



**The Port of Seattle and
Airport Concessions Disadvantaged Business
Enterprises (ACDBEs)**

November 4, 2014

The Port of Seattle operates a successful ACDBE program as part of the overall Dining and Retail program at Seattle-Tacoma International Airport. Airport Dining and Retail (ADR) generates nearly \$200 million in annual sales and supports more than 1,600 airport jobs. Sea-Tac's dining and retail program has been recognized as a success by the aviation industry, tenants and the traveling public. The offerings are regularly included in 'best of' lists of airport dining and retail and have been held up for recognition for the program's efforts to promote inclusion.

In 2013, ACDBE sales totaled \$43.1 million from 16 ACDBE tenants, which equated to 20.5% of the total Airport Dining and Retail sales at Sea-Tac. This *exceeded* the FAA approved goal of 19.56% for the period from 2011-2014. For the fiscal year 2012-13, Sea-Tac's ACDBE's participation in gross sales breakdown was: African-American - \$13.4 million, Asian-Pacific - \$13 million, and Women - \$16.7 million. The new plan for 2014-17 has raised the goal to 21.2% of total sales and Sea-Tac is well on its way to achieve this goal with the addition of three new ACDBE's and the continued record numbers seen in airport sales.

Regular Audit Reports

Regular audits of the ACDBE program are conducted by the FAA to ensure compliance to Program guidelines and Title VI of the Civil Rights Act. In the most recent 2013 Title VI audit, the FAA found no actions required as part of this audit.

In addition, a 2014 audit report of 64 U.S. airports by the Office of the Inspector General of the U.S. Department of Transportation specifically mentioned Sea-Tac's success in unbundling large contracts. It notes "the Seattle airport directly contracted or leased to over 20 disadvantaged firms since 2005" and noted further that "direct award or leasing can be the most effective means for bringing new ACDBE participation to an airport."

Inaccurate reports about a low ranking from the OIG report failed to note that the exhibit ("C") in the back of the audit put Sea-Tac 59th out of 64 airports, not as a ranking, but rather as an *alphabetical* listing of airport names. More substantively, the report notes that 33 out of 64 airports had no new DBE or ACDBE contracts in the one year reviewed, 2012 (this includes such major airports as Dallas/Fort Worth, Denver and Newark, as well as Seattle). The report noted this "does not indicate a lack of support for DOT's DBE/ACDBE program" as those airports did not have contract opportunities during that year as contracts were signed during previous years. With 90% of Sea-Tac's leases expiring in the next 2 years, there will be significant new opportunities.

Opportunities for All

Sea-Tac Airport's ADR program redevelopment in 2004/5 shifted the airport's offering of restaurants and shops from one major concessionaire for the entire airport to a leasing structure of large operators of multiple units and direct leases with independent operators. This brought about an open bid process for spaces during the central terminal renovation in 2005. During the next few years, those leases will expire providing new open bid opportunities and a renovation of airport space is projected to nearly double sales and increase jobs by 40% by 2025.

Suggestions that minority firms have been forced out by Sea-Tac are not true. One African-American Burger King owner was in default for non-payment of rent and contributions to union employee health and welfare benefits. The African-American tenant who sublet that space to the defaulted business owner ultimately terminated the sublease and evicted the subtenant. Another false assertion claimed an ACDBE tenant went out of business due to the arrival of McDonald's. The entrance by McDonald's to Concourse B was not the cause of this business's struggles. In fact, the business's monthly sales were relatively stable after the introduction of McDonald's in June 2013 but ended the year with a 3.4% decrease in sales. Through September of 2014, however, there were staffing and inventory problems, which resulted in a 30% loss in sales. During this same period, every other Concourse B food location has experienced sales increases between 15%-41%.

It is also worth noting that one of the most successful businesses in the central terminal is Wendy's, an African-American family-owned business with sales of \$3.8 million in 2013. Despite feeling the most direct competition from McDonalds, it felt little impact from the introduction of McDonald's.

From a rent standpoint, all tenants pay rent as a percentage of gross sales. Some leases provide lower rent based on branded restaurants or services which require the franchisee to pay additional fees of between 2 to 10% to the franchisor for the use of the brand name product. Businesses operating their own brand (as is the case for some of the ACDBE tenants) do not have to pay these franchise fees.

The Host subtenant ACDBEs received significant rent relief and two year lease extensions in 2005. This relief was provided in tiers over the term of the lease. For much of the lease term, the ACDBEs paid significantly less rent than their lessor, Host. An analysis in early 2013 showed that of all food service tenants regardless of rent schedule (category, tiered or flat) paid similar percentage rent, 12.5-13%. Tenants serving high-margin alcohol pay somewhat higher rent, about 15%. References to some paying "half as much rent" is likely referring to Anthony's current 8% flat rent. However, as an anchor tenant for the central terminal, they had very high investment costs in a location that was at the time unproven, serves fresh cooked food with glassware and silverware rather than plastic and has daily operational costs far exceeding those for other food and beverage units. The location has proven to be the highest grossing restaurant in any U.S. airport.

Changes in Use of Port Dining and Retail Spaces

The Port plans to change the use of some dining and retail space once current lease agreements expire. These spaces will be open to competitive bid. As in any open bid process, no current tenant has a spot reserved going forward and all spaces will be open for bid to provide the services in demand. Travelers will see some spaces with new services in old locations or the same offering in a new location. It is all meant to meet passenger needs in every area of the airport to include food service, convenience retail and services. The opportunities will be exciting!