac, determined by customer feedback and chosen based on customer needs and desires. Sea-Tac should seek to eliminate "white brand," airport-only concepts.
- We will continually monitor customer satisfaction in order to make appropriate adjustments in the quality and type of offerings at Sea-Tac.
- Customer service also means providing passengers with opportunities to make environmentally friendly choices both in their selections for purchase and opportunities to minimize their environmental impact through recycling, composting and other airport programs.

Financial Stewardship

The concept of financial stewardship translates into the management of Sea-Tac assets over the long term for sustainable growth. Although the concessions program has enjoyed significantly increased revenues in recent years, the program's financial viability can be impacted by economic fluctuations, airline instability or strategic missteps. The Port must structure its financial policies in a manner that provides enough resilience and flexibility to allow it to maximize return over the long term and minimize risks to Sea-Tac as well as its tenants. Success of the concessions program is critical to the Port's ability to fund its other strategic objectives.

It is the Airport's responsibility to help keep tenant costs of operations as low as possible, to support financial success, business reinvestment, job creation, and street pricing. Another important factor to consider is allocating risk related to the financing of base infrastructure. Under best industry practice, the airport assumes the cost of base infrastructure, while the unit build-out is the responsibility of the tenant. This approach reduces the likelihood of unnecessary mid-lease contract renegotiations.

Principles that guide our financial stewardship of Sea-Tac include:

- As owner, operator and steward of Sea-Tac, we will continue to maintain control of concessions development at Sea-Tac.

- Quality, variety and northwest flavor in the program's offerings will allow Sea-Tac to be among the top 10 performing airports, as measured by sales per enplanement (SPE) in the annual industry ranking determined by Airport Revenue News.
- Sea-Tac will assume responsibility for base infrastructure, while tenants will be responsible for build-out within unit lease boundaries.
- Terms of leases should be made consistent with industry standards of 10 years for food and beverage and 5 to 7 years for retail. Some exceptions will be necessary in the coming years in order to stagger contract expirations to insure continuity of customer service as well as proper fiscal management.
- Rent structures should take into account factors such as Port regulatory and lease requirements (construction requirements, street pricing, etc.), costs of operation (labor costs, environmental and security requirements, etc.), quality of space and/or location.
- Rent structures should be tiered in accordance with the sales levels of tenants to provide risk mitigation for both tenants and the Port.

Selection Process

To serve our customer needs, our concessionaires range from multi-national retail conglomerates to small, independent and disadvantaged businesses. The concessions program's selection processes are critical to the creation of a 'level playing field' in the selection of new concessionaires. These processes must accommodate a wide variety of businesses – large and small - while maximizing revenues for the Port. As a result, a number of processes, such as Requests for Proposals, Letters of Interest, direct negotiation and third-party leasing, must be used to meet the goals of each specific business opportunity. Different selection processes take into account the significant organizational and financial differences among potential concessionaires. These processes allow us to support our triple bottom line commitment to economic, social and environmental outcomes.

Our selection practices and procedures are based on some clear principles:

- The selection process should be timely and efficient, with clearly articulated selection criteria.
- The choice of the type of selection process should be tailored to the goals for a particular business opportunity.
- The Port will actively solicit quality tenants that can be financially successful, provide excellent customer service, products and services, and support the Port's social and environmental goals.
- The operator mix must include a good representation of local and small business ownership, which is distinct from "local" concepts owned and operated by national companies.
- Prospective operators must demonstrate financial stability, experience and a commitment to serve the needs of the traveling public.
- Our tenants must comply with all applicable employment, environmental and other regulations.

Social and Environmental Responsibility

To embrace a "triple bottom line" philosophy means that we value social and environmental outcomes along with our financial success. The Port of Seattle lives up to its reputation as the Green Gateway by encouraging best practices in waste management, green building and mitigation of environmental impacts. Sea-Tac aims to be the national leader among peer airports in demonstrating environmental stewardship and reducing the environmental impacts of airport operations. At the same time, the Port's

policies support job creation and the advancement of local, small and disadvantaged (ACDBE) businesses. The Port strives to create an entrepreneurial environment that allows for job growth and the success of employees who work at Sea-Tac. As a result of its commitment to social and environmental responsibility, the Port has nearly doubled the number of employees in its concessions program in the last seven years, provided access to local, small and ACDBE businesses to ownership opportunities in the program, and received numerous awards for reducing environmental impacts from concessions activity.

Principles that guide our policies in the area of social and environmental responsibility include:

- Sea-Tac and its tenants are committed to creating a sustainable airport that minimizes the environmental impacts of our operations.
- We will strive to be industry leaders in continuous improvement in its environmental practices, using specific metrics to monitor compliance and measure improvement.
- Due to the unique requirements of working in a secure airport facility, concessionaires often compete keenly for employees, and Sea-Tac will support their recruiting efforts through innovative job training and enrichment programs in order to attract new employees and reduce annual turnover to 15% or less.
- The Airport will support workforce development and worker retention in the Concession program through legally supportable and Port sanctioned programs and initiatives.
- The Airport will increase the percent of gross concession sales from ACDBE operators from less than 20% today to 25% by 2020; 25% of gross sales through ACDBEs is about the average participation at comparable airports. To the degree possible, we will achieve this goal through direct leases with ACDBEs.
- Sea-Tac will assure that its concessions selection process actively reaches out to local, small and disadvantaged businesses and will strive to create a level playing field for business opportunities between large and small operators.

